

***Central and Eastern Europe 1944-1993:  
Detour from the Periphery to the Periphery***  
**by Ivan Berend**

For those who are concerned in obtaining a fundamental background and some reliable tools of comprehension of European Union enlargement toward Eastern countries, Prof Ivan T. Berend from University of California Los Angeles, is positively the author to be known and studied.

He dedicated his deep and highly worldwide appreciated studies to the history and economics of the Central Eastern European regions, becoming a recognized prominent theorist on the issue. Among his published research, *Central and Eastern Europe, 1944-1993 Detour from the Periphery to the Periphery* is certainly one of the most relevant: this book clearly frames the factors that influenced half century of history and that had a significant impact on the post 1989, when the socialism came to an end. In this respect, Berend's analysis helps to understand how the detour of these countries is from a periphery to another periphery; as historian, he does not predict the future but he provides several evidences of the last *statu nascendi*, in order to describe why "East" may become "South" and, instead of joining Europe, might match straight to the Third World.

In his view, Europe tends to polarise into a dynamic core and a less

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dynamic periphery; whenever the core is more and more characterised by a tendency to rapid product innovation and low inflation, the periphery is just characterised by the opposite, not very differently - in the results - from what occurred during the Soviet domination that made those countries periphery of its own planned economic model.

The reader must understand the paradox of the statement: being periphery of the European Union cannot be considered alike to being of Soviet domination. Nevertheless, the expectation of a concrete autonomy and of a balanced development has an external constraint. In both cases, it appears to be very competitive.

Berend's work describes the historical background of the whole period. It must be divided in three significant parts: (i) development of Stalinism; (ii) the post-Stalin era; (iii) the events occurred between the 1989 and 1993.

The following paragraphs contain a synthesis of the Ivan Berend's considerations. To me, they are very persuading and properly articulated; besides any political slogan, I believe there is no noble purpose in any enlargement, integration, annexing, invasion or economic domination. It is very hard to believe, especially from the Hungarian point of view, that European Union will be the first exception to a painful rule that the country paid on their own skin in the last centuries, no matter if the visitors were Turkish, Austrian, Soviet or finally European.

#### **DEVELOPMENT OF STALINISM**

The political system dominating Eastern and Central Europe in the inter-war

period was unable to resolve economic problems in this region, because the industrial development had largely derived from foreign investment.

After the war, in all Eastern and Central European countries, reconstruction plans were adopted; these at the beginning were different from the Soviet-model (except in the case of Yugoslavia), and they were closer to a radical system of state intervention and control. The final goal was that of solving the post-war crisis (severe shortages of food, energy, raw materials, transportation, reconstruction of infrastructures, war reparations).



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The State became the most important buyer in the market (in Hungary 75% of the industrial firms income was originated by State orders in 1946-47). The useful State intervention was used by Communist parties to improve their influence and to get closer to the Sovietization. They dealt with the end of old social hierarchy and the dominance of the Church, with the control of large monopolies, the first nationalization and the land reforms. In fact, when the Soviet model was implemented in most of the countries, the nationalization was already done.

In 1947, an important plan to raise the economies of European countries, the Marshall Plan, was launched by the United States.

Eastern and Central Europe countries were forced by the USSR to reject

the aid flowing through the Marshall Plan, even if they might have helped them to emerge from war devastation.

As a consequence, Western European countries accelerated their economic recovery also strengthening the integration between them and the USA.

USSR's reply to the American initiative was to support the activity of Communist Parties in different countries. The Council for Mutual Economic Assistance (CMEA) was probably created as answer to the Marshall plan.

Western wills to create liberal and democratic governments in Eastern and Central Europe countries was feared by the USSR. Stalin tried therefore to increase his power in this region by speeding up the open Sovietization and shortly after by isolating Berlin that was under the Soviet control, as a force proof against the Allies.

The transition to a monolithic socialist system was carried on quickly in the entire region; the opposition leaders and parties were eliminated and, in the late 1940s and 1950s, Central and Eastern Europe appeared to be the reproduction of the Stalinist regime in Russia.

The most dramatic change occurred in Czechoslovakia, the only country provided with a democratic coalition. After a deep political crisis, in 1948 a Soviet-type "election", without opposition, brought about a strong victory of the communists.

During 1950's, the dispute between the two blocks became sturdier. The USA drew up some military pacts with the western Allies, with the aim to defend Western European countries from the USSR. The Atlantic Pact of 1949

was a military alliance of reciprocal defence between USA and Western European countries.

According to the Yalta and Potsdam Agreement, Poland, Hungary, Romania, Yugoslavia, Albania and Bulgaria became political satellites of Russia. During the post-war period, in these countries there still was a pluralism of parties that included also Communist party. Russia was against this pluralism, since the rebuilding of its economic system was depending on resources of controlled countries. So, the Soviet system enlarged its field of influence and switched from an internal organization (USSR) into an international network.

The final consequence of those events in all Eastern European countries was the establishment of a single-party regime. Eight European countries - Albania, Bulgaria, Czechoslovakia, Hungary, Poland, German Democratic Republic, Romania and Soviet Union - were brought into the Council for Mutual Economic Assistance (CMEA). CMEA became the principal markets point of reference for the European socialist countries and their national economies developed following an international division of labour, according to the central dispositions. Economic co-operation became indispensable to the preservation of the socialist goals the stable economic relation with the Soviet Union was to permit the consolidation of the productive forces.

The USSR's exploitations of its natural resources not only helped these countries but also resolved its own needs until it became an instrument of pressure for the Soviet domination. The character of the agreement was rigidly bilateral and this assured domination in trade with the dependent countries.

"All of the countries of the region increased their trade in the CMEA framework from a previous 10 to 20 to a 60 percent to 75 percent share" (Berend 1996: 224ff.).

In the late 1940s, two of the most important steps of the State economy - nationalization and central planning - were realized in order to reorganize the national economies of Central and Eastern Europe. The national plans were linked together in an international field, to ensure coordination and mutual advantages: CMEA countries elaborated simultaneously five-years national plans to carry out the national economy.

Plan coordination was developed in two ways: the first was regarding industrial specialization and mutual cooperation among CMEA countries; the second was regarding bilateral coordination of the raw materials, semi-finished and finished products through foreign-trade agreements.

In these countries, Planned Economy, not unknown before the war, was based on a great number of indicators, from investments to production (materials, manpower, energy, products, quality, quantity, cost of production...), that each company had to follow; it also replaced market prices with fixed prices controlled by central authorities, with the obvious consequence that prices did not reflect real value of production. There were no compulsory indicators in foreign trade since it was connected with other countries, so to counterbalance these not planned elements, foreign trade prices were isolated from domestic prices. It was the State's price fund to level the differences: for the exports, producing companies gave their products to foreign trade companies at the domestic price and the latter sold the products

at a lower or higher price. The same happened with the imports that were sold at the producer's price to domestic companies and delivered at the domestic price.

The goal was to deal with problems in a centralized way in order to minimize "accidental" elements and to increase the national industrial outputs, forcing industrialization.

The first Five Years Plan of the Soviet Union, containing the industrialization strategy, was translated into a strong socialist principle.

The countries of Central and Eastern Europe were forced to copy and apply the Soviet model. The difference economic achievements and aims of the central planning were backed on terror and fear.

The power of the USSR was linked to the typical industries that grew in each satellite: first of all, the industrialization policies in Central and Eastern Europe, during the Stalin period, were affected by political and military defence considerations because the Cold War drove the production towards strategic materials for military purposes; secondly, industrial consumer goods production, agriculture and services were neglected.

The Countries National Plan devoted about 90 percent of investments to heavy industrial sectors (mining and metallurgy): "forced industrialization led to immense social tension and to economic chaos" (Berend 1996: 81).

This isolationist "Socialist world market" realized an autarkic orientation, simply not possible in open international frameworks; the capitalist market economies were considered only in case of emergency, for example when products were not available from socialist sources. Planned and forced, import

substituting industrialization in the isolationist CMEA could only develop a closed economy.

The coordination of political and economic activity of Russian satellites was ensured by Cominform and Comecon. These two organisms were founded in 1947 with the aims to coordinate the Communist parties the first, and to match the economy of western countries with the development plans of Russia the second.

#### **THE POST-STALIN ERA: FROM 1953 TO THE REBELLION**

In 1953-4, when it was clear that the goals of the First Year Plan were impossible to achieve, all plans became moderated. Between 1950 and 1973, Central and Eastern Europe surpassed the growth rate of the European and non-European "core", with its 3,9 percent annual average per capita GNP, almost quadrupling the interwar rate. After 1973 these countries lost their dynamism entering in a broad structural crisis. The change wasn't only a consequence of the oil crisis or of the structural crisis, since the problems were already visible in the mid 1960s.

During the 1950s and 1960s the industrialization in all the countries of the region, except Albania, kept growing up; it was fuelled by high investments (with market fluctuations) and massive labour input ("extensive" industrialization) that derived from an unlimited source of labour, the agricultural population. The industry represented about half of the GNP in the late 1960s: Czechoslovakia 61%, Hungary: 57%, Poland 54%, Romania 52%, Yugoslavia 49% and Bulgaria 46%, while the agriculture was only about 20%

for Yugoslavia, Poland and Hungary. The industrialization continued also in the seventies and eighties (United Nations statistics, 1988), when the crisis was beginning, like an "industrial revolution".

This result was possible because Central and Eastern Europe was in a non-market economy and, in the first years, resorted to a policy of self-sufficiency aimed at war preparations: the efforts could be directed to develop energy and raw materials production (first of all mining and basic industries).

Essentially, the industrialization was built on Soviet energy and raw material, as the self-sufficiency in these fields was impossible to reach for most of the countries. USSR and CMEA wanted to promote integration developing bilateral and later multilateral, relations among Communist countries. In 1957 the first multilateral agreement was signed in order to create a system of international clearing of the balance of payments among Socialist countries and in 1964 the first oil supplies were sent by USSR along a new line to Poland, Hungary, Czechoslovakia and German Democratic Republic. All this became possible when the restrictive conditions of the bilateral agreements were gradually dropped.

Self-sufficiency in the processing industries was realized in order to avoid dependence on other non-interested countries or on firms that could have delayed the plan realization; so the countries devoid of developed processing industries tried to build up all possible branches of processing.

From the 60s to the 80s a lot of new engineering branches emerged. The Hungarian engineering industry doubled its production in the first five year plan (1950-1955), and after it still increased of five times, so as the chemical

industry which, for a Comecon decision, increased its production ten times between 1955 and 1975.

The tendency towards equilibrium among the CMEA countries in the region was translated in balancing the foreign trade with each of the CMEA partners bilaterally even if these efforts led to a restriction of trade (one of the effects was the great volume of deliveries in the last quarter of the year necessary to achieve the equilibrium).

The 70s were marked by the explosion of the computerization, but the region was absolutely unprepared for technological reorientation. During the Stalin period cybernetic was called "Bourgeois science", but even after, when this approach disappeared, the computers were still mostly unknown.

As a consequence of this, Central and Eastern Europe did not renew the technological bases of its old branches of industry, increasing in that way the gap with Western countries: Czechoslovakia consumed five times more fuel than USA, Hungary and Poland used almost 40% more coke than Sweden.

During the 70s and 80s the renewal became impossible, worsening the crisis and leaving the region behind with an obsolete economy. They were not able compete on the world market in new modern branches and exports sectors. Moreover the subordination of infrastructures and services to the industry was an obstacle to modernization in the late twentieth century. There was an important growth in tourism, but it came with delay, starting to increase in the 1970s.

Trade with the free world market, which had been marginal, became important when the Comecon countries self-sufficiency decreased and they

were forced to sell out their products. Then when USSR and Comecon market collapsed (which absorbed 40% to 75% of the foreign trade) the region had to reorient its exports and imports.

The Soviet model based on isolation and autarky could have improved growth and structural changes, but all the resources were addressed to contain the self-annihilation of the system.

#### **FROM 1989 TO 1993**

The post-totalitarianism era was characterized by different elements: the return to the regime preceding the totalitarian rule, the international relations with the democratic world and the democratisation.

Between 1989 and 1990 all the so-called USSR satellite countries became independent and started creating democratic governments through free elections. The henceforth fragile Communist regimes of Eastern Europe collapsed immediately when their population realized that USSR could not militarily intervene anymore as in the past.

The democratic change in these countries took place in different ways, according to the local context and reality. Due to their strong linkage with the USSR, the Balkans countries were not able to provide immediately the right answer in the five fields of the democratization process (civil society, political community, economy, state administration, and law): for most of them, the only economy they knew was a system of State-driven economy, so as the Russian economy. The liberal market economy did not exist and this influenced the other areas; for instance, the first parties did not have a class to

represent (as in other countries where the entrepreneurial middle class was the starter engine). They were created only to oppose the totalitarian rule.

The regime collapsed because it was not able to fulfil its program and did not lead to the Promised Land. ... legitimacy was undermined; a deep disappointment penetrated the masses and even the elite. The peoples of the area longed for a change, and, as the leading slogan of 1989 clearly reflected, wanted to "join Europe".

Sometimes the civil arena was the most important area, the different groups supported the political activity.

In Poland, general Jaruzelski's *coup d'état* did not put a stop to the mass demonstrations against the regime. They were supported by the Solidarnosc Union, led by Lech Walesa and backed by the Catholic Church. There were many strikes and a civil war seemed to be imminent.

Gorbachev intervened suggesting to Jaruzelski an agreement for free elections among different parties, including Solidarnosc and the Communist party. The electoral victory of Solidarnosc was of huge proportion, thus demonstrating that the change was irreversible. In 1991 Walesa was elected Head of the State and the Communist regime was annihilated.

In most countries, such as Hungary, Czechoslovakia and Bulgaria, the change of the regime was quite peaceful. In these countries the post-totalitarianism faced three experiences.

In Hungary, it was a negotiated post-totalitarianism, in which the communist party chose to collaborate with the opposition party, in order to save the development of the process that had already been created with the

"second economy". Some of the new institutions need for the economical change had already been created. In Hungary, POSU changed the ruling party, and in 1989 a new Constitution was approved characterized by party pluralism. In 1990 the elections were won by a parties coalition guided by Antall Jozef.

In Czechoslovakia, it was a frozen post-totalitarianism, in which the regime collapsed and chose the only candidate of the opponents. The regime itself did not trust anymore its capability to drive the country. At the same time the new leaders were not able to support the critical change that gave rise by the division of the State in two countries. In Czechoslovakia Dubcev, leader of "Prague Spring" became the Head of legislative assembly. Havel Vaclav, who guided the movement of opposition, became the President of the Federal Czech Republic. In 1993 Slovakia took the form of an autonomous Republic.

The following elections confirmed the non-dominant role of Communist party in both States.

In Bulgaria, the post-totalitarianism was directly managed by the Party. In Bulgaria Communist leaders led the changing process under popular pressures. They organized free elections that in 1990 confirmed the power of Communist Party but under the guarantees of a new Constitution.

In Romania, the regime's transition was deeply refractory and violent. Ceausescu governed promoting an autonomous policy with regard to Moscow. He wanted to appear as a defendant of the national interest, but in reality he systematically managed the suppression whatever form or organization of opposition. The population were used to live in spread poverty

and deprived of freedom. The dictator repressed some rebellions due to population's longings for economic reformations, using the military forces.

In 1989 the protest arrived until the capital Bucharest and part of the army agreed with the population. The civil war in Romania was characterized by the clash between the opponents and the dictator's faithful. The bloody conflict ended with Ceausescu's execution and the free elections of the opponents.

The most important event that marked this transition period was the reunion of Eastern and Western Germany. In 1989 Hungary permitted the free transit towards Austria where millions of citizens of East Germany reached West Germany.

The German Communist government was unable to oppose. The transit of Eastern population towards West was unobstructed and the Berlin wall was rapidly destroyed. In 1990 the official political reunion took place with the consent of USSR, France, England and USA.

In Yugoslavia the events during this period, that caused its breaking up, were dramatic. In 1991 Slovenia and Croatia declared their autonomy. However, since in Croatia there were Serbian minorities, the war broke out between Croatia and Serbia. Soon after Bosnia-Herzegovina did the same, and Serbia and Croatia intervened militarily against Bosnia. Bosnia became a site of bloody war and its cities were repeatedly bombed. Civil victims were over 200.000.

Gorbachev's achievement was that Soviet Union survived. However, the forces that wanted to liberalize prevailed: USSR was a mosaic of ethnics and

nations and it was very difficult to keep the unity. In 1989 tendencies were disclosed to promote new parties, and the consequence of pluralism was the loss of Moscow's control on the States of Union. In 1990 USSR became a Presidential Republic and Gorbachev was the President.

Gorbachev's politics aimed at saving Soviet Union through the reduction of expenses that weighed on the economy and the diffusion of more democracy.

But this was not possible since that enormous State, composed by different nations, was united in the past only because the repression and had no space for free choices of citizens.

The rights granted by Gorbachev to join liberally in parties and unions and to elect freely representatives allowed the Republics of Union to claim their need for independence and autonomy. Baltic republics were the first ones to declare their independence. However, Gorbachev's policies raised oppositions from ruling class that was threatened by it. In 1991 a military action was organized by the forces connected to the old Communist party and by some generals of army, but it failed.

This failure drove the situation out of control. Communist party was declared illegal and the Republics of Soviet Union proclaimed their independence and Gorbachev lost every office.

#### **BACK TO EUROPE? POST 1989**

The world market prices and liberalised imports have created competition for the isolated Central and Eastern European economies, but have also caused a

decline in production and an increase in unemployment. After the decade-long stagnation, living conditions have dramatically deteriorated. The critical aspects are:

1. The process of democratisation has driven into the free market economy but this new economy has a fundamental paradox: how possibly could an economic region, coming out as periphery of a decadent system, promote itself in a very competitive environment, as western capitalism?

2. Central and Eastern Europe have remained agricultural, rural, and traditional, if compared to the industrialized and urbanized West.

3. Since the end of World War I, the countries of the region developed an economic nationalism, with protective tariffs, strong State interventionism and planning, then replaced export-led policy with import-substitution. It is possible to assume that the Soviet system was the most coherent and rational prosecution of local economic histories.

In terms of economic consideration, the conditioning elements were:

1. The lack of skills and capabilities to begin, develop and lead a private business

2. The low attitude to risk as well as the lack of competition among firms

3. The inability to generate a progress from the periphery to the core

In a Communist economy, decisions were taken by the ruling class, while in a free market economy decisions are adopted by a skilled and capable entrepreneurial class. In Eastern Europe an entrepreneurial middle class experienced to develop economy never existed such in West Europe at the end of 1800. In most of the cases the transition from communism to a free market

economy proved impossible. The new business class, who did not exist or did not have the possibility to participate in the state market, has to learn how to deal with new laws: the property and the capital. Welfare and healthcare are in most of the cases largely inadequate; workers are still not defending themselves through Unions as much as they should.

If the main indicators of economic performance are growth and development, the level of suffering and decline in living standards for most citizens in early post-communism would mean that there is a strong need for a reasonably equitable re-distribution of new wealth. Current high levels of social conflict and anxiety can be reduced through the development of a system of welfare state institutions.

It is also important to remember that the influence of West economy was avoided by USSR for a long time; thus, the knowledge and the expertise in each field (organization, cooperation, competition, trade, technology, and communication) improve at a slow rate. The linkage among States is weak and so are cooperation and competition, due to the old bilateral CMEA system used by USSR. This was an extension of the Soviet system, according to the Latin ancient motto "*divide et impera*". As noted at the beginning of this short paper, the relationships among the peripheries were only bilateral and everything was centralized in order to reinforce the soviet core.

#### CONCLUSION

In Central and Eastern Europe political and economical changes happened almost simultaneously, accompanied by the change from totalitarian regimes

to democracy and free market. The change of the regime, however, is far from being an automatic beginning of sustainable growth and catching up.

Rebuilding a private-market economy, with all of its institutions and legal prerequisites, cannot automatically produce a mechanism of successful sustained growth.

Such a mechanism has never worked in this area: in the previous totalitarian regime the Party was the Law and every activity was submitted to its power, and people had no rights.

The construction of the judicial system is therefore the new leadership's task that has to design the whole framework in which setting up the free economy.

As an economic historian of the region, Prof. Ivan Berend strongly argues that face of Western market model, the sustainable economic growth and catching up with the West is an automatism which starts to work.

According to him employing in the Eastern context the free-market model, although it proved successful in the western world, is not enough; instead, it would be much more useful to deal with problems in each dimension of the democratisation process, because some historical and cultural differences can be considered as unpredictable variables.

The author does confirm, on several occasions, that "the origin and characteristics of Central and Eastern European socialism are not understandable without the *long durée* of the region's history" (Berend 1996: x), making references to Hungarian history and the post-war period, when USSR was committed to consolidate a world-wide high power, asserting an imperial

Soviet system in the Eastern and Central Europe.

Once policies of masses repression were carried on and the industrialization process of the nation started, slight improvements in the living conditions of the population were reached, in 1953, when the death of Stalin “generated a thaw” (Berend 1996: 94ff.). Consequently, this brought about also serious repercussions in the communist block.

Slowly, Eastern European countries came to an agreement to choose their destiny and that carried, in 1989, to the landslide of the communist systems and, in 1991, to the dissolution of same USSR. It represented the beginning of a democratic era with the background of serious economic difficulties.

Then, in Berend’s point of view, if on one hand, the crisis of communism is to be considered a reason for the re-unification of the Germany and a new base for an European dialogue between European states, on the other hand, it also opened up a phase of political instability that induced the trend of a fragmentation of former nation-states, ending up in a war between the republics of ex-Yugoslavia, with the slaughters of the Bosnia.

In essence, Central and Eastern Europe cannot simply reject the past and to return to normality: there are conditions and local peculiarities that have to be taken in serious consideration, to avoid the same semi-failure and a continued backwardness.

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