Chapter VII

ECONOMIC ASPECTS OF THE WARSAW PACT
It is certainly ironical to talk of economic aspects of a military alliance. Yet in the case of the WTO it is relevant. Not only Soviet and other Marxists thinkers and analysts have stressed upon the inseparable linkages between military strategy and wars and political economy but also because the very pattern of the growth of the WTO puts this process in a sharp focus. A common socio-economic formation paved the way for an institutionalised process of economic cooperation and integration among the European socialist countries. This was the formation of the COMECON or CMEA in 1949. This process, later paved the way for the emergence of Warsaw Treaty Organisation in 1956. Thereafter, the development and growth of COMECON exercised considerable influence in the development and growth of the WTO and its potentials and in turn they affected the COMECON itself. As a matter of fact, the growth and development of the COMECON went hand in hand with the similar process in the WTO.

It is certainly not argued here that COMECON emerged as an inbuilt structure of the WTO or WTO became an integral part of the COMECON. Both maintained their separate structures and well defined policies of their own until their dissolutions in 1991. Yet both of them drew sustenance from each other. The very fact that the WTO provided almost a cost free effective defence shield for East European countries contributed purposefully to their
role within the COMECON. On the other hand, the fact that through COMECON East European countries as well as the Soviet Union could provide for the requisite industrial infrastructure for helping to build up their defence potential proved a substantial contribution to the development of the WTO.

However, it is not our purpose here to investigate the COMECON itself. Rather we propose to examine it in the context of the potential and role of the WTO. Our focus is on the interlinked process of the growth and development of WTO and that is what we tend to call the economic aspects of the WTO.

**Economics of the Warsaw Pact**

During the period under study 1955-79 the WTO has expanded into a huge multinational structure. It was crucial in institutionalising the cold war and succeeded in maintaining a territorial status quo in post-Second World War Europe. It certainly appeared that in many ways WTO had resolved the historical problem, the security of Soviet state and its allies. Besides WTO was all said and done a multinational military organisation with its own logic of development. It has developed and sustained a highly sophisticated military industrial complex inside the Soviet Union and some in Eastern Europe. It has also kept up the race for strategic and military
parity both nuclear and conventional systems in Europe. Obviously, a huge multinational military structure like the WTO with its various goals and objectives require huge financial resources. How the WTO was serviced financially? Who paid what and how? Did the WTO ensure security and defence of East European countries rather cheaply for them? Or to put it conversely did the Soviet Union as the dominant partner pay more than it could have afforded? These questions are essentially related to what we may call "the economics of the WTO".

However, the economies of the WTO may not be viewed simply in terms of cost-accounting. In other words, its budgeting, it certainly has some distinct economic aspect of its own.

We have discussed in our chapter as to how WTO may be considered more than simply a multinational military set-up like the NATO. As we have explained the very framework in which WTO was conceived and later grew brings into sharp focus its economic contents. It was precisely the inability of COMECON which preceded the WTO to cope with the complexities of the Cold War that WTO was organised. Later on in the fifties, the consolidation of the WTO went hand in hand with the process of growth of COMECON. Likewise, WTO also paved the way for the emergence of the multinational political structure of European socialist state systems, namely the Political
Consultative Committee (PCC of the Warsaw Pact. In fact, this new political structure emerged as the highest inter-alliance political structure second only to inter-Communist Party structures where policies and programmes were reviewed and chalked out jointly.

The WTO thus emerged as the hub of all these political and economic and military activities. On the other hand, COMECON also influenced WTO and the Political Consultative Committee of the Warsaw Pact; while it itself got influenced by the WTO and COMECON. In other words, we find a three way interactive process a kind of cycle of feedbacks. Finally, there is the question of a low level of defence outlay in East European countries as compared to the Soviet Union. Such a low level defence outlay logically puts less pressure on their economies and a better utilisation of their much needed resources in their own economic development. On the other hand, a high level defence outlay for the USSR obviously has put enormous pressure on Soviet economy and its consequences can be seen by all of us today. In this scenario, the economic role of the WTO requires added dimension.

It is thus imperative that one should not entirely ignore the economic and political aspects of the Warsaw Pact. We have already discussed the political aspect in
our preceding chapters. Here below, we propose to focus attention on its economic aspect.

As we have pointed out above the very cost of the Warsaw Pact is crucial for its understanding. Hence we propose to investigate this fact. However, taking together it is our purpose to examine the economics of the WTO.

Before we go over to answering the questions which we have raised in the beginning, regarding who paid what, we should briefly deal with the defence expenditure of the Soviet Union. The Soviet Union is the dominant partner of the allies and a look into its expenditure will provide us with an understanding of the enormity of the defence expenditure of the WTO. And then in our later discussion it would be plausible to relate the gigantic Soviet defence expenditure with the imperatives of the WTO.

Soviet Defence Expenditure

Defence expenditure of the USSR and the WTO countries have always remained enigmatic to the outside world. Most of all Soviet military expenditure has remained very much shrouded in mystery and controversies. In its document published in 1984 (Soviet Military Power) the US government made it clear that during 1973-1982 the dollar cost of Soviet procurement of arms and other
military items exceeded that of the USA by some $240 billions.

The CIA claimed that with the availability of large body of information, it revised its previous estimates of Soviet defence expenditures in 1976. It outlined that the Soviet Union spent some 11-13 per cent of the GNP rather than 6-8 per cent of the GNP. It meant in absolute figures, the increase was in the order of 45-50 billion roubles in 1970 to about 55-60 billion roubles in 1975. It represented an average annual growth rate of 4-5 per cent over the period rather 3 per cent.¹

The Soviet figures have been always looked with great deal of suspicion in the West. The Soviets claimed that their defence expenditure which was 20.6 per cent of the state's total expenditure in 1950-55 period dipped to 14.4 per cent during 1956-60 and 12.58 per cent in 1965, to 11.55 per cent in 1970 and to 7.22 per cent in 1977. This has not been accepted by the Western analysts.² On the other hand, the CIA estimated that the defence expenditure was of the order of 28.30 per cent of the state's budget.


It is also interesting to note that although Soviet published figure for defence expenditure declined over the decades, the Czechoslovak and Polish figures continued to grow. ³

Moreover, it is also significant to note the accounts published by many Soviet emigres regarding defence expenditures which gave larger figures than the Soviet ones. Likewise, the Chinese who had close dealings with the Soviets estimated that the real defence expenditure was just three times of the officially stated figures. ⁴

Moreover, many Western scholars find it greatly difficult to compute the Soviet and WTO defence data simply because of not only the unavailability of complete defence data but also because of the artificial official exchange rates published by the government much unrelated to economic realities. For instance, official exchange rates remained static through out the 1960s.

Again there are differences of opinion among different computing agencies. For instance, while the CIA claimed that the Soviets spent 11-13 per cent of the GNP on defence the DIA claimed it to be 14-16 per cent. Thus from the above discussion it becomes amply

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⁴. Ibid.
clear that the Soviet Union has been spending enormously for defence. The question is whether it spends only for its own defence or for the defence of the allies also. This is what we shall discuss here while discussing the issue of burden sharing in the WTO.

**Defence Burden Sharing in WTO**

If the issue of Soviet defence expenditure has remained controversial, so is the case with defence burden sharing among the WTO countries. Whereas in NATO defence burden sharing has always remained an issue of fierce contention, in WTO it has rarely been so. East European states with the exception of Romania have solemnly agreed to demands by the Soviet Union to increase defence spending except in time of pressing difficulties. Higher defence spending has been justified in the name of defence of socialism. Moreover, the actual decision making regarding burden sharing is hardly known to the outside world. Many western analysts have also found budget data of WTO countries unreliable. Scholar like Thad Alton have adjusted East European defence spending data by computing dollar estimates of the costs. Problems of currency conversion and valuation are also inherent in such exercise.

For the first time, in 1965 the Political Consultative Committee (PCC) of the WTO states attempted to

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coordinate the allocation of resources to defence. Whereas Poland, Hungary, GDR and Bulgaria endorsed the integrated defence plan⁶ Romania was unhappy since by 1964 she had already decided to reduce the term of national service. Czechoslovakia had the problem of intraparty problems and thus it decided to declare a ban on any increase in defence spending. By 1978, onwards, things were changing. The WTO states, who were asked to increase defence spending by 5 per cent in 1978, hardly followed the circular. Romania is believed to have walked out of the 1978 WTO PCC meeting on this issue. In Czechoslovakia, Hungary and Poland defence spending had declined over the years from 1965 onwards (from 4 per cent to less than 3 per cent of the GNP). In Romania, it had remained steady at 2 per cent of the GNP. Whereas in Bulgaria it has increased over the years though it has not gone beyond 3.5 per cent of the GNP by 1980. In GDR also there has been a steady rise up to 4 per cent of the GNP by 1980.

If the East Europeans have not adhered to the WTO demands to increase defence spending it is rarely because of disagreement or defiance but generally because of their Inability to fulfil targets. In fact, Poland was excused officially for not adhering to the target of

5 per cent increase in 1980. The Soviets, however, have often felt unhappy over the non-fulfilment of target by the allies simply because, in such cases they themselves have been forced to further increase their defence budget. According to Czech authorities the Soviet contribution has been more than 80 per cent. Western scholars even make higher estimates.

However, it is not the East European free-riding which has bothered the Soviets too much than the alliance dissension, whatever little.

As it has been mentioned in Chapter VI the Soviets themselves willfully suffered some economic loss arising out of the East European's freeriding with respect to their defence requirements. This was in keeping with their broad strategic imperatives. This of course has greatly helped the East European states to divert their resources to civilian production and improve their economies. Out of the WTO states, Czechoslovakia and Poland have been tightly integrated to defence production with the Soviet Union producing fighters, tanks and helicopters, ships etc. whereas, GDR has concentrated on producing small munitions and Hungary has


specialised in producing bridge laying equipments. East Germany also produces buses and heavy transport vehicles. Intensive specialisation has been carried out with respect to defence production.

On the other hand, Romania has opted for extra-Pact cooperation. For instance, it has collaborated with the French Company Renault for producing trucks for its military. This is also true of other such military items. By 1970, a short of military industrial specialisation was introduced in order to eliminate competition. not only division of labour was introduced with respect to military production but also strict standardization was introduced. Thus main weapon systems were required to align with Soviet designs and models. The arbitrary price structures introduced by the Soviet Union did leave the East European producing firms quite unhappy since it cut into their profits. 9

If the East Europeans have been allowed to license produce MIG aircrafts and T-62, T-72 tanks they have also been over-burdened with artificial prices almost dictated by the WTO Joint Command. Some scholars like Chechinski believe that most of the East European military budgets mean absolutely nothing. 10 Thus, it is argued that it is

10. Ibid.
difficult to make any cost-pricing calculation of these military data. Similarly East European military Research and Development and modernisation programmes have greatly depended on WTO Joint Command directives. Non-Soviet modernization plans regarding defence establishments also greatly depend upon the WTO Joint Command prescriptions and lag far behind the Soviet plans and programmes.

East European ignorance about the pricing situation that would prevail after being decided by the WTO bodies make production quite a hazardous affair. Moreover, the costs of production in East European countries have been too heavy, that it hardly leaves any scope for further modernization and improvement.

Thus, it is understood that while it is difficult to have an economics of defence burden sharing, it is possible to know the politics of defence burden sharing. This is simply because the economic data pertaining to defence burden sharing has either not been available sufficiently or is not reliable. Anyway in the process, while Soviet Union has suffered a greater economic burden the East Europeans have a good deal of freeriding with respect to their defence requirements. Had they as individual countries spend for defence and security then probably it would have greatly affected their economic growth and development, a fact which is agreed by large number of scholars.
However, the Czech and the Romanians have been particularly unhappy with the Soviet monopoly in the economics of defence. For instance, Czechoslovakia has persisted in defying the prescribed Soviet designs with respect to small arms production; its Kalashnikov assault rifle has an altogether different design than the WTO approved design. To remove misgivings, the Joint Technical Committee was created in 1969-70 with the intention of giving more say to the economics of defence. In any way countries like Czechoslovakia and Romania indegenously produce different kinds of arms of better quality and export them to the Third World countries like Vietnam, Ethiopia, Chile, the PLO etc. Almost 8 per cent of all Czech exports constitute arms. Total East European arms exports to the Third World was more than $110 million between 1979 and 1981. Throughout the sixties Czechoslovakia actively supported Soviet military assistance programme in the Third World. Like Czechoslovakia, GDR has also remained involved in trading with the Third World; it concentrated on African states like Ethiopia, Angola and Mozambique. Specifically, it provides military training and services. This has helped the East European to gain substantial economic


12. Ibid.
advantages and profit which in turn has helped them to build up their economies.

East European economic contribution to the defence budget of the WTO which was limited in the sixties grew in the 1970s. The official East European contention in this respect is that the increases were decided on the basis of freely conducted negotiations at the WTO. However, otherwise, it is believed that they were decided unilaterally by the Soviet Union.

Initially the East European defence economies were subsumed inside the WTO defence production net work; and their defence budgets were thus integrated and coordinated centrally from the WTO's perspective. The post-Stalin period did see some liberalization and specialization in defence production. This also saw the introduction of market levers into production and trade areas and attempts were made to make them competitive. After 1967, the East Europeans also started producing for the Arab nations as desired by the WTO Joint Command.

After 1970, military industrial specialization was introduced more thoroughly and unnecessary competition


was eliminated, among the WTO partners. Licensing, standardisation, Research and Development etc. were centrally coordinated among members. In the entire defence production sectors the Soviet Union did exercise a tremendous influence determining not only the security requirements of the WTO countries but also paying for their defence in overwhelming manner. This had indeed helped the East European countries in investing their meagre resources in civilian sectors.

As we have discussed in the preceding pages the WTO and the COMECON have been dialectically linked to each other. It is the COMECON which had influenced the emergence of the WTO and later itself got influenced by the WTO. The economic aspect of the WTO apart from being dealt with by the WTO itself is also dealt with by the COMECON; for instance, COMECON deals with the functioning and integration of defence industries. It is, therefore, essential that we should discuss the role of COMECON at least regarding its bearing on the WTO, i.e., the political and strategic determinants. As we have noted above, the objective priorities of COMECON have been greatly determined by the politico-strategic considerations that characterise WTO. Therefore, at the outset it is important to discuss the issue of economic integration which has been the most primary concern of COMECON and its relation to the larger politico-strategic
determinants. Economic integration for the Soviet planners among the East European allies has been of fundamental importance not only because of the need to help develop these economies but also to bring about the strengthening of the socialist system. However, economic integration has not been an end itself rather a means towards the larger goals of further economic development and subserving greater strategic interests. Here we deal with this issue.

Political and Strategic Significance of Economic Integration

The Warsaw Pact as heralding the principles of proletarian internationalism has been guiding the achievement of socialist economic integration. This was clearly illustrated during the events in Hungary, Poland, Czechoslovakia in which it helped to subvert what it called the reactionary elements and thus preserve the socialist system in its economic and political essentials. Likewise, COMECON while facilitating economic integration has also contributed to the growth of political and military integration. There is no doubt that the Russians are well aware of the political and military ramifications of economic integration within COMECON. One Soviet source has argued that "Economic integration serves as a good basis for the deepening of (the COMECON nations)
political integration". General Shtemenko, the late Chief of Staff of the Warsaw Pact forces once pointed out that economic integration "Strengthens the defensive capacity of the Warsaw Pact Organisations".

Economic integration as has been attempted by the Soviets has thus far reaching political and strategic considerations. Therefore, it is important to analyse as to how the Soviets have viewed economic integration and how they have attempted it.

In analysing the economic integration as has been attempted by the Soviets one thing becomes clear is that the Soviets have willfully suffered an East European economic exploitation. Michael Marrese and Jan Vanous say, "The Soviet Union has transferred resources equivalent to almost $80 billion in 1980 dollars during the decade 1971-80". This was also true in earlier decades. C.H. Macmillan says that "the USSR far from making the usual gains from trade makes losses from its trade with the rest of CMEA".

17. See Michael Marrese and Jan Vanous, Implicit-Subsidies and non-Market Benefits in Soviet Trade with Eastern Europe (Berkely, 1983); see also Time (Chicago), 18 January, 1982.
Philip Hanson an authority on Soviet East European trade writes, "It has at least been firmly demonstrated however that (a) changes overtime in the net barter terms of trade between the USSR and Eastern Europe have often been to the disadvantage of the former (b) the USSR has for considerable periods of time traded with the East European countries on terms that imposed on it a considerable opportunity cost in more profitable opportunities forgone on the world markets, so that any Soviet gains from this trade have at least been less than they could have been. This letter relationship means that Poland and Hungary, for example, could obtain oil, iron ore, rolled steel etc. from the USSR at a lower resource cost than they could from any non-CMEA source". 19 And he further says that "it has been natural for Western observers to interpret this as an economic quid for a political quo: the cost to the USSR of buying an economic dependence that is politically useful for Soviet control of Eastern Europe". 20 E.A.Hewett, another expert, however says that apart from the Soviet concession also what went into severe losses by the Soviet Union was superior East European skill and better knowledge of price negotiation. 21


20. Ibid., p.95.

In the 1970s on the onset of the oil crisis, the Soviet Union behaved quite generously towards the CMEA partners. The "Politburo behaved like the better sort of landlord raising the rent belatedly and by rather less than the general rate of inflation and allowing more time to pay". 22 There can be little doubt that, Eastern Europe is quite heavily dependent on the USSR and that the degree of dependence of the USSR on Eastern Europe is very much less. In recent years, East European trade with the USSR has been about one third of total East European trade, while the latter has been of the order of one fifth estimated total East European GNP. Thus exports to the USSR have been of the order of 6 per cent of total East European output and imports from the USSR of the order of 7 per cent of total final domestic expenditure in Eastern Europe. Since Soviet GNP in 1978 was about 3.3 times that of the whole of Eastern Europe, these same flows loom much less large in Soviet than East European economic activity.

Thus the economic dependence of Eastern Europe on the USSR greatly subserved Soviet-political and strategic interests.

Rakowska-Harmstone has observed that COMECON's economic integration has provided the Soviets with greater

22. Hanson, n.19, p.99.
political advantages than any economic advantages.  

Vies on Economic Integration

Western scholars like Michael Kaser who have studied socialist integration have viewed it as an end in itself. This is indeed contrary to the approach of Soviet scholars like M. Senin who have provided a processual understanding of socialist integration. Moreover, as Stanislav J. Kirschbaum writes, "In addition, Western scholars studying East European politics since World War II have laid primary stress on these events and policies that have marked a departure from expected patterns of behaviour - the riots in East Berlin and Pilsen in 1953, the Polish and Hungarian events of 1956, the Romanian opposition to the international socialist division of labour as well as the Romanian independent foreign policy etc.... Yet the fact remains that since World War II, Eastern Europe has also reached a fairly acknowledged degree of cohesion that in theory at least, should augur well for the achievement of an integrated area. It is well worth stressing that on the ideological level these systems are uniformly dedicated to the achievement of a classless society and a socialist mode of production,  


almost interchangeable and their social structures are reasonably parallel.... In fact, most of the sufficient and necessary conditions are present to achieve just about any level of integration". 25

Brzezinski's ironical statement that "the East European states at one time could have been incorporated into the USSR as Soviet republics" 26 did contain a grain of truth regarding the level of integration achieved.

One of the future of economic integration which the East Europeans never liked was the 'embassy system' which was intended to bring about mechanical integration. Here we deal with this.

The Embassy System

In the initial phase the CMEA, however, tried to impose a mechanical integration on the members. Far from fostering multilateral links, CMEA served in its first years to enhance Soviet control over each of its individual members; indeed up to 1955, its activities. The primarily mechanism through which the Soviet Union imposed its preferences on East Europe during this period has been called the "Soviet embassy system of plan coordination". The Soviets decided which country should


produce which articles and drew up long range plans and operated certain enterprises in every country except in Poland. In the GDR, top officials in the finance ministry had their partners in the Soviet embassy. 27 That is, the Soviet Union in the post-war decade decided upon high cost, uneconomical, almost parallel industrialisation strategies for the East European countries partly because it believed that it was ideologically correct and secondly because it was supposed to have facilitated quick economic development. Another reason was also the intended desire on the part of the Soviet Union that its raw materials will be used by these states.

Here it is important to analyse as to what measures the Soviet Union and the socialist countries undertook towards economic integration. An analysis of it will reveal the level of integration achieved.

**Economic Integration Measures**

The development of parallel industrial capacities much to the exclusion of consumer industries caused steep decline in the living standards of people and led to the political outbursts in the sixties. 28

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there was no significant change in the economic relations between socialist states who had been following a policy of "autarkik industrialization" in line with the Soviet Union and that only trade was used in economic coordination. It was in the seventh session of COMECON that the Soviet Union showed some real interest in economic integration - all due to the initiatives of Khruschev. 29

By 1954, proposals for the coordination of national five year plans of member states were already drawn up. These required institutionalization which was achieved only in the 7th session when twelve standing commissions were created underlying which manifested the international socialist division of labour. Each commission was allotted a separate economic activity like trade, engineering etc. in which except Albania all states participated. The commissions further undertook consultations through conferences etc.

Khruschev on his arrival had tried to activate the CMEA and placed trade with Eastern Europe on an equitable commercial basis by dismantling the joint stock companies and doing away with wasteful parallel industrial development strategies. In this framework he transformed the CMEA into a "supranational planning organ" which would

make key investment decisions. This had incited fears among the East Europeans to a great extent who thought that it would further enhance Soviet control.

By 1960 finally, a Charter came into force. Its first article proclaimed the principle of national sovereignty, which was taken from the 1949 Communique. However, by 1960 it was abundantly clear that if economic integration was to be achieved more meaningfully, certain aspects of national sovereignties had to be given up. Plan coordination required a "unified planning organ empowered to compile common plans and decide organizational matters as suggested by Khruschev". 30

Thus bilateralism of the earlier periods was replaced by multilateral arrangements. Joint ventures, joint investments, multilateral projects like the "Friendship Pipeline" were undertaken.

Khruschev in 1962 declared that international division of labour, international specialisation, coordination of plans and cooperation in other economic activities like trade would further facilitate socialist economic integration. He then referred to the European Common Market, the European Coal and Steel Community

as further strengthening and reinforcing the Western alliance. And this justified greater integration in the socialist bloc.

Article 1 of the 1960 COMECON Charter stated, "The purpose of the Council for Mutual Economic Assistance is to promote by uniting and coordinating the efforts of the member countries of the Council, the planned development of the national economy, the declaration of economic and technical progress in these countries, the raising of the level of industrialization in the industrially less developed countries, a steady increase in the productivity of labour and a constant improvement in the welfare of the peoples of the member countries of the Council."

Since April 1969, the COMECON Conference adopted one 25 point programme on the coordination of economic activities. Soviet stress on economic integration has been increasing. In addition to the 1969 Agreement notable milestones in the integration process include the July 1971 "Comprehensive Program of Socialist Economic Integration and the June 1975 Agreed Plan for Multilateral Integration measures. The 1971 document was a compromise measure between those who agreed for market mechanism and those who favoured joint planning. It included a

provision called the "interested party principle" which gives freedom to the members to participate in projects or abstain from them. It also included "long term target programs".

Inspite of whatever solemn intentions the Soviet Union had in introducing economic integration measures, some countries like Romania came to view them with great trepidation. Thus, it is appropriate here to analyse the attitudes of Romania towards economic integration. This will show the internal dynamics of the CMEA working.

Romania and Economic Integration

Romania had rejected the "Supranational Planning Concept" saying it limited national sovereignty. However, Soviet-Romanian relation had already deteriorated as early as 1953. Subsequent Soviet-Romanian manoeuvrings within the Warsaw Pact was partly a logical extension of Romania's disparagement of Moscow's views on "Supranational Planning". 32

Allaying such fears, Khruschev had said that international division of labour would not harm industrial development in the socialist countries and that such cooperation would be advantageous for economic development. 33

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33. Izvastia (Moscow), 26 June, 1962.
Fedayev the General Secretary of CMEA stated in the similar vein that the CMEA Council was not a supra-national planning body and it did not attempt any single plan and moreover its resolutions were subject to approval by the member states. 34

Marshal D. Shulman an authority on Soviet East European relations wrote that the COMECON was fast becoming an instrument in which the East European states were getting absorbed into the Soviet economic complex. 35

Memories of Russian invasion of Hungary and Poland in 1956 and Czechoslovakia in 1968 kept haunting the East Europeans.

In the seventies as Alan Smith says, CMEA integration developed towards coordination of CMEA investment programmes compared with the earlier emphasis merely on coordination of some current output decision. Joint projects were funded by COMECON International Investment Bank under the guidance of the new International management organisation – Interatominstrument, Intertekstilmash. 36 However, the absence of a common currency and differences in national price structures created tremendous bottlenecks.

34. New Times (Moscow), 1962, pp.3-6.


During the seventies one issue that caused consterna-
tion among Soviet policy makers was that the demand for
the introduction of the market levers by the East
Europeans to which the Soviet Union was not very favour-
ably inclined. Here we take up this issue.

**Market Levers and Soviet Response**

Between 1960 and 1980 the USSR had a large export
surplus in two of the hard commodity categories fuel and
non-food raw materials\(^{37}\) whereas it had huge deficit in
the categories of machinery, consumer goods, semimanufac-
turers - the softer commodities. This was the result of
energy and raw materials intensive development strategy
of the East European countries till the fifties.\(^{38}\)

During the seventies when Soviet trade with
the West grew, it felt more uneasy selling cheap oil and
gas to the CMEA partners. Authors like Paul Marer
maintain that Soviet Union had a wind fall profit of
about $50 billion\(^{39}\) because of OPEC price increase
which helped it buy Western technology. This also
caused decline of volume of exports in hard commodity
categories to Eastern Europe from Soviet Union.

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37. Between 1976 and 1980 only the USSR supplied 800 million tonnes
of conventional fuel to its partners in the COMECON. This is not
surprising in the sense that in 1980 fuel constituted 52.8 per
cent of the total Soviet exports to the world as a whole.

38. Ibid.

39. Paul Marer and J.M. Montias, eds., *East European Integration and
East-West Trade* (Bloomington, 1980).
The impressive growth rates achieved by the East European countries between the fifties and eighties was greatly due to the extremely profitable trade relationship with the Soviet Union.

However, this growth of the economies was quite sectoral and did not include consumer items which led to massive outbursts in Poland, Hungary, and Czechoslovakia and Romania. This gave rise to attempts to carry forward economic reforms. This indeed posed grave threat to alliance cohesion as the Soviets perceived it. The Soviets as J.F. Brown, an authority on the field views, have always faced the dilemma between cohesion and viability. Whereas Stalin preferred cohesion, the post-Stalin leaderships have tried to syncretise both. Thus, integration mechanisms have been developed side by side with the demands for increased market levers. In the seventies while the Hungarian and Czechoslovak economists were asking for greater market levers, the Soviet Union established the CMEA Committee for Cooperation in Planning Activity - the Agreed Plan of Multilateral


Integration Measures 1976-80 and the long term Target Programme for Integration Measures 1975-90 and started the operation of International Investment Bank and the International Bank of Economic Cooperation (IBEC). It was argued at that time in Eastern Europe that these proposals were another version of Khruschevian proposals of 1962; that these proposals simply reflected many of the Gosplan measures.

Many of the East Europeans believed that technical innovations were simply retarded because of Soviet preference for underlining priorities with its strong emphasis on "undertrading" in the fifties, sixties and early seventies.

Another View of the Soviet Integration Measures

Paul Marer, an authority on socialist economics presents a totally different view than that of Philip Hanson and Marrese and Vanous. Marer believes that the Soviet Union is entirely responsible for whatever economic underdevelopment the East Europeans have undergone. He says, "Post-War economic recovery was slowed down by Soviet exploitation mainly via conventional types of economic extraction; carting away machinery from the former enemy countries; so-called joint stock companies, through which the Soviet Union took a significant share of
Eastern Europe's current output and by paying less than world market prices for Eastern Europe's commercial exports. Reparations represented further unrequited transfers (principally from East Germany but also from Hungary and Romania). The GDR carried the largest combined burden by far the substantial resources were extracted from the other countries as well. I have estimated the value of the unrequited flow of resources from Eastern Europe to the Soviet Union during the first post-war decade to be roughly $14 billion or of the same order of magnitude as the aid the United States gave to Western Europe under the Marshall Plan". 43 Moreover, the sectoral industrialization which was directed on the Soviet's behest had damaged these economies significantly. Marer quotes a Polish economist Alan Minc, as saying, "the build-up of defense industries at Soviet behest skimmed the cream of output and led to the creation of a half-war economy in 1951-53". 44

From the above analysis it becomes clear that Soviet Union has consistently attempted closer economic integration among its allies. In the process, its objective has been to achieve maximum alliance cohesion at the political and strategic level. And for this it has

44. Ibid., p.158.
adopted many measures which have caused misgivings and suspicions among its partners. Moreover, for this it has suffered some economic loss over the decades. The basic understanding has been that closer economic integration will bring about greater political cohesion.

A multinational high technology military set-up like the WTO is a costly business. We have shown in the preceding pages how the cost of servicing the WTO kept on rising over the years, thus, becoming a constant drain on resources of its members.

By its very dominant position the Soviet Union is seen to bear the large chunk of the cost. Our estimate in the preceding pages has shown that the Soviet Union has borne not less than 80 per cent of the total cost of running and servicing the WTO over the years. The remaining 20 per cent was distributed among the other members of the WTO. As we saw even for sharing this 20 per cent cost there have been many grumblings in the past. In general it can be easily seen from the estimated share of the cost of the WTO that it did provide a highly effective low cost defence shield for the East European countries. On the other hand the drain on the Soviet Union was enormous and this obviously has contributed to the ongoing economic crisis in the Soviet Union today.

We have also pointed out in the preceding pages that the WTO did play a supporting and stabilising role in the
optimal functioning of the COMECON, over the years. The economic benefits thus accruing from COMECON notwithstanding the pulls and pressures inside the COMECON may thus also be seen as legitimate economic aspect of the WTO.

Thus in this chapter, while discussing the economic aspect of the WTO, we discussed the economies of the WTO, the issue of defence expenditure, the issue of burden sharing, defence production and standardisation, Research and Development etc. However, as we pointed out initially the economics of the WTO does not constitute the whole of the economic aspect of the WTO. Therefore, we further investigated other elements of the economic aspect like the issue of economic integration, the cost of economic integration and its relation to the larger politico-strategic goals of the WTO. In this we also discussed the various facts of economic integration, like the measures taken, the different views on it etc. From the foregoing it is clear that the CMEA and WTO are organically linked to each other, they have been the two pillars of the "Socialist Commonwealth" - each complementing and supplementing the other in the process of growth and development. While discussing the economic aspect of the WTO we found that their roles overlap each other. They have together provided cohesion, viability and stability to the socialist system as a whole.