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The Impact of External Economic Disturbances on the Internal Politics of Eastern Europe: The Polish and Hungarian Cases

Sarah Meiklejohn Terry
Tufts University

Andrzej Korbonski
University of California, Los Angeles

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I. INTRODUCTION

Writing in 1970, Gregory Grossman observed that, in "striking" contrast to Soviet literature on economic reform which "almost never mentions foreign trade, . . . one will rarely read more than half a page [of the vast literature pertaining to reforms in the East European countries] before running into the imperatives of foreign trade as a major reason for economic reform." By way of explanation, he cited "the great difference in the relative importance of foreign trade" in the Soviet Union (where the ratio of exports to national income is about 5%) compared with Eastern Europe (where comparable ratios run between 15% and 30% and by now possibly even higher), and continued:

> One of the most important consequences of a very high dependence of any economy on foreign trade is that it exercises a very harsh and immediate disciplining effect on the country's planners and leaders. A country that is highly dependent on foreign trade typically has to pay an immediate and heavy economic price in the form of a balance-of-payments deficit for overly ambitious or imprudent policies. A country such as the Soviet Union or China that indulges in adventures of the same kind very often has political dimensions through which to absorb these effects . . . [such as] political repression of the population . . . A smaller country may also use political repression to compensate for economic mistakes, but this may not be enough to absorb the effects . . . So, dependence on foreign trade may force economists, planners, and political leaders to rethink their ways of doing things and to search for more rational solutions.[1]

In the years since Grossman made these observations, Eastern Europe's trade with the West has mushroomed, as has its debt and presumed degree of dependence on that trade. Yet the question of the relationship between foreign trade dependency or other external economic pressures on the one hand, and domestic political change in these countries on the other, remains a hazy and controversial area.

Indeed, as recently as the beginning of this decade, ties between the Soviet bloc economies and the world market were sufficiently tenuous that a paper on this topic would most likely have been viewed as irrelevant. Even today, although a considerable body of literature has accumulated on other linkages -- e.g., between _domestic_ economics and _domestic_ politics,[2] between _foreign economic_ perturbations and _domestic economic_ processes,[3] or on the broader issue of the region's economic or political dependence and interdependence[4]-- to the best of our knowledge, the impact of _foreign economic_ disturbances on the _domestic politics_ of Eastern Europe has not been subjected to more than cursory analysis. Within the past four to five years, however, a series of external economic shocks (notably the energy/grain crises and the attendant global inflation) followed by mounting evidence of political instability in the region (most visibly but not only in Poland) suggest the possibility that the relationship between these two sets of phenomena is more than purely coincidental.

Since we have both had occasion to comment elsewhere on the inherent difficulties of this sort of cross-system analysis,[5] a brief summary of our earlier conclusions on this point will suffice here. The first and most basic problem in our inadequate understanding of the very political processes whose susceptibility to external influences we are attempting to evaluate -- in particular, the lack of empirical data concerning the input side of decision-making processes. To be sure, the gaps in our knowledge are not nearly so disabling as in the worst days of Stalinism; nonetheless, we are still forced to rely primarily on policy outputs as the best indicators of system performance and the impact thereon of exogenous factors. Secondly, the East European regimes, while clearly enjoying greater autonomy than in the past, still remain in the shadow of the Soviet Union; that is, it is still Moscow which ultimately determines the limits of domestic reform. Not only does this enforced tutelage impose its own "harsh discipline" on the East European leaderships; where Moscow's response is uncertain or negative, its effect will also be to understate or mask influence. Thirdly, domestic change is almost invariably the product of many factors, of which increased vulnerability to outside economic forces and events may be only one. In other words, even with adequate insight into decision-making, and even without the distortions of Moscow's watchful eye, it is highly unlikely that we could discover a predictable pattern of linkages between external influences and internal effects.

One final caveat of particular relevance to the variety of cross-system analysis at issue here: There is a fundamental difference between the tasks facing economists and political scientists in assessing the impact of external economic disturbances on their respective domains. On the one hand, economists are looking for extensions of the external disturbances in the domestic economy -- that is, they are dealing in the same genre of phenomena, be it inflation, recession, material shortages, or whatever. To use a bit of mundane imagery, it is rather like watching a conveyor belt running through a black box; apples and oranges (representing the external disturbances) enter on one side, emerging on the other somewhat beat up perhaps and distorted by the characteristics of the internal market, but nonetheless still recognizable as apples and oranges. For the political scientist, on the other hand, the problem is rather more complex. We observe the same apples and oranges going into the box; but at the other end we are confronted with an assortment, let us say, of lemons, prunes and nuts (representing possible political effects). Our task -- clearly more art than science -- is to analyze the metamorphosis -- if, indeed, we can establish a connection. In brief, there is no political equivalent of the economists' "impact model"[6] by which to measure the "generation, transmission, propagation and containment" of economic forces.

In light of these empirical and analytical limitations, our aim in the following pages is less to demonstrate a direct causal relationship between the external economic and internal political environments than it is simply to broaden our understanding of the different ways in which these environments interact under different circumstances. Toward this end, we decided to eschew a region-wide approach, which necessarily would be both general and superficial, and to confine ourselves to a more detailed examination of several individual countries -- for the purposes of this draft, Poland and Hungary. The choice was not entirely arbitrary. Both have experienced a high degree of exposure to the vagaries of the world market; on the other hand, they represent very different patterns of domestic political and economic behavior, thus providing
if narrow
a valid/basis for comparative analysis. (We might note in passing that we decided against consideration of the Soviet experience on two grounds: first, as the Soviet Union is one of the most important sources of the outside economic pressures weighing on Eastern Europe, it is in this instance part of the external environment; and second, by virtue of its low level of exposure and vulnerability to global economic forces relative to the size and self-sufficiency of of its economy, the Soviet example is less instructive for our purposes.)

With each of our case studies, our approach has been two-fold:

(1) To analyze the impact of the external economic shocks suffered by each from the perspective of its total economic situation -- and, in particular to weigh these external pressures against domestic sources of economic stress, which could themselves be responsible for generating the political effects we are concerned with.

(2) To explore the possible relationships between these economic strains

(whether externally or domestically generated) and concurrent political developments; here we have been concerned not only with actual policy changes on the part of the respective regimes, but with the whole spectrum of possible political changes -- including those as amorphous as shifts in the public mood or in the level of regime-society tensions, as well as more specific changes such as the emergence of open dissent or reform movements and, at least theoretically, the introduction of systemic reforms which could alter the distribution of political power and decision-making authority.

The fact that we do not expect to find a consistent and predictable pattern of linkages between the external economic and internal political realms does not mean that we exclude the possibility, indeed the probability, of such linkages altogether. Nor does it mean that those linkages, however indirect or unpredictable, cannot at times exert a critical influence on domestic behavior in one or another country: whether by tipping the balance of power among contending domestic forces, by influencing the timing of a decision, or, in a more general sense, by placing the system under such stress that it can no longer absorb added strains without itself undergoing change -- without, as Grossman suggested, the planners and political leaders being forced "to rethink their ways of doing things and to search for more rational solutions." Of particular interest to us will be the identification of those factors in the domestic environment, whether political or economic, that may condition a country's vulnerability to external shocks or disequilibria.

II. POLAND

In the two years since the June 1976 food-price riots, Poland has become Eastern Europe's prime specimin of economic woe and political instability. Viewing her difficulties through the prism of an estimated $14 billion debt and yearly grain imports on the order of eight to nine million tons, there is an almost irresistible urge to presume a causal relationship between the external economic pressures and the signs of domestic instability. Yet, on closer examination, we have concluded that that relationship is at best indirect and partial -- that, while clearly an aggravating factor, the external pressures are by no means the sole of even the primary cause of Poland's current political dilemmas. Our findings, first in summary form and then elaborated in more detail, are as follows:[7]

(1) Without denying that Poland's economic interests have been damaged by the combination of gloval inflation and Western recession since 1973, we find that the impact has not been as one-sided as is often supposed and that her failure to increase exports to the West to the extent planned has other equally important roots;

(2) that the severest external shocks to Poland's economy have come not from the West, but from her largest trading partner, the Soviet Union;

(3) that the primary cause of Poland's economic and political difficulties is an excessively ambitious and unbalanced development strategy which has greatly accentuated her vulnerability to external economic disturbances;

(4) that the relationship between increased economic exposure to world market forces on the one hand, and economic reform on the other, has been an inconsistent, even contradictory, one in Poland, characterized both by increased pressure for such reforms as well as increased resistance to them; and finally,

(5) that, while this combination of economic strains (both foreign and domestic) has generated a wide range of political effects, both the depth of Poland's present crisis as well as the nature of the political pressures and demands flowing from that crisis have been conditioned by underlying social and political relations.

(1) It is clear that Poland's ability to export to the developed capitalist states has not come up to expectations, while hard currency imports and indebtedness have escalated virtually uncontrolled. The strategy established in the early years of the Gierek regime assumed temporary deficits occasioned by imports of technology which would in turn be used to produce the high-quality manufactures necessary to repay the credits. In the process, Poland would be transformed from an exporter primarily of raw materials and semi-finished goods into a producer of technologically superior finished products not only for the domestic and CMEA markets but capable of competing also on world markets. That the rationale behind this strategy was dealt a serious blow after 1973 by the dramatic reversal in relative prices for primary goods and manufactures is undeniable. Yet neither this fact nor the ensuing recession in the West is sufficient to account for Poland's mounting trade deficits and debts; at least three other factors are at work here.

First, the size of the deficit in recent years has been due as much or more to an inability to control imports than to a failure to expand exports at the anticipated rate -- a fact which can be blamed only partly on the rising cost of Western goods. Of at least equal importance have been above-plan investments and the necessity of turning to the West for massive imports of grain and other food items to compensate for poor harvests at home and in the Soviet Union. Second, while the reversal in world price relationships has had a favorable impact on Poland's terms of trade with the West -- 122.5 relative to 1970 in 1975 and still 119 in 1976, by far the best showing among all the East European countries[8] -- the Poles have been unable to take maximum advantage of higher prices for their primary exports because of rising domestic demand. Coal (Poland's largest single export item) and lesser energy exports provide the best example: Although earnings from these sources soared after 1973 (accounting for 16% of total export earnings and 35% of earnings from the West in 1975), the Poles are having difficulty maintaining the volume of exports either in absolute terms or relative to total production (figures for both 1975 and 1976 show declines from the highs of 1974). Moreover, in view of the serious shortfalls already being experienced in domestic energy supplies, and with demand rising faster than coal production, it seems likely that the volume of energy exports will continue to slip or at best hold steady in the foreseeable future.[9]

But the third and most important factor -- and one now increasingly admitted by the Poles themselves[10] -- has been the failure to combine their modernization strategy with a concerted effort to correct the long-familiar shortcomings of the command economy. The relationship between external economic influences and economic reform will be dealt with under (4) below. For the moment suffice it to say that, even without the recession, Poland's ability to place manufactures on Western markets would have been constrained by persistant problems of product quality (despite technology imports), shortages of spare parts and other servicing problems, low productivity, inflexibility in the face of changing market conditions, continuing preference on the part of managers to produce for the less demanding (and often insatiable) domestic market, etc., etc. In addition, failure to curb the waste and delays that invariably plague all CPEs continues to add to the import burden.

(2) In terms of sheer magnitude, as well as the critical nature of the commodities concerned, the most severe external shocks to Poland's economy have come not from the West but from her major trading partner, the Soviet Union -- a development which is all the more interesting in light of the traditional role of the Soviet market in insulating Eastern Europe from world market pressures. Nor have these shocks been limited to changes in the prices and deliveries of Soviet oil and other raw materials, althouth they are certainly the most visible. E.g., in the two years from 1974 to 1976, Poland's bill for Soviet crude oil deliveries rose by approximately 200% on a volume increase of less than 20%; it is likely that the comparable figures for 1977 will show at least a 300% increase in cost over 1974 on an estimated 28% rise in volume.[11] It is a fair assumption that these increases, combined with less drastic ones for other raw materials, have been responsible for the lion's share of the yearly increases in Poland's imports from the Soviet Union: 35% in 1975, 11% in 1976, and an estimated 18% in 1977.[12] In addition, along with the other members of CMEA, the Poles have been told that they can expect future increases in deliveries of these resources only to the extent that they share in the cost of development, and that in any event they must figure on meeting a major portion of their growing needs through the world market, as the Soviets seek to trade more of their resources for Western technology and to cover the growing needs of their own economy.

But other economic shock waves have rolled in from the East as well: e.g., the termination of wheat shipments in 1976 following the disastrous Soviet harvest of 1975 -- this at a time when Poland's import needs were rising steeply. Even after the excellent harvest of 1976, the Soviet contribution to Poland's total grain needs was probably on the order of one million tons, compared with overall imports of at least seven million tons.[13] Less often recognized but in the long term possibly the most important change in Soviet-Polish economic relations (or for that matter Soviet-East European economic relations in general) has been the opening of the Soviet market to Western industrial technology and other manufactures. In effect, this is forcing the Poles and others to compete with the advanced capitalist economies, eager because of their own recession to break into the Soviet market, for what has hitherto been Eastern Europe's largest and most reliable market for industrial machinery, equipment and consumer goods.[14] The combined impact of these price-supply changes and shifts in Soviet trade orientation has been, and inevitably will continue to be, a two-fold strain: on the one hand, the necessity of diverting to the Soviet market a growing volume of higher quality goods to cover raw material deliveries and development; on the other, pressure to purchase more of those resources at higher world market prices, even at the risk of adding to an already overwhelming debt burden.

(3) However, the fundamental reason for Poland's economic and political difficulties today lies not in the external economic environment, but in the excessively ambitious and unbalanced development strategy pursued by the Gierek regime since 1971. The basic features of this strategy are sufficiently familiar that we need not repeat them all here; rather we shall simply point out those aspects of Gierek's policy which have been responsible for substantially increasing Poland's vulnerability to the external disturbances. These include:

(a) Simultaneous and rapid increases in investment on the one hand, and wages and personal consumption on the other: Although the former without the latter would have been politically unacceptable, the combination has proved unacceptably inflationary. The burden of an exhorbitant accumulation rate (40% of national income in 1975 and only marginally lower in 1976) has been compounded by the concentration of investments in heavy industry and resource development, which are highly capital intensive and often involve long lead times before becoming productive. At the same time, those branches of industry which could contribute rapidly to consumer supplies, as well as to exports, (food processing and light industry generally) received disproportionately smaller shares of investment funds.

(b) The low priority given to agriculture (especially the 80% which remains in private hands) in terms of investment, price and incomes policies-- all with deleterious effects for the economy as a whole: e.g., the departure of large numbers of rural youth for higher paying jobs in industry, leaving behind a rapidly aging and less productive farm population; lack of material incentives to maximize production for the market or to encourage investment in the private sector (where the rate was less than one-fourth that in the socialized sector in 1975); and inadequate supplies of such essential industrial inputs as fertilizers and farm machinery (again, the majority of tractors reaching the private sector tend to be hand-me-downs of dwindling utility and often unsuited to the needs of individual farming). It is now widely admitted -- even by the prime minister -- that the above factors are fully as much to blame as "adverse atmospheric conditions" for the succession of poor and middling harvests which have thrown Poland on world food markets at such horrendous cost.[15]

(c) Unrealistic expectations with respect to future increases in consumption levels: The first half of the 1970s brought the "revolution of rising expectations" to Poland creating a popular mood which the government imprudently chose to abet rather than temper, presumably in the interest of raising labor productivity. Yet, at the same time, it failed to provide the means to meet more or less predictable surges in demand for meat, housing, etc.

(4) The relationship between the external economic environment and domestic economic reform is complex and inconsistent. In general, however, we find scant evidence that either the initial expansion of East-West trade or, more recently, exposure to disturbances in external markets has on balance favored the cause of a genuine reform of the system of economic planning and management

in Poland.

On the one hand, it is true that in the initial phase of the Gierek regime modifications of the command economy were adopted, giving a degree of autonomy to large economic organizations (the so-called WOGs) and introducing semi-automatic "parametric" regulators. However, even these partial reforms were never fully implemented and quickly collapsed as soon as the economy began to experience strains -- although it is important to note that the reasons for the collapse were as much political as economic, i.e., the vested interests of the planning and administrative bureaucracies in retaining centralized control. In the end, the strategy of credit-financed imports of Western technology came to be accepted as a substitute for structural reforms and, indeed, served to postpone the day of reckoning.

On the other hand, the failure to reform certain aspects of the system has -- like the basic development strategy itself -- aggravated Poland's foreign trade position and vulnerability to external shocks. Among the most serious problems have been a continued preference for maximum production and gross plan fulfillment at the expense of profitability, efficiency or a rational allocation of resources, and (ironically) a price policy that has continued to insulate the domestic economy from changes in world price levels. As a result, neither producers nor consumers have been made to bear the true cost of the imports they use or consume; thus there has been little or no incentive to curb investments, to use imported resources more efficiently or, for the consumer, to shift demand to less import-intensive products.

With the day of reckoning now at hand, the proponents of reform have regained a modicum of leverage in criticizing the half-measures of the past and in pressing for more fundamental decentralization. The irony of the situation is that many of the problems which the Polish leaders are being forced to rethink are the very same ones for which they initially sought solutions through trade and cooperation with the West: e.g., low productivity and product quality, lack of innovation, inability to adapt to changing market conditions, etc. In other words, where the opening to the West was originally pursued as a means of overcoming the bottlenecks and inadequacies of their domestic economy, it is now the urgency of coping with the strains produced excessive growth and expanded external ties that has revived the pressures for economic reform. And while these strains have been magnified by such unanticipated events as the energy crisis, world-wide inflation and recession in the West, such external factors have at most merely brought a speedier realization of the limits of tecnhological transfusions as a cure-all for Poland's economic malaise, and of the need for a more comprehensive systemic approach. Moreover, it is no longer simply a question of how to prevent the technology gap from widening again in the future, but of being able to derive the full benefits of the huge investment represented by the technology already imported.[16]

Although the results to date have been meager (and seem to point in the direction of more rather than less central control especially over investment and import decisions),[17] and although there is no clear consensus among the experts as to the proper remedies, discussion is beginning to take some intriguing turns. One is an upsurge of interest within the last year or two in Hungary's New Economic Mechanism, particularly in monetary policy as a tool for economic control -- an interest evidenced by the recent translation into Polish of one of the earliest and most important theoretical works on the NEM, as well as the appearance of a number of other feature articles.[18] In the agricultural sector, the intense pressure on the Poles to boost domestic production in the face of intolerable import costs has brought about a shift of investment priorities in favor of agriculture, and is now forcing the regime to grapple with the complex and politically volatile issues of land ownership and utilization posed by the improper cultivation or outright abandonment of of more than two million hectares of land (mostly by worker-peasants with marginal or fragmented holdings and aging peasants with no one to take over their farms). While the ultimate disposition of this land is still being decided, it is already apparent that the corrective measures will include the sale of additional land to efficient private farmers, stepped-up technical assistance to the private sector, improved social-welfare and pension benefits, and possibly the encouragement of new and less threatening forms of private cooperation to permit mechanization and specialization on hitherto fragmented and inefficient parcels -- all policies resisted in the past as inconsistent with progress toward the socialization of the countryside.[19]

The shifts in economic policy have extended outside the agricultural sector as well, including: a stabilization of investment outlays overall (although still at an extremely high level), with greater attention to housing; and efforts to revitalize (or at least ease restrictions on) private crafts and trades servicing the consumer economy. None of these shifts in policy is exactly revolutionary, and it remains to be seen whether the pledges will be carried out in practice. Still, we should not overlook the fact that they represent a modest reversal of tendencies evident prior to the June '76 riots.

Despite the apparent urgency of the moment, however, the prospects for more far-reaching systemic reforms "under the gun," so to speak, are remote. As Janusz Zielinski commented recently, the economic conditions which give rise to pressures for such reforms do not often coincide with the political conditions essential to their successful implementation -- most importantly, a unified leadership and one that is willing to challenge the vested interests and sacred cows of the traditional economic system.[20] That neither of these conditions pertains today in Poland is perhaps the understatement of the decade.

(5) The most interesting aspect of this whole topic -- and that least amenable to conclusive analysis -- concerns the actual or potential impact of external disturbances on non-economic policy matters, as well as on political processes and institutions. And, indeed, the past two years have witnessed a number of developments in Poland, all symptomatic of a considerable degree of political instability and tension within Polish society and a similar degree of uncertainty on the part of the leadership as to how to proceed:

(a) the June riots themselves, which revealed the shallowness of the regime's base of support;

(b) the emergence of an overt dissident movement which has shown itself capable of carrying on a wide range of political activities, and which the regime is either unwilling or unable to quash;

(c) the resurgence of the Church both as an advocate of its own interests and in a mediating role between the regime and society; and

(d) renewed attention to the role of the Sejm and other representative or participatory institutions in the proper functioning of socialist democracy.

But can we establish a clear connection between these disparate sets of phenomena, the external and internal, the economic and political? And if so, what is the nature of that connection?

It is apparent, to us at least, that the combination of externally and internally generated economic pressures has been the major factor in determining the timing of the above developments and, subsequently, in limiting the leaderships ability to cope with them. It is equally apparent, however, that the underlying sources of instability as well as the forms it has taken are rooted in more fundamental and unresolved problems in relations between Polish society and its communist government, compounded by a hefty dose of poor judgement and heavy-handedness on the part of the present leadership. Moreover, it is important to keep in mind that all of the above manifestations of political dispepsia are the same ones that have surfaced in other periods of stress in Poland -- stresses having nothing to do with the kinds of external disturbances we are considering here.

(a) Clearly, of the several political effects listed above, the June riots are the one most easily linked to external pressures in that they were set off by the regime's decision -- belatedly and imprudently in a single shot -- to pass on to consumers the accumulated burden of increased food import and production costs. Indeed, one might argue that, inasmuch as the workers demanded nothing more than a rollback of the increases, their violent reaction was purely an economic and not a political statement -- thus bearing out the general proposition that economic demands tend to take precedence over political desiderata among the East European populations.[21] But the riots also showed that satisfaction of economic demands alone has not been enough to establish the credibility of the Gierek regime in the eyes of the Polish population. Just as the substitution of massive imports of Western technology for systemic reforms served to mask temporarily the persistent shortcomings of the domestic economy, the substitution of a rapid rise in the standard of living for more fundamental changes in regime-society relations likewise has served to mask the shallow and fragile nature of Gierek's political base.

That the riots were an expression of more general frustration and anomie than simply perceived economic injury is indicated by the fact that some increase in the level of food prices had been anticipated for more than a year and that it was widely believed they would be accepted, however grudgingly. What was especially galling about the increases as finally announced was not merely the fact that they were twice as high as expected (although that was bad enough), but the utter transparency of the government's solemn claims that they had been preceded by the promised "broad social consultations." Nor has the withdrawal been enough to restore more than the deceptive semblance of stability, whether to the political arena or to food supplies -- the latter despite large scale meat imports and disguised price increases. And while there have been no further outbreaks of violence, much of the population has retreated into a mood of sullen apathy amid such disquieting signs of social anomie as soaring rates of alcohol consumption.[22]

(b) & (c) Neither Church-state relations nor intellectual disaffection are ever far below the surface of political discourse and activity in Poland. Nor does one generally have to look to external influences for the events or pressures that periodically bring them into the open (note, e.g., the constitutional debate of late 1975 and early 1976). The connection in the present circumstances is an indirect one, related to the deterioration in the general political climate which has given both the Church and the intellectuals added leverage to articulate their views and press for satisfaction of their demands.

In particular the Church's dual role, as representative of the faith of some 95% of the population and as the traditional bearer and preserver of Polish national identity, has allowed it to exploit its influence in society as a lever against the government. That is, in return for lending the state its enormous moral authority to help maintain the precarious calm of the past two years, the Church has let it be known that it expects tangible progress toward the satisfaction of its long-standing demands: such as full legal status, permission to build more new churches, an end to various forms of discrimination against clergy and practitioners, removal of restrictions on religious education and traditional religious associations, freer publishing rights, etc. For the intellectuals, too, the post-June crisis has afforded the opportunity to reinsert themselves actively into the political arena -- first in defense of the workers who had been dismissed and/or arrested (KOR), but quickly broadening the range of their activities to the programmatic and educational areas (ROPCO, KSS-KOR, the "Flying

University").[23]

To date the regime's response has been to steer a middle course between concessions and direct confrontation -- i.e., correct if not cordial relations with the Church[24] and minimal harrassment of the intellectuals. It may well be, however, that this approach is less a matter of choice than a sign of the regime's weakness and fears that stronger action would serve only to strengthen the hand of the opposition.

(d) Every crisis in Poland over the last 20-odd years has been accompanied by a resurgence of interest in the role of representative institutions and other participatory organizations in the proper functioning of socialist democracy. In this respect, the months of tension and reassessment that have followed the June riots are no exception. Contributors to the discussion include prominent scholars, journalists and political figures, and their views have been aired in the pages of Nowe Drogi, the theoretical monthly of the Central Committee, as well as the more liberal Polityka or Życie Warszawy. The particular targets of their attention vary -- local self-government, enterprise management and trade union organization, the Sejm and People's Councils, administrative behavior, or the total relationship between society and governing organs. But the underlying theme of their arguments is the same: to wit, the imperative of what Polityka editor-in-chief Rakowski calls "co-responsibility" and the futility of demanding a greater sense of social responsibility, initiative and productivity from the citizenry without giving them a larger voice in the fundamental decisions of society, without a more open and genuinely participatory political system. As a leading legal scholar wrote in the September 1976 issue of Nowe Drogi:

> It is to be expected that in conditions of a developed socialist society a reciprocal linkage characterized not only by the influence of economic development on the emergence of new premises for the development of socialist democracy, but likewise by the increasing influence of socialist democracy on the tempo of economic progress, will emerge with

> still greater intensity. The failure to fully understand the connection between the strategy of socio-economic development and the development of socialist democracy and self-management can become increasingly troublesome. . .
>
> The dynamization of social forces, the creation of conditions for ever broader mobilization of social energy, depends on the improvement of structural forms which will awaken a creative attitude and activity in man. Toward this end socialist democracy must be developed and improved in accordance with existing needs and possibilities, [and must be] considered not as a congealed state, but as a constantly ascending process.[25]

Once again, none of this is meant to suggest that notions of political reform have been smuggled into Poland in the baggage of external economic disturbances; although the immediate political context and details of reform proposals vary, the basic ideals of socialist democracy have enjoyed considerable currency since the heady days of the Polish October. Nor is there any guarantee that this year's reformers will be any more successful in bringing their proposals to fruition than others have been in the past. (A good example of the cyclical nature of political reform in Poland is the functioning of the Sejm, or parliament, which has been upgraded following every crisis since 1956, only to be eased from the limelight once the regime had regained its confidence.) The influence of external pressures in the reform process is at most partial and indirect. What makes these pressures a potentially more powerful influence for systemic change in today's context is that they have brought old issues to the fore with a new sense of urgency, that they have narrowed the options open to the regime in dealing with these issues and have increased the penalties of inaction. That the Gierek regime appreciates the urgency of the moment is suggested by the fact that articles such as the one quoted above are cleared at the very highest level of the Central Committee (some very likely by Gierek himself), and by the appointment of the author, an articulate if cautious spokesman for moderate reform, to a select panel of experts to advise the First Secretary on socio-economic and political problems.[26]

III. HUNGARY

A comparison of the Hungarian and Polish experiences provides a number of instructive contrasts pertaining not only to the relative impact of external economic disturbances on the two systems, but likewise to their respective domestic economic strategies and observable political effects. Despite these contrasts -- or, more accurately, by virtue of them--the Hungarian case tends to confirm the conclusions reached in the Polish case concerning the tenuous nature of the relationship between external economic forces and domestic political effects and, in particular, the vital role played by conditioning factors in the domestic environment in determining whether the former will have a destabilizing influence on the latter. Our findings, again first in summary form, are as follows:[27]

(1) that by most measures of exposure or vulnerability, the impact of external economic dislocations -- whether transmitted from East or West -- has been significantly greater on the Hungarian than on the Polish economy;

(2) that the explanation for the absence of marked repercussions in the domestic political environment must be sought in domestic policies and conditions, among the most important of which has been a more moderate and balanced development strategy than that pursued by the Gierek regime;

(3) that the implementation of Hungary's New Economic Mechanism, while in no way related to the external economic disturbances of the past five years, has facilitated the efforts of the Kadar regime to absorb and adapt to those pressures; and

(4) that Kadar's style of leadership, the credibility he enjoys in the eyes of the population, combined most likely with lingering memories of 1956, have enabled the Hungarians to impose some belt-tightening measures without provoking political instability.

(1) By almost any criteria used, the impact of external economic disturbances is bound to be significantly greater on the Hungarian than on the Polish economy -- an assumption that has been borne out by the experience of the last five years with respect to Hungary's economic relations on both world and CMEA markets. The reasons for this higher degree of vulnerability are several: first, Hungary is a much smaller country, with a size, population and GNP approximately one-third that of Poland. In terms of the importance of foreign trade to their respective economies, Hungary is again far more susceptible to changes or dislocations in external markets than Poland, with exports accounting for approximately 30% of national income in the former, compared with 15% in the latter. Moreover, while Hungary's hard currency debt is far lower than Poland's in absolute terms (an estimated $2.8 billion at year-end 1976 compared with $10.2 billion for Poland), her ratio of indebtedness to GNP or population are only slightly lower (10% vs. 11% of GNP, and $255 vs. $297 per capita).[28]

Apart from aluminum, Hungary's natural resource base is relatively meagre, leaving her heavily dependent on imports of energy and other raw materials (primarily from the Soviet Union); for instance, in 1975 non-agricultural raw materials comprised only 6% of her total exports, compared with 24% of Poland's.[29] With respect specifically to energy, Hungary produced only 54% of primary energy consumed in 1975, while Poland--despite admittedly onerous oil imports-- was a net energy exporter (by 11% of production in standard coal equivalents).[30] Since oil accounts for about one-third of total energy consumption (compared with 12-15% in Poland), and since 75% of that oil comes from the Soviet Union (only 20% from domestic production), Hungary like Poland must contribute to the development of Soviet resources as a guarantee of future deliveries, although the relative burden is far greater for Hungary. In addition, she too faces the stiffer competition on Soviet markets for industrial goods, which comprise the largest share of Hungarian exports.

Insofar as exposure to external market pressures is concerned, Hungary's chief advantage over Poland is her position as a net exporter of agricultural and processed food products, comprising 22% of total 1975 exports (vs. 9% for Poland); even here, however, the Hungarians have been severely hit by Common Market restrictions and price weakness on livestock and slaughter animals since 1974, which have reduced the share of all foodstuffs in exports to non-socialist countries from 37.4% in 1972 to 25.1% in 1976, on a volume decline of nearly 10%. Thus the overall structure of the Hungarian economy has inevitably resulted in a precipitous and painful decline in her terms of trade -- amounting to 22% from 1970 levels in dollar-clearing markets and 12% for ruble accounts, for an overall decline of 15%. (The comparable figures for Poland are a 20% increase for transactions with the non-socialist world and a draw in socialist markets, for an overall increase of 6.4%. For both countries the 1976 figures are slightly above 1975 levels, but it is almost certain that both have experienced a renewed decline in their terms of trade in 1977 and 1978.)

(2) The explanation for the fact that the Kadar regime has so far been able to weather these external shocks with scarcely a ripple of discontent at home must be sought in a number of mitigating circumstances in the domestic environment. Clearly among the most important of these has been a development strategy which is both more moderate and balanced than that pursued by the Poles. Less inflationary in its impact on incomes and expectations, it has at the same time been better oriented toward the satisfaction of basic consumer needs -- a strategy, therefore, which has not served (as the Polish strategy has) to compound her already high level of exposure to external pressures.

In view of Hungary's far more modest resource base, it might be argued that the Hungarians have simply not been afforded the temptation of making the kinds of massive capital-intensive and long-term investments which have been necessary to develop Poland's more substantial natural wealth. However, the data suggest that they have also been less rash. In terms both of investment growth rates and of the share of investments in national income, the Hungarian figures for the 1970-75 period are dramatically lower than those for Poland. E.g., 1975 investment outlays in Hungary were only 41% higher than the 1970 level, compared with an increase of 133% [!] in Poland; and in the latter year, total accumulation comprised approximately 25% on Hungarian national income, or about three-fifths of the Polish level of 40%. The structure of Hungarian investsments, too, has been more favorable, with a relatively smaller share going to industry overall, but more to the consumer branches of industry as well as to housing and infrastructure investments -- all areas to which the Poles are belatedly being forced to turn their attention. And, while agriculture's share in outlays has been about the same in both countries, the actual level of agricultural mechanization is about twice as high in Hungary as in Poland.[31]

Similarly, increases in personal consumption have been decidedly more modest (25% between 1970 and 1975 compared with 50% in Poland);in fact, in 1976 the rate of increase dropped to 1.3% in Hungary from the 4.6% annual rate of the previous five years, while the Polish rate edged up from the five-year average of 8.6% to 8.7%.[32] At the same time, the Hungarians have avoided the sharp imbalance between incomes in the agricultural and industrial sectors; indeed, average incomes in agriculture have been consistently higher than those for industrial workers under the NEM, a fact which reflects in part the regime's attention to the problem of material incentives in that sector. Nor have they been as reluctant as the Poles to pass along some of the increase in costs to consumers (including a 30% increase in meat prices just a few weeks after the abortive Polish attempt).

None of this is meant to suggest that Hungary has been able to escape entirely the domestic economic strains that have been plaguing the Poles -- or, for that matter, that the average Hungarian consumer is any better off than his

Polish counterpart. (E.g., Polish data indicate that per capita consumption of key food categories in the two countries is more or less on a par, while the Poles actually have greater access to some consumer durables than the Hungarians.) What it does duggest, however, is that Kadar has been far more successful than Gierek in keeping the lid on pupular expectations as well as in keeping demand in line with available supplies.

(3) While the relationships between external economic distrubances and economic reforms in Hungary have exhibited a radically different pattern than in Poland, they do not contradict our earlier conclusion that the strains produced by the former are not conducive to the introduction of the latter. However, the Hungarian experience does suggest that the obverse may be true -- i.e., that meaningful reform of a command economy,carried out and consolidated prior to the onset of the external disturbances,may help that economy absorb and adapt to the resulting stresses.

As Portes has pointed out, the NEM decision was taken in response to the Kadar regime's timely recognition of Hungary's mounting economic problems back in the mid-1960s. External considerations were, indeed, a factor in the sense that heavy dependence on foreign trade in general, and industrial exports in particular, made the leadership acutely sensitive to the uncompetitiveness of Hungarian manufactures on world markets. In this sense the NEM reforms bear out (although they may be unique in this respect) Grossman's assertion quoted earlier, that such dependence "may force . . . [East European leaders] to rethink their ways of doing things and to search for more rational solutions." But in no sense can the decision to undertake the reforms be attributed to the kinds of pressures and dislocations that have occurred in the external economic environment since 1973; nor can the NEM's early growing pains (the unplanned investment boom of 1970-71, worker dissatisfaction over the gross inequities in the bonus system and, consequently, the 1972 decision to slow down the dismantling of central controls). On the contrary, the absence of acute economic pressures appears to have been extremely important in the NEM's successful introduction; likewise it is important that the reforms had passed through the initial shakedown phase before the economy was jolted by the oil crisis and Western stagflation.

Both the Tardos paper prepared for this conference and Portes' 1977 study amply demonstrate that, in large part because of the 1972 decision not to continue removing the administrative "brakes" from the economy, the functioning of the NEM has been anything but flawless. And the litany of complaints is all too familiar to observers of CPEs: fixed prices increasingly out of line with rising costs; continued central protection of enterprises from the consequences of their own follies, waste, low product quality, lack of innovation incentives, insufficient interest in producing for export, etc., etc. Nonetheless, even in its modified form, the NEM has served to defuse strains and disproportions in the domestic economy before they reached the explosive stage as they did in Poland -- in particular by instilling in Hungarian planners a greater sensitivity to the importance of such things as cost-price or supply-demand relationships, profitability, and material incentives. To mention only a few examples: While the Hungarian planners, too, were reluctant to pass through cost increases to the domestic economy, in the final analysis they began to do so at an earlier date than the Poles and thus have been able to do so more gradually (even if not to the extent many feel is possible and necessary). Second, the Hungarians have been decidedly more successful in controlling investments with their partially decentralized system; in fact, where excesses have occurred they are likely attributable not to decentralization but to a reversion to central mechanisms shielding enterprises from the costs of unwise decisions. In a third vital and intriguing area, the Hungarians have shown themselves far more flexible and resourceful in promoting small-scale, private agricultural production (which occupies less than 15% of all cultivated land, but contributes one-third of the total value of agricultural output, including more substantial shares of important export commodities); and in so doing, they appear to have suffered few hang-ups over appealing to the unvarnished profit motive, even over extending subsidies to the private sector.[33]

Obviously the NEM alone can do little to alter the objective external conditions within which the Hungarian economy must operate; nor has it yet been able to overcome the residual bad habits and weaknesses of the command economy. What the NEM has done, however, is to provide the system with an extra margin of flexibility and slack which has helped the Hungarians to avoid compounding their vulnerability to external disturbances as the Poles have done.

(4) The third key to Hungary's remarkable equanimity in the face of very real economic burdens lies in the domestic political environment. Here we can identify at least four factors which have made that country by far the most stable in Eastern Europe today:

(a) In sharp contrast to Poland, where factional rivalries are a perennial feature of the political scene and a serious obstacle to rational and consistent reform, the Kadar regime has exhibited a remarkable degree of unity and stability over the past two decades. This has, by all accounts, been an essential condition of the NEM's implementation and survival.

(b) As important as the unity of the leadership is Kadar's personal style. Since 1961, when he first proclaimed that "he who is not against us is with us," the Hungarian First Secretary has gradually established the credibility of his regime through a combination of shirt-sleeve populism, candor and sensitivity to the basic needs and concerns of the population. The people in turn have responded with genuine admiration for his persistence and courage (as in the decision to push ahead with the NEM following the invasion of Czechoslovakia) and an apparent appreciation of the delicacy of Hungary's position and the constraints within which Kadar must operate. It is a safe assumption that it is only this sense of mutual trust, built up now over a period of more than 15 years, which has permitted the Hungarian leadership (though admittedly with far more careful and candid preparation than in Poland) to impose sharp cutbacks in the rate of improvement in the standard of living during the past several years.

(c) It is important to make a distinction between political style and political reform, as that term is generally understood. Under the NEM there has been no redistribution of political power, no challenge to the party's supremacy, no significant changes in the functioning of political institutions. (E.g., the Hungarian National has not undergone the degree of institutional development evident in the Polish Sejm.) On the other hand, there is virtually no evidence of popular pressure for such reforms. Thus the Hungarian experience seems to belie fears that economic decentralization will necessarily spill over into pressures for corresponding political reforms. On the contrary, the incremental if modest economic benefits of the NEM appear to have neutralized latent political tensions, demonstrating once again the general validity of the assertion that, in the absence of sources of acute dissatisfaction, the East European populations are far more concerned with improvements in their material lot than with political reform.[34] This is not to say that Hungary has entirely escaped the recent wave of dissent in Eastern Europe, or that there are no nagging sources of discontent in one or another segment of the population; but in the generally relaxed, apolitical atmosphere of the country today, dissent is essentially a marginal phenomenon which attracts little public attention or support and thus can be treated with relative toleration.[35]

(d) Finally, and related to all of the above, there is the legacy of 1956 -- the residual effects of revolution, invasion and reconsolidation, which continue to influence Hungary's political behavior in diverse and unexpected ways.

Ironically from the perspective of 20-odd years (and especially in comparison with the parallel developments in Poland), the long-term effects of that upheaval have by and large been propitious for the country's political stability -- even for its capacity to undergo gradual reform. For, however painful and wrenching the '56 experience, its aftermath has left Hungary with fewer illusions and unresolved tensions between the society and its communist government. For instance, the all-important unity of the leadership is due in large part to the elimination of the two extremes, affording Kadar the opportunity never enjoyed by either Gomulka or Gierek of rebuilding his regime from the top down. Thus he was able to introduce the NEM without fear either of pressures for more radical liberalization on the one side, or of efforts to sabotage the reforms by a conservative and entrenched bureaucracy on the other. For their part, the people had few expectations during the first years after '56. Unlike the Polish workers who had seemingly emerged victorious first over their own hard-liners and then over Moscow, only to be embittered later by the hollowness of their victory -- the Hungarians were predisposed to accept even the most modest signs of relaxation with relief and gratitude. One can even speculate that the final forced collectivization of agriculture between 1959 and 1961 has allowed the Hungarian regime in the 1970s to be more flexible in its encouragement of private forms of agricultural production. That is, having resolved their basic "peasant problem," the Hungarians can afford to be somewhat unorthodox in its approach to a residual (though vital) private sector. By contrast, the Polish regime still bears the onus of having the only predominantly private agriculture in the bloc (also a legacy of 1956) and is clearly uncomfortable promoting its prosperity.

IV. CONCLUSIONS AND PROSPECTS

It is risky on the basis of the experiences of only two countries to attempt to draw generalized conclusions about the domestic political consequences of external economic disturbances in Eastern Europe as a whole. Thus the following points are intended to be provisional and indicative only:

(1) There can be little doubt that, throughout the 1970s, domestic politics in most East European countries continues to be strongly influenced if not dominated by economic considerations. As was recently suggested, "it is no exaggeration to say that the tenure and effectiveness in office of several of the Eastern party leaders depends, uniquely, on the performance of their economies."[36] Similarly, both the Polish and Hungarian experiences show that, at least for the present, the populations are overwhelmingly concerned with improving their material conditions -- and that only when economic conditions fall significantly short of expectations is discontent likely to spill over into the political arena.

(2) As Tyson and Kenen rightly point out, the East European countries were especially hard hit and their economic plans thrown into disarray by the coincidence of their decision to substantially expand trade with the West and the recent rash of world market dislocations.[37] Most have suffered additional losses, in some cases even more severe, as a result of parallel changes in economic relationships within CMEA. Yet these adversities in their external relations do not appear to be sufficient to account for the variations in the domestic repercussions. A comparison of Polish and Hungarian behavior strongly suggests that the impact of such external disturbances on the internal politics of a country is neither direct, nor is it necessarily proportional to the degree of that country's exposure to the disturbances (as measured by the relative importance of foreign trade to the economy, dependence on imports for energy supplies and other vital commodities, etc.). Rather, the external

pressures are mediated by a number of conditioning factors in the domestic economic and political environment that will determine the extent to which those pressures can be absorbed or neutralized within the economic system without destabilizing political consequences.

(3) Clearly among the most important of these conditioning factors is the type of domestic economic strategy adopted by the regime in question -- i.e., the projected rate of growth, the balance between accumulation and consumption, and the distribution of investment outlays among heavy industry, consumer-oriented sectors, and infrastructure investments. On balance, it appears that the more ambitious the development strategy, and the more biased it is in favor of heavy industry (at the expense of agriculture, light industry or housing), the more likely it is to generate internal inflationary pressures which may have the effect of magnifying the economy's vulnerability to external shocks.

(4) The conventional wisdom that CPEs can insulate their domestic economies from sudden dislocations in world markets seems no longer valid with regard to the relatively small East European economies, especially now that they have opted for (and indeed are being forced into) more intensive interaction with those markets. (Although it still appears to hold true for the larger and largely self-sufficient Soviet economy.) The Polish experience indicates that the attempt to do so in the face of the rapid global inflation of the past few years merely postponed the day of reckoning -- in the meantime creating intolerable strains on the budget, gross imbalances between supply and demand and, perhaps most important, highly unrealistic expectations on the part of consumers. While the Kadar regime did not entirely avoid this error, a modified CPE of the Hungarian type appears likely to respond more quickly and more gradually, allowing consumers to adjust expectations to changing realities.

(5) The example of the Prague Spring notwithstanding, Hungary's experience with the NEM demonstrates that economic decentralization alone -- that is, in the absence of other sources of serious political strain or discontent -- does not necessarily lead to the emergence of pressures for corresponding political liberalization. Conversely, the comparative success of the NEM in providing steady increases in the living standard without serious distortions in internal markets has likely defused potential sources of tension before they could reach unmanageable levels. Rather, it was in Poland where the rigidity and unresponsiveness of its more traditional economic system caused the strains to spill over into political unrest. As in the tale of "the king who had no clothes," the riots broke the spell, creating a perception of the Gierek leadership as weak and inept and thus opening the door to other political pressures having little or nothing to do with the economic difficulties.

(6) It is possible that, at this stage in Eastern Europe's development, political style is as important as more formal institutional arrangements in the successful management of societal tensions, whether latent or overt. Kadar's openness and the relaxed political atmosphere in general have clearly helped him to contain the impact of external pressures within the economic system (mainly by sharply reducing further increases in the standard of living). It is arguable that Gierek, too, could have avoided his present political crisis (although not the economic one) by employing greater candor and sensitivity to the mood of the Polish people. We shouldn't forget, however, that the Hungarian leader has had two decades to establish rapport and a sense of mutual confidence with his subjects, an opportunity not afforded his Polish counterpart.

What then are the prospects for the immediate future? One recent review of the economic situation in the region as a whole predicts that Poland in particular faces a major economic crisis within the next year or two as a result of borrowing constraints and a rising debt service. As one possible scenario he foresees that:

> Unless Polish planners are willing to "postpone" the new recession by cutting investment absolutely, i.e., by having a negative growth rate of investment, reduced imports from the developed West will be reflected in falling growth rates of personal consumption down to about 1/3 - 1/2 of the growth rates observed during 1971-1977. This policy would most likely result in a series of major consumer riots, Soviet military intervention, downfall of the present Polish political leadership, and its replacement by another, appointed by Moscow and relying on "sticks (Russian bayonets) rather than carrots". . . .[38]

While the author himself readily concedes that a less drastic course of events is likely -- i.e., muddling through with the help of rescheduled debt payments and possibly some assistance from Moscow -- the regime will be hard pressed to maintain its political balance. Under the circumstances, it is unlikely in the extreme that the current revival of interest in an NEM-type reform will bear concrete results. In a sense the Poles are caught in a vicious circle in which the very economic and political crises that point up the defects in the system are, at the same time, a major obstacle to reforms that would help solve them.

For Hungary, on the other hand, the added margin of flexibility offered by the NEM appears to have confirmed the leadership in its commitment to the reforms, now in their tenth year. While recognizing that their economic problems are a long way from solved (not only those resulting from adverse external trends but also problems of quality, innovation and productivity at home), the options open to the Hungarians in dealing with them are not limited by concomitant political crisis. as in Poland. Thus it would not be surprising to see them cautiously begin to move again in the direction of implementing the original NEM bluebrint.

V. THE SOVIET FACTOR

However problematical the interpretation of other aspects of the impact of economic disturbances on Eastern Europe, none poses a greater degree of uncertainty for the analyst than the question of Moscow's likely response to the region's current difficulties -- an uncertainty due not only to the opaqueness of Soviet commentary on such sensitive matters, but also to the contradictions, or at least ambiguities, in their behavior. The prevailing assumption has long been that the Kremlin leadership would pursue detente and tolerate a significant degree of East European involvement with the outside world only so long as these policies did not result in Eastern Europe's dependence on the West or threaten Moscow's vital interests in that region.[39] Yet defining those interests in today's complex environment is no simple matter. Soviet interests in Eastern Europe are characterized more by ambivalence than by the single-minded concern for control often attributed to them. For every indication of Krelim concern over the dimensions and possible consequences of Eastern Europe's dealings outside of CMEA, and particularly with the West, there are contraindications of a fair degree of tolerance over the years for limited diversity and reform at home and activism abroad -- a tolerance implying awareness of the advantages as well as the risks of recent trends.

Looking first at the risks or disadvantages, both actual and potential: first, the Soviets cannot but be concerned over the tendency of East-West trade to preempt many of the region's most marketable resources and manufactures and, indeed, have begun showing their displeasure by rejecting some shipments of low-quality goods. In view of the recent trend toward Western insistence on tied loans and East European insistence on buy-back agreements, this source of tension is not likely to disappear in the near future. A second source of considerable disquiet in the Kremlin, although it is rarely reflected in the official literature, must be the long-term risk of ideological and political erosion as a result of extensive exposure to and interaction with the West -- if not necessarily among the East European elites themselves, at least within their restless and sophisticated populations. Likewise, the increasing insistence of Western creditors on more detailed financial and technical data as a condition for loans opens up unwelcome opportunities for close scrutiny of, and possibly influence over, the economies of the region. In this connection, the Poles have recently made unprecedented concessions in exchange for two large loans, setting an example that the Soviets may well not appreciate.[40] Finally, the very magnitude of Eastern Europe's trade with the West, and now of the hard currency debts of these countries, carries with it the continual risk that Moscow will have to bail one or more of them out of fiscal disaster -- either with loans and stepped-up deliveries of critical goods, as in the case of Poland in November 1976, or by easing the burden of their obligations to CMEA's joint investment program, as has been happening recently in connection with the Orenburg pipeline project.

On the other hand, Moscow derives some very tangible benefits from Eastern Europe's opening to the West and to the world market in general. To the extent, for instance, that these countries can find alternative sources of oil and other scarce resources, the drain that they represent on the Soviet economy will be reduced, while the Soviets will be able to market more of their natural wealth to the West in exchange for the technology they themselves need. Conversely (the apparent contradiction notwithstanding), the very prospect of having to make substantial and burdensome purchases of energy from the world market has apparently made several of the countries more willing to participate in the joint development of Soviet resources as the price for assured access to those resources in later years. Moreover, as the largest market by far for Eastern Europe's manufacturing exports, the U.S.S.R. eventually reaps substantial if indirect benefits from the incorporation of Western technology in those manufactures -- and without incurring either the hard currency costs or the risks of unwanted scrutiny of its economy. In fact, the region served as the main "conduit" between the West and the Soviet Union for several years before the latter was willing to open its economy directly to substantial Western imports.

Even the asymmetry of the East European-Western economic relationship has its perverse advantages from the Soviet point of view -- in the form of leverage which increases as a country approaches the limits of its credibility and creditability (a point that Poland, and possibly East Germany and Bulgaria, are fast nearing). At this point, the Kremlin is in a position to impose conditions for its aid or even to decide not to aid its client, possibly forcing the latter to cut back drastically on its trade with the West or even to default on on its debts. And, while it was long thought that Moscow could not afford either the embarrassment or the adverse effect on its own credit rating of letting one of its smaller partners go into default, it has been suggested lately that default (or the threat of default) could prove to be a handy device both for chastening the more inprudent and independent-minded among the East Europeans and for warning the West against excessive meddling.[41]

Unfortunately, Soviet sources provide only the most minimal clues as to how these risks and benefits balance out in the mental scales of the Kremlin leadership. Do they comprehend the full extent of Eastern Europe's growing vulnerability to outside economic forces -- the tautness of some of these systems and the shrinking margin separating foreign and domestic policies? Or are they still "blinded" by the relatively small impact which the external environment has on the vastly larger, more insulated Soviet system? And, even if the former, are they aware of the role which Soviet policy itself has played in promoting this vulnerability, first by insisting that the East Europeans buy more of their basic resources from the world market, and secondly by opening up their own vast market to Western competition? To be sure, in moments of acute crisis, Moscow has responded with substantial credits and other economic concessions; but, in essence, they are treating the symptoms while ignoring the underlying disease -- a practice which could soon become prohibitively expensive.

Perhaps the most accurate description of Soviet policies toward Eastern Europe today is that they are "drifting" and "defensive" -- that the Kremlin is "responding, defensively and uncertainly, to events and trends in [the region] rather than trying to shape them."[42] Indeed, there is little evidence that the Soviet leaders have carefully considered the consequences for their political interests in Eastern Europe of policies being pursued for broader strategic and economic gain. And, while they are unlikely to oppose the continuation of the NEM within Hungary, the trend toward sharper criticism of notions of "diversity in socialism" implies that they are less than eager to see NEM-type reforms introduced elsewhere or, in general, to give the East European regimes greater latitude in solving their own systemic problems. Given the age of the present leadership, any basic change in approach will have to wait for the post-Brezhnev era, if then. But past successions have not favored successful reform in Eastern Europe -- a fact which suggests that the problems and tensions of the region will loom large in the coming transition period.

1. Grossman, in Wasowski/1970, 151-52.
2. Burks, in Bornstein, Plan and Market/1973; Korbonski, in Fallenbuchl/1975.
3. Fallenbuchl, Neuberger and Tyson, in JEC/1977; Tyson and Kenen/1978.
4. Terry, "Implications".
5. Terry, in Triska & Cocks/1977; Korbonski, in Gati/ 1976.
6. Fallenbuchl, Neuberger and Tyson, in JEC/1977.
7. Based on: Fallenbuchl, in JEC/1977; Marer, in JEC/1977; Vanous/1978; St. Gomulka, in RFER/1978; KSS KOR/1978.
8. Vanous, tables 7-9; 1977 saw further slippage from the 1975 highs.
9. Terry, "Implications"; energy export figures from Rocz.Stat.H.Z., 1976, pp. 15, 36-37, & 44; 1977, pp. 14, 34-35, & 42.
10. See esp. Szyndler-Głowacki, in Życie Gosp., # 12 & 13/1978.
11. Estimates based on volume figures from Rocz.Stat.H.Z., 1976, p. 92; 1977, p. 76; price data from RFER, RAD 1/20/76; 1977 crude imports est. at 12.5 mln tons, px from 50-53 R/ton.
12. Rocz. Stat.H.Z., 1976 & 1977; Szyndler-Głowacki, op. cit.
13. Gierek, in Trybuna Ludu, 12/2/76.
14. Kleer, Polityka-Export-Import, 5/21/77; Wroblewski, ibid., 6/18/77; Kleer, Polityka, 3/4/78.
15. Makowiecki, Życie Gosp., # 12& 13/1978; Z.G., # 15 re fertilizer and potato problem; Jaroszewicz, in Z.G., #31/1978
16. E.g., Poznanski review of Mujżel, Z.G., #14/1978; Polaczek, Polityka-Ex-Im, 4/78.
17. RFER, PolSR/12, 1977.
18. Csikos-Nagy, Socialist Economic Policy (1969), Polish edition 1976. Articles: Jakubowicz, Polityka, 1/1/77; Faluvégi, Z.G., 7/1/77; Szyszko, Z.G., 7/24/77; Paszynski, Polityka, 1/28/78; Makowiecki, Z.G., #4,5,7 & 11/1978.
19. Woś, Z.G., 6/26/77; RFER, SR 13/77, Polish Perspectives, 9/76, 2/77, 5/77.
20. Zielinski, Soviet Studies, 1/78.

21. Korbonski, *Slavic Review*, 1974.

22. KSS-KOR, "Notes on Poland's Economic Situation," 1978, p. 5.

23. e.g., *ibid*.

24. On the current party-church dialogue, see series of articles initiated by Rakowski in *Polityka*, #s 12, 16, 18 & 20/1978; see also *RFER*, Polish SRs 1, 7, 8 & 9/1978.

25. Zawadzki, in *ND*, 9/76; see note 97 in Terry, "Implications"; Rakowski and Maziarski, in *Polityka*/1978; Kowalski, in *Państwo i Prawo*, 7/77.

26. Terry, "Implications," note 98; and "Sejm as Symbol," 1978.

27. Based on: Tardos/1978; articles by Portes, Marer and O'Relley in JEC/77; and Vanous/1978.

28. Marer, p. 543.

29. *Rocz.Stat.H.Z./77*, p. 62.

30. Robinson, *RFER*, RAD/90, 1977, Table 21.

31. *Rocz.Stat./77*, pp. 468-69 and 505.

32. Vanous, Table 11; comparable figures for rates of increase in average real wages in *Rocz.Stat/77*, p. 466.

33. Terry, "Implications," note 99; also *RFER*, Hungarian SRs #3, 5, 16 and 19/78.

34. See, e.g., Gordon, "Independence and Inertia Among Hungarian Workers," *RFER*/78

35. For a recent report on dissent in Hungary, see Moravets, "Criticism and Dissent in Hungary,"*RFER*, RAD/185, 8/23/78; also RAD/153, 7/7/78.

36. Hardt, in JEC/77.

37. Tyson and Kenen, in this volume.

38. Vanous.

39. Clemens/77.

40. Heneghan, "Polish Trade and Polish Trends," *RFER*, RAD/158, 1975.

41. Portes, *FA*/77; *Business Week*, 5/3/76; Terry, "Implications," note 107.

42. Marer, p.