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A SIGNIFICANT BLEEDING OF ECONOMIC RESOURCES

By BELA BOKOR

The Developing Nations Would Be Better Off in a More Adequately Organized World

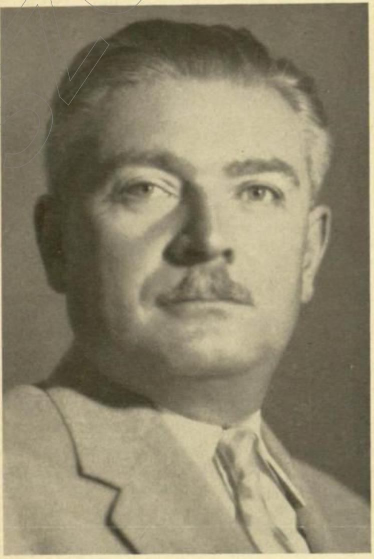
At a session of the United Nations Assembly some time ago, Mr. Krishna Menon—at that time still head of the Indian delegation—delivered himself of some remarks on the subject of disarmament with the sarcasm which he always reserved for barbs directed against the Western powers. The West, declared Mr. Menon, could profitably reconsider its expenditures of vast sums of money for "cleaner" or "less dirty" atomic bombs. Certainly, he continued, there are better things to do with all this money in a world teeming with so many undeveloped countries and so many people on the verge of starvation.

Mr. Menon's attitude is popular not only among the leaders of the underdeveloped countries but also in many circles in the industrially advanced countries. The difference seems to lie in the choice of means whereby a substantial degree of disarmament can be achieved.

It is true that the arms race diverts funds and resources that are desperately needed by the newly developed countries. Yet it would be a mistake to overlook certain other factors which are at least as important in depriving the poorer countries of the benefits of outside help in their struggle for a better life. One of these factors—and one which is often disregarded or underestimated—is the relationship between the developing nations and the countries of Eastern and Central Europe.

One of the reasons for the disadvantages under which the developing countries labor in their economic dealings with other countries is the strange and unnatural position of the countries of Eastern and Central Europe vis-a-vis all other countries, the developing countries included. The industrially advanced Western countries are better able to cope with the problems arising from economic relationships with countries in as strange a position as the European satellite countries find themselves. Unable though they are to cope with the disadvantages of dealing with the satellite countries, the newly developed countries need every drop of the lifestream of a sound and regular economic exchange with all other countries, regardless of the bloc to which they may belong.

For many years an important part of the world economy, the Central and Eastern European countries after the last war underwent a great and tragic transformation. Today they can be grouped neither with the advanced countries nor the underdeveloped ones. They are what we have referred to in previous issues of the IPU *Bulletin* (April-May, 1964) as distorted nations. Their economies, social structures and governments have been distorted, since the Second World War, by the imperialistic policies of the Soviet Union which disrupted their normal development and attempted to forcibly integrate them, lock, stock and barrel, into Soviet plans for further expansion.



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The economies of these countries were distorted by the promotion in the area of an artificially nurtured system of economic autarchy. The satellite regimes severed most of their ties with the West and began to rely upon the Soviet Union, the other satellite countries and their own domestic resources. Certain aspects of this struggle for self-sufficiency are well-known to the rest of the world: Some of the satellites developed or created industries for which they had neither raw materials nor skilled labor. In some cases, industries were developed for which there were sources of raw materials available locally, but the items produced were turned out at prohibitive costs. There were futile attempts to develop whole lines of industrial products in such small quantities as to lose all the advantages of mass production. Finally, there was the general overemphasis on heavy industry with the result that consumer goods industries and agriculture were neglected and often began to deteriorate. Perhaps the most fatal mistake of all was the plundering of the satellite nations' wealth by the trade agreements which involved selling to the USSR at low prices while buying Soviet goods at inflated prices.

It may be argued that, so far as the rest of the world is concerned, it is only the industrially advanced West which has been adversely affected by the autarchy of the satellite countries, for it was their products which could no longer find markets in Central and Eastern Europe. This is only partially true, for as a result of these unprofitable economic activities, the satellite countries have been cut off from the major sources of vitally needed capital and hard currency required not only for the purchase of industrial goods but also for the purchase of consumer goods and raw materials.

In addition to the acute shortage of financial resources available to the satellite regimes, there was a marked shift in the commodities demanded by the local population. Under the unrelenting pressure of the Communist regimes, the populace began to concentrate on the basic necessities of life—the very cheapest foods and clothing. Items demanded by people with more sophisticated tastes—coffee, tea, oranges, tropical fruits, cashmere sweaters, etc.—vanished from the market and became merely cherished memories of a nostalgic past.

The Russians, meanwhile, began to grow accustomed to the fact that a good portion of the needs of their domestic market could be filled under extremely favorable circumstances in the satellite countries. Accustomed to depending upon its own resources, the USSR now began to regard the resources of the satellite countries as "its own."

It is inconceivable that this state of affairs should not have a far-reaching and disastrous effect upon the trade potential of the satellite countries. How could the developing new countries of Asia and Africa, with their consumer-oriented economies, hope to develop harmonious and intensive trade relationships with countries which devote such a disproportionate share of their gross national product to investments? How could such an unnatural emphasis upon reinvestment—with an even more unnatural emphasis upon heavy industry—fail to seriously affect the development of foreign trade with the developing countries?

According to reliable Western sources, by 1958 the trade of the Soviet bloc with the developing countries had fallen twenty-five per cent below the prewar level. The actual extent of this drop in trade becomes more apparent when we realize that in the meanwhile the population of the satellite countries has grown steadily. Furthermore, trade among the Soviet bloc nations in Europe has, even in recent years, remained on more or less the same level—a sign that the trend toward self-sufficiency has not weakened. Needless to say, economic autarchy is not very conducive to the promotion of international trade.

It is no idle speculation to examine the possible direction that the countries of Eastern and Central Europe might have taken if their development had not been distorted by Soviet imperialist policy, for the fate of these countries has not as yet been settled—even by the recent Soviet conquest of the area.

Eastern Europe covers a large area, the captive countries of Europe containing a population of approximately one hundred million people and the Soviet Union another two hundred million. Although not all of them are on the same level of industrial development and not all are equally blessed with natural resources, most have reached a fairly high level of industrial know-how and special skills. The captive countries, with their huge populations, would have made valuable partners or members of the European Common Market or European Free Trade area had their development not been distorted by the Soviet conquest, despite the fact that their level of industrial production is not as high as that of some of the most developed Western countries.

How far the Central and Eastern European countries might have gone in their economic development had they been free to go their own ways is at least indicated by a comparison with certain other European countries. In his scholarly work, *Economic Development, Past and Present* (Prentice

Hall, New Jersey 1963), Richard D. Gill discusses the problem of per capita output in various countries throughout the world.*

According to the tables presented in this work, most of the European countries of the Soviet bloc fall into a group whose annual per capita output is between $301 and $600. This group includes Bulgaria, East Germany, Hungary, Poland, Rumania and even the U.S.S.R., and it puts the Soviet bloc countries in the same bracket with such countries as Argentina, Chile, Puerto Rico, Greece, Ireland, Italy, etc. Only one of the Soviet bloc countries—Czechoslovakia—falls into the group whose annual per capita income is between $600 and $1,200. This category includes such countries as Austria, Venezuela, Israel, Belgium, Finland, Netherlands, Norway, etc.

Let us take the case of Hungary: This Soviet bloc country's annual per capita output is half that of Austria. Despite the fact that the two countries are approximately the same size and have lived for a long time in a union, with a similar way of life and a similar standard of living, they now differ very much. Austria, which regained its independence, now produces twice as much per capita as Hungary, which was integrated into the Soviet bloc. The same is true in the case of Poland. Although it has a fairly high industrial capacity and a long history of Western traditions, today it falls far behind such countries as Austria in output. The same is true of Rumania. Despite its wealth of resources in oil and gold and its excellent agricultural potentialities, Rumania remains a relatively poor country today.

The political climate and the organizational bureaucracy created by the Communist system has produced these differences in level, and it can hardly be denied that under different circumstances the trade potential of these countries would be substantially greater and as a result the developing countries could engage in fruitful trade with them.

Those who like to see the future in optimistic terms may say to all these arguments that it may have been so in the past, but the future will be different since there is a tendency in the Soviet bloc to develop trade with all countries, including the developing countries. This may be so, but as regards the future of trade with the developing countries the prospects are not overly bright for a number of reasons.

* Per capita output is the amount of a commodity produced by one man in a given period of time.

The growth of trade is related to the growth o production and wealth in any country. In this re spect, Mr. Khrushchev prophesied in his authorita tive study on *Vital Questions of the Developmen of the World Socialist System*[1] that in the perioc between 1960 and 1980 the Soviet bloc's industria production would rise at an average annual rate of 9.4 per cent; agriculture would grow at the rate of 5.6 per cent and the national income 8.4 per cent. Today, we can ask Mr. Khrushchev, in the words of the poet, "Where are the snows of yesteryear?"

There are economic difficulties troubling the whole Soviet bloc. A report of the CIA, published last January, estimates that the Soviet gross national product rose only about 2.5 per cent in 1962 compared with increases of 6 to 10 per cent in earlier years. Even if we join the sceptics who insist that the statistical approach between the two economic systems must be different, the signs of economic crisis in the Soviet bloc are unmistakable. The Soviet regime has publicly admitted that although industrial production rose 7.5 per cent during the first half of the year, food output declined.[2] It is not likely that the Soviets would intentionally paint a darker picture than necessary. The contrary is more probable. In this situation, the perspectives for increased trade with the developing countries, so important to the latter, are not very rosy. The Soviet bloc countries need more trade, but primarily with the industrially advanced Western countries; and their meager resources would probably be used mostly for this trade, because today they depend more upon the Western advanced countries' products than they did years ago.

The Soviet leaders know that they should do more for the developing nations, and because they cannot do so they have recently taken to reproaching the Red Chinese, accusing them of failing to live up to their promises of aid to the developing countries.[3] They are right about the Chinese, but they themselves are guilty of distorting the economies of the Central and Eastern European countries. They have severely damaged not only the satellite countries but also the interests of the developing nations.

[1] Current Digest of the Soviet Press, XIV, 35 and 36, 1962.

[2] *The New York Times*, July 23, 1964, pp. 1 and 2.

[3] Idem. July 12, 1964, p. 5.