

## THE DYNAMICS OF DEPENDENCY

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This paper analyzes the dynamics of dependency in Eastern Europe in the broader context of the ontology of socialism. The East European states' dependence on the Soviet Union since World War II, varying as it has in both content and form over time and from country to country, is so closely connected to the genesis of socialism in Eastern Europe that it should be regarded as an essential element in the ontology of socialism in this region.

The discussions that Western economists and financiers have carried on for many years under the slogan "exploitation or subsidy" not only show a false image of the East European economic realities and the dynamics of dependency, but have also seriously influence the perceptions of the political situation in Eastern Europe.<sup>1</sup> The prevalent thesis in these Western discussions in 1982-84 was that the Soviet Union subsidized the economies of Eastern Europe for political and military gains. When this thesis could not be sustained because of the change in price relations within the Council for Mutual Economic Assistance (CMEA) and of Soviet pressure on Eastern Europe, apparent already in 1982, to decrease its trade deficits, a new argument was found and continues to be used today. This new argument is that "the Russians are taking back what they gave." This way of thinking not only clouds the understanding of what the East Europeans perceive as dramatic and rapid processes of multi-directional dependency, but also implies that the earlier method of balancing profits and costs used by the supporters of the "subsidy" thesis was correct.

The "use value" which governs the Soviet Union's economic relations with Eastern Europe affects not only the political (control through dependency) and military spheres, but the economy itself. The Soviets obtain the guarantee that certain goods will flow to the Soviet Union without interruption -- which is not insignificant given the unexchangeable ruble and the repeated political restrictions on trade with the West. This also means that the Soviets can avoid committing their own deficit means of production to investments necessary to produce these goods at home. The costs to the dependent country involve:

-- imposed allocation of its means of production;

-- imposed export, when supplies for the Soviet Union and the CMEA often directly contradict the internal needs of an economy; and

-- imposed import; when Western components of production are included in the final product sold to the Soviet Union, when imports required for products "commissioned" by the Soviet Union take up the dependent country's limited exchangeable currency.

In this situation, the cost -- from the perspective of the dependent country -- is the potential profit which could be made if this "imposed allocation of the means of production" did not exist. The example of the regression of Czechoslovakia is the most relevant, but so are those of Poland and Hungary. In the case of Hungary, one can observe an outright collision between that country's subordinate position in the CMEA (due to the pressures of allocations) and economic reform, with its imperatives for rationalizing the economic structure.

The consequences of the imposed allocations and permanent imbalance can be seen only in the longer perspective. A short-term analysis of the terms of trade can be adequate only when the following factors are taken into account:

-- imposed secret transfers of goods and currency which are not indicated in the terms of trade and are usually connected with the military;

-- a price for services to the Soviet Union that is not profitable for the dependent country (but not registered in the terms of trade); in the case of Poland, transportation is the most relevant;

-- the high demand in the CMEA countries for Soviet raw materials and energy (for a time these were "subsidized" because of the method of price setting in the CMEA) stemming from the model of industrialization and the structure of production imposed by the Soviet Union; and

-- the consequences of the probable sale of Soviet oil and other raw materials on the Western market (the possibility of this kind of transfer is a basic assumption of the "subsidy" theory, but the possibility is doubtful) would include a decrease in the price of these materials. An estimate which indicates Soviet losses in the sale of these materials to Eastern Europe must take this factor into account. But, in this case, the balance of profits and costs would be more complicated than in the explanation presented by the proponents of the "subsidy" theory. Their mistake is based, among other things, on assumptions about methods and motives formulated for the Western

world to analyze the economic life of Eastern Europe. They forget that the Western world is based on a capital market with its specific structure of interests, and that Western economies are less directly connected to governments. The factors of imposed allocation of the means of production and imposed export, paid at the price of a drastic domestic imbalance, do not occur to this extent in the West in peacetime. Therefore, this crucial aspect of exploitation is lost on most Western analysts.

The preemptive division of influence at Yalta and Potsdam was followed by a cyclical sequence of three steps: they superseded economic factors, increased the scope of Soviet control of Eastern Europe, and imposed a favorable optimization -- from the point of view of the Soviet Union -- of "use value." In some cases, such as Poland, this meant institutionalizing the process that perpetuated economic and political dependency.

I will try to analyze the specifics of this particular colonializing process. It is derived from a political dependency and based on a military presence, which shifts to economic dependency, and then shifts back again to a political one on new foundations; it uses non-capital market mechanisms; it was implemented by the Soviet Union, a more powerful but initially less developed country.

One cannot explain this process using theories of dependency derived from the Latin American or African experiences, or classical works about imperialism.<sup>2</sup> To understand it, one must employ a systems analysis,<sup>3</sup> to consider the dynamics of the interaction between the metropolis and the dependent country as well as the dynamics of the domestic situation of the two ruling communist parties. This should illustrate, among other things, the transformation of the "imperial cluster"<sup>4</sup> analyzed from the perspective of a "theory of action." I would like to define the dynamics of the process of dependency by pointing to the changes that have occurred in:

- the spheres and "outputs" controlled by the metropolis;
- the institutional structures through which dependency is implemented;
- the punishments and rewards used by the metropolis; and
- the effectiveness of metropolitan control over the dependent country and the implementation of the dependency policy in the "imperial cluster" itself.

The evolution of these aspects is clear. With the advancement of the dependency process one can identify many variants of the Soviets' dependency policy as it was adapted to each East European country. These differences arise not only

from the specific situations of individual countries but also from the different roles assigned to states within the imperium.

## I. THREE STAGES OF DEPENDENCY

An understanding of the dynamics of the dependency process in Eastern Europe is made easier by considering a series of three steps toward dependency occurring at each stage:

- imposed isolation from the West;

- the enforcement, with the help of political pressure, of economic conditions that created and increased this dependency, including the forced allocation of production factors; and

- the stabilization and continuing formalization of organizational structures to execute the dependency policy.

Relations between the Soviet Union and the countries of Eastern Europe can be divided into three cycles. These cycles repeat themselves and create self-reproducing economic and political dependency.

The first cycle (1947-54) had its beginnings even before Yalta and Potsdam when the East European countries were politically isolated by separate peace treaties signed between the Soviet Union and Hungary, Bulgaria, and Romania and based on Soviet military dominance in the region. The turning point came with the stabilization of the communist regimes in Eastern Europe after the beginning of the Cold War.<sup>5</sup> The methods of isolation differed. In Hungary, Romania, and Bulgaria, the obligations of the peace treaties ended the Allied Control Commissions and with them all Western presence. Poland was forced to turn down the Marshall Plan. Czechoslovakia not only had to refuse the Marshall Plan but was forced to reorient its foreign trade ties.<sup>6</sup>

The model of industrialization imposed on the East European states was the second step of dependency in the first cycle. It was accomplished with the help of political and military elites appointed by the Soviets and aimed to fulfill the military needs of the Cold War, reconstruct the Soviet economy, and establish a technical base that would allow for the production of capital goods in Eastern Europe. The model of "production for production" relied on faster growth of industries producing the means of production than of industries producing consumer goods.<sup>7</sup> This illustrates Tugan-Baranovsky's prediction<sup>8</sup> that in economies where the government and not the free market is the dominant factor in allocations, a fast growth of the GNP is accompanied by the much slower or even nonexistent growth in personal consumption.<sup>9</sup> Tugan-Baranovsky predicted also that this type of growth would not be limited by economic mechanisms (because the

economy is driven by the demand created by the government), but by social barriers (the decrease in consumption until it threatens political and social stability) and material barriers (the decrease in the productivity of already existing industries because of the lack of the components needed for production, and by a radical decrease in the effectiveness of the investment processes).<sup>10</sup> In this period an unbalanced economic structure--with an emphasis on heavy industry -- was established in most of the East European countries, and would later be very difficult to correct. Dependency in this first cycle was connected to the growing need for Soviet supplies and the weakness of local political elites due to their negligible popular support as long as they were responsible for these economic policies. All this was accompanied by unprofitable terms of trade for the dependent countries.<sup>11</sup>

The institutional structures by which the process of dependency was initiated in the early period were, most important, the party elite and the military leadership. It is significant that although the CMEA was already in place, it was so weak that dependency had to be accomplished by special trade agreements imposed by political realities. In this period the CMEA was used primarily to establish requirements for the East European countries which were then put into effect by other channels. In this phase, the scope of economic activities controlled by the Soviet Union was smaller than it is today, even though the political establishment was already fully dependent on Moscow. This was still primarily a political dependency which would provide a structural base for future economic dependency, since the economies of these countries were still largely autarchic. The Soviet Union and the less developed countries of Eastern Europe were in turn dependent on imports from the more developed East European countries. The Soviet sanctions in this period were primarily directed against the political elites, and consisted of withdrawing political support from them. In one such instance, pressure was put on Czechoslovakia to increase its metallurgical investments. This was contrary to Soviet economic interests because this policy reduced the amount of investment in machines that was so necessary to the Soviet Union. But at the same time this made Czechoslovakia more dependent on Soviet supplies of raw materials and energy. Moreover, it created a new interest group in Czechoslovakia that promoted its own interests of enhanced dependency.

The social base for dependency was often enlarged beyond the political elite. In Romania, Bulgaria, and Hungary joint companies were created. Paradoxically, these companies turned out to be less harmful for their respective domestic economies in the long run than other activities elsewhere in Eastern Europe. These joint companies quickened the pace of exploitation. At the same time, the other states were forced to make investments and create a structure of production that was often in conflict with

regional conditions, so that they became dependent on Soviet raw materials.

The second stage of dependency spanned the second half of the 1960s and the 1970s and repeated at a higher level of dependency the three steps of the first cycle (isolation, imposition of economic rules through political pressure, and the formulation of organizational structures for the dependency policy). This second stage was tied to the CMEA, which was already in its period of consolidation, and was therefore in a stronger position to implement the dependency policy.

It must be stressed that in the years between the first and second stage, from the second half of the 1950s to the beginning of the 1960s, economic growth in some East European countries was slower than in the first stage. It was more balanced, however, resulting in a steady increase in personal consumption. This economic policy was a part of the process of de-Stalinization; it attempted to decrease "production for production" and, with it, the growing dependence on Soviet raw materials and energy. The terms of trade with the Soviet Union were modified to become more profitable for Eastern Europe. Paradoxically, Poland, whose de-Stalinization of politics and culture was the most spectacular and seemed longest-lasting, accomplished the least of all the countries in the economic sphere. Poland simply failed to make any significant changes in its economic structure dating back to the first cycle of dependency. Other countries, in particular Czechoslovakia and Hungary, experienced "aborted" political reforms or limited changes in personnel. At the same time, they were able to institute a relatively balanced economic structure. The sources of this divergence were the differences in the dependency policies of the first cycle.

The intensification of the dependency policy in the mid-1960s thwarted the attempts to rationalize the unbalanced economies of Eastern Europe. The frustration of the political elites was connected to this new pressure from the Soviet Union. It was the source of four dramatic reforms from above, two of which resulted in the fall of leaderships (Czechoslovakia in 1968 and Poland in 1970). The third reform, in Hungary, gave birth to a long-term process of economic change, which began with designing and then implementing an economic policy to liquidate the structural effects of the first cycle. The fourth unsuccessful attempt, the March 1968 crisis in Poland, was initiated by native communists and laced with strong nationalist feelings. The attackers, who used strong anti-Semitic rhetoric against the leadership elite of the first cycle and had no plans for economic reform, did not gain the public support necessary to succeed. Mieczyslaw Moczar failed to become the Polish Ceausescu. The anti-liberal content of the nationalists' attack, in addition to its anti-Semitic propaganda, completely overshadowed the fight against dependency.

The sequence of steps in the second cycle was similar to that of the first. This time isolation was imposed with the help of the CMEA. An "easy" market was established because it had no competition and did not demand technological progress and improved quality. In reality, it was a pseudo-market based on long-term bilateral agreements involving goods rather than currency. Currency was used only as a general guide to the terms of trade between countries, and was not considered, in structure and in value, on the same basis as world prices. East European managers were thus unaccustomed to the functioning of a market system, both directly through the deemphasis of quality and indirectly through isolation from the latest technology, and an increasing lack of competitiveness of East European goods on the world market even in relation to newly developed Latin America. This in turn increased the dependency within CMEA.

One of the goals of the Soviet dependency policy promoted in this period was the absorption of the "use value" of goods from dependent countries. To accomplish this, pressure was exerted indirectly from the CMEA or directly in the course of specific trade transactions with the West concerning the type of technological and investment policies they should choose. These choices favored the countries of the CMEA and the Soviet Union itself. This accompanied a transfer of credits obtained by the East European countries from the West that has been difficult to estimate. This transfer occurred in the form of joint financing investments, mainly in the area of energy production. Soviet pressure was applied when they could not meet the obligations of earlier delivery agreements. In addition, the same type of joint financing was used to rearm the Warsaw Pact. It is important to emphasize that the so-called development credits extended by Eastern Europe to the Soviet Union were given at a very low interest rate (usually at two percent), while the East European countries were borrowing from the West at a significantly higher compounded rate.

In this stage the dependency of Eastern Europe was used to enforce an allocation of the means of production irrational for the individual East European states. The main institutional channel for putting this dependency policy into practice was the central economic administration (the Planning Commission, Foreign Trade Ministry, or other branches representing the interests of the imperial cluster).

There appeared at this time a new element, which, as it turned out later, shifted the dependency policy in a new direction. The Soviet Union began to manipulate the particular interests of different sectors of the economies of Eastern Europe. This tactic was most prevalent in Poland. In the 1970s, a tool of political control, the middle management, had in their command large sums of money. Sometimes in domestic battles

between the various sectors of the economy over investments the argument of "Soviet pressure" was used, even at times when it did not exist. Despite the fact that it was a bluff, this tactic became an element in Soviets dependency policy.<sup>12</sup>

It appears that in this second stage of dependency the Soviet Union consciously took advantage of the anarchism of the "producer state." This maneuver was made simpler by the relatively easy access to funds and means of production in the 1970s. Thus, there were few arguments over how funds would be distributed. In addition, there was a "steering with uncertainty," that made the uncontrolled flow of currency still easier to accomplish. For instance, in Poland the government concealed even from the Politburo of the Central Committee of the Polish United Workers' Party the amount of currency reserves held by the State Treasury. This diminished the pressure by sectors of the economy on the credits for investments.

The third stage of dependency began in 1981. Its distinguishing trait has been the clarity of the policies of dependency in relation to the countries of Eastern Europe. The methods of isolation in this stage have included four common elements:

(1) Radical changes were made in Soviet policy on the terms of trade with Eastern Europe. Initiated in the second half of 1981, they were intended to liquidate the trade deficit of these countries vis-à-vis the Soviet Union. Along with these changes, the price of oil was raised,<sup>13</sup> resulting in a further increase of the deficit. The scope of these tactics is illuminated by the data on the deficit from 1981 and 1983. These tactics were used much even in Poland, which had serious shortages of domestic consumer goods and currency. In 1983 Eastern Europe had to export to the Soviet Union (in 1980 prices) 21 percent more goods, import 18 percent less, and, given the new pricing, still ended up with a trade deficit. Soviet pressure (the threat to cut off energy supplies) to balance the terms of trade caused the East European countries to redirect goods earmarked for the West to the Soviet market, leaving the East European markets barren.<sup>14</sup>

(2) Moscow attempted to change East/West economic agreements by proposing that contracts between the European Economic Community (EEC) and the CMEA no longer be bilateral, but that they be directed through a CMEA center located in Moscow. This idea was firmly rejected by most of the East European countries, especially East Germany and Hungary.

(3) The Soviet Union blockaded East European trade with the Third World, a channel through which the East Europeans could obtain hard currency. The serious decrease in this exchange in 1982, which continued in subsequent years, was the result, in the opinion of the author, of a combination of the following factors:

political pressure, threats to cut off energy supplies, and reorientation of East European trade to the Soviet market.

(4) There was continuing pressure for the division of labor (or specialization) within the CMEA. Specialization was often not consistent with "comparative advantage" in the respective countries. It made the East European countries more dependent on energy and raw materials, and served as a barrier to economic reform. The result was the withdrawal of a significant part of investments from the reformed financial administration and pressure to invest in very long-term reimbursement projects that did not match the domestic needs of particular countries. The above factors made more difficult the modernization of any economy and thus improved competition in the Western market. The pressure for specialization, unprofitable for the dependent countries, was apparent, especially in Poland and less so in Hungary and the GDR. These states were treated as CMEA backdoors for obtaining technology from the West.

Three additional elements of isolation and dependency occurred in relations between the Soviet Union and Poland. First, the Soviet Union took advantage of the economic crisis in Poland and of the Western sanctions imposed in response to martial law after December 13, 1981. The two factors practically eliminated the possibility of importing parts from the West necessary for production.<sup>15</sup> This was true not only of factories built in the 1970s which operated on Western technology but also of other sectors of the economy, such as light and chemical industries. Already in February 1982, Poland signed an agreement with the Soviet Union for additional cooperation.<sup>16</sup> The agreement, which was advantageous for the Soviet Union, made it possible for Poland to begin to use its economic potential, previously untapped because of shortages of raw materials, and to alleviate the crisis on its domestic market. Standards did not, however, return to pre-1981 levels. Instead, the threat of slowdowns and work stoppages was reduced as was the danger of factory underutilization and unemployment. This created a situation in which dependency on the Soviet Union and unprofitable cooperation with it became necessary factors in gaining a quasi-balanced economy. It was, in the opinion of the author, a turning point in making Poland more dependent on the Soviet Union.

The new situation in which a new form of cooperation allowed the Polish economy temporarily to resolve some of the problems created by Western economic sanctions was exploited by the Soviets to force agreements that significantly changed the quality of bilateral relations. Two examples are important:

(1) Two agreements (one signed in 1984 concerning Poland's specialization in the CMEA and the other, in 1986, concerning cooperation with the Soviet Union) signed by Gorbachev and

Jaruzelski not only consolidated the economic structure but also required additional investments for industries in group A (energy- and raw-material-intensive). The obligation to produce was accepted without the assurance of deliveries of raw materials and energy. In order to fulfill this obligation, Poland has had to invest in the exploration of sources of energy in the Soviet Union, using scarce funds and means of production.

(2) An agreement signed in 1986 by Prime Ministers Messner and Ryzhkov to balance trade between the Soviet Union and Poland by 1988 included stipulations that by 1989 Poland would export more to the Soviet Union than it imports, and that Poland would pay off its debts to the Soviets by 1990. The form of payment was the additional export of high-technology consumer goods and means of production and increased investment in Soviet-based projects. This was tied to the creation of new forms of direct agreements between corporations. Traditional channels of foreign trade were insufficient to accomplish this forced export, so inconsistent with Polish domestic needs. One of these new forms was co-ownership. All of the forms of direct agreement between corporations were given an individual position in foreign trade reports, and also in Soviet economic plans. They were further guaranteed by additional agreements giving priority to the supply of components and raw materials. They were successful from the point of view of the Soviet Union. In 1986, Polish exports to the Soviet Union increased by 8.5 percent, while exports to the West grew by only 0.9 percent.

These two examples indicate how Poland's domestic economic imbalance was worsened, bringing with it an additional decrease in economic productivity. The scope of this new "imperial cluster" is significant. According to the 1986 agreements, 30 percent of Polish-Soviet trade was carried out through the special separate structure of direct agreements. Moreover, it is estimated that about 70 percent of Polish investments to the year 2000 directly or indirectly form a part of these new forms, or political agreements concerning specialization in the CMEA and cooperation with the Soviet Union. It is obvious that there has taken place not only a segmentation of the economy but also a segmentation of the structures of power in the Soviet metropolis as well as in Poland, resulting from the establishment of centers coordinating the new forms of ties. These new ties seem to serve three purposes:

(1) Imposing on Poland an investment and industrial policy profitable for the Soviet metropolis, similarly to the first stage of dependency. Investment continues to involve the production of capital goods.<sup>17</sup> There is a new factor: simultaneous and complementary investments in the Soviet Union.<sup>18</sup>

(2) Appropriating, through political pressure, by the Soviets of Polish goods as quickly and effectively as possible,

while decreasing the Polish trade deficit. It must be stressed that one of the reasons for this deficit is the great need for Soviet oil and raw materials resulting from the industrial structure imposed in the first stage, as well as from the current forced specialization within the CMEA. The competition of this intensive export with Polish internal market needs and the great instability of this market brought the realization that traditional foreign trade structures were insufficient to fulfill Poland's export obligations. Hence, a new form of direct and long-term agreements between corporations, frequently strengthened by the Soviet co-ownership of companies, was initiated.

(3) Coordinating and controlling the new form of "imperial cluster" intended to keep Poland anarchic.

A factor of isolation prevalent in this stage of dependency is the conflict between Soviet pressure on Poland and the expectations of the International Monetary Fund (IMF) for a rationalization of Poland's investment policy and an increase in its trade with the West. Furthermore, in the case of the actual policy of dependency, imposing by political methods a certain model of allocation (including exports), the stabilizing measures proposed by the IMF -- devaluation of the zloty and price changes -- will result only in a lowering of the standard of living and not in the expected increase in productivity. This added to the already existing negative effects of the state of dependency, could very well further destabilize the shaky balance between the government and the populace.

The pace and range of the dependency policy toward Poland seems to unsettle even some of the bureaucrats responsible for carrying out that policy.<sup>19</sup> The most important institutional structure responsible for the dependency policy, in the Polish case, is the Planning Commission, specifically, a special division of this Commission tied to the Polish delegation to the CMEA and to the Intergovernmental Soviet-Polish Commission. It has increasingly separated from the rest of the Planning Commission in the past few years. This organizational separation, connected to the tendency to formalize Poland's obligations within the imperial cluster, is further linked to a clear intensification of the conflict between the part of the government which represents the interests of empire and the domestic political elite whose priority is domestic stability.

In a situation where resources are limited and competition between the obligations to the imperial cluster and domestic concerns prevails, the Soviet Union cannot then count on the loyalty of the local political elites. Nor, as in the 1970s, can it put its policy into practice through informal uncoordinated pressures that take advantage of the natural anarchy of the "producer state." This has been possible only in circumstances

of a relative surplus provided by liberal Western credits.

A new factor in the third stage of dependency is the use of direct contacts between economic organizations of the dependent countries. The "half-reform" initiated in Poland greatly increased the organizational autonomy of corporations but did not give them full independence. Organizational expansion (whether for economic reason or not) is the number one priority of corporations. This involves thinking in terms of economic rationalization but does not ensure the survival of the organization. Paradoxically, the imperial cluster's interest in obtaining use value (apart from economic costs) is entangled with the interests of expansion based in the middle levels of management. In this climate, a new type of imperial cluster was formed<sup>19</sup> on the basis of bilateral agreements on a relatively low level. For all practical purposes, they are outside the control of the Polish political leadership, even of the "producer state." At the same time, these agreements fundamentally change the method of using national resources. This means de facto, but not yet de jure, that a part of the resources is placed out of control of their nominal owners. The agreements illustrate who really administers the resources and who uses them -- and, therefore, who is their real owner.

## II. DEPENDENCY AS A STATE OF TENUOUS BALANCE ON THE LOWER LEVEL

The appearance in 1982 of the new forms of dependency policy was made possible by compromises that created some organizational autonomy. Characteristically, in Hungary, where economic reform is most advanced, and in Romania, which is still totalitarian, a similar network of dependency is being established with great resistance. It could lead the Soviet Union to repeat in both countries the type of pressure it used in the 1950s: through the political elites.<sup>20</sup>

The new element that distinguished this cycle from the two previous steps has been the formalizing of bilateral relations. In the case of Poland, the present phase of the dependency policy is rational from the Soviet perspective because of the significant uncertainty in their relations that has resulted from the very dramatic allocation decisions made under conditions of extremely limited resources. This legal formalization has provided a certain guarantee of continuity in the dependency policy. Another guarantee is the development of the interests of corporations to the point that they are able to withstand political disruption. It is worth mentioning that this newly decentralized form of dependency is not well conceptualized in existing formulation of colonial systems, which operate with political symbols rather than economic mechanisms. Also in the West this new dependency policy is misunderstood because of the false analogies that are made with multinational corporations.<sup>21</sup>

These misconceptions have caused Western analysts to overlook the new stage of the dependency policy in Eastern Europe.

The astonishing pace with which the new forms of dependency were introduced in Poland was made possible by the martial law imposed on December 13, 1981. The many years of military cooperation within the east bloc -- including the methods used to integrate the military-industrial complex which are now also being applied to the civilian sector -- were conducive to this reaction to the uncertainty brought about by the Western sanctions imposed on Poland. It is possible that the Polish government was not aware that these sanctions, effective when used in specific sectors of the economy, might be extremely dangerous when applied on a larger scale. Accompanied by the habit of obeying orders, the direction taken by the new forms of dependency was the most natural under a military regime.

A similar situation, where the first step of the new form of dependency is a result of a temporary recovery of balance, can currently be detected in Hungary.<sup>22</sup> Hungary's serious indebtedness to the West (the gross hard currency debt is estimated at between \$16.6 and \$17.6 billion at the end of 1988); a deficit in trade with the West (from a \$603 million surplus in 1984 to a \$444 million deficit in 1986); and a lowering of outputs (because of the decrease in the cooperative imports from the West) may in the near future lead Hungary into a similar crisis to Poland's in 1982. The Soviet dollar credits (which may reach \$2 billion) would temporarily help the ruling group maintain this shaky balance. The price Hungary would have to pay would consist of, as in Poland, reorienting its trade from West to East and maintaining an economic structure that produces use values favorable to the Soviet Union and the other CMEA countries. In other words, the Hungarian economic reform would be suspended. Hungary would thus become as dependent as Poland, enabling the Soviet Union to impose a model of allocating the means of production and goods. If Hungary does not prepare for this for fear of political instability and because of a lack of key economic interests in the system, the imperial cluster may lodge inside the "producer state." This could be accompanied by "regulation through crisis" -- a change of political leadership during the crisis and the extension of Soviet financial help to the new leaders in return for the reorientation and allocation discussed above. This would inevitably eliminate much of the Hungarian reform, making Hungary enter the third stage of dependency, which is currently limited mostly to Poland. This would probably be greeted with relief by the West, relieved of the obligation to help refinance the Hungarian debt. After all, the Soviet Union endorsed some Polish loans from Western banks. This was a factor in many Western political and economic groups' unwillingness to expose the Soviet policy toward Poland in the third stage of dependency.

The stages of dependency changed according to Soviet needs. The first stage was connected to the post-World War II reconstruction of the Soviet economy and to the Cold War; the second stage to the modernization of the economy and the army; and the third to Gorbachev's attempts at reform in the period of new pressures to modernize the military. The new form of imperial cluster includes forced investments and exports to the Soviet Union, allowing the Soviets to improve their own consumer supplies without making investments and, at the same time, to finance a new generation of defense systems. This new dependency policy preserves the unity of the east bloc despite the ostensible political and economic diversification in the individual countries. The aggressive policy of making Eastern Europe dependent that has accompanied Soviet domestic reforms at a time of difficulties for the Soviet economy is understandable since an improvement in the market situation in the Soviet Union favors social stability. Because the negotiations to reduce nuclear weapons have made conventional weapons more important, control over the region is a key factor in Soviet policy. This control is made difficult, however, by the centrifugal trends in Eastern Europe, which in some cases take on a nationalistic character based on a vision of Central Europe, and by the social pressure to reform. Moscow cannot take for granted the loyalty of the party elites when the possibility of a schism is very real, resembling Yugoslavia in 1948. The difference would be that this time the rejection of Soviet control would not carry the ideological trademark of self-management, but change the relations of ownership. In this situation, the dramatic increase in economic dependency, which enables the East European countries to build a temporary balance in times of crisis, serves to stabilize Soviet control.

The dynamics of dependency described above are presented in the Table on the next page.

TABLE

	Cycle I (1947-53)	Cycle II(1962-80)	Cycle III(1981-)
Isolation	preemptive: Yalta, Potsdam; individual peace treaties: re-orientation of trade (CSRR); rejection of Marshall Plan (Poland); reinforced by Western trade and credit restrictions	CMEA as open market	attempt to centralize contacts between CMEA and EEC; conflicting pressures: IMF vs. CMEA; impeding trade with Third World
Economic aims achieved through political activities	imposed model of industrialization; terms of trade	terms of trade; investment policy (scale and specialization); transfer of credits (hard currency)	imposed specialization within CMEA; organizational integration (co-ownership); joint investments; new policy on terms of trade
Structures supporting dependency	party and military elites	uncoordinated pressure via "producing state"; specialized structures of Warsaw Pact and CMEA	Planning Commission; decentralized network of bilateral agreements between companies; FORMALIZING
Soviet interests	armament (Cold War); reconstruction of economy; control	technological modernization of industry and military	compensation for worsening terms of trade between USSR and West; improved economic conditions for social control

The stages of dependency were accompanied by the transformation of power structures in the dependent countries. Common to all the countries of Eastern Europe was the evolution of dependency through the party and military elites in the first stage, through the exploitation by the CMEA of the "producer states" in the second stage, to the appearance of major differences between the countries in the third stage. In the third stage, Poland and Hungary lie on the extremes of the spectrum. In Poland, the bonds of dependency were established down to a relatively low level of the management hierarchy. In Hungary, on the other hand, the difficulties in forming this type of imperial cluster may lead the Soviets to attempt to regain influence in its power elite by taking advantage of the post-Kádár succession crisis.

With dependency came a segmentation of the economy accompanied by the gradual taking away from the domestic power elites of control of parts of the economy. In this stage, this involves not only the defense industry but also the producers of consumer goods. But the effects of dependency reach even deeper. Maintaining the East European countries, through specialization within the CMEA, on the level of import substitution and preventing them from reaching the phase of development where end-products are more diversified has a fundamental structural effect: it preserves the social division of labor similar to the one present in the West in the 1940s and 1950s. Finally, in the Polish case where dependency is a balancing factor albeit on a very low level of socio-economic stability, there is the additional structural change of widening the gap between low- and high-skilled work due to Poland's forced specialization in low-technology industries.

The key word describing the transformations brought about by the dependency process is segmentation. Those sections of the government responsible for implementing the dependency policy are isolated, as is the economy. In the case of Poland, and probably also Hungary, there is a dual history. On the one hand are social processes which create an illusion of growing autonomy from the Soviet Union. On the other hand are the real processes of dependency which integrate these countries more and more into the imperium.

### III. EASTERN EUROPE-LATIN AMERICA: A COMPARISON

First, the dependency of Eastern Europe, in contrast to Latin America, is accomplished without a capital market. The political interests of the metropolis -- isolation of colonies from other sources of influence and control of them -- are the supreme goal, even at times when it cannot be achieved in harmony with economic goals. Also absent in Eastern Europe, in contrast to Latin America, is the economic exploitation by the metropolis

of local resources. On the contrary, the imposed directions of development are as a rule contrary to local conditions. Dependency on raw materials and energy from the metropolis, followed by the loss of chances for political autonomy, grows quickly. Another element of the dependency policy is the imposition of investment and production policies, which makes it impossible for the dependent countries to implement reforms and to increase the diversity of outputs.<sup>23</sup>

Second, the Soviet Union had a political advantage at the outset of the dependency process -- which remains to this day vis-à-vis some of the dependent countries -- while remaining on a lower economic and civilizational level. The current differences between the standard of living in the Soviet Union and in some of the countries of Eastern Europe create a serious problem of legitimacy within the Soviet Union. This does not of course arise in the development of dependency in capitalism.

Third, the agents of the dependency policy in Eastern Europe were the party and military elites. Later, the Soviet Union also began to exploit organizational interests and the natural anarchy of the "producer state." In Latin America some social classes, foremost the middle and parts of the working classes, allied themselves with the dependency policy since they were interested in the redistribution of wealth that would accompany the development of dependency. In Eastern Europe, this moment of developmental populism was shorter, despite mass migration to cities and possibilities of advancement. The reason for this was the domination by industries producing the means of production, which led to a decrease or stagnation of wages; the pre-World War II intelligentsia was prevented from advancing.

Fourth, the definition of dependency applicable to Latin America must be rephrased for Eastern Europe. This definition states that from the economic point of view, the system is dependent when the accumulation and expansion of capital cannot find their dynamic components inside the system.<sup>24</sup> The replication of the industrial structure imposed on Eastern Europe in the first stage of dependency is not possible without a steady supply of components controlled by the Soviet Union (raw materials, energy). In turn, it is very difficult to change this structure, not only because of the pressure of large industrial organizations, but also because this structure is reproduced by politically-imposed CMEA obligations and all attempts at reform are blocked through the channels of the "imperial cluster." Also, the continuation of the current structure is rewarded with Soviet loans and subsidies which enable the East Europeans to balance their economies in the short term.

Further, in contrast to the dependency patterns in Latin America, the Soviet Union is more interested in optimizing the use value and not in economic profit. This stems from the

pattern of interests in the productive relationship present both in the dependent countries of Eastern Europe and in the metropolis. The imperial cluster aims to provide the metropolis and its clients with a continuous supply of goods and services, even if this implies unrest and structural regression in some CMEA countries. The mechanism of redistribution present in the imperial cluster was designed to standardize the level of development in all dependent countries, which in some cases meant bringing their overall level down. In these cases, the Soviet Union has sometimes -- but less and less willingly -- financed its dependents' economies at times when the economic and/or social equilibrium would break down. Such a crisis disrupted the flow of goods, and could also potentially lead to the restructuring of that economy and the discovery of other solutions less favorable to Soviet interests. Financial and material help is usually accompanied by new ties of dependency. The analysis of subsidy conducted by Jan Vanous and Michael Marrese<sup>25</sup> did not take into account the potential costs of governance and transactions inflicted on the Soviet Union by changes in the economic structures of Eastern Europe. These structures cause a permanent disequilibrium in Eastern Europe and bring use value to the Soviet Union. It would not be easy to replace this use value because of the unexchangeability of the ruble. Hence, the benefit of maintaining the current relationship may outweigh -- from the Soviet point of view -- the losses incurred by subsidizing Eastern Europe. This approach to contracts and transactions is even used in Soviet dealings with capitalist companies which have a real interest in maximizing their profits. In socialism, where collective ownership relations eliminated many strictly economic motives, this approach is even more natural. It more clearly explains the logic of the development of the imperial cluster in Eastern Europe than a short-term calculation based on traditional marginal analysis that takes into account terms of trade.

As can be observed in the case of Poland, the dynamic of dependency (including the complex reproduction of the economic structure, imposed in the first stage of dependency, and the Soviet metropolis' ability to create an artificial crisis)<sup>26</sup>, lead to more radical dependency as the only possible solution to regain a temporary balance. The situations which would require radical dependency specifically include such circumstances as the Western sanctions imposed on Poland or Hungary's potential inability to acquire credit. Therefore, the state of dependency is self-reproducing. The costs of a refusal to use dependency-inducing Soviet help increase. The losses involve not only the leadership elite (for whom the most significant loss would be the withdrawal of support by the Soviet metropolis), but would also affect the whole society. It is becoming more difficult to continue to have a functioning economy in Eastern Europe without simultaneously increasing economic involvement with the Soviet Union. Also the growing isolation from the West makes it more

and more difficult to participate in the international division of labor. An effort to withdraw from the dependency situation would require radical reforms in the domestic economy (a closing down of energy-intensive industries and a retreat from industrial specialization imposed in the 1940s and 1950s). These steps could add to social unrest. When Soviet dependency becomes a balancing factor there are serious consequences:

1. The growing dependency has a wider social base than it did in earlier stages. The cost of retreat would be greater.

2. Economic dependency, a balancing factor, increases political dependency on the Soviet Union.

One of the elements of dependency is the growing isolation from the West. This has been well illustrated by the Polish case. Poland is currently receiving some new Western technology via the Soviet Union, under the new terms that the Soviet Union is its co-owner. This has no equivalent in the capitalist dependency development which is based on a capital market system and maximization of profits in a strictly economic sense.

An additional distinguishing factor is the different role played by consumer markets. In Latin America, the consumer market has always been a vital element in the dynamics of dependency, while in Eastern Europe its influence has been marginal. The crucial point in the first stage of dependency within the Soviet sphere was production of the means of production and military equipment. Not until recently has the aim of stabilizing the consumer market in the Soviet metropolis become important to the dependency policy.

The possibilities of escaping dependency are decreasing in both Eastern Europe and Latin America. Limited alternatives and the increasing costs of retreat from dependency lead to a situation in both Eastern Europe and Latin America accurately characterized by the following reference to Latin America: "The idea of dependency refers to the conditions under which the economic and political system [in its actual form] can exist and function in its connections with the world productive structure."<sup>27</sup> The state of dependency is clearly one of underdevelopment. In a situation of dependency, ties with the metropolis are the dependent states' only chance to participate in the international division of labor or even more a requisite of internal material reproduction. In turn, underdevelopment involves, most important, a diversity of final products and a limit on the level and model of consumption. In Eastern Europe, these two phenomena combine in a complex way that changes with time, because of the mechanisms imposed on the allocation of the means of production and its products. This allocation preserves a trade structure that permanently produces an economic imbalance, thereby reducing the efficiency of reproduction and

production on a national scale. Furthermore, a growing distance between the countries of Eastern and Western Europe, a result of the combined effects of the socialist way of production and dependency on the Soviet Union, reduces the individual states' opportunities to participate in the international division of labor in ways other than as members of the imperial cluster.

There exist two obvious similarities between dependency in Latin America and Eastern Europe. First, the dynamics of social power, except in the first stage, are similar. In Latin America, the metropolis started to penetrate the economy directly with a policy of investment and indirectly by remaining in contact with the political elites. In Eastern Europe, Moscow made exclusive use of the political-military elites. In the second and third phases of dependency, the similarities are noticeable. In Eastern Europe, the metropolis established direct contacts with the population of the dependent countries, thus taking advantage of the convergence of local interests with those of the imperium. In Latin America, on the other hand, the appearance of tensions between the investors from the metropolis and the society (and even part of the power elite) forced the metropolis to look for allies in the government. This led in some countries to the creation of a new type of power oligarchy that profited from the fact that its economy remained in the orbit of the Western metropolis.

The second similarity is the disintegration of initial coalitions. In both systems, a part of the leadership is opposed to furthering dependency if it risks destabilizing society. One would have to agree with Cardoso that:

The differences between the dependent countries are rooted neither in the diversity of natural resources nor in the different periods in which their economies were incorporated into the international system. They lie also in the different moments at which parts of local classes (in the case of Eastern Europe, power elites) allied themselves or clashed with foreign interests, sustaining distinct ideologies or tried to implement various alternative strategies to cope with imperialism.<sup>28</sup>

It should be mentioned that the dependency policy in Eastern Europe was not only aimed at establishing unequal trade but, above all, at imposing an effective system of control. The differences in Soviet policies toward particular countries were rooted in the different methods by which the Soviets had established political control or economically effective exploitation. In those countries (Hungary and Romania) where Moscow solved its problem of control through bilateral peace treaties and co-ownership of companies, the dependency policy led to a relatively rational economic exploitation that made use of the positive aspects of the particular countries and did not force investments on industries to make them dependent on Soviet

supplies. It was different in Poland, where the problem of political control was not completely resolved in the first stage of dependency because there was a coalition government and barely perceptible social support for the communist party. So the way industrialization was imposed became a tool of dependency and actual control.

The position of Czechoslovakia has been unique: its existing economic potential was too precious for the Soviets to destroy with structural changes. Investments in Czechoslovakia were imposed to a lesser degree than in Poland, increasing dependency. However, Czechoslovakia's industry was exploited with an imposed model of production based on the structure of final products and the rapid reorientation of trade toward the CMEA countries.

These differences in the Soviet dependency policy toward the countries of Eastern Europe brought out various reactions and determined the chances of decreasing the economic costs of the Soviet policy of dependency. Hence, Romania achieved an autarkic economy relatively easily when it liquidated co-ownership companies in 1954. Similarly, Hungary changed its economic policy rapidly and efficiently because its economic structure was more balanced than Poland's. Moreover, Hungary after the upheaval of 1956 was subject, to a lesser degree than the other East European countries, to repeated waves of a militarization of the economy and pressures to develop heavy industry, coming from the Soviet Union after the fall of Malenkov in 1956.

It is important to underline, at this point, the quite different political and ideological reactions to similar models of dependency of the power elites in Hungary and in Romania. When Soviet pressures to further dependency began in the early 1960s, Hungary initiated radical economic reforms designed, among other things, to create economic units less susceptible to the organization profits that would have come from being included in the imperial cluster. Romania, on the other hand, reacted by centralizing and politicizing its economy, thus blocking by political methods, Soviet attempts at economic integration and dependency. This was accompanied by the growth of nationalism which became an ideology justifying the social costs of autarky. In response to new Soviet pressures in the early 1970s, Romania intensified its resistance to dependency on the Soviet Union. Ceausescu's policy gained popular support in part as a result of the shock of the Soviet intervention in Czechoslovakia in 1968.

In Czechoslovakia, the 1953-54 changes in the type of production had immediate economic effects and increased the level of consumption. In Poland (where the dependency policy was carried out mainly through an imposed model of investment) the economic effects of de-Stalinization were relatively minor. It resulted from the long cycle of investment (by lacking Soviet

permission for some of the ventures) and also a delayed reaction to the opportunity created by de-Stalinization (in 1955 with new Soviet pressures to invest in military ventures) which prevented Poland from establishing a relatively balanced economic structure and led to the failure of the subsequent attempts at economic reform. Poland failed to establish independent economic entities like Hungary's and only set up administrative entities whose attempts at expansion are currently being exploited by the Soviets to establish a new decentralized type of imperial cluster. Because of the absence of reforms, segmentation of the economy, so characteristic of Poland, was substituted for economic decentralization. This occurred in the economic leadership as well as in the form of monopolies and was designed to reduce tensions by allowing a degree of local flexibility. This additionally exaggerated the already existing natural anarchy of the "producer state" (easier to control in Hungary because of its smaller economy). This anarchy, due to the lack of institutional possibilities and even a lack of economic semantics to control the process of allocation, permitted in the 1970s for a process of investment congenial to the Soviet Union. It is therefore possible to put forth the thesis that some of the anarchic moves, initiated by a narrow circle around Poland's Prime Minister Piotr Jaroszewicz, were conscious. A few of the anarchic moves are worth mentioning: the policy of the "open plan" under which it was possible to entertain new investments and formulate "sector development programs" in a way that was actually controlled by no one; the decentralization of investment funds which took place in a situation where the sectors of the economy as well as companies were not really economic subjects; and the continuing isolation of Gierek connected to the domination of the Politburo by a "government faction" with the advantage of access to information, support of organizational units of the Polish economy, as well as a part of the Soviet center of the imperial cluster. This isolation made it impossible for the political leadership to control effectively the anarchic process of the allocation of funds and means of production. It is vital to emphasize that a similar isolation of the political center can be observed currently even though it was achieved by the use of different techniques. It would appear that Jaruzelski's faction does not fully control the progression of the dependency process. The Soviet measures, in the current stage called "integration," result in a lack of control by native elites of the dependency process and have been institutionalized. Soviet documents stress, on the one hand, the need for decentralized bilateral contacts on a relatively low level on the Polish side, and, on the other hand, the need for "discipline" and an almost military coordination of the dependency policy by the Soviet center. The latter is conducted by respective sections of the Gosplan and the Ministry of Finance.

There are a variety of tactics now used by the Soviets in various East European states. A decentralized structure of ties

is relatively easy to create in Poland because of the organizational autonomy of enterprises and the extreme disruptions in the domestic economy. In such a situation entering into a system of dependency was compatible with organizational interest in survival. In Hungary, it is more difficult to create this kind of dependency structure because the motive of economic rationality operates more clearly and reformed companies do not follow a path of extensive development. In addition, the crisis is not as serious and companies can obtain investment funds from different sources not only, as is the case in Poland, by entering into the imperial cluster. Hungary also has other options for obtaining raw materials (it has imported some from India). These options may, however, soon reach their limit since Hungary can no longer receive credit from the West on easy terms because of its large debt. It is important to note that despite the Hungarian economic reforms, companies are more interested in trade with the less demanding partners of the CMEA, while the Hungarian government continues to pressure them to trade more with the West. Therefore, even in the case of Hungary, an attempt to penetrate, through contacts on low level, has a chance to succeed. The utility of a military government in accomplishing dependency (which is well illustrated by the example of Poland) may encourage the Soviet Union, in the future, to press for the formation of this kind of government, for example, in Yugoslavia and Romania.

These different techniques of dependency and different reactions to dependency were developed by thousands of steps taken by both sides. These steps, though seemingly chaotic, form a clear pattern. First of all, there are three stages of dependency including three repeating steps. The cycles were put into effect by different methods, but they aimed always to solve, through dependency, two main Soviet problems: effective control, on one hand, and obtaining certain use values, on the other. The different patterns of dependency in particular countries emerged from the particular difficulties encountered in each country in trying to resolve these Soviet problems.

One cannot forget that Eastern Europe finds itself in a situation of double dependency. It is, in one respect, a periphery of the Soviet empire, and, in another, a periphery of the West (here the dependency is much weaker and does not concern the material production but rather possibilities of modernization through credits and new technology). The elimination of contacts with the West means regression, though not a breakdown of material reproduction. This dependency on the West became visible in the 1970s, and its character is quite different from that existing in Latin America. The lack of a capital market in the east bloc (because of the type of property relations) and government involvement in the allocation process significantly limit the modernizing influences of Western technology. The West did not become an investor in Eastern Europe exploiting the

comparative advantages of debtor countries (which would include those countries in the international division of labor), as it did in Latin America. It only extended credit that was then used by the respective bureaucracies partly for consumption and armaments. Sometimes entire factories and technological lines (often outdated) were sold without any regard for local comparative advantages. These transactions did not help to break the economic isolation of Eastern Europe but advanced the development of dependency (of the East as well as of the West). From the Soviet Union Eastern Europe obtained energy for its energy-intensive industries that were developed in a period of cheap oil, and from the West it received outdated technology, components, and spare parts.

At the same time the dependency of Eastern Europe on the capitalist West increased as well. East European countries were not able to penetrate Western markets because of the peculiarity of the socialist method of production. Mechanical attempts to establish organizational projects in a socialist system (for instance in the area of management) or a monetary and fiscal policy without radical changes in the very mode of production cannot bring about the desired results. Capital and fixed capital are treated in a socialist system as "public goods" (whose losses are nobody's losses) and dependency on the Soviet Union determines, to a great extent, the allocation of the means of production and the character of the economic structure. Furthermore, social destabilization caused by efforts to adhere to, for example, recommendations of the IMF only increases the dependency of the national power elites on the Soviet Union. This creates a situation in which the Soviet Union can intensify its pressures on the elites to accept new forms of bilateral relations. (These bilateral relations stabilize in the short run but eventually lead to a greater dependency).

An analysis of the dynamics of the dependency process in Eastern Europe requires not only methods of political economy but also the sociology of organizations. The methods of the sociology of organizations are particularly necessary to understand the new mechanisms of dependency that are achieved by the creation of interests on a middle level of power in the dependent countries, in other words, by the exploitation of corporate tendencies of expansion and security. The organizational evolution of the imperial cluster can be explained by an approach called "new institutional economics."<sup>29</sup> This approach analyzes changes in the structure of property rights and the integrational processes in the economy on an international scale, resulting from efforts to decrease the costs of a transaction. The term "costs" in this approach refers to control and governance and not to economic costs, the marginal costs in classical economic theory. The transfer of some of the transactions between the Soviet Union and Poland, in the third stage of dependency, from a market (or rather a "quasi-market"

within the CMEA) to an integrated arrangement consisting of corporations from both sides as well as a Soviet control center, and the intentional creation of anarchy by the Polish side, increased the confidence of the Soviet Union that it would obtain desirable use values. Previous trade relations created only a possibility of such a result. Direct long-term agreements between "corporations," sometimes upheld by co-ownership with the Soviets and always upheld by the interests of the corporations, decreased the Soviet costs of the transactions because they no longer had to employ political pressures. It is characteristic that organizational integration was applied to areas where transactions, carried out by foreign trade, provided the Soviet Union with less of a guarantee that their interests would be accomplished because of the competition with the domestic and Western market. In other areas, where this kind of competition did not exist and the Soviet side is the main customer -- such as metallurgy and the machine industry -- the old forms remained. Additional profit, which is generated from integration, is possible by taking advantage of the resources of the larger economic structures, part of which formally exist outside of this integrated structure. Furthermore, by integrating and assuring long-term supplies, the Soviets gain a rapid increase in supplies to their own market without changing the structure of their own industry, without expensive investments, and even with simultaneously increased investments in the military.

Integration reduces the costs of the transaction (from the perspective of the Soviet side) in two ways: first, it makes possible the procurement of a certain amount of cheaper goods; and, second, it reduces the need for political pressure by exploiting mutual organizational interests and placing the imperial cluster on a relatively low level (in place of the "producer state" in a dependent country).

The segmentation of the economy that is key for the third cycle of dependency, is accompanied, in part, by a separation of the economic potential from the national power elite and, in part, by the reform efforts by this elite to compensate for the lessening of use values in the part of the economy that remains under its control. The ruling elite seems to forget that the allocation of the means of production and goods, imposed by the imperial cluster (as imposed investments and exports), influences the entire economy and significantly reduces the success of reform. One can rather expect that, along with the instability of the internal market, characteristic of this stage of dependency, inflation and pressures for wage increases will be on the rise.

## V. THE IMPERIAL CLUSTER: SOCIALIST COLONIAL STATE

The functioning and dynamics of the imperial cluster as a

colonial state cannot be understood without an analysis of the Soviet dependency policy in Eastern Europe. As it has already been described, the first aspect of this policy relates to the politically forced allocation model of the means of production. This produces an economic structure contingent on Soviet supplies of raw materials and energy and on the Soviet market. At the same time, this model of allocation provides use values needed by the Soviet Union. Its costs include a constant economic imbalance and sometimes even a regression of the civilization in a particular country.

The second aspect of dependency is the additional Soviet political control of a specific country. This is used to further increase economic dependency. The requisite of success of this policy is the isolation of the dependent country from non-CMEA sources of supply and from other markets. The aims of the dependency policy determine the role of the imperial cluster. Namely, the imposition of this occurs by the allocation of the means of production and goods congenial to the needs of the empire; the control and coordination of these actions; and finally the appropriation of the desirable use values.

In particular stages of dependency, the aims of the dependency policy were carried out by different institutional structures. In general, the imperial cluster evolves at the level of the political and military elites, to a relatively weak coordinated system of pressures forced upon the "producer state" in dependent countries in the second stage; to the point of current efforts to replace the "producer state" making decisions directly in the allocation and production sphere. This means, in practice, that part of the economy is excluded from the control of the native political elite. This last form reminds us of the policy employed in the Soviet Union toward the individual republics in which political and culture elites generally remain native, while economic elites are, in most cases, Russian. This new form of imperial cluster escapes the attention of Western observers because it takes on the external form of economic integration as it exists in the West.<sup>30</sup> They do not notice the forced character of the entire development of integration because they underestimate the process of imposed allocation, imposed exports that are competitive with the domestic market, and, finally, the operation of the criterion of use value as opposed to economic surplus -- none of this occurs in the West. The integrative aspect of this form of dependency is not appreciated in the West partly because Moscow, while carrying out its dependency policy, has agreed to different, apparently "reformed" economic ventures, and partly because of apparent dissimilarities in the political styles of the national governments. There are even Western opinions that the end of the communist movement is near. This kind of statement, given the level of economic dependency, is absurd. The effectiveness of the integrative processes has never been as apparent as it is currently, and a

departure from ideological rhetoric may simply mean the creation of a new language of coordination and control (not recognized by the West) and also the establishment of another center which executes this coordination and control as something other than a commission of the Soviet communist party.

Three levels in the institutional evolution of the imperial cluster may be distinguished:

1. The situation in the 1947-53 period (and 1953-the early 1960s, on a smaller scale), in which the imperial cluster included, most important, relationships between party and military elites in the metropolis and in the dependent country. Through these relationships (to a lesser degree in the CMEA) the Soviet Union formulated its preferences on the location of the means of production to supply itself with a variety of use values. These pressures were transformed by the elites of a particular country into investment and industrial policy, realized by the processes of redistribution and allocation within the native producer state. In addition, the increasing isolation of the East European countries was a result of political circumstances.

2. In the second cycle the imperial cluster was composed of three parts:

a. The CMEA, fulfilling two functions: first, isolation of the East European countries from the West and, second, the administration of tensions and establishment of a channel of communication between the metropolis and the dependent countries.

First function: The isolating effect of the CMEA was a result not only of a purposely realized policy but also of organizational rules of the institution. Two moments are particularly important: the principle of price cycles (obligatory in transactions in the CMEA, and based on average Western market prices from the preceding five years). This resulted in particular differences between the structure of Western prices and CMEA prices. The best example of this is the price of energy. When the price of oil was decreasing in the West, it was increasing in the east bloc. This made production more expensive in East European countries, and made it even more difficult for them to enter the Western market by any method other than "dumping."<sup>31</sup> When, in turn, the price of energy in the West rose (for instance, in the early 1970s), in Eastern European countries it declined so that it was propitious for energy-intensive technology being eliminated in the West to be purchased. The result was that competitiveness on the Western market was again decreased and the dependency on the Soviet Union increased.

The pseudo-market of the CMEA where transactions are carried

out in the form of barter. In these transactions the parties tend not to want to gain economic surplus (it is even methodologically impossible to use this term), but rather seek specific use values which are necessary to set in motion the economic potential of a particular country and the realization of the tasks which the power elites must accomplish for the empire. This does not maximize the economic rationalism of a transaction. It creates peculiar attitudes toward foreign trade: it is treated as a means of obtaining certain use values regardless of cost. Hard currency is regarded as a use value and not as a tender. Since the East European currencies cannot be exchanged on the world market, this is understandable.

Second function: The administration of dependent countries without applying direct political pressure that is often uncomfortable for the Soviets. It was accomplished by, among other things, various price systems directed toward different countries and by subsidies varying in value that are applied in periods of growing oil prices.<sup>32</sup> A special communication network has been constituted through which preferences (or objections) of the Soviet leadership were passed on. This was extremely convenient for the Soviet Union because it did not want to use normal channels, governments or communist parties. In this way, it could save the instruments of direct political pressure for possible future use.

b. The second segment of the imperial cluster of this period controlled the factories involved in military production. But it did this in only a very broad sense. Its value can be estimated in the case of Poland by the number of factories excluded from the implementation of the legislation regulating workers' councils.<sup>33</sup> This segment of the imperial cluster was charged with coordinating the production in the military sector and the assurance of supplies and funds for reproduction and modernization. There were characteristic differences in the location of this segment in Poland and Hungary. In Poland, it was located inside the producer state, in the Planning Commission. In Hungary, this kind of camouflaged presence was not possible because of the radical reform of the economic management center including the ministries and planning organs. As a result, this segment of the imperial cluster is more clearly distinguishable in Hungary and its control by the political elites is easier.

c. The third segment of the imperial cluster in this period was constituted by a system of various non-institutionalized pressures coordinated only in an informal way by the trade attache in the Soviet embassy. Taking advantage of the natural anarchy of the producer state. In Poland in the 1970s, this system of pressures was felt in Soviet attempts to interfere directly in certain economic negotiations and also in pressures to choose certain technologies. Finally, it was seen in

pressures to include, in the category of civilian investments, investments with a semi-military character.<sup>34</sup>

At the end of the period described above, there were visible pressures on the governing elites in all the dependent countries to extend credit at a lower interest rate for investments in the Soviet Union. At the same time the Soviet Union diverted part of its own investments to its military-industrial complex.

Unique documentation collected in Poland for that period reveals a mechanism working within the imperial cluster in the 1970s.<sup>35</sup> Two points are most significant:

First, there was a distinct difference between the interests of the various branches of the imperial cluster, demonstrating conflicts in the Soviet structure of the imperial cluster. One Polish official, Jagielski (Chairman of the Planning Commission in the first half of the 1970s and then the Polish representative to the CMEA and chairman of the Intergovernmental Polish-Soviet Commission), claims that by 1974-75 the Soviet Gosplan expressed concerns about the growing Polish debt. At the same time the other part of the imperial cluster complained about the very small scale of Polish investments in the first half of the 1970s. After Jagielski's resignation from the chairmanship of the Planning Commission (and its subordination to the part of the imperial cluster tied more to the Soviet military complex than to the CMEA or the Gosplan), investment in industries associated with military interests sharply increased in Poland, despite the already advanced economic crisis.<sup>36</sup> There was also an intensification of transfers of imported goods from the West through Poland to the East (via a machine industry based on Western components and the exporting of most of its goods to the Soviet Union and the other countries of the CMEA). For this kind of transfer to take place, Poland had to get more credits from the West and, therefore, concerns voiced by some of the Polish political elite, about the large Polish debt (also expressed in the Soviet Gosplan) were squelched.

Second, there was a conspicuously uncontrolled transfer of Western capital goods to the Soviet Union. This meant that the Polish debt created by the import of Western components grew. Above this, there was a clear-cut isolation of the Polish political leadership at the end the 1970s. This isolation had a complex character: the Politburo of the PUWP was not informed about the size of the Polish debt. Access to all sources of economic information (including the Central Bureau of Statistics) was given only to the Planning Commission where a branch of the imperial cluster was located. The Presidium of the Government was given strict confidential instructions "to limit information to the Central Committee of the communist party".

Statements by Polish officials in this period indicate that

even after Jagielski's removal controversies between particular links of the imperial cluster in Poland persevered. Agents responsible for the condition of the Polish economy because of their positions in the government, formulated some stipulations for the transfers described above. These transfers were also promoted by the branch of the imperial cluster in the Planning Commission whose members coordinated the functioning of the machine and military industries that produced for the imperial cluster and, therefore, they did not feel responsible for the state of the Polish economy.

3. The present cycle of the dependency policy is characterized by attempts to replace the producing state in certain sectors of the economy with structures of the imperial cluster. The best example of this new form of imperial cluster exists not only in the planning institutions but also directly in the production process. However, there are forces in the other East European countries favoring its establishment. The intensification of the dependency policy is connected to the dilemma which Gorbachev currently faces. On one hand, this policy of dependency is the main basis of his alliance with the Soviet military and foreign policy elites, and, on the other hand, the policy of dependency meets with resistance from the East European governing elites as they propose radical economic reform. Moreover, if the dependency policy is pushed too far, civil disorder may recur in these countries suffering from economic instability, which is an indirect outcome of the dependency policy.

The pace of the creation of this new type of cluster in Poland is very rapid.<sup>37</sup> It has no clear legal basis and is based mainly on political agreements between the highest levels of the Polish and Soviet leaderships. These very broad agreements are implemented by branches of the imperial cluster and are therefore out of the control of the Polish government. For the first time, the Soviets attempted to formalize their rights on the level of corporations not only by long-term contracts, but also through co-ownership. The reason for this is the attempt to ensure against a possible Polish withdrawal from cooperative agreements, in the event of the breakdown of isolation from the West. This is consistent with the movement from an "informal" to a "formal" empire observed in other political systems.<sup>38</sup> After all, the formalization of an empire is always supported by capital investments of the metropolis in the dependent country, by a lessening of the bipolar international order, and by the increasing possibility that the dependent country will abandon Metropolis A and join the orbit of Metropolis B.

The organizational structure of this new form of imperial cluster was expressed in two documents passed by the Central Committee of the Soviet Communist Party and the Council of Ministers of the Soviet Union. They set the coordination of

economic cooperation at the level of production between the CMEA countries and the Soviet Union and also the principles of the functioning of the co-ownership corporations. The organ which according to these documents, coordinates the cooperation is the Soviet delegation to the CMEA (its chairman is also the chairman of the Intergovernmental Soviet-Polish Commission that periodically evaluates the relations between Soviet and Polish corporations). It supervises directly the individual units of the Soviet Gosplan and the Ministry of Finance which determine the usefulness of direct cooperation or co-ownership with particular Polish corporations. The purpose clearly stated in these documents is to eliminate quickly the Polish trade deficit by appropriating the most modern and attractive goods for the Soviet market, preferably those produced with Western technology. They are also the goods that Poland is supposed to export to pay off its debt to Western creditors. Credits for modernization investments in Poland give the Soviet Union the right of co-ownership on very good terms. They come from the International Bank of the CMEA and not solely from Soviet sources and are created on Soviet initiative and for its interest. Companies in the system of the imperial cluster by long-term contracts or by co-ownership have synchronized economic plans which are a part of the Soviet economic plan. These plans are formulated in categories of produced goods rather than a maximization of profits because to this day the procedures of price-setting and the exchange of money have not been agreed upon. This automatically isolates the Polish corporations from the influences of the economic rules for reform introduced in Poland after 1981. The Soviet arrangement does not make the creation of similar synchronized plans on the Polish side possible, probably because of the Soviets' anxiety about making it easier for Poland to control the entire maneuver and estimate its real costs. The activities of these Polish companies are registered on the Polish side only in the reports of the Ministry of Foreign Trade. Polish economic plans are constructed without any indication of the changes which take place as a result of the agreements of "cooperation" signed on a central level as well as on the level of companies. This occurs in spite of the fact that the allocation of the means of production and the character of the industrial policy have changed. The scheme of the cooperation stated by the Polish side was to secure a priority in supplies of components, including those from the West, which are needed for production by companies of the imperial cluster. It is characteristic that the Five-Year Plan (to 1990) was passed in the Sejm only after the agreements of "integration," and also that actual industrial policy follows the latter, not the former. Such duality can only serve to worsen the anarchy of the Polish economy. In addition, the agreements include the creation of cooperative companies, joint corporations, and joint banks.

The coordination of the newly emerging imperial cluster is firm and centralized on the Soviet side. It is decentralized and

diffuse on the Polish side. Since the Soviets are interested mostly in two kinds of goods, products of the machine industry and consumption goods, two centers of coordination were established in Poland. It is difficult to determine, however, what is their real function. The coordination of a corporation in the machine industry, as far as the author can determine, is carried out by a unit of the Planning Commission, headed by Z. Szalajda, which continues to perform the same role as a similar unit did in the 1970s. As for the chemical and light industries, the coordinator appears to be the Vice Minister of Foreign Trade, Szymczak. He was previously the Vice Minister of Chemical and Light Industries, and then trade attache in the Polish embassy in Moscow responsible for the first stage of cooperation which began in February 1982 for the "processing of raw materials." He is probably the main source of information about which industries under his supervision were, from the Soviet perspective, additional investments and obtaining co-ownership rights to or worth contracting for long-term supplies. The degree of Soviet information about the potential of particular companies in Poland is stunning. In every case, the formalization of an agreement is preceded by a visit of Soviet specialists to a particular Polish factory chosen by the Soviets. An agreement is finalized on the level of the company since the Soviet side has exerted pressure "in the name of reform" for a decentralized form of agreement or one between the appropriate ministers. The only permanent bodies coordinating this process on the Polish side are different kinds of specialized "councils" (for instance, a council for cranes or for clutches) which have very a narrow program of activities and do not have precisely defined competence. They are subordinated to the Intergovernmental Soviet-Polish Commission for Economic Cooperation. This commission meets periodically and evaluates the performance of the councils.

The creation of the new imperial cluster seems to exist almost beyond the control of the Sejm or of any other political body on the Polish side despite the fact that it takes a part of the national resources and has great influence on the functioning of the whole Polish economy. The advantages of this form of cooperation with the Soviets to Poland are presented enigmatically and cannot hide the serious malfunctions of the new forms of dependency. These advantages include greater security compared to the experiences with Western sanctions, additional funds for investments in exchange for Soviet co-ownership and forced exports of final products, and a decrease of standstills in factories, so painful for the wage earner, and are able to overshadow serious dysfunctions of these new forms of dependency from the perspective of steady development of the Polish economy.

New forms of the imperial cluster contribute to growing economic and social instability in three ways:

- (1) the agreements of productive specialization within the

CMEA reproduce an incongenial structure of the economy with the superiority of industries producing different means of production and investment for goods. This not only generates inflation but also imposes a specific investment policy, involving deficit factors of production, which could be used in a way more advantageous for the Polish economy. Accepted productive specialization increases the need for Soviet energy and raw materials and their supply requires additional Polish investments in the Soviet Union.

(ii) the trade deficit between Poland and the Soviet Union (still being increased by the productive specialization of Poland) is paid off by consumer goods, the export of which, imposed politically, competes with the needs of the domestic Polish market. It increases the imbalance of the Polish consumer goods market and fuels inflation. Overall, it decreases the quality of life and the motivation to work.

(iii) the third factor is the other dimension of imposed allocation: the priority in supplies of the deficit means of production for the companies, composing the imperial cluster on the Polish side.

These three factors have high social costs for this new form of the socialist colonial state that is, this time, located in the producer state. Characteristically, the first stage of the new dependency policy (the processing of Soviet raw materials in 1982-83) temporarily created a specific balance (on a lower level than before the crisis), making it possible to set into motion the part of the economy previously immobilized by a lack of raw materials. This made it easier for the Soviets to increase dependency. A Polish retreat from dependency would be too expensive not only for the Polish leadership but for many groups in society. The ultimate cost of this new form of dependency for the Polish leadership is the loss of control of a part of the productive property and some final products, a redistribution of which was in the past one of the means of stabilizing the system.

The imperial cluster exploits the interests of organizations to expand and create risk-free conditions in which to operate. Not accidentally, the supporting structure of the dependency process became visible in the form of various "managers' clubs," existing on the national level as well as in the provinces.<sup>39</sup> The contradiction between these interests and social interests for balanced development and also with the interests of the Polish political bureaucratic center is obvious. An example of this is the discrepancy between the logic of the allocation of the factors of production, arising out of the existence and pressure of the imperial cluster and new attempts at economic reform, which tends, among other things, to make this allocation more rational. In addition, constantly repeated claims of restructuring the economy became mere slogans.

This new form of colonial state is characterized by the replacement of the producer state with chosen segments of the economy of the dependent country, which direct production and redistribution processes in their own interest and that of the Soviet Union. This leads to the articulation, in the part of the economy involved in this new form, of a kind of socialist version of contributational production. It is supported by legal (co-ownership) or just effective military and political agreements, subordinating parts of the economy of a particular dependent country to the interests of the CMEA and the Warsaw Pact. This ensures that the metropolis owns a part of the means of production within the dependent country and thus influences the use of some other factors of production: energy, raw materials, labor. This has meant that those factors of production are at the disposition of the national power elite in name only. The articulation of this type of production is accompanied by the creation of an individual segment of power in the dependent country and in the metropolis. This manner of production is a variant of the socialist type of production. Its particular form, the replacement of the native producer state with an analogous structure of the producer state similar to that of the metropolis, is a consequence of the very nature of the socialist type of production in which the producer state is a substitute for a capital market and economic mechanism for allocating the factors production. Furthermore, a lack of key economic motivations to reproduce capital and durable goods is caused by the nature of socialist property relations. On the one hand, it is determined by the goals of the imperial cluster (use values, not profit). And, on the other hand, it eliminates the resistance of the dependent countries as part of their national resources go to the metropolis. Finally, the domination of the economy by the interests of organizations used to expand the imperial cluster is also a consequence of the socialist type of production.

The creation of this form of imperial cluster is accompanied by attempts to justify the structure ideologically. The best example of this can be seen in an article published in Pravda in 1984, which stated that the "marketizing" of trade relations between CMEA countries (that is, pressure to balance the trade deficit of the East European countries with the Soviet Union) does not indicate a departure from the "socialist character of these relations" but quite the reverse, the "strengthening of connections directly in the sphere of production" involving the joint planning of production in separate segments of the economy. This is an expression of a "more advanced form" for these relations.40

Western research on Eastern Europe seems to underestimate the political consequences of dependency and it fails to notice the new forms of the imperial cluster. One can usually find

unrealistic expectations of future Soviet policy in Eastern Europe, very general remarks that modernization in this region requires a reshaping of the relations between the metropolis and the dependent countries, or general reflections about "regional hierarchy systems."<sup>41</sup>

This new form of dependency has met with clear resistance from the leadership elites in the east bloc, except in Poland, where the military government and the seriousness of the economic crisis make dependency in the first stage necessary because it provided a degree of stability. This has made it easier for the Soviet Union to structure the new form of ties in Poland. In Hungary, on the other hand, one can observe a very conscious policy to neutralize and counteract Moscow's exploitation of the interests of organizations.<sup>42</sup> Czechoslovakia's visible coolness toward Gorbachev's policies does not necessarily indicate only an anxiety about political reform, but may be an attempt to protect the new form of imperial cluster. The tragic nature of this situation for the leadership elites of Eastern Europe (best illustrated by the case of Czechoslovakia) involves the impossibility of sincerely explaining to the public the dilemmas and dangers connected with the new pressures of the dependency policy. It makes it possible for the Soviets (in semi-official comments) to label this anxiety about Gorbachev's policy of dependency as conservatism and as an aversion to Gorbachev as reformer. The Western media echo that by similar comments. In the past, one of the forms that made it easier for the small East European countries to protect themselves from the pressures of dependency was their participation in international organizations, such as the IMF, GATT, and, in the case of Hungary, the Commission of Danube States. Ideological forms of resistance include different versions of the concept of Central Europe (as opposed to Eastern Europe) as a natural region integrating Hungary, Austria, Germany, and Czechoslovakia which have a long common cultural heritage and common traditions of division of labor.<sup>43</sup>

#### FINAL REMARKS

The Soviet policy of dependency was carried out in Eastern Europe in three stages involving a sequence of three steps (isolation, an increase of economic dependency through political pressure, and stabilization of structures). Each new stage began from a higher initial level of dependency, evolving from an initial preemptive political dependency (when the costs of retreat concerned, above all, the loss of Soviet support by national elites), to a stronger economic dependency (permanently destabilizing the economic balance in the dependent country), and finally to the stage of greatest dependency. In this phase, the dependency became (after a serious crisis) a balancing factor. Stabilization was achieved on a much lower economic level than

before the crisis. Paradoxically, in this most advanced state of dependency, its social base grew because withdrawal from dependency would be too expensive, not only for the ruling elite but for certain other social groups and economic organizations. Subsequent stages contained institutional evolution within the imperial cluster characterized by a growing variety of structural methods applied to countries that were adjusted to their internal conditions and the role they were designated in the imperium.

## ENDNOTES

1 See the materials of the United States Congress in 1980-81, a period when the US made important decisions regarding Poland, especially Poland, its Renewal and a US Strategy, A Report for the Committee on Foreign Relations, the United States Senate, October 31, 1981. An exception in the documents on this level was the Hearing, Commission on Security and Cooperation in Europe, 97th Congress, April 1, 1982.

2 F. H. Cardoso, E. Faletto, Dependency and Development in Latin America (University of California Press, 1979); P. Evans, Dependent Development, (Berkeley, 1979); C. Leys, "What Does 'Dependency' Explain," Review of African Political Economy, No. 17, 1980, pp. 108-13; V. I. Lenin, Imperialism, the Highest State of Capitalism; J. Schumpeter, Imperialism and Social Classes, (Cleveland, 1955); J. Gallanher, R. Robinson, "The Imperialism of Free Trade," Economic History Review, 2nd series, No. 6, 1953; S. Amin, L'accumulation a l'echelle mondiale (Paris, Editions Anthropos, 1970).

3 M. W. Doyle, Empire (Cornell University Press, 1986, introduction); K. Waltz, Theory of International Politics (Reading, MA, 1979).

4 K. Deutsch, The Analysis of International Relations (Englewood Cliffs, 1968, Chapters 3-4).

5 The general picture of economic relations at the beginning of the Cold War is presented in United States policy on trade with Eastern Europe and the Soviet Union, from the above listed House documents, pp. 61-184.

6 Czechoslovakia's participation in world trade decreased from 1.7% of the world share in 1929 to 1.1% in 1950, with changes of direction of the trade from West to East. Until 1947, about 80% of its raw materials were purchased on Western markets and about 50% of exports went to the West. The deficit of 1.5 billion korunas in the middle of 1947, following the suspension of UNRRA credits and the rejection of the Marshall Plan because of Soviet pressure and obtaining 1 billion koruna credits from the Soviet Union, caused a change in the direction of Czechoslovakia's trade and led gradually to the subordination of the investment policy (a revision of the Five Year Plan and trade agreements from 1950) to Soviet interests in use value. One indicator is significant: during the Five-Year Plan the production of military items rose by 100% (47% of investment funds were directed to the military). The inflation in this period was 134% (See K. Kaplan, "K Vysladku Prve Petiletke," Casopis Historiky, No. 3, 1965, Prague, 1966; and Tamás Reti, "Beginnings of a Planned Economy in Czechoslovakia in 1945-1953," Vasolag, No. 11, 1985, Budapest.

## 7 Growth rates of industrial output for 1948-67

	Bul.	Czech.	E. Ger.	Hun.	Pol.	Rom.	Yugo.
Machines, Heavy Industry	18.5	6.5	9.6	8.2	12.7	15.6	11.0
Chemical Industry	18.1	10.5	9.0	18.6	10.5	18.7	14.8
Textile Industry	7.8	3.0	5.5	5.4	4.9	6.3	6.5
Food Industry	9.1	4.6	5.3	7.6	6.1	6.0	6.8

The differences between the branches were greater in 1948-53. See, L. Czirjak, "Industrial Structure, Growth, and Productivity in Eastern Europe" in Economic Development in the Countries of Eastern Europe, JECCUS, 1970, p. 447.

## 8 Socialism, (Moscow, 1918), (in Russian).

### 9 Comparative levels of per capita personal consumption, using Czechoslovakia as the reference point.

	Pre-WWII	1950	1955	1960	1964
W. Ger.	105	100	141	159	175
Czech.	100	100	100	100	100
Hungary	92	69	73	78	84
Poland	47	60	68	67	70

### Comparative collective consumption:

	1959	1963
Czechoslovakia	100	100
Hungary	78	80
Poland	78	77
USSR	71	72

Economic Development..., pp. 300-301.

There was a striking increase, by comparison to the pre-war period, in the distance between Czechoslovakia and West Germany and between West Germany and Hungary. Poland's position in comparison to West Germany worsened less than Czechoslovakia's or Hungary's, and improved by comparison to Czechoslovakia whose regression was the greatest. The reason for this is that Poland, unlike Czechoslovakia, had reserves of extensive growth.

10 In Poland in the period of the Six-Year Plan, 85% of investments was absorbed by heavy industry. The investment plan was not accomplished (the planned 350% increase in the potential was not reached but only a 232% rise was, by 1955), but Poland disorganized the functioning of the existing branches of industry. Montias, Central Planning in Poland (Yale University Press, 1962), p. 60.

11 For instance, in the late 1940s and early 1950s, Poland annually exported to the Soviet Union 14 million tons of coal, so-called reparation coal, which was sold for \$1.01 per ton, 1/7 of the world price. It was planned that Poland would pay off in coal the cost of Soviet military operations during World War II, estimated at 100 million tons of coal. In actuality, Poland delivered at this reduced price 56 million tons at which Gomulka negotiated a fairer price in November 1956. At this time there were great possibilities for Polish coal to be sold on the world market. See Hearing, Commission on Security and Cooperation in Europe, 1982, cited in fn 1, pp. 8-9.

12 The technological degradation of the electronics industry (and particularly the computer industry in which Poland was leading in Eastern Europe) made it possible for the Soviet Union to include in the integrated system of computer production, RIAD, which absorbed funds (transfer of investment to the Soviet Union).

13 The price of Soviet oil grew from 30 to 45% (it varied from country to country) in 1981 and from 19 to 27% in 1982 (and the subsequent growth of the trade deficit between Eastern Europe and the Soviet Union). At the same time the Soviets increased pressure to balance this trade deficit. As a result, imports from the Soviet Union to Eastern Europe declined (cuts in the oil supply of about 10%) and exports to the Soviet Union increased, usually at the cost of domestic stability.

14 In Poland it involved, among other things, coal. Poland did not fulfill its export obligations to the West because of Soviet pressure to maintain supply on the pre-crisis level, which resulted in a breakdown of credit negotiations between Poland and its Western creditors, in Frankfurt in June 1981.

15 Standstills of factories caused by a lack of these components

involved about 40% of the Polish industry potential in 1980-81.

16 In return for additional supplies not included in earlier contracts of, for example, cotton, the Soviet Union received part of the final product (remaining for Poland, initially, 20% of them, which equalled the amount of the wage payment fund, and then 50% of them). It involved mainly consumer goods, clothes, leather products, furniture, which were in extremely short supply on the Polish market.

17 There is clear conflict between these agreements and the tasks of restructuring and reform, and also, increased exports to the West, which were formulated in the Five-Year Plan passed by the Sejm in 1986.

18 See the interview (Trybuna Ludu, February 6, 1987) with, M. Gorywoda, Chairman of the Planning Commission, in which he stressed that the Polish export obligations to the Soviet Union were increasing faster (twofold, or about 60%) than guaranteed Soviet imports of needed raw materials and energy (expected to increase by 30% by 1990). The additional amount of needed energy and raw materials would be delivered to pay off Polish investments in the Soviet Union which amounted to about 1 billion rubles. See also Trybuna Ludu, January 30, 1987.

19 Gwiazda (in Trybuna Ludu, January 30, 1987) simply discussed the creation of the legal structure. The disintegrated structure of the imperial cluster on the Polish side is accompanied by a highly centralized structure of control on the Soviet side, subordinated to the Gosplan and the Ministry of Finance. See the resolution about the improvement of cooperation of the Central Committee of the Soviet Communist Party and Council of Ministers, Ekonomicheskaya gazeta, January 1, 1987. English version in USSR International Affairs, vol. iii, February 9, 1987.

20 The events taking place in Hungary (for instance, the progressive polarization manifest in the departure by 30 writers, Party members, from the Union of Writers, made it difficult for this organization to play a mediating role. The radicalization of claims of the opposition, such as demands to build a monument to Imre Nagy during a demonstration on March 15, 1982; the activation of anti-Western populists in the Communist Party; and finally the conflict between Hungary and Romania, because of disturbances involving national minorities in Transylvania can be interpreted as an omen of an approaching political crisis. These occurrences combined with Hungary's economic problems can aggravate the general situation, and can be used by Moscow to fill Kadar's position with someone better disposed to a policy of dependency.

21 J. M. Brabant, "Economic Adjustment and the Future of Socialist Integration," East European Politics and Society,

Vol. 1, No. 1, 1987.

22 Planned Economic Report, ed., J. Vanous, Washington, April 10, 1987, Vol. III, No. 14-15.

23 Degeneration is more visible, the higher the beginning level of development of the dependent country. This is especially true of Czechoslovakia and Hungary. East Germany is a special case: on the one hand it has economic relations with West Germany, and on the other hand, about 41% of subsidized Soviet trade is directed to it.

24 F. H. Cardoso and E. Faletto, Dependency and Development in Latin America (University of California Press, 1979), p. 20.

25 M. Marrese and J. Vanous, Implicit Subsidies in Soviet Trade with Eastern Europe (University of California Press, 1982).

26 The suspension of key supplies (for instance, in November 1981 the political pressure was imposed by sporadic and limited supplies of oil). It was promised in the case of the imposition of martial law that the Soviet Union would not decrease oil supplies to Poland (as it did to the rest of Eastern Europe). Although later these supplies were decreased by 7%, while to other Eastern European countries increased by 10%.

27 Cardoso, p. 18.

28 Cardoso, p. 16.

29 O. L. Williamson, "The Economic Institutions of Capitalism", The Free Press, (1986).

30 J. M. van Brabant, "Economic Adjustment and the Future of Socialism," East European Politics and Society, Vol. 1, No. 1, 1987 (University of California Press).

31 K. Poznanski, "Competition between Eastern Europe and Development Countries in the Western Market for Manufactured Goods," East European Economies, Vol. 2, Joint Economic Committee, US Congress, March 1986.

32 The distribution of Soviet subsidies for particular East European countries (the sale of oil on credit) was as follows: 41% for East Germany; 21% for Czechoslovakia; 17% for Poland; 14% for Hungary; and 8% for Bulgaria. The highest to lowest per capita subsidization is as follows: Bulgaria, East Germany, Czechoslovakia, Hungary, Poland. See M. Marrese, J. Vanous, "Soviet Policy Options in Trade Relations with Eastern Europe", Soviet Economy in the 1980s: Problems and Prospects, Joint Economic Committee, US Congress, 1983.

33 In 1983, the number of companies that did not fit the definition of law of workers' councils was 1371 (in 1981 when the law was passed it was expected that this number would not exceed 200), Rzeczpospolita, March 10, 1983.

34 An example of this was the inclusion of the costs of the construction of wide railroad tracks to the Soviet border in the construction expenditures of Huta Katowice, in the second half of the 1970s in Poland.

35 Protokoly Komisji Grabskiego (The records of the Grabski Commission), (Paris, 1986) p. 325.

36 In the second half of the 1970s the expenditures in military industry increased threefold (from 8 billion zloty in 1971-75 to 25 billion in 1975-80).

37 In 1984, 50 companies belonged to this form of imperial cluster on the Polish side; in 1986, 150; in February 1987, 300. An interview with Antonov and Gwiazda, the Chairmen of the Intergovernmental Soviet-Polish Commission, Trybuna Ludu, February 14, 1987.

38 M. Doyle, Empires, (Cornell University Press, 1986) pp. 342-43.

39 In the spring of 1982 in all provinces there were general managers' clubs of 800 general managers from corporations belonging to or wanting to belong to the imperial cluster. See the interview with general manager Slezak from Ostrzeszow, in which he indicates the profits made by companies after joining the imperial cluster, Polityka, No. 3 (1550), 1987.

40 N. Bordek, V. Glagolev, "Integration in Action", Pravda, February 13, 1984.

41 P. J. Katzenstein, "Introduction: Domestic and International Forces and Strategies in Foreign Economic Policy", International Organizations, August 1977.

42 An alternative to entering the imperial cluster for Hungary is to restructure its economy and liquidate the branches which increase the need for Soviet raw materials and energy. This implies, among other things, the closing down of some factories (in the near future, Hungary expects about 200,000 layoffs) and the painful process of adaptation, which would be hard to put into practice without additional credits from the West.

43 The concept of "Central Europe", which appears in official statements and publications (for instance: Ivan T. Berend, the chairman of the Hungarian Academy of Sciences, International Organizations, Vol. 40, No. 2, Spring 1986), as well as in the

opposition circles (see, for example, the polemic between J. Simecka and M. Vajda in East European Reporter, No. 7, 1987, with reference to the works of M. Kundera) concerns the future, stressing the individuality of the development of Central Europe more than current political and economic problems. Hence, there is no analysis of, for example, economic implications of leaving the CMEA, or the hypothetical role of Germany (as the leading economic country) in the event of the creation of Central Europe as a region and the limitation of its ties with the Soviet Union. In the discussion about the concept of Central Europe, Poland is also sometimes included, disregarding the significant cultural differences, tensions, and dissimilar contemporary dependency on the Soviet Union. They frequently overestimate the factor of frustration due to the common fate of these countries since World War II. The paradox of the current situation is that the similarities in these countries, which exist together with deep cultural differences strengthened by the affiliation in the past to the Austro-Hungarian Empire or the Russian Empire, are a result of real socialism, the very factor they wish to eliminate.

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