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RUSSIAN ECONOMIC POLICY in EASTERN EUROPE

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FABIAN INTERNATIONAL BUREAU

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RUSSIAN ECONOMIC POLICY in EASTERN EUROPE

Albania, Bulgaria, Czechoslovakia, Hungary, Jugoslavia, Poland, Roumania and Austria.

T. E. M. McKITTERICK

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INTRODUCTORY NOTE

THE seven countries included in this pamphlet under the title Eastern Europe are Poland, Czechoslovakia, Hungary, Roumania, Bulgaria, Jugoslavia and Albania. The Russian zones of Germany and Austria in one sense fall within the zone. Germany has, however, been omitted because her treatment by the U.S.S.R. has followed entirely different lines. Austria is referred to several times in order to complete the economic and strategic picture of Eastern Europe, but Russian policy towards her has not been described in detail.

Space has limited the scope of the study. It would be desirable to include an account of internal economic developments in the U.S.S.R. and each of the other countries, since these have both influenced and been influenced by Russia's own foreign economic policy. To do so would, however, involve the addition of a mass of material far beyond the limitations of a study of pamphlet length. The subject matter has therefore been confined mainly to the trading policy of the U.S.S.R. towards the countries of Eastern Europe and to her influence on the policies of those countries between themselves. In Part II the basis has been somewhat broadened so as to cover the general economic as well as the political assumptions on which Russian policy is based, and to try to arrive at an interpretation of the policy.

Political judgments have been avoided as out of place in a study of economic policy, though it must be stressed that much of the economic policy described could not have been carried out were it not for the fact of Russia's political dominance of the whole of Eastern Europe. Even with this qualification a study of this type inevitably raises many controversial issues, and the conclusions reached must be regarded as largely tentative. The only claim the author wishes to make is that he believes the analysis of Russian policy in Part II to be supported by the facts as far as they are known.

RUSSIAN ECONOMIC POLICY IN EASTERN EUROPE

Part One

The Development of Russian Policy

I FOREIGN TRADE BEFORE 1944

In the years immediately preceding the second World War, the economic life of the whole eastern portion of Europe was dominated by two facts. The first was that of the seven countries included in the term " Eastern Europe ", six were primarily agrarian and depended for the greater part of their foreign trade on the export of agrarian produce. The second, and one which increased steadily in importance from 1936 onwards, was the paramount position of Germany in their foreign trade, both as buyer and seller.

Although the Danube basin and the countries lying north and south of it form a recognisable economic region, the economies of the seven countries are not and cannot easily be made complementary. Before the war only Czechoslovakia imported more food than she exported, and she alone could supply any considerable quantity of manufactured goods to her neighbours. Roumania could and did sell petroleum and its derivatives abroad, though not mainly to her neighbours. Poland exported coal, and Hungary limited quantities of certain types of manufactured goods, but in spite of these offsetting factors, the character of the region remained predominantly agrarian—a region with little industry, little exploited mineral wealth, forced to buy from the more highly industrialised west its requirements in machinery and manufactures and in raw materials for what industry there was, and forced as best it could to pay for these imports with the produce of an agriculture whose methods were still primitive.

The chief problem was one of price. Dependent as these countries were on a peasant form of agriculture with very little mechanisation and still using antiquated methods, it was difficult to compete in the world market with the efficient agricultures of the New World, and to find buyers for East European products in countries such as Britain and France. One consequence of this difficulty was that prices were forced down to a level which left the primary producer with little above bare subsistence; in spite of occasional half-hearted attempts at relief initiated by various governments, peasant indebtedness increased steadily, and while on the one hand this led to the growth of a small class of wealthy bankers, lawyers, merchants and politicians in the towns, on the other it prevented adequate capitalisation of farms and the purchase of the machinery which alone could render possible more economical farming. Consequently, imports of finished goods and raw materials were kept to a minimum fixed by a restricted capacity to export, while in order to preserve some semblance of a balanced foreign trade, too high a proportion of the very limited agrarian productivity of the exporting countries was directed away from home consumption. Except for the favoured few who lived by the exploitation of their fellow-countrymen, the standard of living over most of the area was far below the European average.

The pattern of the foreign trade of the seven eastern countries can be seen from the following table for the year 1938 (1937 in the case of Czechoslovakia).

TABLE I

Foreign trade by classes of commodity expressed as percentage of total imports and exports in 1938

	Agricultural produce (including timber, tobacco, raw wool, silk, cotton and hides)		*Minerals and chemicals*		*Manufactured goods and machinery (excluding textiles)*		*Textiles and clothing*	
	Imp.	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*
Albania	24·2	65·9	14·1	27·2	22·8	—	29·6	—
Bulgaria	7·7	96·4	15·0	1·7	52·6	0·2	20·4	0·7
Czechoslovakia (1937) ..	46·5	18·6	16·9	17·7	23·0	26·3	6·7	30·3
Hungary ..	33·6	54·2	26·5	1·9	17·6	18·2	5·1	4·3
Jugoslavia ..	10·3	67·1	16·5	13·3	37·8	11·9	31·8	5·2
Poland	38·6	55·2	10·7	24·2	38·0	13·0	7·9	3·7
Roumania ..	11·6	49·2	8·6	43·1	58·3	—	14·3	—

The scale of foreign trade did not, except in the case of Czechoslovakia, bear comparison with that of the more industrialised countries of the west. Thus in the same year imports per head of the population of each country expressed in U.S. gold dollars

amounted only to 2.77 in Albania, 5.60 in Bulgaria, 9.11 in Hungary, 4.35 in Jugoslavia, 4.20 in Poland and 4.08 in Roumania. For Czechoslovakia (1937) the figure stood at the relatively high level of 14.82 gold dollars; for the United Kingdom in 1938 the corresponding figure was 52.3.

During the 1920s trade with Germany and Austria tended to increase. All the eastern countries except Czechoslovakia showed a fairly regular adverse balance until after the economic crisis had dislocated Central European trade with the west. After 1933 Germany began to play a still more important role as buyer—especially when, with the imposition of sanctions in 1935, the valuable Italian market was lost. Political and trading policy were closely linked under the Nazis, who aimed at establishing economic domination as a prelude to political domination, but from the point of view of the eastern countries even the unorthodox methods of Schacht and Clodius were better than nothing. The unfavourable balances of earlier years were changed into regular excesses of exports over imports, even though the surplus usually had to be held in the form of credits in blocked marks which could be devalued whenever Germany chose. The second table shows the extent to which Germany had come to dominate the trade of her eastern and south-eastern neighbours by 1938.

TABLE II

Direction of foreign trade by countries (percentages of total import and export trade) 1938

	Germany and Austria		*Italy*		*Intra-regional trade*		*U.S.S.R.*	
	Imp.	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*
Albania	6·0	0·2	36·3	68·4	30·6	2·6	—	—
Bulgaria	51·9	58·9	7·5	7·6	18·2	11·9	—	—
Czechoslovakia (1937) ..	19·7	21·0	2·3	3·0	12·7	14·9	1·1	0·8
Hungary ..	41·6	45·9	6·3	8·5	24·9	13·2	—	—
Jugoslavia ..	39·4	42·0	8·9	6·4	17·6	14·9	0·1	—
Poland.. ..	23·0	24·1	2·6	5·5	4·5	5·0	0·8	0·1
Roumania ..	36·8	26·5	5·0	6·2	18·6	18·3	0·1	0·1

No directly comparable figures are available for any year later than 1938, though statistics that can be obtained for Bulgaria and Roumania show that in 1943 German domination had increased still further, so that she supplied 66.7 per cent. of Bulgaria's imports and 73.6 per cent. of Roumania's, taking respectively 78.6 per cent. and 63.3 per cent. of their exports. In the case of Roumania the importance of Italy had also increased enormously, 15.0 per cent. of Roumania's imports coming from and 15.8 per cent. of her exports going to that country. On the other hand, and partly as a deliberate German policy, intra-regional trade had come almost to a standstill.

The striking fact about this table, after the importance of Germany, is the complete insignificance of the U.S.S.R. as buyer or seller. The foreign trade of the Soviet Union formed in any case a very small proportion of her economy, and as a major agricultural producer herself she had no need to import from, say, Bulgaria to any great extent. Political difficulties were partly to blame for her inability to import minerals of which she was in need from Roumania and other countries where mineral rights were for the most part exploited by foreign-owned companies. There was no such obstacle, however, to trade between the U.S.S.R. and Czechoslovakia, the latter of which exported manufactures and imported food, and it is a little surprising that their commercial intercourse should have been so restricted.

The last point that needs to be emphasised in the pre-war economic structure and outlook of the eastern countries is the large proportion of foreign capital invested in their natural resources and key industries; only Czechoslovakia was comparatively free in this respect. Unfortunately it is very difficult to secure precise figures. The outstanding example was the petroleum industry in Roumania, in which over 40 per cent. of the invested capital was British or Dutch and only 29 per cent. Roumanian. British companies owned and controlled a large proportion of Jugoslavia's resources in bauxite and other minerals, and British and French capital was also heavily invested in Hungary. Foreign capital did little to make up for the lack of capital at home. The profits of the foreign-owned companies were paid mainly to shareholders abroad and were not available for reinvestment locally. Moreover, it was a common practice for a foreign company to secure concessions for minerals over a much wider area than it was able to develop, in order to forestall competition. They were thus able to prevent the exploitation by others of large parts of the natural resources of the countries in which they operated, thus effectively restricting the possibilities of internal expansion. Full economic freedom was never a possibility for most of Eastern Europe, even before the rise of Germany to the pre-eminence which she had acquired by 1938, and the character of the political revolution which swept the entire area once the German control was lifted in 1944 and 1945 was due in no small measure to the desire of the peoples of eastern Europe to free themselves once and for all from the restraint placed upon them by outside capital.

II THE SHAPING OF POST-WAR POLICY

Liberation meant political freedom, but it also meant economic destruction. During the occupation German control had been turned into a stranglehold. Foreign trade was possible only on German terms, internal trade had been reduced to an absolute minimum—Jugoslavia, for example, was divided into a number of pieces forbidden to trade with one another or with neighbouring countries—and Germany had pursued a destructive financial policy which, by a continuous process of devaluation of local currencies in terms of marks, had brought the whole area to or even past the brink of runaway inflation. Consequently, when first Italy and then Germany was eliminated from the market, there was practically nothing left in the way of foreign trade.

The degree of physical destruction varied widely, from the comparative immunity of most of Bulgaria to the widespread devastation of large areas in Poland. Even in the least damaged areas, however, lack of seed and fertilisers and of manpower had forced food production down to a level well below pre-war, and only Bulgaria did not ask for UNRRA assistance in food.[1] On the other hand, Hungary, though short of food, had during the war so increased her industrial capacity with German assistance that she was able, almost immediately on liberation, to commence exports of petroleum and a few other products. Throughout eastern Europe, and especially in Roumania, the immediate post-war crisis was prolonged and intensified by the exceptionally dry summer of 1945. Even if there had been a ready market available, foreign trade could not have been immediately resumed on any appreciable scale, for the simple reason that there was practically nothing to export and practically no means of paying for imports.

What this decline in trading ability meant in actual figures can be seen from three examples provided in UNRRA reports. In the case of Czechoslovakia from May to December, 1945, exports amounted to 3.9 per cent. and imports to 5.5 per cent. of 1937 totals.[2] In Poland (excluding areas ceded to Russia or acquired from Germany) exports for the whole of 1945 were 10 per cent. of the 1937/38 average, and normal imports (excluding UNRRA supplies) 8.5 per cent.[3] The case of Hungary was worse still; even by January 1946 her exports were only 2.5 per cent. and imports 0.6 per cent. of the 1938 average.[3] Corresponding figures for the other countries are not available, though it appears that in Bulgaria, the least damaged of all, exports in 1945 reached nearly half, and imports about one fifth, of her 1939 levels.

At the end of the war the problems facing each country were similar. Firstly, a short-term programme was required to overcome

[1] The Roumanian request for food from the International Emergency Food Council was refused.
[2] Figures uncorrected to allow for currency depreciation.
[3] Corrected figures. *See also* Table V., *page* 26.

the immediate shortage of consumer goods, and what could not be produced at home had somehow or other to be obtained from abroad. Secondly, new foreign markets had to be found to take the place of Germany. And thirdly, long-term production and commercial plans had to be prepared in an attempt to give their economies a stability which they had lacked in pre-war years, in order to solve the age-old problem of unemployment in the towns and under-employment in the countryside, and to raise the general standard of living from the shockingly low level at which it had been. The approach to the third depended, of course, very largely on the way in which the first two were solved, and it is for this reason that none of the countries of eastern Europe began to put their formal long-term plans into effect until well into 1946.

UNRRA supplies helped, except in the case of Roumania and Bulgaria, to meet immediate needs, but they had little effect on long-term plans. Here one of the governing factors was the question of markets. Trade with western Europe and the New World was by no means excluded, but pre-war experience suggested that it was unlikely to assume very large proportions.

The Central European market was, for the time being at least, closed or nearly so. Intra-regional trade could help, but could not meet the full requirements of the various countries. The one remaining possibility was the U.S.S.R. Their trade with her in pre-war days had been negligible, but political changes had removed at any rate some of the obstacles to developing it. More important was the question of how far the U.S.S.R. was willing, and more still how far she was able, to take the place vacated by a defeated Germany.

In the summer of 1945 Russian armies were in occupation of much of eastern Europe, and Russian political influence was paramount. That she was anxious to preserve her influence there could be no doubt. But her position *vis-à-vis* the eastern European countries was different in many important respects from that of pre-war Germany; whereas Germany together with Danubia and the eastern countries generally formed a region in which agrarian and industrial production balanced each other, the economy of the U.S.S.R. was not complementary to that of her western neighbours. It is true that in order to conserve her internal petroleum supplies she was prepared to take as much as possible from Roumania and the newly-developed Hungarian wells. It is also true that Jugoslavia could supply her with much-needed minerals, Poland with coal and Czechoslovakia with manufactured goods. But even all these taken together would not amount to sufficient to give her a controlling position in the economies of the exporting countries.

How her policy developed for the first three years after the war, and how she found a way out of the difficulty of reconciling the contradictions of her position, must be described in three phases.

The first phase takes us to the autumn of 1945. After a series of intermediate emergency measures, including the supply of limited quantities of food and raw materials to the liberated countries in exchange, as a rule, for future benefits, her policy moved towards a series of longer-term bilateral agreements (referred to in the following sections as the " basic agreements ") designed to set the general pattern of later development. These basic agreements included, in the case of Hungary and Roumania, a series of far-reaching arrangements for the joint management of certain industries which in effect gave the U.S.S.R. a controlling voice not only in their foreign trade but in their internal economies as well; they were also closely linked to her reparations policy.

The second phase, from late 1945 to the summer of 1947, was one of development along the lines laid down in the basic agreements. No important change was introduced, though there was some relaxation of severity in her reparations policy towards Hungary and Roumania, and with both these and the other countries a whole series of supplementary agreements was signed. It was also during this period that the individual countries embarked on their broad plans of reconstruction and development, and in each of these the prospect of extensive future trade with the U.S.S.R. had to be taken into account as a major or even a dominating factor.

The third and most decisive phase commences in July 1947 with the rejection by the U.S.S.R. and the Eastern European countries of participation in the Marshall Plan. The next few months were a time of intense activity both in the economic and in the political spheres. An economic programme had to be devised which would at least appear to outweigh the Marshall Plan and compensate for at any rate some of the loss of its attractive possibilities, and also to fit in with a stiffer political programme. Consequently, during the months following the abortive Paris Conference new and extensive agreements were entered into with each Eastern European country, replacing the basic agreements of 1945. At the same time the distinction between the ex-enemy countries and the rest, which had already been diminishing in importance, was dropped almost completely, and Hungary and Roumania were encouraged to integrate themselves to the full in the general East European pattern, retaining only the joint companies and a reduced rate of reparations to remind them of their former inferior status[1].

Certain features are common to all three phases. Firstly, although the individual agreements are without exception bilateral, the smaller countries were encouraged to enter into similar agreements among themselves; the network of these agreements is now almost complete, and Eastern Europe is now, with the U.S.S.R.,

[1] It was announced on 10 June, 1948, that outstanding reparations payments due from Hungary had been halved, and a similar request had been received from Roumania.

a fairly sharply defined economic unit. Multilateralism, however, so far does not seem to have made its appearance. Secondly, in most agreements the barter principle is strictly adhered to; prices are quoted only in round figures of totals (usually in U.S. dollars), and in these agreements the sole function of price quotations has been to aid in estimating the quantities of goods to be exchanged; there is usually no mechanism for dealing with unbalanced payments. Thirdly, in view especially of the shortage of machinery and other capital goods, trade with the outside world is encouraged rather than otherwise, and several of the countries concerned have obtained or attempted to obtain agreements with western countries providing for the supply of these urgently needed goods in exchange for agrarian produce or local manufactures.

A word should be said here about the special treatment of Austria. The division of that country into four zones of occupation has prevented her incorporation into the general Eastern European framework. The Russian zone has, however, been treated with considerable severity; capital equipment has been removed and large industrial undertakings acquired by the U.S.S.R. on terms even less favourable than those of the basic agreements with Hungary and Roumania. Apart from the city of Vienna, and a few other industrial centres, eastern Austria can make little contribution to settling the economic problems of her neighbours and the U.S.S.R., and it will be suggested later that the reasons for the exceptional treatment of the Russian zone have been based on political and strategic rather than on economic considerations.

III THE FIRST PHASE, 1944-45

Within the framework of this general policy, treatment of the seven countries differed considerably. The two chief enemy countries, Hungary and Roumania, were at first compelled to accept (in the armistices and later in the peace treaties) economic terms which may be regarded as severe or generous according to the point of view. The other countries (including Bulgaria, whose brief belligerency against the U.S.S.R. was for all practical purposes ignored) were from the start encouraged to enter into voluntary arrangements, though of course the presence of Russian troops in Poland and the satellite countries had a persuasive effect even on those countries which were not occupied.

1 *Roumania and Hungary*

In dealing with the principal satellites, Russian policy was faced with a dilemma. On the one hand the U.S.S.R. was anxious to exact from them reparations sufficiently high to make some contribution to her own reconstruction and to punish the two countries for their behaviour in the past. On the other hand, both countries had undergone a revolution at the end of the war, and their new regimes deserved some encouragement; moreover, the western Allies pressed for harsher treatment, and the U.S.S.R. reacted towards gentleness in order to preserve her political influence. Another factor of great importance was that in both countries, and especially Roumania, a high proportion of their industrial equipment was foreign-owned, and the elimination of this external influence was essential to Russian policy.

The dilemma was well stated by Mr. Vyshinsky at the Peace Conference in 1946.[1]

> " The Soviet position," he said, " rested on a principle composed of two parts: a due consideration, in defining the economic clauses, for economic conditions already imposed on Hungary, and a right to demand reparation for damage inflicted by the Hungarians to Soviet property . . . But they must be just; the economic clauses must be based on economic reality."

In other words, they could be severe, but not severe enough to endanger the economic basis of the new regimes in either country.

Under the armistice of September 1944 Roumania was required to maintain the Allied armies of occupation, to surrender German property to the Soviet Union, and to pay to the Soviet Union the equivalent of $300 million in reparations over a period of six years; payment under this last head was to be made in oil, grain, timber, vessels and machinery. The armistice was followed by large-scale removals of industrial equipment and materials to a total which cannot be estimated—though the estimate given by the U.S. delegation at the Peace Conference of the total cost to Roumania of the occupation, reparations and the removal of German property as $2,000 million is probably an exaggeration. A particularly harsh feature of the preliminary arrangements was that the outstanding debts of enterprises owned jointly by Germans and Roumanians were to be charged solely to the Roumanian part, so that, for example, the debts of an undertaking 70 per cent. German and 30 per cent. Roumanian fell entirely on the smaller Roumanian holding; the result was that many such concerns were faced with the threat of bankruptcy. On the other hand, reparations were not paid in full in either of the first two years.

The basic agreement with Roumania, signed on 8 May, 1945, is of exceptional interest, and was adopted as the model for the later basic agreement with Hungary (27 August, 1945). First of all it was agreed that Roumanian agricultural products were to be exchanged for coal, raw cotton and other raw materials from the Soviet Union; the total values involved in this part of the agreement do not appear to have been published. Secondly, the U.S.S.R. was to provide, through a joint Soviet-Roumanian bank, assistance in the form of capital and technical advice for certain

[1] Plenary session on Hungarian reparations, 15 August, 1946. Quoted from *The Times* of 16 August.

Roumanian industries. Thirdly—and this is the especially interesting part of the agreement—Roumanian petroleum, steel, glass, timber, civil airways and Danube traffic were to be converted into monopolies to be run by joint Soviet-Roumanian companies (known as Sovroms) to which each country was to subscribe half the necessary capital. There is no evidence that any part of the Soviet share has ever been paid except by the device of surrendering the claim to German assets in each industry covered. In the case of the petroleum Sovrom, a provision was included that Roumania should hand over to the company all oil concessions, and should also pay to the company 50 per cent. of all royalties on crude petroleum " until such time as the contributions of the two contracting parties become equal ". The meaning of this last sentence is, to say the least, obscure. There is also a complete lack of information on the amounts of capital to be provided for the financing of the Sovroms.

On 12 September, 1945, a further general agreement with Roumania was signed in Moscow, including both political and economic clauses. The latter provided for the supply by the U.S.S.R. of 300,000 tons of grain on a long-term repayment basis (this in view of the exceptionally bad harvest in Roumania) and for the repair of Roumanian rolling-stock in the U.S.S.R.; outstanding debts and reparations payments were also scaled down. This agreement seems on the whole to have been generous to Roumania, but it is worth recalling that its signature coincided in date with a major political and constitutional crisis in Bucarest.

Policy towards Hungary developed along similar lines. Reparations under the armistice agreement were fixed at a total of $200 million to the U.S.S.R., to which the Potsdam Conference added $50 million each to Czechoslovakia and Jugoslavia. As in the case of Roumania, reparations were to be in kind, including agricultural products for the first three years and a gradually increasing proportion of railway equipment, metals and machinery during these and subsequent years. Payments were scaled down by several subsequent agreements and payments of agricultural produce suspended after the bad harvest of 1945; the lists of factory equipment to be removed were revised in Hungary's favour, and the period of reparations payments increased from six to eight years. Nevertheless, the burden remained severe owing to the extent of war damage in Hungary and her slowness in recovery; an UNRRA estimate shows, for example, that in 1945, 94 per cent. of working capacity in the metal and engineering industries was being used for production of goods claimed as reparations.

The basic agreement with Hungary, signed on 27 August, 1945, is similar to but more extensive than the earlier Roumanian agreement. Its principle points are as follows. The U.S.S.R. undertook to supply to Hungary raw materials (chiefly cotton, wool, iron ore and copper) to the value of $31 million in the first eighteen

months. Hungary was to repay in goods to an equivalent value, partly in petroleum and other raw materials, but chiefly in goods manufactured in Hungary from the raw materials supplied by the U.S.S.R.[1] A second part of the agreement established joint Soviet-Hungarian companies for the development of a number of Hungarian industries—coal, petroleum and petroleum products, iron and steel, electric power plants, agricultural and electrical machinery, chemicals, internal civil air transport and water transport on the Danube and Tisza. Capital for these joint companies was to be provided by the two countries in equal amounts, and a joint Soviet-Hungarian bank was set up to handle the financial transactions involved.

2 *Allied Countries and Bulgaria*

Before examining the effect of the agreements just described, the framework set up during 1945 must be completed.

None of the remaining countries, not even technically ex-enemy Bulgaria, was placed under such conditions of economic servitude as Roumania and Hungary. The agreements entered into were extensive and all aimed at rendering trade with the Soviet Union indispensable, but their general form was simply that of ordinary bilateral arrangements such as have been entered into since the war by many other countries outside the Soviet sphere.

It is not intended to describe the agreements in detail—indeed, there are several on which detailed information is not available. Their more important points will be brought out as they affect the development of the general pattern of the foreign trade of each country.

With Poland the U.S.S.R. made several emergency agreements before the liberation of the country was completed. The first full agreement after liberation was signed on 7 July, 1945, and is almost unique among these early agreements in having been published within a few days of signature.[2] The total value of goods to be exchanged before 31 December, 1945, was $120 million each way. The U.S.S.R. was to provide Poland with iron and manganese ores, raw cotton, flax, cellulose, tobacco, paper and other materials; Poland in exchange was to supply coal and coke, iron and steel, zinc, cement and chemicals, and was also to undertake to return to the U.S.S.R. certain quantities of textiles manufactured in Poland from raw materials provided by the U.S.S.R.—this last point being a consistent principle in most of the bilateral agreements of this and the succeeding periods. Largely as a result of this, Poland's imports from the U.S.S.R. rose from 1,580 million zlotys in 1945 to 7,271 million zlotys in 1946, and her exports to the U.S.S.R. from 1,840 million to 5,392 million zlotys—although as we shall

[1] A full account of this part of the treaty is given in UNRRA European Regional Office, Operational Analysis Paper No. 47, p. 88.

[2] Detailed figures in UNRRA European Regional Office, Operational Analysis Paper No. 40, p. 63.

see, the development of her trade with other countries heavily reduced the proportion of her total foreign trade which the 1945 figures represented.

On arrangements with Czechoslovakia less detailed information is available, though a basic agreement was signed on 24 September, 1945. The amounts involved have not been published, and a leading feature of the agreement appears to have been its purely barter character—no reference was made either to price or to methods of payment. Neither can its full effects be estimated, as it was replaced eight months later by another and more comprehensive agreement. In 1945 (May-December), however, the U.S.S.R. provided 32.7 per cent. of all Czechoslovakia's imports and took 13.6 per cent. of her exports, occupying in respect of exports only third place in the list of markets.

For Bulgaria still less information is available. The armistice agreement of November 1944 contained nothing of importance except its military clauses and frontier arrangements, and in particular did not place Bulgaria under any obligation to pay reparations to the U.S.S.R.—with whom, two and a half months earlier, she had engaged in what was surely the shortest war in history. From the start, therefore, Bulgaria was placed on a similar footing to the Allied countries, and every effort was made to encourage the consolidation of the new political system. Economically, Bulgaria's position had both favourable and unfavourable aspects—favourable in that her territory had suffered very little from military operations or bombing, that even in 1945 she was approaching self-sufficiency in food, and that her currency had remained relatively stable; unfavourable in that the only commodity of which she could export large quantities was tobacco (which even in 1947 accounted for some 80 per cent. in value of her total exports). The basic agreement with the U.S.S.R. dates from 14 March 1945, but practically nothing is known of its terms. What is quite clear, however, is that the agreement, together with the difficulty of finding an alternative market for Bulgarian tobacco, was sufficient to give the U.S.S.R. a position of absolute dominance in Bulgaria's external trade—a position which subsequent developments have done little to alter.

Of Jugoslavia and Albania practically nothing can be said. Albania's foreign trade before the war was mainly with Italy; since the war her economy has been largely integrated with that of Jugoslavia, and the volume of her direct trade with the U.S.S.R. is negligible. As for Jugoslavia, there is on record an agreement of 15 April, 1945, signed in Moscow at the same time as a series of wide political engagements, and also coinciding in time with important economic measures and the stabilisation of the currency in Jugoslavia. Nothing is known of the terms of this agreement, and Jugoslavia is alone among the countries of Eastern Europe in not publishing the statistics of her foreign trade.

During this first period several Eastern European countries also signed agreements with one another and with outside countries; Poland, for example, had by the end of 1945 entered into bilateral agreements with Czechoslovakia and the Scandinavian countries to a total of some $60 million each way. Czechoslovakia also had extensive arrangements with Switzerland, who stood first on the list of markets for Czechoslovakian exports (32.5 per cent. of the total) and second as a supplier of imports (22.4 per cent. of the total); Hungary also supplied Czechoslovakia with 17.5 per cent. of her total imports during the period May-December, 1945. However, the greatest development of trade with countries other than the U.S.S.R. belongs to the second period from the end of 1945 to the summer of 1947, and in the third period after the Paris Conference on the Marshall Plan this trade was to be further enormously increased.

IV THE SECOND PHASE, JANUARY 1946—JUNE 1947

Such, then, was the general pattern of Eastern European trade which had emerged by the end of 1945. The next eighteen months is a period of extension and consolidation without any important change in pattern. Most of the agreements entered into during this second phase of development are supplementary in character to the basic agreements of the first phase; they are designed in some cases to adjust the earlier arrangements in the light of their working experience, and in others to add new commodities or to increase the volume of those already covered.

Two general features stand out. The first is that, the immediate post-war emergency over, each country (including the U.S.S.R.) was able to formulate and to begin to carry out its longer-term reconstruction and development plans. Thus, in addition to the new Soviet Five Year Plan, similar plans were adopted during 1946 by Poland (three years), Jugoslavia (five years), Hungary (three years to start in 1947), Czechoslovakia (two years from January 1947) and Bulgaria (two years, 1947/48).

The second outstanding feature is the progressively diminishing proportion of each country's trade with the U.S.S.R. in the totals of foreign trade. This factor must not be misunderstood, however. It was due not to any contraction in trade with the U.S.S.R.—indeed, the tendency was to expand—but to the opening up of trade with other countries. Soviet policy has been consistently to encourage trading relations with the rest of the world, a policy which has the obvious advantages both of providing Eastern Europe with quantities of goods, especially machines, which the U.S.S.R. cannot herself supply, and of conserving the limited resources of the Soviet sphere against possible future eventualities.

To return to the plans. None of the new governments in Eastern Europe was content to allow its country to continue to occupy the relatively backward place which they had occupied industrially in pre-war days. The emphasis was not so much on post-war reconstruction as on development and industrialisation. Thus, for example, the Bulgarian Two Year Plan envisages the raising of production in her principal industries by amounts ranging from 25 per cent. in the case of electric power to 108 per cent. in the case of livestock over the 1946 levels. The Two Year Plan of Czechoslovakia—more highly industrialised, but suffering more severely from war damage and also facing serious man-power difficulties—also sets targets for her various industries usually (but not always) well above the production level of 1937.[1]

For the implementation of these plans it was essential that reasonably accurate estimates of the trends of foreign trade should be available. All-important was the question of delivery dates for materials purchased abroad. Thus, for example, considerable irritation was shown by the Jugoslav trade delegation in the course of its negotiations for an agreement with the United Kingdom in the autumn of 1947 when the Board of Trade was unable to guarantee delivery by certain dates of many of the goods which Jugoslavia hoped to obtain; it was pointed out that unless firm delivery dates could be offered Jugoslavia's development plan would be thrown out of gear, and she would be forced to seek her requirements elsewhere. The same problem had also arisen in negotiations between Britain and the Soviet Union earlier in the year. By contrast, the advantages of trading with the Soviet Union were stated by the Czechoslovak Minister of Foreign Trade, M. Ripka, on the occasion of the signature of the second important trade agreement in April 1946.

> " The Soviet system of successive five year plans (he said) will guarantee us, provided we are prepared to cooperate suitably within the scheme of Russia's general requirements, long-term orders which we greatly need for the planning of our production, and which will guarantee continuity of employment. This will also guarantee regular sales for us, since the Soviet market is not affected by the competitive variations of the world market. Later we shall be able to deliver consumer goods, for which the demand in Russia is constantly increasing and will not be satisfied for a long period."[2]

In discussing the relationship between the plans and the agreement, several misconceptions have arisen. It has sometimes been assumed that there is no real connection between them, and that the agreements are designed to supply Russia's own needs regardless of their effect on the internal programmes of the other countries. Thus on 30 July, 1947, the *Manchester Guardian* wrote

[1] A full description of the Czech Two Year Plan is given in William Diamond's *Czechoslovakia between East and West* (Stevens, 1948), pp. 150–168.

[2] Quoted in *Czechoslovakia between East and West*, p. 139.

in a special article (*East Central Europe : The Economic Plans Compared*) :

> " Needless to say, the plans have Russia's blessing and encouragement. There is nothing to suggest, however, the existence of a master-plan directed from Moscow; if anything, there is too little coordination between the various plans, which are strictly national in character. The much-discussed long-term economic agreements concluded by Russia with her neighbours individually are not designed to promote the execution of their plans. The immediate aim of the agreements is to administer to the needs of the Russian reconstruction plan."

Nevertheless, the shape of the plans and the shape of trade with the principal market cannot be dissociated; supplies from the U.S.S.R. were bound largely to determine what was possible and what was not under the plans, and it was only sound policy to take her needs into consideration in planning future economic development. We shall see later that there is also evidence, especially in the agreements made after the plans had got under way, of a deliberate policy of division of labour in order to give the whole area, including both Eastern Europe and the U.S.S.R., as balanced an economy as possible.

Another significant feature of this second phase is the change in the Soviet attitude to Roumania and Hungary. Both countries suffered from bad harvests in 1945 and 1946, and both were compelled to default on their deliveries. Extensions of delivery date were accordingly allowed, and additional supplies of grain were made available by the U.S.S.R. on a loan basis. In April 1946 the Roumanian Prime Minister, Dr Groza, made a personal appeal for the relaxation of some of the conditions of the two 1945 agreements, and in the autumn deliveries of Roumanian wheat were again suspended owing to the severe drought.

In the case of Hungary the position was complicated by the total collapse of the currency. Inflation rose to heights unprecedented even in Germany in 1923 or Greece in 1944, and was only checked by the issue of an entirely new currency at the beginning of August 1946. Earlier, in March, a supplementary agreement with the U.S.S.R. had been signed defining with greater exactness than before the power and functions of the joint companies, and although the agreement has not been published, it would appear to have been more favourable to Hungary than its predecessor. At the same time the Soviet Union agreed to extend the period for the payment of reparations from six to eight years.

Thus in both cases Soviet policy relaxed something of its earlier severity. Neither government was as stable as could be wished, and some form of encouragement was essential if the regimes were to survive—a consideration which obviously accounts for Russia's protection of the two ex-satellites against the harsher demands of the western Powers during the peace negotiations in Paris in the summer and autumn of 1946, and also for the modification of her attitude to reparations. In point of fact, both countries in the end secured more favourable peace treaties than they can at one time have expected, and since the coming into force of the treaties Soviet policy has virtually ceased to differentiate between them and her former allies.

Supplementary agreements were also signed with Poland (12 April, 1946), with Czechoslovakia (signed on the same day), with Jugoslavia (27 May, 1946) and with Bulgaria (28 April, 1946). The Polish agreement, which was to be of twelve months' duration, covered the supply of grain only by the U.S.S.R., in exchange for which Poland was to deliver coal and coke, partially manufactured metals, chemicals, textiles and a few other categories of manufactured goods to a total value of $96 million each way.[1] The agreement with Czechoslovakia was interesting for its specific provisions on payments, introducing a dual system of clearing arrangements in respect of goods listed in the agreement and of payment in free exchange for goods not covered by the list.[2] Unfortunately, practically no information is available on the terms of the agreements with Jugoslavia and Bulgaria.

Secondly, this phase of development saw a considerable extension over 1945 of trade between the Eastern European countries themselves; by the summer of 1947 every country had opened up some form of trade channel with every other (Albania alone excepted owing to her dependence on Jugoslavia), and a complete pattern of bilateral agreements was emerging. The agreements cannot be described in full here. Generally speaking they followed the same lines as those made with the Soviet Union, including similar payments arrangements—or rather, as the barter principle is followed in many of them, lack of payments arrangements.

In this connection the position of Czechoslovakia, as the one country with a high manufacturing potential, is especially significant. We have seen that in pre-war days her volume of trade with the other Eastern European countries was considerable. During a period of expansion as envisaged under the plans of the various countries, there was bound to be a high demand for many of the goods which she alone in Eastern Europe could supply. It was partly for this reason that in the initial reconstruction period her heavy industries were given precedence over others, so that the greatest contribution could be made within as short a time as possible to developing her export trade with her neighbours. Late in 1946 the Minister of Industry carried out an extensive tour of the other Eastern European countries with a view to securing long-term orders for Czechoslovak machinery and other heavy goods, and in the agreement signed with Jugoslavia in February

[1] UNRRA European Regional Office, Operational Analysis Paper No. 40, p. 64.

[2] Op. Cit. No. 21, p. 25.

1947 there is evidence that it was deliberately designed to give the greatest possible assistance to the development plans of both countries. A similar but earlier (July 1946) agreement with Bulgaria covering chiefly capital goods aimed at raising trade between the two countries to nearly five times its pre-war level.

In other directions too new ground was broken. Between Czechoslovakia and Poland trade was slow to resume after the war, but underwent great development early in 1947. A limited agreement between the two countries on 16 July, 1946, stands in sharp contrast to the other agreements in that Czechoslovakia undertook to continue the supply of electric power (commenced immediately after the war) in exchange for payments by Poland in free currency to the tune of $37 million. Poland also entered into agreements with Hungary, Jugoslavia, Bulgaria, Austria and the Russian zone of Germany to a total of some $25 million in value. Further south, a development of particular interest was the opening up of extensive trade relations between Jugoslavia and Bulgaria, who before the war had not been the best of neighbours; the conclusion of this process in two great economic and political agreements belongs, however, to a later phase.

Finally, there was also an expansion of trade with the western countries and others outside Eastern Europe, though here development was uneven. The chief beneficiaries of the western market were Poland and Czechoslovakia. Poland, as we have seen, began to open up her trade with the west at an early stage, and by the end of 1946 had agreements with Sweden, Denmark, Italy, France, Switzerland, Norway, Holland and Belgium to a combined total value exceeding $130 million each way. Czechoslovakia by the same date had entered into agreements with the United Kingdom, Canada, France, Belgium, Holland, Norway, Denmark, Sweden, Switzerland, Turkey and Iceland, and in the New World with Brazil and Uruguay; trade with the U.S.A. was also at a high level although not covered by a specific agreement. Of these the chief in importance was that with Switzerland (covering payments only and not listing specific commodities or quantities) as a result of which Switzerland became Czechoslovakia's largest single market and as a supplier of imports came a close second to the U.S.S.R.

To sum up. During this second phase each country's foreign trade began to acquire at least some elements of stability. The relief phase was soon over. Longer term plans could be embarked on and internal industry and external prospects adapted to each other. The U.S.S.R., completely dominating their economies in the first year, was still left in a strong position but had been to some extent overtaken by the extension of trade to new fields, made possible by an overall expansion of trade.

The differences between one country and another, and their effect on the degree of each country's dependence on the U.S.S.R., are striking. At one end of the scale is Czechoslovakia, industrialised and by tradition linked closely with the west. To her, the U.S.S.R. was a valuable successor to the great German market of pre-war days, but was not likely at any time to assume a place of absolute dominance. At the other end is Bulgaria, almost wholly agrarian and depending mainly on two valuable but not always easily saleable crops; her pre-war external links severed, she was compelled to accept whatever market she could get even if it meant that Germany's former paramountcy were simply to be replaced by that of the U.S.S.R. Translated into figures, the comparison between those two and two countries in an intermediate position is as follows:

TABLE III

Trade with Certain Countries in 1946 expressed as percentages of total foreign trade

	IMPORTS			*EXPORTS*		
	U.S.S.R.	*Intra-regional*	*Other*	*U.S.S.R.*	*Intra-regional*	*Other*
Czechoslovakia (Jan./Oct.) ..	11·6	18·0	70·4	12·7	11·2	76·1
Hungary	49·1	20·4	30·5	45·0	26·1	28·9
Poland	63·0	10·7	26·3	50·4	6·3	43·3
Bulgaria (Jan./Nov.)	80·1	9·1	10·8	64·8	17·2	18·0

The pattern set by the end of 1946 underwent little change during the first six months of 1947, the only further agreement worth mentioning being that between the U.S.S.R. and Roumania signed on 24 February and including a most-favoured-nation clause. The next significant development was to come in the summer in the form of the response of Eastern Europe to the Marshall Plan, and with the breakdown of the first Paris Conference in June, Soviet policy entered on its third post-war phase.

V THIRD PHASE: THE MARSHALL PLAN AND AFTER

Few developments since the end of the war have provoked so much discussion and speculation as the Soviet rejection of the Marshall Plan. It is difficult at this stage to put forward any new interpretation or to suggest motives which have not been suggested before. But before describing the actual events of the late summer of 1947, certain considerations must be put forward, though a further analysis of the Russian attitude will be reserved till later.

Viewed from a Russian angle, Mr. Marshall's speech at Harvard on 5 June was the third of a series of important pronouncements on American foreign policy in three months. The first was President Truman's speech of 12 March proclaiming the so-called "Truman Doctrine" for the containing of Communism and Russian influence by military aid to Greece and Turkey. The second was a speech delivered by Mr. Dean Acheson at Cleveland, Mississippi, on 8 May—a speech which, incidentally, received all too little attention in this country. After describing the relief programmes already carried out, he went on:

> "These measures of relief and reconstruction have been only in part suggested by humanitarianism. Your Congress has authorised, and your Government is carrying out, a policy of relief and reconstruction today chiefly as a matter of national self-interest. For it is generally agreed that until the various countries of the world get on their feet and become self-supporting there can be no political or economic stability in the world, and no lasting peace or prosperity for any of us . . . The United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies . . . Since world demand exceeds our ability to supply, we are going to have to concentrate our emergency assistance in areas where it will be most effective in building world political and economic stability, in promoting human freedom and democratic institutions, in fostering liberal trading policies and in strengthening the authority of the United Nations. This is merely common sense and sound practice. It is in keeping with the policy announced by President Truman in his special message to Congress on March 12 on aid to Greece and Turkey. Free peoples who are seeking to preserve their independence and democratic institutions and human freedoms against totalitarian pressures, either internal or external, will receive top priority for American aid."

In other words, American policy aimed both at preserving an American market and at influencing the internal regimes of the countries receiving American aid. This speech provided the link between the two major pronouncements. While at the time some people tended to regard the Truman and Marshall speeches as mutually contradictory, in Russian eyes there was no such contradiction. Colour was given to the Russian interpretation by the decision of the Export-Import Bank to call off negotiations for a loan to Czechoslovakia to enable her to purchase American cotton —a significant decision, since loans from the Export-Import Bank are normally regarded as purely commercial propositions.

The argument might run as follows:—

1 American policy since the war has aimed at creating round the U.S.S.R. and its associates a series of military barriers to

further expansion; this policy has now received formal expression in the case of one particular strategic area.

2 America has consistently aimed at retaining a political and economic foothold in each country bordering on the territories of the U.S.S.R. and her associates, in order, when the time comes, to be able to use these countries as military bases.

3 An attempt has also been made, both by the U.S.A. and by Britain, to retain their economic interests in Roumania, Hungary and elsewhere (*vide* many of the arguments used at the Peace Conference, the protests over political and economic changes in the satellite countries, etc.), and it is obvious that the aim is to preserve sufficient influence to be able at a later stage to encourage the overthrow of the regimes.

4. Therefore, as an adjunct to her military policy, the U.S.A. wishes to extend her commercial influence as far as possible so as to place each country in a position of dependence on American trade from which withdrawal will be impossible. America is, in fact, following the German technique, though by subtler methods.

5 Proof that this is so is supplied by the unwillingness of the U.S.A. to administer aid through existing international organisations such as the Economic Commission for Europe, which she obviously is not confident of being able to control. This unwillingness contrasts oddly with Mr. Acheson's phrase about strengthening the authority of the United Nations; America's actions bypass and therefore weaken the machinery of U.N.O.

6 American aid, though allegedly to assist in European reconstruction, will in fact be designed to keep Europe afloat only as a market for American goods. Extensive industrialisation will not be allowed, since Europe might become not so much a market as a competitor.

7 Even if the military aspects of her policy be disregarded, acceptance of the proposals would merely mean that the whole of Europe would be dragged down in the inevitable slump in a few years' time. The only way to avoid being involved in the slump is to build up in the Soviet Union and Eastern Europe an economic system which shall be as nearly self-contained as possible, at least as far as essential goods are concerned.

8 Nevertheless, in the present stage of development certain western products are at least extremely useful, even if not essential. Trade with the west should be encouraged, but not to the point where it involves dependence on the supply from the west either of essential consumer goods or of spare parts or raw materials.

The last of these considerations fairly obviously accounts for Russia's acceptance of the invitation to the first Paris Conference.

It was well worth while to see whether any positive advantage could be gained from the Marshall proposals; if the fears that American policy had more in it than met the eye were not allayed, withdrawal would still be easy and no harm would have been done. In fact, the first meeting did not suffice to allay these fears, nor offer the prospect of sufficient advantage to justify the taking of a risk, and Russia was left with no alternative but to withdraw and reject the proposals.

The Marshall Plan was not equally attractive to all the other countries. Bulgaria, for example, had already largely solved her own marketing difficulties and was receiving from the U.S.S.R. almost as much in the way of capital equipment as her developing economy could digest. Jugoslavia still hoped for large-scale supplies, but her Government was incurably suspicious of American intentions. Hungary and Roumania had both in pre-war days maintained closer links with the west than either of the southern countries, but they were already busily engaged, under the powerful guidance of the U.S.S.R., in chasing foreign capital out of their economies. Different, however, was the case of Czechoslovakia and Poland. Both countries had in the past looked west rather than east and had kept up extensive commercial contact with the west. Both were still, even in the post-war period, to a larger extent dependent on western markets and sources of supply. To these two, if not to the others, the attractions of the Marshall Plan were greater than its visible disadvantages, and when under Russian pressure they were both compelled to refuse the offer of participation there must have been many heartburnings in Prague and Warsaw.

The decision to reject the Marshall offer once taken, something had to be found to take its place and to allay disappointment. A scheme of aid on the scale of the Marshall Plan was obviously out of the question. But a stage had already been reached in the execution of the earlier agreements at which it was possible to review and perhaps extend them, and though from within the Soviet sphere it would not be possible to make good all that might have been hoped for from the west, it would be possible to offer the counter-attractions of stable prices and protection against the slumps of the capitalist world.

As a result, a whole new series of agreements was concluded during July and August—with Bulgaria on 10 July, Czechoslovakia on 11 July, Hungary on 24 July, Jugoslavia on 25 July, Poland on 4 August and Roumania on 26 August. Some of the main features of these agreements deserve notice.

That with Czechoslovakia was the most extensive yet signed between the two countries.[1] To last for five years, it envisaged

[1] Described in an official *communiqué*, printed in full in the *New York Times*, 13 July.

large-scale exchanges of Czechoslovak machinery, manufactured goods (chiefly textiles and footwear), sugar and beef cattle for Russian grain, raw cotton and other raw materials. Quotas for each year were to be fixed annually, though with a provision that those which could be fixed for the whole period should be. Detailed arrangements were not made at the time of signature, but were concluded in a later agreement (11 December) fixing the total value of goods to be exchanged over the five-year period at $500 million each way. This latter agreement (which also included a most-favoured-nation clause) laid down in addition that no actual payments should be made except in goods, and if the agreed quotas were found in practice not to balance, they could be adjusted in either direction.

The Polish agreement of 4 August was signed for one year, and followed the usual pattern by which the U.S.S.R. provided Poland with raw materials and some semi-manufactures, and received in return mainly manufactured goods, coke and non-ferrous metals. Quantities were not disclosed at the time, but a Reuter report (which should perhaps be used with some caution) stated that the U.S.S.R. included in her list of deliveries 50,000 tons of raw cotton, or 70 per cent. of Poland's needs, of which 17 per cent. was to be returned to Russia in the form of cotton cloth. Grain was not included in the agreement. Further discussions on future programmes were to be held later. On 26 January, 1948, a much fuller agreement was signed for a period of four years, to a total value for the whole period of $1,000 million. The classes of commodity covered were much the same as in the earlier agreement, though including this time some forms of machinery to be supplied by the Soviet Union. Two supplementary agreements were also signed, one providing for the delivery to Poland of 200,000 tons of grain, the other giving her a nine-year credit of $450 million for industrialisation purposes. The value to Poland of this loan was very considerable, especially in view of the fact that a recent attempt on her part to obtain a loan from the International Bank for Reconstruction and Development had met with a refusal—as had also happened with an application from Czechoslovakia.

The Bulgarian agreement of 10 July provided simply for the exchange of Bulgarian tobacco for Russian machinery, raw cotton etc., to the value of $87 million each way in 1947-48—a high figure considering the scope of previous agreements. In the case of Hungary the total value of exchanges under the new agreement was $35 million for one year. As usual, the quantities of goods covered in the agreement with Jugoslavia were not published, though they were listed as copper, tobacco, hemp, plywood and agricultural produce to be supplied by Jugoslavia, and certain types of capital equipment from the U.S.S.R., together with the offer of technical assistance for the new Jugoslav industries; to assist the progress of the Jugoslav Five Year Plan, her deliveries were not to start until 1950.

The same two months were also a period of great activity between the smaller countries themselves, with Hungary as the chief beneficiary. While in Moscow for the signature of their agreements with the U.S.S.R., the Hungarian and Bulgarian delegations signed an agreement for $10 million worth of goods during 1947-48. A fortnight later (24 July) Hungary entered into a five year agreement with Jugoslavia for goods to a value for the whole period of $122 million. On 24 August a very extensive agreement was signed between Jugoslavia and Bulgaria as part of a general political settlement seemingly aimed at the future union of the two countries, its effect being virtually to combine them in a customs union.

An interesting commentary on the effects of all these developments is given in two interviews with prominent Czech figures—M. Loebl in the *New York Times* of 5 December, and M. Ripka in the *Times* of 16 December. The new agreements meant that the four Slav countries (the U.S.S.R., Poland, Jugoslavia and Bulgaria) would for the next five years account for between 30 per cent. and 35 per cent. of all Czechoslovakia's foreign trade, a proportion which various supplementary agreements would raise to 40 per cent. The U.S.S.R. alone would account for 16 per cent., including 40 per cent. of Czechoslovakia's total grain imports, 35 per cent. raw cotton, 10/15 per cent. wool and the whole of her " basic requirements " in iron ore and asbestos. M. Loebl also pointed out that the prices quoted by the U.S.S.R. were lower than Czechoslovakia was able to obtain elsewhere.

So much for the reaction to the Marshall Plan. The pattern evolved in the second half of 1947 is not static, though it is unlikely to undergo any radical changes in the near future. Deliveries cannot, of course, always be guaranteed; a bad harvest for the third successive year had already by the end of 1947 necessitated some adjustment of the programmes. The volume of trade both within the Soviet sphere and between it and the rest of the world is still expanding, and changes of proportion between the two are still possible. But Eastern Europe and the Soviet Union will approach more and more closely to western standards of industrialisation, and as the various development plans reach fulfilment a balanced economy within the region will descend from the realms of the imagination to become a concrete economic possibility.

There is insufficient material available to give a complete picture of the direction of foreign trade in 1947. The following table, covering only Bulgaria, Czechoslovakia, Poland and Roumania, does, however, give some indication, when compared with Table III on page 20, of the extent to which trade with the U.S.S.R. was being caught up by trade with other countries.

TABLE IV

Trade with certain countries in 1947 *expressed as percentages of total foreign trade*

	IMPORTS					EXPORTS				
	U.S.S.R.	*Intra-regional*	*Rest of Europe incl. U.K.*	*U.S.A.*	*Other countries*	*U.S.S.R.*	*Intra-regional*	*Rest of Europe incl. U.K.*	*U.S.A.*	*Other countries*
Bulgaria (Jan./Nov.)	63·9	24·0	7·4	1·4	2·3	52·4	36·8	6·8	0·5	3·5
Czecho-slovakia	7·1	12·2	59·3	11·6	9·8	5·4	12·6	48·8	4·3	28·6
Poland[1]	26·5	7·1	45·2	13·0	2·2	28·6	11·4	56·7	0·3	3·0
Roumania	48·8	21·4	2·7	27·1		50·1	40·8	4·8	—	4·3

[1] *The figures for Poland appear to be calculated on a somewhat different basis from those on p. 20, and a direct comparison may be misleading.*

The next table illustrates the expansion of foreign trade between 1945 and 1947 for Bulgaria, Czechoslovakia, Hungary and Poland ; the figures given are based on values, corrected for currency changes.

TABLE V

Foreign Trade, 1945, 1946 *and* 1947.
Index Figures : 1938=100

	1945		1946		1947	
	Imports	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*
Bulgaria ..	19	44	58	34	67[1]	42[1]
Czechoslovakia (1937 = 100)	Not available (see p. 7)		35	26	77	56
Hungary ..	Not available		16	15	52	26
Poland[2] ..	97[3] 18	17[3]	159 35	38	131 102	54

[1] *Average January-September.*
[2] *Upper figures for Poland's imports include UNRRA supplies ; lower figures represent " normal " imports.*
[3] *Average July-December.*

VI THE POSITION IN 1948

Such were the principal steps by which the pattern of trade as it exists in the summer of 1948 was reached. Before attempting to evaluate the reasons for Russian policy and the political, economic and military considerations upon which it is based, it is worth while to try to look at the picture as a whole.

The trading relations of the U.S.S.R. and the Eastern European countries, and between those countries themselves, depend in the first place on a number of bilateral agreements in force for periods ranging from one to five years. Excluding Albania (whose trade, as has been pointed out earlier, is almost completely absorbed in that of Jugoslavia) every country is bound to the U.S.S.R. by at least one such agreement, and each country is also bound to each of the others, though not invariably by such detailed arrangements as exist with the Soviet Union herself. Multilateral arrangements have not up to the present been entered into, the currencies of the various countries are not regarded as exchangeable with those of third countries whether within the area or outside it, and though there is a certain amount of trade outside the terms of the specific agreements any tendency to unbalanced trade between two countries has to be countered by adjustment solely between themselves.

In most of the agreements prices are quoted, but are only used in order to estimate the quantities of goods to be exchanged. Frequently quotations are in U.S. dollars, or sometimes (as in the case of the Polish-Russian agreement mentioned on p. 13) in the currency of one of the signatory countries—though they never appear to have been made in roubles. Generally speaking the prices quoted are world prices, though there have been cases where special quotations have been agreed. In a few of the agreements the barter principle has been departed from in favour of a clearing system; thus for example some recently published Roumanian figures show that of her total foreign trade over 70 per cent. is now on a clearing basis (including nearly the whole of her trade with the U.S.S.R.) and only 26 per cent. barter (this including most of her trade with Bulgaria and Jugoslavia and the whole of her trade with Hungary). It is worth stressing the character of this price-mechanism, since the reasons for it are closely connected with the general lack of confidence in the stability of outside prices; but this point will be enlarged upon later.

As for the classes of commodity exchanged, these fall into three categories. Foodstuffs form the first, and the exchanges are related to the type of agricultural produce of which either party may be expected to have an exportable surplus. In point of fact, estimates under this head have on several occasions been very wide of the mark, owing to the succession of three bad harvests in Eastern Europe, and deliveries have several times had to be adjusted or even suspended. The second category is raw materials of various sorts exchanged for other raw materials available in the territory of the other signatory—as, for example, when Russian cotton is exchanged for Jugoslav copper, or Polish coal for Hungarian petroleum. Raw materials from one country may also be exchanged for manufactured goods from another. This leads us to the third and most interesting category, which is a regular feature of agreements. Here raw materials (especially raw cotton and wool) are provided by the U.S.S.R. to the other countries, who undertake in their turn that a certain proportion of the goods manufactured from these materials will be returned to the U.S.S.R.

There are obvious advantages to both sides in this last type of arrangement. The manufacturing potential of the U.S.S.R. is today far below requirements, and is inadequate to deal with the amounts of some raw materials which are available. Hence it suits the U.S.S.R. to export raw materials in the certainty of their being returned in the form of manufactures. The other countries benefit by having at one and the same time a guaranteed supply of materials and a guaranteed market for the manufactures of their developing industries. The suggestion has frequently been made in the Press in this country and the U.S.A. that the result of agreements of this character is simply to exploit the manufacturing country to the advantage of the U.S.S.R. This would certainly be so if either the quantities of manufactures to be returned were disproportionately high in relation to the quantities of raw materials supplied, or if the home market of the manufacturing country were deprived by the agreement of manufactured goods of an essential kind. Obviously, the question of quantity is one on which there may be prolonged bargaining. But there is no evidence that, in the recent agreements at least, the terms have been unduly hard. It would indeed not be to the long-term advantage of the U.S.S.R. to make them so, since to demand excessive quantities would almost inevitably lead to a falling off both in output and in quality[1].

A comment is called for on the degree of coordination between the agreements and their connection with the development plans of the various countries. The writer in the *Manchester Guardian* quoted on p. 16 is undoubtedly correct in saying that there is no master plan; the internal policy and the external trading relations of the smaller countries are not dictated from Moscow. But there is every evidence of coordination, even if incomplete, between the agreements and the plans. The plans are designed to develop the resources of the countries themselves and to encourage the growth in each country of industries based on local resources. Thus for example, Jugoslavia, a country short of coal but well supplied with water power, is aiming at developing her hydro-electric potential and using it for the processing and manufacture of her own raw materials to the greatest possible extent. She does not intend to develop industries entirely dependent on outside sources of materials, nor does she see any advantage in using foreign coal when she already possesses her own potential sources of power. The agreement between Jugoslavia and Czechoslovakia includes a quite recognisable principle of the division of labour; neither country intends to try to manufacture goods which can more easily be produced in adequate quantity by the other. This principle is not in conflict with the practice of returning to the U.S.S.R. manufactures from materials supplied by her; that is in itself another application of the division of labour, and if it were not applied there would be even more severe shortages than there are at present of the types of manufactured goods covered.

The rational industrialisation of the whole region is clearly the long-term aim. The present close political relations between the East European countries are obviously regarded as permanent. Though these relations have not yet developed to a stage where a single industrial plan is possible, it is possible to come to a general understanding that competition between the various countries is undesirable. That is as far as coordination goes at present. Even within those limits the degree of coordination is not complete, however. It is still too soon for the future pattern of industry and commerce to be accurately forecast, and even what forecasts can be made at this stage may be completely upset if, for example, happenings outside the region deprive those countries of classes of goods which they receive from outside. Nevertheless, imperfect though it is, the degree of coordination already achieved stands in striking contrast to the economic anarchy of Eastern Europe in pre-war days, and if no other advantage had been gained from the new orientation the change might almost be justified on that ground alone.

Finally, a word should be said on the effect of recent developments on the level of employment. Anyone who knew Eastern Europe before the war was familiar with the perpetual problem of agrarian under-employment and over-population. The nature of the economies of the eastern countries was such that agricultural work was the only form of employment available to very large proportions of the populations. There grew up in the countryside a large depressed proletariat permanently short of work, inevitably discontented and a source of political instability. Primitive methods and lack of capital prevented the development of efficient agricultures, and the output per man employed was extremely low by comparison with other more advanced countries.

There were two results of this. The first was a continuous stream of emigrants to the countries of the New World and especially the U.S.A.; when American policy turned against further immigration, unemployment or under-employment increased in Eastern Europe. Secondly, there was a drift from the countryside to the towns. But in the absence of industries capable of offering employment, the towns could not digest their new citizens. In

[1] Recently published Roumanian figures show exports of cotton goods manufactured from Soviet-supplied materials as 13 per cent. of Roumania's total exports—which does appear a high figure.

many of them (and this applied even to Czechoslovakia, though less so) there was a permanent under-employed urban proletariat often even more depressed and discontented than its rural counterpart. By contrast the picture in Czechoslovakia, Jugoslavia and Bulgaria now is one not of over-population but of shortage of manpower; Poland and Hungary alone have any appreciable number of unemployed. Emigration for economic reasons has virtually ceased and the problem is to attract back to their countries of origin those who emigrated in earlier days. As the plans develop, and as the flow of goods between the Eastern European countries themselves and between them and the rest of the world is expanded and regulated, there is every reason to expect that their citizens will come to enjoy an economic security which they never knew before.

Part Two

An Analysis of Russian Policy

I

We have traced the post-war development of the economic structure of Eastern Europe through its three phases. The first was a period of emergency measures and of the first steps towards a new pattern of trade. The second was one of expansion and adjustment on the lines already laid down in the first. The third and most important period was that of the Marshall Plan and its repercussions on the Soviet Union and Eastern Europe, the refusal of the plan and the devising of a new programme to compensate for the loss of the economic prospects which it offered.

The account given poses a number of questions. Has there been throughout, or is there now, a thought-out and consistent Russian policy ? Or has Russia been content to make a series of *ad hoc* arrangements which merely happen to fit in with one another ? If there is a policy, what is it ? And finally, what are the assumptions—economic, political and military—upon which it is based ?

If by a policy we mean something rigidly conceived and calling for rigid execution, the answer to the first question is obviously negative. There is no master plan dictated by a single authority in Moscow or anywhere else, and the Soviet Union does not exercise over the other countries sufficient influence to compel them to conform to such a plan even if it existed. The smaller countries retain a considerable degree of economic independence, and if they choose to coordinate their programmes with those of the Soviet Union and other countries it is chiefly because it is to their advantage to do so. The character of these programmes and of the trading agreements disposes equally of the second question. Changes in circumstances cause changes of emphasis, and adjustments to the programme are continually needed. But the description given in the foregoing pages suggests unmistakably that both the U.S.S.R. and the other countries have set before them certain objectives in the light of which their current policies are shaped. The objectives are consistent and understood, and the general direction of policy is towards their fulfilment.

Press reports and the interpretations put upon these policies by hostile or ill-informed critics have given rise to serious misapprehensions. In particular the critics have allowed themselves to indulge in comparisons between Russian policy today and the policy of Germany in the years before the war—comparisons which, though attractive at first sight, are usually wholly misleading.

German policy was based on two principles absent from Russia's policy today. The first of these, the doctrine of *Lebensraum*, was no invention of the Nazis but a modern development of a traditional German idea going back at least as far as the days of Friedrich List and his concept of *Mitteleuropa*. It assumed the racial superiority of the German people, on whom it conferred the right to treat Central and Eastern Europe as a colonial area fit only for exploitation in the interests of Germany, without any rights or legitimate interests of its own save that of subservience. The second principle, derived partly from the first and partly from the desire of the Nazis to make Germany and the surrounding countries economically independent of the outside world in case of war, was the doctrine of autarky or economic self-sufficiency. Self-sufficiency demanded that food production and industrial potential should be raised in some cases, but it also demanded the reduction of potential in some others in order to eliminate as far as possible the production of unnecessary goods whose manufacture involved the use of materials and manpower which could be more profitably employed. German policy aimed therefore at acquiring as complete control as possible over the economies of the smaller countries in order to compel them to fit in with her own plans. She took advantage of their difficulties in finding markets, she used every form of economic and political pressure to make them conform, and in a good many cases she demanded and received from them so high a proportion of their output of certain goods that the home market was literally starved and already low living standards forced still lower. It is true that there were sometimes advantages to be reaped by the smaller countries, and the old picture of an Eastern Europe flooded with German typewriters and aspirins which it did not want has been greatly exaggerated; one of the reasons for Hungary's comparatively high potential today is that during the war German capital and technicians made possible a development of her resources which she could never have carried out otherwise. But it was a consistent feature of Germany's treatment of even her favourite satellites that the output of these developed industries was taken primarily by herself and only the barest minimum left for consumption by the producing country or for export elsewhere.

Now it cannot be suggested that Russian policy today is based entirely on disinterested generosity towards the other countries. She expects advantages for herself, advantages which sometimes resemble those sought by Germany. She has, as Germany had, a political and strategic interest in the type of government in power in the eastern countries. Her economic policy is shaped partly for political purposes, to encourage the stability of the regimes

and to keep them favourable to her. Militarily, too, she is anxious, as Germany was, that the eastern countries should not be dependent on outside supplies which would be cut off in the event of war.

But beyond these superficial resemblances, there are fundamental differences of approach. Germany was a country with a highly developed economy and a high standard of living, and her first concern was not the raising of the overall industrial potential of the region. Her interest was qualitative; she relied on Eastern Europe to provide her with certain types of goods which she could not or did not want to obtain from elsewhere. She had a definite interest in keeping the standard of living in those countries at a low level in order to restrict their own consumption and to make available surpluses for export to her; in this respect her policy was colonial in the worst sense of the term.

By contrast, the Soviet Union is a country whose standard of living is still far short of what she desires, and whose internal industrial potential is still relatively low. She has therefore an interest in promoting the industries of countries associated with her, in order to raise the general level of productivity. Hence the emphasis on industrialisation and the division of labour. Countries in mere economic servitude are of little use to her when so large a proportion of her own territory is still underdeveloped. Her treatment of Roumania and Hungary, and even more of her zone of Austria, has indeed been harsh at times but, even allowing for that, the first two at least are now able to carry out development programmes which would have been impossible a few years ago. Even the joint companies, with all the scope for exploitation which they offer, have at least this point of difference from the foreign-owned concerns of pre-war days, that whereas in those days development was deliberately restricted in order to prevent competition, it is now to the interest of everyone to develop natural resources to the fullest possible extent—though it must be admitted that Russia's failure so far to provide new capital for these companies is likely to turn them into little more than supply agencies for Russia herself.

Perhaps the clearest illustration that can be given of the differences between German and Soviet policy would be to compare the latest Soviet-Roumanian agreement with the fantastic pact forced on Roumania by Germany on 23 March, 1939. The terms of that agreement included a complete ban on further industrialisation in Roumania, and some factories were actually ordered to be dismantled; in addition, all Roumanian exports were to be reserved for Germany. A ban was also placed on importing from countries other than Germany any but the most essential goods which Germany could not supply—and when, five months later, Roumanian firms attempted to place an order for a large number of silos in Great Britain, the German Government immediately issued a sharp protest and demanded the withdrawal of the order.

II

The contrast with German policy need not be further enlarged upon. Russian policy as it is appears to consist of three parts:

1 Long-term industrialisation plans aimed at raising the productivity and living-standards of the whole area.
2 Division of labour between herself and the other countries in order to stabilise markets and eliminate competition.
3 The encouragement of trade with the rest of the world in order to acquire the capital equipment and machinery necessary for carrying out the plans of development. Trade with western countries is not, however, to be allowed to expand to a volume which would involve Eastern Europe becoming dependent on the west.

These three aspects of economic policy are interlocked, and are of course also closely related to Russia's political policy.

An important factor in both, and one which in this country it is very easy to forget, is that in Eastern Europe the fear of Germany is still very much alive. Apart from the military menace, no one in Eastern Europe has forgotten that dependence on the German market soon came to mean economic subservience, which in its turn led to political subservience. The smaller countries have been compelled to find a new market, not only for economic reasons arising out of the collapse of Germany, but also for political reasons; they do not want ever again to undergo their experiences of the later 'thirties. It might be argued that in substituting the U.S.S.R. for Germany they have jumped out of the frying pan into the fire, but it has already been seen that their connections with the Soviet Union are likely to have very different consequences.

Fear of Germany is still a potent factor in Russian policy. Russia herself did not experience the economic domination of Germany, but she saw what German control of Eastern Europe meant to her in military terms. She is therefore prepared to do all in her power to prevent a repetition of past experiences. Realising the need of the Eastern European countries for a secure market, she will herself do her best to provide it even though in a purely economic sense there might be reasons against doing so. Before the war she aimed at economic independence—or even economic isolation—for herself, and her economy was not complementary to those of her western neighbours. But the pre-war policy has been substantially modified. The principle of division of labour has been introduced, and her own internal plans have been partially adapted accordingly. Acting in the conviction that her present close political relations with the neighbouring countries will be maintained, she has deliberately set out to adapt her economy, and to encourage the other countries to adapt theirs, so that in the course of time they will become as nearly complementary as

possible. Once this is secured, it will no longer be necessary for the smaller countries to look to Germany, and the Germany of the future (whatever form it may take) will be deprived of a powerful political weapon which a few years ago she was using, and using very effectively, against the Soviet Union.

Equally, she does not want the Eastern European countries to look exclusively to the west; again, her motives are partly economic and partly political. This was as true before the Marshall Plan was put forward as it is now, and there are several good reasons why it should be so.

Soviet opinion never shared the view, so widely held in the west and on which the economic policies of the western countries are primarily based, that multilateral trade is good in itself. She was from the start more inclined to develop her external trading relations on the basis of a system of closely-knit bilateral pacts, which are in many ways more suitable to a planned economy than is the uncertainty of an unregulated world market. Multilateralism also has the supreme disadvantage from the Soviet viewpoint of requiring an international currency. She could not hope, nor in all probability did she want, that this place should be filled by the rouble. For purposes of multilateral trade on a world scale the only possible international currency was the U.S. dollar, and Soviet economists appreciated quickly that it is precisely for that reason that American policy favours multilateralism. Apart from the possible political implications of accepting the dollar as a basis for her trading arrangements, Soviet opinion was seriously influenced by the reflection that the dollar might not hold its value; this fear, added to the usual Communist interpretation of capitalism, soon grew into the positive conviction that a slump in the west was bound to follow the post-war boom.

The influence of the dollar had therefore to be kept at arm's length. The effect of this distrust (again emphasising that it is political as well as economic) is well illustrated by the attitude of the Soviet Union to the International Monetary Fund. The Bretton Woods Agreement was interpreted as implying that the currencies of all the signatory States would in effect be linked to the dollar. Particularly unacceptable were the provisions governing changes in the value of a currency, and the Soviet Union was not prepared to agree to any form of international control in this respect. Consequently the U.S.S.R., although one of the original signatories, has never ratified the agreement nor taken any steps to announce a par value for the rouble. Quotations of the rouble on foreign markets are thus largely meaningless, and in trading agreements with outside countries the Soviet Union has preferred as a rule to quote prices in dollars. As has been seen earlier, even these dollar quotations are used in her agreements with neighbouring countries mainly as a convenient method of estimating quantities, and there is usually no provision for excess payments.

On the other hand some other Eastern European countries, notably Poland and Jugoslavia, not only signed but ratified the Bretton Woods Agreement. It would seem, however, that after ratification they began to have their doubts about its benefits, and both countries have so far failed to comply with the provision requiring them to declare the par values of the zloty and the dinar. Whether or not this failure is due to Russian pressure it is impossible to say, though it may be noticed that when in 1947 Poland applied for a loan from the International Bank for Reconstruction and Development the Soviet attitude was one of encouragement rather than otherwise.

Neither the U.S.S.R. nor any of the other countries wishes to cut itself off completely from the dollar, however; to do so, and to deprive themselves of any form of dollar reserve, would seriously hamper their trade with the west. Czechoslovakia especially still has a considerable volume of trade with the dollar area which has to be conducted in dollars since the U.S.A. will not accept the principle of bilateral barter arrangements. What it is desired to do is to ensure that the dollar does not come to dominate their foreign trade as it has done with some western countries. The reasons for this attitude are again partly economic, partly political.

Economically speaking, the traditional Communist view that capitalism means a succession of booms and slumps still holds; Professor Varga was compelled to suspend publication of an economic periodical and to resign from its editorship for daring to suggest the opposite. The post-war boom in America is regarded as likely to be of short duration only and to be followed by a catastrophic fall in prices. Hence to allow any form of linking between the currencies of the Eastern European countries and the dollar would involve those currencies in the collapse. Similarly, dependence on western markets might then turn out to be disastrous; the markets would contract and become unable to absorb exports and Eastern Europe would find itself back in its pre-war position of having large exportable surpluses with no outlet for them. Trade between countries with fully planned economies is expected to be free from such dangers. Since production programmes can be drawn up with much greater accuracy and quantities of available goods forecast even fairly far ahead, prices are not subject to the same variations. Markets can be guaranteed, and prices offered in 1947 can be expected to be maintained in 1950 or 1952 without involving any serious strain.

Politically, the fear of the dollar goes even deeper. The Marshall Plan was refused quite as much for political as for economic reasons. The interpretation put upon it is that it was a gigantic plan to impose American political control by economic means; it would give the U.S.A. the power to enforce or prevent changes in political structure or policy by the mere threat to withhold supplies of dollars or goods—a view which has been strengthened by the actual presentation of that threat to Italy on the eve of her

elections in April 1948. It would also give the U.S.A. the opportunity to interfere with internal programmes and the execution of the development plans. Each country has, for example, nationalised many of the undertakings formerly controlled by foreign capital, and protests from the U.S.A. or Britain have had no serious effect. If, however, extensive aid from the dollar area had been accepted these protests would have been given vastly greater force, and it is doubtful whether any form of nationalisation, of foreign-controlled concerns or of any other, could have been carried out without permission from Washington. Furthermore, the character of internal production programmes could have been interfered with, and in support of this view there are quoted the provisions included in the European Recovery Programme for the reduction of the acreage under tobacco in Greece.

Whether justified or not these beliefs and fears are strongly held. What damned the Marshall Proposals from the start—and it is quite idle to pretend that this argument was not meant or was produced only as an excuse—was that they postulated the setting up of a special organisation to implement them instead of using the existing machinery of the Economic Commission for Europe, on which all the eastern countries except Albania were represented. Inasmuch as E.C.E. is a United Nations organisation, it was felt that it would be easier to control aid administered through it. The American decision to go outside the machinery of U.N.O. and to set up what could almost be regarded as a rival body gave rise to serious suspicions of American intentions, which were encouraged still further by the memory of the speeches of President Truman and Mr. Dean Acheson referred to earlier.

When one comes to consider the military aspects of the situation in the summer of 1947, two distinct interpretations of Russian policy are possible. Her political aims in Eastern Europe are clear enough. She desires first and foremost security against attack from the west, be it from Germany or from other Powers using Western Europe as a springboard. She aims therefore at encouraging or insisting on the establishment and maintenance in the neighbouring countries of governments favourably disposed towards herself. The nearest possible base for attack by land is thus pushed further away from her own frontiers, and a barrier of friendly states is created behind which she can develop her own resources in relative safety. Eastern Europe is to her not only an economic and political unit. It is also a strategic unit, and her first line of defence stretches from the Oder to the Adriatic.

One of the possible interpretations of her economic policy is that within these strategic boundaries she intends to pursue a policy of autarky, developing within the area over which her influence is paramount an industrial potential great enough to supply her needs even in case of war. Consequently, it might be argued, her insistence on the rejection of the Marshall Plan by the smaller countries was quite logical; she did not want the industries of these countries to be built up on terms which involved their dependence on western sources for supplies of spare parts or materials, of which they would be deprived in the event of war with the West. Her economic policy is, according to this interpretation, subordinate to her political and military policy, and is based on principles analagous to those pursued by Germany between 1935 and 1941.

This interpretation is attractive, and it may very well be that such considerations have passed through the minds of Russian statesmen. But there is little evidence to suggest that they form the whole or even the major part of the reasons for which her policy has developed as it has. There are indeed several powerful arguments against it.

The first is the simple strategic argument. If she were aiming at military autarky within the bounds of her security zone, and if she were shaping her general economic policy to conform with such an aim, it would obviously be sounder policy to industrialise regions as far as possible from the first line of defence—in Siberia and the Ural area rather than in such vulnerable lands as Bohemia, Hungary or eastern Austria.

The second and more powerful argument against the interpretation suggested is simply that it does not accord with the facts. Were it true, its logical corollary would be that the U.S.S.R. should discourage any form of trade with the west except in consumer goods. But that is not what has happened. Industrialisation means that capital goods have to be obtained from somewhere and supplies of machinery and spare parts assured, and at present these goods cannot be obtained in anything like adequate quantity within the area associated with the Soviet Union. In many ways the course of events in the less-developed Eastern European countries today recalls the experience of the Soviet Union herself in the years following the revolution. Capital goods are imported from the highly industrialised western countries and paid for mainly in foodstuffs and other agrarian produce. The import programme is carefully worked out, so that in time this preliminary dependence on other countries for capital goods will be reduced and a state of affairs reached where tools and spare parts can be produced within the area. But that, after all, is only sound economic policy, and no one assumes that it can be completely carried out in a short space of time.

Even when local production rises to a high enough level to supply needs for machinery and tools, it does not seem to be intended that trade with the west should cease; the opposite would appear to be the case. Apart from manufactured and semi-manufactured goods, there are many commodities which cannot be produced within the area. Many of what are classed as colonial goods, as well as such important materials as rubber, jute and certain oils and fats, cannot be provided from local sources in sufficient quantity or except in low quality synthetic form. They must for some years to come be obtained from the western countries or their dependencies and from other countries in South America, the Far East and elsewhere—and it was for this reason that Czechoslovakia included Brazil and Uruguay among the first countries with whom she entered into trading agreements after the war. There will also be exportable surpluses of many home-produced goods, though these will probably diminish as industrialisation leads to higher food-consumption and as the decreased urgency of the need for capital goods from outside makes it possible to divert more goods to the home market.

Trade with the west would be accepted at a much higher level than is at present the case, both by the Soviet Union herself and by the countries under her influence. It would also be accepted by them as a long-term feature of their economic life. This does not conflict with the refusal of the Marshall Plan or the current distrust of the dollar. It means simply that what one may loosely call the Russian sphere is determined that it shall have some control over the conditions of its external trade, and that the execution of its plans will not be hampered by the vagaries of capitalist economies. Granted those two conditions, a high volume of trade is of obvious advantage, and the fact that its advantages are recognised and its growth encouraged does much to destroy the idea that Russia is seeking to convert Eastern Europe into an autarkic unit isolated from the rest of the world.

III

To conclude. Russian policy aims at encouraging industrialisation on the basis of a division of labour; at developing trade between the Eastern European countries and between them and the rest of the world up to but not beyond a level of exports which will not involve starving the home market; and at protecting the planned economies of the east from the effects of slumps in the capitalist countries. Not all of these aims can be achieved at once. Yet some of the mistakes she made herself in the days of revolution and the New Economic Policy are being avoided under her guidance. Home markets are by no means satisfied (and Eastern Europe is not alone in the world in that respect), but living standards have not been depressed to meet the drive for industrialisation to anything like the same extent as in Russia in the 'twenties. Planning has on the whole been kept within the bounds of practicality, and is not being forced through regardless of the cost.

We have dismissed the comparison between Russian policy today and German pre-war policy. Undoubtedly some of the same elements are present. Russia no less than Germany is concerned for her security. Like Germany she regards economic influence as a means to political influence. Like Germany she relies on the Eastern European countries to supply her with goods which she cannot produce in sufficient quantity herself.

But there the resemblances end. Germany exported manufactures to Eastern Europe; Russia exports raw materials. Germany aimed at decreasing, Russia aims at increasing the industrial potential of the smaller countries. Her motive in exporting raw materials for manufacture and return to her is obviously enough her own advantage from such an arrangement. But it is no less to the advantage of the other countries as well.

Whether her influence over Eastern Europe eventually becomes a stranglehold such as Germany exercised depends largely on the western Powers. Openings for trade with the East are there, and trade would be welcomed both by the U.S.S.R. and the smaller countries. If these openings are ignored, the smaller countries will inevitably be forced into ever-increasing dependence on the U.S.S.R. as a market and a source of imports, and one more of the avenues of contact and cooperation between East and West will have been closed.

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