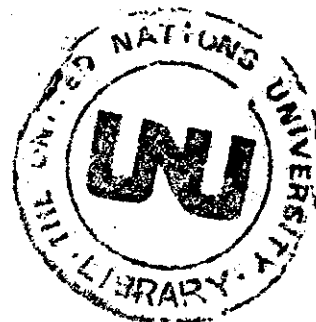


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**EXPERIENCES WITH A SEQUENCE OF
DEVELOPMENT STRATEGIES: THE
CASE OF ROMANIA**

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This paper is being circulated in a pre-publication form to elicit comments from readers and generate dialogue on the subject at this stage of the research.

INTRODUCTION

Does a centrally planned economy offer a feasible and desirable strategy for development? At the very least, do the so-called "threshold" countries of the third world fulfil the pre-conditions for the success of this model? Already the feasibility of a developmental strategy of the Eastern European type in third-world countries is vigorously denied.

Russia was not, at the turn of the century, a peripherized country but a backward country of the capitalist centre. Its structures differed from those of dependent capitalism: marginalization, for example, was unknown there. Accordingly, the revolution of 1917 only speeded up the process of accumulation without basically changing the model of capitalist accumulation. Because of this, the experience of the Soviet Union cannot be transferred to the contemporary third world. . . . the creation of a national non-dependent society like contemporary Soviet society is in the last third of the twentieth century not possible for developing countries.¹

Just that which, according to Samir Amin, made the Soviet model possible has made it unnecessary. Comparing economic achievements and social costs of Soviet development one comes to the conclusion that it might have been better had the October Revolution not taken place. But the Soviet model finds its real area of application precisely in the development of pre-industrial countries, where its validity is contested. The degree of its success seems to be negatively correlated to the level of industrialization of the country and is independent of the extent of peripherization. (Bulgaria was almost not peripherized, Romania was greatly so -- the economic success of both countries does not differ significantly.) This model does not offer an alternative to developed capitalism but an almost assured strategy for achieving industrialization of societies strangled by feudalism. At the same time a centrally planned economy seems to be the only strategy which makes it possible

for basically peripherized states to overcome their structure of dependence. This will be clarified in this paper by analysing the historical experiences of a country which, before embarking on a planned economy course, had an opportunity to test alternative economic policy strategies. Romania presents a clear and brutal paradigm of peripherization, as well as a textbook example of the systematic failure of national capitalistic attempts to overcome that situation. The economic, social, and political character of Romanian society before the communist advent to power corresponded to the structure of today's third-world countries. Since pre-communist development is significant for evaluating the efficacy of central planning, we shall examine it in the first part of this paper.

Doubts about the desirability of an Eastern European model of development are no less pronounced. Nowhere in Eastern Europe has central planning led to the emergence of an egalitarian society which has abolished exploitation; nor are there any distinct alternatives to value- and goal-orientations prevalent in industrial western countries. As regards their foreign and domestic policy as well as their economic objectives, the countries of Eastern Europe are compelled to abide by the dictates of an imperial superpower asserted in forms so undisguised that it seems cynical to celebrate the achievements of these regimes in their efforts for national independence. Nonetheless, the former structures of economic dependence have been overcome and what were previously agrarian societies have been transformed into industrial growth economies. Precisely because in the economic and technological fields there exists no structural dependence on the USSR, the latter must base its domination on military power and, by the same token, on colonial rather than neo-colonial methods.

Time and again, revolutionary or nationalistic programmes promised to bring about a just society which would abolish exploitation, equating the deprivation of power of a given ruling élite with the termination of domination itself. Yet every time these hopes were disappointed. Consequently, the effectiveness of central planning cannot be measured in terms of its proclaimed objectives but only in terms of its actual

benefits as compared to other strategies for development and to economic trends characterizing earlier periods in the respective countries' history and by analysis of the social costs and benefits.

The industrialization of the Eastern European countries under communist rule was undoubtedly accompanied by enormous sacrifices and costs. A discussion, therefore, of central planning as a development strategy requests clarification of a set of questions concerning the inevitability of these costs and burdens. Which of them can be explained as arising out of contingent circumstances and which are due simply to mistakes? Which policy changes reflect learning processes and which of them are adaptations to already attained levels? Which of them are due to changed external circumstances? What are the political conditions for the success of the model and what degree of repression is inevitable? What are the risks of the degeneration of these regimes? Which negative and destructive side-effects and which developmental shortcomings are inherent in that strategy? This article attempts to contribute to the elaboration of a "rational version" of central planning by analysing the economic history of Romania.

1. THE ECONOMIC CONSEQUENCES OF ROMANIA'S INTEGRATION INTO THE WORLD MARKET

1.1. *Export Boom and Impoverishment*

Under pressure from superior firepower, the Ottoman Empire was obliged in 1829 to open the Dardanelles to commercial shipping and give up its foreign trade monopoly over the Romanian principalities.

At the same time the demand for wheat on the part of the Western European industrial states (especially Britain) increased. Henceforth, the price of wheat in Romania was determined by the world market and rose, as a consequence, sevenfold from 1820 to 1847. The transformation from a cattle-grazing to an agricultural economy was irresistible, and as a result there was no social or economic area of life that was not thoroughly transformed by the incorporation of the country into the world market system. This transformation brought luxury consumption to the upper stratum of society and — for the first time — serfdom to the peasants. (The mobility of the cattle-raising peasants had previously kept exploitation within narrow limits, so that feudal relationships were able to impose themselves only in stages.)

In 1864 the serfs were "freed" and the titles of ownership on land were established whereby two-thirds of the soil became part of the large estates. After this "liberation," exploitation and poverty increased rapidly. The peasants were obliged to pay redemption money for release and, in order to survive, were compelled to rent the landlord's land. Payment was mostly effected not by means of money but through working the landlord's land. As a result a mixed property system, consisting of large land ownership and small plot cultivation, came into being. The landlords did not, for the most part, engage in some form of

capitalist farming, but rented their estates out in small parcels to the peasants. Accordingly, the large estates had neither draught animals nor equipment. Crop rotation and fertilizing were hardly feasible under such conditions. Thus a system with a maximum of counterproductive elements was established.

The work in the landlords' fields had to be done before the peasants could cultivate their own land or rented parcel — a decisive factor, taking the unstable climate into consideration. Since, as a result, the peasants often were able to harvest their grain only after it had already begun to rot, the incidence of nutritional deficiency diseases increased. Because of the land-rent conditions the labour power of the majority of the population was mortgaged for many years in advance. In the eighteenth century compulsory service consisted of 12 days per year, and in 1829 it was fixed at that rate. By 1856 the number of corvée days had increased to 56. In 1882 Parliament was compelled to pass a law stipulating the right of the peasant to tend his own plot at least two days per week.

Previously the land-owners regulated the number of days per year during which the peasant had to work for them. Now the number of days per week during which the peasant does not have to work is being regulated. The peasants were fleeing out of desperation to save themselves. All contracts stipulate the obligation of the peasant to do the work of those who have fled.²

Compulsory labour, corporal punishment, and the returning of peasants by the gendarmerie were legalized. In 1882 the conservative prime minister stated in the senate that "it is worse than in the days of serfdom. In those days forced labour was kept within limits. Today it has gone far beyond those limits and is crushing." According to a 1930 study of Romanian agriculture:

The agrarian system fell into a peculiar compound of serfdom and capitalism; from it landlords and their tenants secured the advantages of both, while the peasants were saddled with all the burdens of both. From serfdom the landlords had all the facilities of servile labour without any feudal obligations toward it, while from capitalism they had the freedom to bargain with labour without the restraints of a free labour market.³

1.2. *Price Decline and Raubbauwirtschaft*

In the 1870s began that bitter second phase which, sooner or later, befalls all one-crop export economies. Cheap grain from overseas flooded the European market. The time of fat export earnings seemed to be over without a serious attempt having been made by either the state or the private sector to either industrialize the country or increase the productivity of the agricultural sector.

In 1877 the hitherto positive balance of trade turned negative and remained so till the end of the century. Already damaged by a series of crop failures, the country was saddled in 1881 with 2.8 million hectolitres of grain. The price of wheat fell from 305 lei (1870-1874) to 140 lei (1895-1899). The estate owners adjusted to this situation by rendering the exploitation of the peasants more severe and intensifying just those developments which had proven to be so disastrous. The wheat cultivation areas were extended at a rapid pace at the expense of pasture and forests. The results were periods of drought, minimal yields per hectare, degeneration of draught animals, and a reduction in the number of cattle. (From 1860 to 1911 the number of draught animals per hectare was reduced by more than half.) In 1878, 19.9 per cent of the land surface was under cultivation; in 1906, 46 per cent. Wheat production increased threefold from 1800-1884 to 1903-1912, and the exports quadrupled. The export ratio for wheat was 40-60 per cent of the harvest. By 1912, 90 per cent of the area under cultivation was devoted to grain. Grain accounted for over 80 per cent of the export value of the country. Little Romania ranked fourth as an exporter of wheat after Russia, Argentina, and Canada.

Through brutally increased exploitation, the mixed feudal-capitalist system succeeded not only in compensating for the losses in the external market but also in impressively increasing its profits. While in the rest of Europe, under the pressure of falling wheat prices, land rents and the price of land fell, rents in Romania increased drastically, without a significant rise in the land productivity.

The setting aside of a large and growing share of the arable land for export production led to a decrease in the land available for self use. This disproportion between supply and demand in rented land for the survival need of the small peasants made possible an unrestrained tightening of the rent screw. Since the payments for the rented land had to be made mostly in labour obligations with the increase of the latter, arising out of the leasing of an ever-decreasing portion of an estate, an ever-increasing portion could be cultivated for export. As a result the small peasant's excess demand for land grew and with it the rents.⁴

The rents accounted by 1906 for from half to two-thirds of the harvest or were fixed independently of the returns. Rates of interest in case of delay reached 500 per cent, and rates of 50 per cent were considered to be benign. The population decreased. Pellagra, hitherto unknown, became a widespread disease. In 1880, 10,000 pellagra cases were registered, whereas before World War I there were 100,000 cases. Military doctors recorded an increase in the number of those unfit for military service. Typhus and scarlet fever spread among the peasants as a result of the lack of availability of milk as well as other "deficiency diseases of which not one of our peasants is free." According to official statistics of 1909, the rate of mortality of children under five was 36 per cent, accounting for 48-51 per cent of all deaths. At the same time "Bucharest was experiencing a building boom in luxury villas, which could be compared to, in all aspects, the splendour of similar residences in the USA, although the typical owners were not industrialists but rich merchants and boyars."⁵

This agrarian system was perfected through the introduction of the intermediate role played by large leaseholders of land, who replaced the great landowners to whom they guaranteed a secure income. These large leaseholders were rented land for five- to six-year terms. They were for the most part not Romanian citizens and could therefore not own land. Consequently they had no interest in improving methods of production and limited themselves to the maximum exploitation of the peasants. A predatory and barbaric exploitation of agriculture was taking place. ("We exported our soil!")

The landlord of the second third of the century had exported with a view to staying in business indefinitely. And he was relatively careful how he treated both peasants and land. The landlord of the last third of the century, on the other hand, was feeling increasingly insecure about the future. He was no longer interested in maximizing his profits for the long run, but rather for the immediate future. By exploiting his peasants and land to the utmost, he was in effect liquidating his assets. . . .⁶ [He] was now willing "to kill the goose that laid golden eggs" on the assumption that sooner or later, these same "eggs" might well be worthless anyway.⁷

2. ATTEMPTS AT A NATIONAL CAPITALIST SOLUTION

2.1. *Protective Tariffs and Industrialization Policy to World War I*

Under pressure of a permanent deficit in the balance of trade and developments in the agricultural sector which were obviously heading towards catastrophe, Romania changed its foreign trade policy.

Since Romania was, unlike any other European country, unilaterally dependent on exports and at the same time threatened and harmed by this state of affairs, it subsequently maintained, unlike any other European country, the justification and necessity of a home-market-oriented industrialization protected by high tariffs.

In 1876, in return for the free export of grain into the Habsburg Empire, Romania had lowered its tariffs to a level of 2-4 per cent of the total value. At the same time, improved means of transportation facilitated the country's being swamped with cheap manufactured goods. (According to an analysis by Aurelians 54 per cent of those products imported in 1879 could have been produced in Romania.) The cottage industries were displaced, most of the mills were abandoned and the handicraft co-operatives disappeared. "Many factories were closed down and all attempts at starting new enterprises were condemned to failure."⁸

In 1886/1887 protective tariffs and a policy of promoting industry were put into effect. The results were sobering. An enquête registered for 1901/1902 625 large enterprises (enterprises with more than 25 workers) with a total of 40,000 employed (0.57 per cent of the population) as opposed to 236 such enterprises in 1886. Considering the fact that the capital formation of these enterprises was about 247 million lei of

which 75 per cent was of foreign origin and included a substantial amount of governmental subsidies whereas from 1886 to 1900 the grain exports amounted to approximately 3.3 billion lei, it is clear that the export earnings did not substantially contribute to the formation of industrial capital. The impoverishment of the rural population can, therefore, also not be justified as a price that had to be paid for the development of the country.

An intensification of the policy of protective tariffs and promotion of industry was controversial. The strongest pressure group, the export-oriented estate owners, feared, not without reason, that the industrial states would limit imports of Romanian grain as a retaliatory measure against industrial protective tariffs. Second of all, they feared a price rise in industrial inputs needed for the mechanization of agriculture which was just starting and an increase in the subsistence wages, and finally it was clear that the industrialists would have to be subsidized by the rest of the economy. Since the industrial enterprises were held almost exclusively in foreign hands, nationalistic sentiments could be mobilized against such a policy. The fact that in the wake of industrialization a local market for the products of intensive farming would be created, was not considered to be a realistic compensation for short-term export losses.

The intensification of the protective tariffs policy could be delayed but not prevented. In 1906, under the shock of two catastrophic crop failures (1899 and 1904) and as a reaction to growing foreign agricultural protectionism, Romania introduced one of the highest protective tariffs on industrial goods in Europe. These tariffs did not lead to an industrialization drive but only promoted the creation of excess capacity and consequently a rapid advance of defensive cartels, which, however, soon began to make extensive use of their strong position.

In this connection it is instructive to note the case of the sugar branch, which more than any other industry was the beneficiary of state subsidies. Imports were rapidly displaced and an over-capacity of more than 100 per cent arose. By decree, the government pledged itself vis-à-vis the sugar

cartel to guarantee, at least until 1918, special manufacturing premiums amounting to nearly 40 per cent of the manufacturing costs as well as guaranteeing protective tariffs and privileges for the general promotion of the industry. In addition, the government pledged itself to prevent any other sugar producers from receiving these privileges. The price of sugar rose from 60 to 70 bani (1880-1885) to more than 85 bani in 1896 to 1.10 lei (1904) (70 per cent higher than in France), and increased in 1906 to 1.25 to 1.40 lei, in spite of the fact that the cost of production remained unchanged during this whole period at 35 bani. (Abroad, Romanian sugar was being sold for 35 to 45 bani.) The rate of profit of the sugar industry was twice as high as that of the average rate for industry as a whole. In this connection it is worth mentioning that 94 per cent of the capital in the sugar industry was in foreign hands — mostly Belgian. As a result of this price level yearly sugar consumption was only 4 kg per capita (in England it was 37 kg). Although 80 per cent of the population lived in rural areas, 80 per cent of the sugar was consumed in the cities. On the average, the peasant could afford only one kg of sugar per year.⁹

It is clear that under such conditions no expanding internal market could emerge. From 1904 to 1914, capital formation limited itself almost entirely to the oil industry — an industry completely oriented towards the world market, financed and promoted from abroad.

Employment in industry rose in the years 1901-1914 from 40,000 to 53,000 — a very pitiable advance considering the rapid tempo of industrialization world-wide. Not only in comparison with the industrial states, but also in comparison with Hungary and Russia, did Romania's development lag increase. The low purchase power of an impoverished population could not be remedied merely by means of a protective tariff system. A change of the entire agrarian system would have been necessary. Demand, weak to begin with, exhibited extreme fluctuations commensurate with the harvest yields of the monocultural agrarian economy. (The climatic conditions were, as a matter of fact, too unstable for wheat production.) These demand discontinuities put all those enterprises which depended on domestic consumption in a precarious position and did not exactly encourage potential investors: "The industrial economy somehow failed to take off."¹⁰

2.2. *The Belated Agrarian Reform*

After 1917, development was characterized by a drastic land reform, and a policy of forced industrialization accompanied by increased protective tariffs. According to the literature on the subject, the industrialization drive was a modest success while the agrarian reform was an economic disaster. Both judgements are false.

The distribution of the large estates among the land-hungry peasants became, after 1917, the condition for survival of the social and political order. Allied Russian troops marched with red flags through the war capital of Jassy and freed political prisoners. In some parts of the country, revolutionary parliaments sprung up. King Ferdinand proclaimed universal suffrage and expressed his conviction that the peasants should be masters of the soil which they had defended. The share of the land area of estates consisting of more than 100 hectares dropped, as a consequence of the reform, from 40.2 per cent (48.7 per cent on the territory of pre-war Romania) to 16.3 per cent (1941).

(This remaining property consisted in large parts of forest land.) The share of the land held by holdings of less than 5 hectares increased to 59.3 per cent. In 1927 the minister of foreign affairs declared in the League of Nations that: "In order to maintain the social order in Central Europe Romania imposed sacrifices without historical parallel on its landowners . . . what was involved was the preservation of the principle of private property as such."¹¹ In this they were successful.

It was expected that as a result of the reform there would be an increase in the yields per hectare, that the monoculture would be reduced, that there would be a transition to intensive agriculture, resulting in the expansion of domestic demand for industrial goods, accompanied by an intensification of economic growth. None of this was achieved.

Economic experts and a hostile press reported a drop in yields per hectare of 30-50 per cent following the reform "when well-run estates were broken up into small lots,"¹² and given to the "inexperienced" (!) small peasants. In reality, this sweeping reform of the structure of ownership brought with it only minute changes in the cultivation

patterns. Approximately the same amount of land was given to the peasants as was rented to them in 1907. Because of this fact alone, the "lack of experience" and inefficiency of the peasants could not account for the decrease in harvest yields. This decrease was by far the most pronounced in regard to wheat. Wheat, however, remained in the domain of the larger estates. Since they no longer had any land to rent to the peasants, they did no longer have the peasants' labour, equipment, and draught animals at their disposal. Traditionally, the large estates were not equipped with means of production. Furthermore, agriculture had almost no draught animals at its disposal, since the "War Booty Commission" of the Central Powers shipped out 85 per cent of the horses and 71 per cent of the cattle.

Simultaneously, just when the agricultural sector was being restructured and reconstructed and was in urgent need of increased capital inputs, it was directly faced with a massive capital outflow. Because of industrialization and nationalization as well as a severe deflationary policy, agricultural credit on the part of public and semi-public institutions dropped to 3 per cent of the pre-war level. In addition, the government skimmed off a great deal through diverse taxes, maximum prices fixed at low rates, and payments for land redistributed by the reform. Uncertainty in land ownership, state control of the agricultural market, an export policy wavering between prohibitive and reasonable tariffs, and high interest rates for industrial credit led to a pronounced flight of capital from the agricultural sector. In addition, agriculture suffered from a drought period lasting several years, which could be traced more to half a century of savage exploitation of agriculture (*Raubbauwirtschaft*) than to the land reform. The drop in production did not last long anyway.

Wheat exports were clearly below the pre-war level. This was the case mainly because under the changed agricultural structure it was no longer possible to skim exports at the expense of underconsumption which resulted in physically damaging the population. (The export ratio for wheat from 1922 to 1930 fluctuated at about 4 per cent, corn at 23.4

per cent.) The nutrition of the population improved considerably. Deficiency diseases such as pellagra disappeared.

From the social point of view, the reform was a clear success. While its economic effects did not damage productivity as much as is still being claimed, it did not, apparently, lead to an upswing in the agricultural sector. First of all, the reform came several decades too late. Due to an increase in the population, even a relatively egalitarian land distribution enabled most of the households to produce only at a subsistence level (in 1938, 63 per cent of the farms produced below the level of individual consumption). For this reason there was no rise in demand for industrial goods on the part of the rural population. For extensive farming the peasant freeholders lacked the acreage and for intensive farming they lacked capital, training, and support. (A certain degree of intensification may be seen in the fact that small farmers switched from wheat to corn production, which was three times more labour-intensive and more suited to the climate.)

Repeatedly it is claimed that the splitting up of large estates into micro-farms instead of breaking them up into "healthy" farms of 20 to 100 hectares prevented intensified cultivation. Politically, such a distribution of the land was no longer possible by 1919, and economically it would hardly have made a difference. Although there was a definite excess supply of rural labour — in 1933 it was noted that only 55 per cent of the potential agrarian labour was being utilized — the existing middle-sized farms did not make use of this reserve. They continued extensive wheat production. The modest attempts of an agricultural intensification, a transition to fodder and industrial crops and vegetables, were limited to the dwarf holdings, where an increase in land productivity often became a question of survival. Very soon, population growth again caused a pressing land hunger among the poor peasants, which even a new land reform would not have been able to satisfy. The distribution of all farms of 50 hectares and above would not have brought the average size of holdings up to the subsistence level of 3 hectares. Industrialization now was imperative.

2.3. *"Through Ourselves" - The Free Enterprise Variant of Nationalist Economic Policy*

After World War I, priority in economic policy was securely won in favour of the drive towards industrialization. It was to take place through the pushing out of foreign capital, high protective tariffs, and generous help from the state. It was also to be oriented towards the domestic market. The slogan of this policy was: "through ourselves." The economic programme of the Liberal Party illustrated this formula: "to develop the riches of this country through Romanian labour and initiative and through Romanian capital." Through the buying up of foreign shares, a Romanization of industry was to be carried out. The new constitution declared the mineral resources as property of the Romanian state to be taken out of foreign control and secured so as to serve the needs of the nation.

This "nostrification" of mining and industry was marked by a resounding failure. Precise and comprehensive data are not available, but extensive and detailed evidence points to a further extension of the already overwhelming position of foreign capital, precisely during this phase of development. Even the taking over of the shares of the Deutsche Bank and the Discont Gesellschaft, without compensation, as stipulated by the Treaty of Versailles, turned out to be impossible, since these shares had passed into the hands of Swiss "straw men," partially as collateral for a presumably fictitious loan. (The Deutsche Bank frankly admitted that greater profits were made from the sale of its shares of the oil company Steaua Romana than from ten years of normal banking.) The mining law of 1924 stipulated for a Romanian majority ownership of 55 per cent of all companies within the next ten years. This unleashed a cry of rage in the world press. Because of political pressure (one of the means was the war indebtedness of Romania to the allies) and veritable economic warfare on the part of the oil companies, the law was watered down in 1925 and had to be revoked completely in 1928.

The reasons for the failure of the "nostrification" policy in industry were, first of all, the concentration on Romanification instead of

nationalization and, second of all, the limitation to very modest methods of carrying out these goals. Such injunctions as having a majority of Romanian directors and a majority of Romanian capital were, according to Romanian economic experts, easily circumvented thanks to the system of dummy corporations and of "figurehead" Romanian directors, often influential politicians, "placed on their boards in the proportion fixed by the Commercial Code, directors, who know as a rule nothing of administration proper and whose role has been limited to drawing fees at the end of the year without working for them."¹³ Forced expropriations with compensation were out of the question.

Romanian policy represented the extreme in the treatment of foreign capital at that time. So the Romanians either had to buy up the shares held by foreigners at prices set by the owners or raise the companies' capitalization so that foreigners became minority shareholders. This was far beyond the financial resources of the country.

Even if the policy of Romanization fell short of achieving its goals, the policy of industrialization is judged to be successful. As summed up by Professor Fischer-Galati, one of the leading authorities of contemporary Romanian history:

These policies, based on high protectionist tariffs, limitations on the importation of foreign capital and encouragement of industrialization through governmental subsidies and a favourable tax structure did indeed insure a level of unprecedented prosperity. . . . The relative economic well-being of the population facilitated the creation of a "Liberal image" of national prosperity and progress. . . .¹⁴

Communist historiography also considers the period from 1923 to 1929 as one of relative stabilization. Such judgements are usually based on official figures about the value of industrial production. These figures are based on each year's prices, comprising raw materials and other inputs, are distorted by changes of the classifications, and show enormous fluctuations as a result of fluctuating yields in agriculture. For example, for the years 1924 to 1929, the increase in the value of manufacturing is shown as 25 per cent, for 1923 to 1928 as 77 per cent. There are other indices, however, which show a less positive picture.

In manufacturing, 3,840 firms were registered in 1924, in 1927, 4,051, and in 1929, the last year before the onset of the depression, 3,736. During 1923 to 1929 employment in this sector declined by 10 per cent, from 223,000 to 201,000.¹⁵ It is possible that in some areas this drop in employment was compensated by rationalization. The amount of horse power used in manufacturing increased during 1924 to 1929, by 28 per cent. However, one of the main goals for industrialization was to create new jobs.

If the net value of manufacturing really grew — the nearly constant value of invested capital accompanied by rationalization and a remarkable decline in employment does not make that very likely — it can not have been very impressive. There was a sharp increase in production indices in the extractive industries. The boom of this sector, however, was exclusively a phenomenon of crude oil extraction which was controlled from abroad. There the volume of output during 1924 to 1929 rose 260 per cent and the capital stocks were vigorously increased. It was this branch of industry, however, which was not actually the subject of the industrialization policy, which had been targeted at the domestic market. At the same time, there was an impressive expansion in the oil industry. From 1924 to 1929 the volume of processed crude oil increased from 1.6 to 4.6 million tons. Since the refineries were added to the total of manufacturing industry, subtracting them would show an even more meagre picture of the industrialization oriented towards the domestic market. Also, indirect indicators point to stagnation or even a retrogression in domestic-oriented industries. The tonnage/mileage turnover of the freight rail traffic regressed during 1924 to 1929 whereas overland transportation for exports grew impressively.

Insofar as this phase of Romanian development is diagnosed by analysts as having run into difficulties, the blame is put on a capital shortage. Indeed, there is manifold documentation of capital security. The land reform with its ensuing increase of self-consumption reduced export earnings. The campaign of buying up the foreign shares of firms reduced capital available for productive investment and at the same time scared off foreign investors. An increase in the grain consumption

on the part of the rural population, however, was a precondition of its physical survival. Since the position of foreign capital in that phase was reinforced the attempts at nationalization could not have withdrawn too much capital. Capital scarcity was caused above all in those years by the deflationary policy, by means of which Romania attempted to stabilize its currency abroad. In order to make a judgement of the chances for the success of a domestically-centred market economy strategy of development, it is useful to clarify whether the Romanian economic policy of the 1920s did not achieve its goals because of lack of capital, because of weak demand, or as a result of more complex causes. Capital shortage could rather be attributed to the autocentric orientation of economic policy; weak demand would be an argument against the reliance on market forces. On the other hand, shortage of capital and low demand are correlated: capital shortage leads to high interest rates and consequently to high prices which press down demand. Weak demand means low profits and consequently a shortage of capital -- as long as this mechanism is not blocked by cartels.

At least the enormous yearly *fluctuations* of output values in manufacturing were caused by abrupt demand shortages due to low agricultural incomes resulting from the frequent crop failures of wheat and maize. In 1929, the decline in the value of manufacturing was 42 per cent attributable to food industry following bad harvests of the previous years. Likewise, the sharp decline of the value of manufacturing in 1925 by 22 per cent was concentrated to 95 per cent in this industry and was caused by the crop failure of the previous year. (The wheat yields were 6.1 dozen per hectare, 41 per cent below the previous year.) Moreover, what was involved was not a question of input but of demand: in 1925, the output of this branch of industry, minus fuel and raw materials, was reduced by 70 per cent. Since the milling industry contributed only 25 per cent to that output, and since the sugar industry, on the other hand, contributed 41 per cent, the sugar harvest not being especially low, the extreme fluctuations must be attributed to a drop in mass consumer demand, caused by low income. (Thus, sugar sales in 1925 were only 62 per cent of the average for 1926-1931.) A similar development happened in the textile industry, which hardly made

use of domestic raw materials. In 1925, the textile industry registered a drop in production (minus the inputs) of 19 per cent. Such side effects of an agricultural economy, which only gradually was able to reduce its monocultural orientation, placed every consumer-oriented business endeavour in great jeopardy.

The Romanian protective tariffs were at that time branded as over-reaching and economically damaging by the economic press. The textile industry as the branch of manufacturing with by far the clearest growth, and with tariffs of 30 per cent and 65 per cent, enjoyed a higher degree of protection than any other industry. At the same time, the proportion of textile imports to domestic production was reduced from 2:3 to 1:2 whereby textiles maintained a 40 per cent share of total imports. Considering that the market share of textile imports was between 72 per cent (1923) and 53 per cent (1930), the tariffs could not have been regarded as prohibitive. What they obviously did do was make it possible for domestic expansion to take place without exerting abrupt pressure on imports. All together, the available data point to the conclusion that the space for industrial expansion was defined by protective tariffs and by demand not satisfied by foreign competition. For a final judgement, however, the developments of the 1930s, with their more severe import restrictions, should be examined.

Besides the basic economic structure which was established following the integration of Romania into the world market as a monocultural export economy, which condemned each attempt at disengagement from this constellation to failure because of capital shortage or insufficient consumer demand, another, no less influential stabilizer of stagnation in the social structure has been described. Since this concept is also a presupposition for the understanding of the success and the failings of communist planned economy, it will be sketched briefly here.

Romania had never experienced a revolutionary reversal of its economic and social order. Whereas in Western Europe the bourgeoisie was formed in opposition to the central political power, the Romanian bourgeoisie had, from the very beginning, fused with the oligarchy.

The structure of a feudal or status society remained dominant. In contrast to modern or industrial societies, such societies are governed by personal rather than impersonal norms. The basic units of social organization and identification are corporative groups, and not individuals or the nuclear family. In such a society, social integration does not run horizontally as in an open, class society, but vertically through patrimonial principles, personal loyalty, and duty. Such a society broken up into clans has much less potential for interaction, organization, and adaptation than market-oriented bourgeois society. Consequently, a relatively limited amount of power is available to the state. Romania did not pass through a transitional phase of liberalism, but moved directly from mercantilism to finance capitalism. As a result, Romania experienced the destructive and centrifugal forces of the market, but never revolutionary transformation to a market economy.¹⁶ The political design of western democracies was superimposed on the country "from above," resulting in a facade-like imitation of liberal institutions: "Consequently we have a constitution which must teach us freedom instead of the exercise of freedom giving birth to a constitutional compact."¹⁷ A business mentality in the Western sense was hardly developed. Instead of making capital available to industry, the oligarchy established a network of personal privileges between politics and the economy. "Social, political-bureaucratic and economic élites were able to successfully immobilize the resources under their control."¹⁸ In regard to the chances for success of an autocentric development, the Romanian Social Democrat, Vionea, warned in 1926 that protective tariffs and closure would only result in protecting the inefficiency and corruption of the Romanian bourgeoisie, which should not be confused with a dynamic capitalist class, and would in effect transfer the burden of neo-serfdom from the peasants to the workers.¹⁹

Indeed, the incompatibility of this type of feudal social formation with a prosperous market economy is empirically evident. To be sure, this does not explain why in present-day industrial societies with a similar social formation in the past, the latter was overcome by development, whereas in Romania it prevented development from taking place. More interesting would be the thesis that a symbiosis of feudal "status

society" and peripheral capitalism amalgamates into a structure which is resistant to the forces of erosion of a competitive capitalism.

2.4. Auto-centred State Capitalism

The world economic crisis hit Romania especially hard. The main export goods, oil and grain, suffered a drop in prices unusually severe even for a crisis situation. At the same time, the enormous foreign debt service as well as the debts of the small peasants and the repayment of industrial credits had been fixed nominally. The price of oil by 1931 had dropped to 24 per cent of the 1928 price (16.5 per cent of the 1925 price) and by 1934 to 21 per cent. The average domestic price of grain in 1931 was 28 per cent of the 1928 price, while the export price of grain dropped in 1931 to 39 per cent and finally in 1934 to 24 per cent of the 1928 price. Until 1933, the terms of trade grew worse by 58 per cent as compared to 1927. Whereas in 1929, Romania had to export 6.6 tons for each imported ton, in 1933 it was 16.3 tons per each imported ton. In addition to that, Romania registered in 1932 the worst wheat harvest in its recorded history, with yields per hectare of 5.1 dozen. The nominally fixed debt amortization rates of the small peasants elicited an extreme renunciation of consumption (thus sugar production in 1931 vis-à-vis the previous year dropped to 35 per cent). From 1929 to 1932 the nominal national income dropped by 45 per cent. Deflation always benefits the creditor and burdens the producer. Since Romanian industry was heavily financed from abroad ("Romanian industry is, for the most part an edifice erected by the banks"²⁰), it was especially hard hit by the contraction of demand and the drop in prices. At the same time, foreign credits, which were extensively made use of by the state and industry, were suddenly unavailable.

The extraordinary situation of the world economic crisis led to the passage of a series of administrative measures, which were intended to be short-term emergency regulations. In the years that followed, these measures were not only retained but intensified and consequently became integrated within a new economic policy. These changes in the economic

course were accompanied by a political transformation of the country. Intellectually, the way was paved primarily by the writings of Michail Manoilescu, professor of political economy, president of the national bank, minister of trade, and later foreign minister. Since Manoilescu's diagnosis and remedy coincides to a surprising degree with contemporary currents in developmental theory as well as with the reality of communist planned economy, a short summary of his thesis follows.

Excursus: Industrialization by Economic Closure and a Corporative One-Party State - The Economic and Political Concepts of Michail Manoilescu

The economic problems of the agrarian countries, their poverty, and the never-narrowing gulf separating them from the industrialized countries are, according to Manoilescu, not the result of the inherent "backwardness" of these countries, but the result of their integration into the world economy and their trade relations with the industrial states. This trade does not, as classical trade theory suggests, equally benefit both partners. On the contrary, it is absolutely detrimental to the agrarian states.²¹ The only alternative open to the agrarian states is intensive industrialization. Presupposed by the latter is a drastic reduction of these foreign-trade entanglements. "Until this development is completed these countries constantly strengthen their isolation and decrease the international circulation of goods as well as of capital."²² The realization of this goal is not compatible with the existence of a liberal-democratic state. What is required is the corporative reorganization of the state. The developments in the world economy are the "agent permanent de la réforme de l'état." In order to realize the national interest, foreign trade must be developed by means of bilateral compensation agreements and the setting of quotas. The allotment of quotas, the rational distribution of credits as well as standardization of products, etc., necessitate co-operation of exporters as well as of importers, watched over and supported by the state. This state-controlled syndication results in a corporative arrangement of the total economy of the country which goes far beyond the demands of state-directed foreign trade.

In order to provide the same benefits to peasant small-holders as to

the large estates concerning delivery of goods, cultivation of the soil, access to market, and the availability of credit, and at the same time to do away with the exploitation of the villages by the city, the villages have to be organized in co-operatives (syndicates). The latter can be obligatory and at the same time represent the economic life of the village as well as its political will "in a TOTALITARIAN manner." Via district and provincial councils, a pyramid-like organization of the rural economy has to be built up.

Production is co-ordinated with demand through co-operation among producers and consumers and contracts among associations, who represent complementary economic activities, and an adjustment between production and demand has to be secured in that way. A syndicated organization of banks under the guardianship of the state secures the optimal use of tight capital.

One of the basic arguments put forward by Manoilescu in favour of a corporative state is related to the problem of cartels. "Syndicates and cartels are therefore simultaneously useful and dangerous instruments. They are useful because of their technical and economic performance and dangerous because of their social consequences. They are useful always, and dangerous only when they are not controlled through the power of the public or a system of intercorporate equilibrium."²³ However, the liberal regime does not and can not control the cartels. The corporative state is necessary in order to act against certain organized egoisms, to respect the cartels as well as to dominate them. An economic system based, on one hand, on private capitalist cartels and, on the other hand, on the strong supervision and regulation of these cartels by a strong, corporatively organized executive power seems to be the ideal combination of the two systems. It consists, according to Manoilescu, of isolating the destructive elements of capitalism and strengthening the constructive elements. In other words, "le jeune athlète fasciste réussit à maîtriser dans ses bras puissants la bête capitaliste, en courbant le dos devant l'autel de la patrie. Les syndicats se soumettent." It remains at least an open question of who will subdue whom in his strong arms.

To summarize:

1. The world economic conditions necessitate the formation of certain national organs which will unite all those elements which are active in the same economic spheres;
2. These organs act in the interest of the common good;
3. The common good requires that the organization and co-ordination of the activities of these organs is methodical and not anarchistic;
4. These organs are called *Corporations* and the state which is capable of organizing their activities is called the *Corporative State*.²⁴

Capitalism used the spirit of technology and invention to its benefit. To create a society which can make use of the "esprit d'organisation," that is the great task of corporatism. The "économie organisée" not only compensates for the "failures of capitalist self-regulation," but makes possible a rationalization of economic activity, thus mitigating or eliminating economic crises. Organization and co-ordination cannot be misunderstood as being static. The state "as the chief manager of the large enterprise, which the national economy forms in its totality" takes over the *function of initiative* in the life of the national economy, on the basis of a national economic programme. The liberal state was not up to fulfilling "this important and unique role." The corporate state is. Its basis is the "single party." This party reserves for itself the exclusive right of political action and is "the guardian" for the corporations as well as for the whole nation. This party of unity is the "rationalizer of the state," "a force for the unification of the Nation," "a mechanism for the control of all the organs of the state," "a means for the elimination of adverse ideologies," and "the elaborator of a new institutional order."²⁵ "The goal of this one-party state is to personify a political and social ideal." It is significant that "the content of the ideal which the state embodies is not even that important." The following is characteristic of Manoiloscu's doctrine: "If the one party offered no other advantage than that of a consistently rationalized administration, this alone would guarantee its success," because "rationalization is the passion of our epoch, ... since everything that is functional is corporative" and "everything of importance concerns the state."

What remains unsaid behind the concept of a corporative one-party state as a vehicle for national economic development, because it would be politically inopportune, is the conviction that to carry through a programme of a cost-intensive planned industrialization in a democracy, four-fifths of whose voters consist of poor peasants, would be impossible.

To be sure, Romania's political development was set on a course culminating in the collapse of democracy as a result of the world economic crisis, quite independent of Manoilescu's arguments. King Carol little by little appropriated real political power and, in 1938, established a corporative dictatorship which bore the stamp of Manoilescu's ideas. (This coup d'état was legitimized through the necessity of preventing a takeover by the fascist "iron guard.") The concocted pathos of the state bureaucracy, renamed as the "National Rebirth Front," was able to attract only limited support. The personal unpopularity of the king did not help. He was driven into exile by the fascist revolt in 1940. After a four-month-long orgy of terror and anti-semitic pogroms, the "Guard" was replaced by the technocratically efficient and increasingly popular dictatorship of Marshall Antonescu. It continued the gradual transformation of the country into a state planned economy, which was started during the depression. The course and success of this policy will be clarified below.

Foreign exchange control, quotas, and the transition to compensation agreements and barter in foreign trade accompanied by a multitude of import and export premiums and duties led to an efficient system of state control and regulation of foreign trade and currency transactions. An attempt was made to stimulate domestic economic development by, among other things, prohibitions on the export of capital, taxation, state financial aid for industry, the increase of government orders in industry, and a stabilization of the price of grain through the foundation of a state sales organization.

As of 1932, foreign exchange had to be conducted through the state bank. The national bank was empowered to exercise control over foreign exchange over banks, firms, and private individuals. In 1932, a moratorium on

foreign debts was declared, the export of capital being prohibited as was in 1935 the use of foreign-owned accounts for exports. (This "captive foreign capital" played a not insignificant role in financing industry.) Boards were established to oversee foreign exchange, foreign trade, and compensation. Also established was a "High Commission on Import Quotas," and finally in 1935 a "Commerce Police." Clearing contracts with individual states reserved set percentages of export earnings for balancing of state debts, for state commissions, or for the stockpiling of foreign exchange. In 1935, the import tariffs of the 1920s, which were roundly condemned as being unreasonably high, were drastically raised. More effective, however, were the direct state interventions in the area of foreign trade such as quotas, prohibitions on imports, and the introduction of product lists for compensation transactions. The number of goods subject to quotas rose from 180 tariff positions in 1932 to 600 in 1934. In 1933, 80 per cent of imports were subject to quotas; at the end of 1934, 97 per cent. At the same time, a policy of diverting exports to creditor countries, and preferring imports from weak currency countries, was pursued.

This foreign trade policy was, after initial learning costs, successful. The balance of trade since 1933 was impressively positive. The share of imports from countries with a strong currency was reduced during 1934-1936 from 60.5 to 32.6 per cent while the redirection of exports turned out to be much more difficult. The share of industrial manufactured goods fell from 58.9 per cent (1929) to 33.2 per cent (1934); the share of raw materials and semi-manufactured goods rose from 33.3 per cent to 59.8 per cent. The share of industrial consumer goods in the imports of manufactured products declined during 1929 to 1938 from 44 to 20 per cent and, correspondingly, the share of capital goods rose to 80 per cent — a clear indication that the export earnings have been increasingly used for the industrialization of the country and that import substitution grew.

With the inception of the world economic crisis, a price scissors between industrial goods and agricultural goods came into being, which

subsequently closed only negligibly — the index of the price relationship between agricultural products and industrial goods used in agriculture dropped from 100 (1929) to 53.4 (1934) and rose by 1939 to only 64 per cent. The excessive formation of cartels which grew rapidly because of elimination of foreign competition was openly encouraged by the state. At the same time, taxes on consumer goods were sharply raised — thus, the tax rate on sugar from 1934 to 1937 was 3.5 times as great as before the crisis, in spite of high deflation. Also, in the industrial sector, real income was retrograde. While nominal wages rose on the average by 5.9 per cent from 1934 to 1938, the cost of living increased, according to official figures, between 22 and 40 per cent, depending on the district. It is clear that under such conditions, demand on the part of the population could not encourage industrialization. Only import substitution and state orders acted as growth stimulators, and the role of the state was increased substantially. (In 1938, the state claimed 28 per cent of the goods produced. In the metal producing and processing industry, it was 70 per cent of the output.) At the same time, it was attempted by means of the tax structure, e.g., through a 12 per cent tax on new construction, to divert capital to productive investments. On the other side, industry too complained about rising taxes and credit costs.

It is evident that just those factors which, in the 1920s, in the opinion of the experts, hindered industrialization (high prices, a suboptimal investment structure resulting from the elimination of foreign competition and oppressive interest rates resulting from capital shortage), were clearly strengthened. The results of this policy contrasted sharply with those of the 1920s. Manufacturing industry experienced rapid growth. Employment in this sector in 1934 surpassed the level of 1928 (208,000) and increased to 289,000 in 1938. So, in four years employment showed an increase of 39 per cent, which could not be attributed to recovery from depression. Capital in this sector grew in 1934-1938 by 22.3 per cent, the number of horsepower used by 34 per cent. Consequently, the capital intensity in those years presumably decreased — taking unemployment and capital shortage into consideration, a not unhealthy development. In contrast to the

1920s, the export sector did not grow. Expansion was concentrated in domestic-oriented sectors of industry. Mining presents a similar picture. The oil industry stagnated, while the mining of iron ore, manganese, and bauxite showed clear progress. The most impressive expansion was evident in the textile industry, metallurgy, and chemistry. The degree of self-sufficiency in textiles increased from one-third to nearly three-fourths of consumption; in most of the subdivisions of that industry it was by 1937 over 90 per cent. The share of imports devoted to textiles was reduced from 40.7 per cent (1927) to 16.3 per cent (1939) and was now focused on raw materials. Fabric imports fell from 4.4 billion lei in 1927 to 66 million lei in 1938. There are few countries in which such a clear and homogeneous textile industrialization can be pointed to as in Romania. In the metal industry, the production index in 1938 was 80 per cent above that of 1928. The import ratio of steel was reduced to 32 per cent (1937).

At this point, the limits of import substitution were reached. In almost all areas over-capacity had developed. The blast furnaces were by 1938 utilized at 42 per cent of capacity, the steel plants at 57 per cent of capacity and the rolling mills at 53 per cent. In the industry with the largest turnover, the food industry, no sector (excluding the sugar industry) between 1928 and 1937 ever reached a utilization of capacities of 45 per cent. In the mostly newly created textile industry, by 1937, utilization was between 45 and 65 per cent. The capacity utilization of the traditionally important wood-processing industry was in 1935-1937 between 23 per cent and 50 per cent, that of the leather industry 45-60 per cent, that of the cement industry 51 per cent, oil refining 75-85 per cent, etc. Except for the metallurgical industry, where underutilization of capacities was mostly attributable to the complete lack of planning and co-ordination above the enterprise level, the underutilization of industry was the result of a general weakness of demand. After an immediate boom of import-substitution, the country was overtaken by its hereditary structural problems.

An attempt has been made to show that as a result of this industrialization boom, demand for industrial goods even declined.²⁶ This would

imply a devastating verdict regarding this economic policy, because even if multiplier effects had been suppressed completely, at the very least the industrial consumption of the new industrial workers should have increased demand. These calculations are based, however, on current prices in a strongly deflationary period and for that reason are hardly reliable. Beyond such quantitative uncertainties, it is indisputable that the "developmental reserve" of import substitution was used up without stimulating an industrialization process. (In spite of the noteworthy increase in jobs, the population grew during 1934-1937 nine times as much.) For market-based growth, there was not enough demand, and for state-directed growth, no plan. It is obviously nonsense to finance an industrialization boom through the impoverishment of the population, without at the same time making up for falling demand through a state-directed development programme, by which industrial orders replace the lack of mass consumption. Instead, it was attempted to stabilize industrialization through massive armaments orders, consequently reducing the purchasing power of the population in favour of unproductive investments.

At the same time, the rapidly expanding influence of the state in industry, and the creation of a bureaucracy, which dispensed credits, state orders, import quotas, and hard currency, led to the emergence of a situation where an intimate relationship to this bureaucracy was more important for the survival and growth of a company than productivity and market performance. With this, one of the basic evils of the economic-social structure of the country developed further. Instead of the intended control over the cartels by the corporative state, what developed was an intertwining of interests of the economic "élite" and the political bureaucracy. This paralysing of the market mechanism through coincidental power structures restricted progress and resulted in a less-than-optimal use of resources.

In 1937, a study concerned with the cartel laws in the semi-official "Correspondence économique roumaine" draws a clear parallel between the impoverishment of the peasants by land tenure trusts which led to the great peasant revolt of 1907 and the exploitation of the consumers by

industrial cartels in 1938, quoting a famous statement from the year 1907: "Even for optimists it is without doubt, that this state of affairs, if it is maintained, inevitably will lead to a catastrophe."²⁷

In the 1920s, an industrialization policy based on market forces and protective tariffs failed. In the 1930s, an economic policy based on state control of foreign trade, direct import prohibition, market forces, massive state orders, and state industrialization projects was unable to rise above the level of immediate import substitution. It is open to question whether the main reason for this failure is the non-existence of a detailed state plan for the industrialization of the country or the incompatibility of a private-capitalistic economy with state-directed industrialization. On the other hand, development and execution of such a plan for state-guided industrialization was certainly inhibited by the very existence of a private-capitalist economy. Without a doubt, the Romanian experience during both phases in the period between the two world wars, casts doubt on the chances for success of an auto-centred strategy of development carried out under the conditions of a peripherized country and non-nationalized industry.

2.5. Preliminary Practice for a Planned Economy

The reaction of the state consisted of a transition to a control and command structure in the economy and a first step towards a planned economy: As of 1937, price increases on the part of the registered cartels required the previous approval of the ministry. As of 1940, cartel prices were completely set by the state. A "law for the increasing of production" prohibited all industrial enterprises from decreasing production vis-à-vis the previous year. Exceptions to this rule were granted only in case of the death of the owner of insolvency and then only on the basis of the expert opinion of a special commission. The managers of the industrial enterprises and wholesalers were obliged "to within 20 days after the law was made public to indicate (a) all the goods in their possession as well as their purchase price and costs of production, (b) which industrial or trading firms in export or import

they represent, . . . to report on the first day of every month to the ministry all goods bought and sold, their prices, the complete list of the suppliers and buyers. . . . The ministry of commerce is authorized to demand from each industrial or mining enterprise the presentation of the yearly programme of production. If such a programme is not supplied, the ministry can order its elaboration and directly specify the measures to be taken to increase or improve production." From 1939 on, the ministry of agriculture was required to submit an overall plan for agriculture each year. It could give detailed orders concerning land use and which each farm had to carry out. Certain sectors of the food industry were obliged to sign contracts with agricultural co-operatives and with single farmers - at reasonable prices and at conditions fixed by the ministry. In 1940, a "law of unrestricted authority" empowered the ministry of commerce to take any measures it considered necessary regarding organization and control of production, trade, and consumption of commodities.²⁸ Data enabling detailed evaluation of the success of this policy are not available, but the evidence points to a new industrialization drive.

The economic history of Romania, from the 1830s until World War II, in its entirety presents a convincing and thorough argument for the necessity to carry out an industrial revolution through a centrally planned economy. Obviously, foreign economists came to the same conclusion. In 1940, a report by the Institute for World Economics in Kiel summarized:

The problems of economic structural change are far too difficult for market forces to bring a solution. . . .

Under the conditions prevailing now, the government has not only to stimulate the economy in the long run but to be permanently in control. In the case of Romania, only a well co-ordinated and determined policy by the state can guarantee success. . . . The objections that Romania as a poor and overpopulated agrarian country is incapable of such economic efforts demonstrates once again the essential need for stated guided economic development that does not only depend on profitability. The lack of capital in a subsistence agriculture renders such an economic development possible, but also does not make it impossible.²⁹

Even if we regard this statement as being influenced by German fascist

ideology, the following assessment is beyond such suspicion. In 1943, in the "Report for the Economic Group of the Committee on Reconstruction" of the Royal Institute of International Affairs, Rosenstein-Rodan recommended a "large-scale planned industrialization of Eastern and South-Eastern Europe."³⁰ Due to the social problems of this region, industrialization is now imperative, it was argued. This industrialization could not be expected to be carried out by the initiative of private enterprise. Intensity of capital and the average size of factories had largely increased since the nineteenth century as, consequently, had the entrepreneurs' investment risk. The private propensity to invest is guided by expectations based on past experience. However, such experience is irrelevant when the whole economic structure of a region is to be changed. In addition, during the earlier phases of industrialization, high externalities were caused, which were useful for the national economy but not rewarding for the individual enterprise. "If we create a sufficiently large investment unit by including all the new industries of the region, external economies will become internal profits. . . ."³¹ At the same time, the non-existence of complementary industries builds a high barrier against private investment in one of these industries. "Complementary of different industries provides the most important set of arguments in favour of a large-scale planned industrialization." Belated industrialization implies the application of given technology and even the structure of demand is easy to forecast. "While in the rich countries with their more variegated needs it is difficult to assess the prospective demand of the population, it is not difficult to foresee on what the formerly unemployed workers would spend their wages in regions where a low standard of living obtains."³² Consequently, losses and inefficiencies caused by central planning would not be very high. But "an institutional framework different from the present one is clearly necessary . . . the whole of the industry to be created is to be treated like a huge firm or trust." It is worthwhile to mention that Rosenstein-Rodan's argumentation refers only to backwardness and does not take into account the economic structure caused by peripherization. In such a case, his recommendations are correct a fortiori. It is well known that this policy has subsequently been carried out by other forces than expected by the British "Committee for the Reconstruction."

3. CENTRAL PLANNING AS A DEVELOPMENT STRATEGY

3.1. *Political Starting Conditions*

The Romanian Communist Party (RCP) propelled into power by the advancing Soviet troops in 1944/1945 was one of the weakest members of the Comintern, with very little prestige. In one of the poorest and least-industrialized countries of the continent, this meant assumption of power by a political party that proclaimed the working classes as its social basis although, even by relatively generous estimates, industrial workers represented at most 7 per cent of Romania's total population. The RCP had never had a membership of more than a few thousand. Yet, in 1944, within a few weeks its membership increased from one thousand to several hundred thousand. Its sole power base, completely unassailable, was the armed forces of a country which for over a century had elicited hatred and resentment by its imperial interventions and which even now was treating Romania as a defeated enemy state and had annexed part of its territory. The RCP did not have at its disposal either concepts that could have mediated between Marxist-Leninist imperatives and Romanian reality or a practice-oriented ideology. Hence, stabilization of political conditions was achieved above all by the deployment of terror or the threat of it rather than by any attempts to achieve legitimacy and to form alliances with other political groups. In other words, there was nothing which could have given the propagandistic facade of massive involvement, popular enthusiasm, and voluntary mobilization at least some elements of substance. This was a dictatorship which was scarcely able to maintain its stability for more than a few weeks had it not been able to rely on the military and the secret police. These circumstances are decisive for any assessment of the political and social preconditions for establishing a centrally planned

economy. Nor was it possible in Romania temporarily to buy popularity by dividing the holdings of the previous big landlords among the peasants as had been the case in the USSR and in other eastern European countries — after the reform of the 20s, only about 11 per cent of the area was left over for distribution by Communist land reform and only 7 per cent was distributed among small peasants. The declared goal of the RCP, its programmatic concept — which at least since 1948 has been in complete conformity with Soviet wishes — was the forced industrialization of the country. Industrialization was held to be the prerequisite for all other aspirations, such as a higher standard of living, intensified agricultural production, regional development, and the like, which for the time being merely remained policy targets annunciated by official proclamations. Yet, this order of priorities set by Communist policy conformed to the actual development needs of the country, and might accordingly in the longer term have been able to achieve consensus among a part of the population at least.

Western analysis of centrally planned economies (CPEs) points to the prevalence of dysfunctional elements of this strategy, which contrasts curiously with the strategy's evident effectiveness in the industrialization of agrarian countries. For these reasons, a brief outline of the constitutive elements of CPEs of the type established in Romania as well as in other countries will be presented very summarily in the following sections.

3.2. Economic Policy for a Planned Industrial Revolution

Forced industrialization implies a high demand for capital goods. If absolute dependence on imports is to be avoided, rapid build-up of domestic capacities for the output of the means of production is of the essence. The investment structure will hence give Sector A high priority, implying slow growth of consumption goods production. At the same time, the rapid pace of industrialization demands a high share of investment in the GNP (a high "rate of accumulation"). This itself keeps demand for consumption goods low. The investment boom is financed first by repression of luxury consumption and second by

reducing mass consumption. Luxury consumption is eliminated as the strata in high-income groups, i.e., the traditional "political élites," are deprived of power and dispossessed. As a result, the structure of demand is shifted towards more simple products. Reduction of mass consumption in most cases is achieved by political repression which may entail suspension of fundamental civil rights (the right of suffrage, the right to strike, freedom of speech and opinion, etc.).

Forced build-up of a capital goods industry in an agrarian country involves the simultaneous formation of a set of components complementary to each other and must be co-ordinated into one overall scheme. This requires a precise and detailed overall plan for economic development. Realization of the plan in turn requires a structure of command planning throughout the economy. If specific components of the plan are not at hand on schedule, the resultant bottlenecks have devastating cost effects. Consequently, quantitative planning based on material balances and the requirement of timely and 100 per cent fulfilment of output targets is rational. The question of costs in an economy whose sectors are strongly structured by Leontief production functions is rightly regarded as being a secondary factor. On the other side, this situation results in very high losses if the targets are set too high. The frequency and virulence of bottlenecks and the programme of restraining consumption make it advisable temporarily to set maximum prices centrally in order to avoid price explosions. Planned industrial revolution is marked by a high rate of externalities not rewarding the individual enterprise. This in itself makes necessary the reduction or suspension of business management criteria of profitability. At the same time, in a country pursuing large-scale planned industrialization, expectations concerning macro-economic developments are strongly dependent on all planned components being available on schedule. This situation is hardly compatible with the operation of private enterprise. (The vast gulf between targets and results of the first Romanian five-year plan would presumably have brought any private company operating within its frame and calculating in terms of target-fulfilment to the brink of ruin and started a serious recession in the economy at large.) For these reasons, private ownership in industry must be reduced to

marginal areas. Nationalization of industrial enterprises does not burden the "propensity to invest" with the encumbrance of an extremely inegalitarian income distribution.

Invalidating or reducing the effect of the criteria of profitability on the enterprise level by central coverage of costs and wage-levelling achieved by the use of coercion and repression is the precondition for the full-employment policy of the CPEs. (For particular enterprises the rise in number of persons employed makes sense as long as the marginal product exceeds wage; for the national economy as a whole, an increase in employment is rational as long as the marginal product is higher than zero.) Under the conditions of permanent excess demand, typical for the CPEs, this full-employment policy speeds up the rate of growth, removes marginalization, and via an egalitarian income distribution brings about a demand structure focused on simple mass-consumption goods. At the same time, the rapid absorption of the available labour force by the industrial sector has widespread training effects and leads to the early acceptance of norms and behaviour patterns which are required by industrial society and the industrial mode of production. This accelerates the erosion of pre-industrial social structures, orientations, and norms.

The capacity to plan the thrust toward industrialization necessitates a reduction of dependence on foreign trade. For world market prices and demand can be predicted only very vaguely and any prognosis of the export potential of a country caught up in the process of economic and social upheaval that forced industrialization represents is even more afflicted with unpredictability. On the other side, this phase is marked by an enormous need for capital goods imports and foreign trade deficits are the rule rather than the exception. (In spite of a relatively solid raw material base, Romania's foreign trade balance was in deficit for 21 years during the period from 1950 to 1970.) Consequently, a system of controlled foreign exchange makes sense. The reduced convertibility of the national currency in most cases entails a decline of the exchange rate and the transition to barter in foreign trade. Hence central management of foreign trade is the logical

consequence of this development.

Strong centralization and rigid high output targets reduce creativity, narrow the scope for alternative problem-solving, and impair innovative potentials. Such factors as the replacement and de-motivation of persons who formerly held leading positions in the economy and in technology, nationalization of production, and depressed consumption levels produce similar effects. Belated industrialization, however, requires the capacity to assimilate and apply existing technology. In addition, the countries which are starting economic development in the periphery experience the marginalization of large sections of the population and as a consequence suffer from an enormous rate of unemployment. In this respect the extensive pathway to development is meaningful. Especially as what is required in most cases in this phase is not the gradual expansion of existing plant but the construction of new units of production, often on the model of domestic or foreign industrial facilities. For all these reasons, there is no great need for genuine technology innovation at enterprise level, for creativity, and competence. Furthermore, at this stage of the country's development, very few technical experts and experienced and loyal managers are actually available, which in turn enhances the tendency to strong centralism.

Consequently, for the CPEs of the type described, the elements which constitute the planning system possess a high degree of coherence and functionality. This judgement finds confirmation in the literature on researching economic history concerned with the process of industrial revolution. Just a few summary remarks may help to elucidate this point.

Market economies are characterized by demand problems and periodic demand crises. CPEs are characterized by permanent excess demand. That for today's industrially developed nations the main take-off problem was the formation and stabilization of sufficient demand is presumably uncontested. The susceptibility of market economies to experience a cycle in which decline in demand sets off a drop in investments that fuels recession appears far more marked and rich in consequences in the

take-off phase of these economies than after industrialization has been completed. In the experience of the CPEs, this is a non-existent problem.

For the CPEs, the priority goal was to secure the rate of accumulation required to carry through industrialization — and this was achieved, often by brutal means. Yet, lack of capital has scarcely ever been the stumbling block for the process of industrial revolution. Some estimates from the literature on the history of industrial revolutions point to a rise in saving ration from 5-6 per cent to 10-12 per cent in the nineteenth century.³³ Even though in a later period the aggregate saving ratio would have had to be somewhat higher, this still would not have required extreme curtailment of mass consumption and, in the main, this rise in capital formation was actually financed in a relatively short time by increased productivity and by institutional innovations, such as the emergence of an efficient banking system. The decisive factor for the industrial take-off was rather to stimulate the use of economic surplus for productive investments, thereby either again solving the problem of demand, or relieving investment decisions of the constraint of having to guarantee early and calculable returns.

The political leadership in the CPEs regarded the accumulation problem and its solution as central, although it was a problem which never existed on a scale justifying the measures taken. Regarding demand, they solved a problem which they never took cognizance of.

Yet the governmental industrialization programme entailing high output targets and full employment policy created permanent excess demand. Moreover, elimination of the central role of the market paralysed the self-reinforcing mechanism, by which decline of demand causes recessions in capitalist market economies. It should be added that the very high share of investments in the national product of the early years of the CPEs shows a depressingly low rate of efficiency. The attraction of the CPEs as a model of development must be regarded in the light of all these circumstances: the policy of extremely high accumulation rates was one of the factors which gave rise to increased repression. What

is more, such high accumulation rates are hardly conceivable in most of the developing countries.

One frequent complaint in newly industrializing countries is the waste of capital engendered by domestic competition. Conversely, competitive pressures stimulate a rise in productivity. In the early stages of belated industrialization, however, such a steady increase in productivity is less significant than the waste of capital. (Capital waste on the vast, even enormous scale as it took place in the CPEs in the early phase of development is largely attributable to political errors which would presumably not have to be repeated.)

As a rule, in the CPEs a high degree of capacity use of production units is secured and the problem of surplus capacity is of low importance. Thus the massive concentration of investments into heavy industries and into raw-material processing in the CPEs was made possible because, for a period of 10 to 15 years, increased production of consumer goods could be achieved by full use of existing previously heavily underutilized capacities. In general, economic utilization of so far unproductive plant, equipment, and labour is one of the decisive advantages of central planning, which in the beginning tends to overcompensate losses incurred because of low efficiency inherent in the CPEs' model.

Carrying out industrialization has as its corollary the destruction of multiple livelihoods in the crafts and trades, manufacture, and the like. In market economies, the main effect is marginalization of sections of the population and impoverishment on a mass scale and thus, as consumption shrinks, this threatens a setback in economic activities and the industrialization process itself. The full employment policies the CPEs were able to pursue in contrast with developing market economies is precisely the factor which eliminates such destructive effects of productivity increase.

Some of the investments typical and necessary in the take-off period in agriculture (irrigation, breeding, and cultivation of animals and

high-yield crops, transport networks, and so on) and in the domain of social overhead capital (e.g., manpower education) can be realized more easily under state control and guidance than under market conditions. To be sure, the CPEs have for decades made investments in several of these fields an impossibility by policy decisions which presumably would not be taken again in the same way today.

Research into the history of industrial revolutions regards institutional change and the erosion of traditional norms as having as much importance as productivity increases. Precisely in the domain of institutional and normative change, the CPEs embody a power, a source of strength, which is, however, absolutely ambivalent. To explicate this requires analysis of the political and social structure which comes into being during the period of planned take-off. The following sketch of these structures refers again in highly stylized form to the "Soviet model" as it can be abstracted from the empirical knowledge we have of communist planned economies.

3.3. *The Ambivalent Functionality of Leninism*

On the one hand, CPEs have accomplished the required changes in social structure, norms, and orientations by recourse to brutal repression and, on the other, they have managed to scale down the need for transformations of this type. Both these "achievements" laid the ground for the high rate of success in the industrialization of predominantly peasant societies, stamped by a system of values and norms which is not compatible with a capitalist market society.

The determinant is the structure and ideology of the *Leninist Party*. The Leninist Party is genuinely a revolutionary party.³⁴ This should not be read as implying that it was propelled to power by a spontaneous mass revolt and that its conformity with the aspirations of these masses constituted its power base, but merely that it is not a reformist party. A *reformist* party regards itself as being representative. Its political conception is oriented toward a sequence of gradual transformations, it is guided by a means-and-ends relation which is

subject to "value constraints" and its choice of means is not absolute nor devoid of scruples. Its ideology is co-operation and thereby tolerant. What is required is agreement regarding immediate steps and policies. Differences about perspectives, even fundamental ones, can be maintained. Reformist policy consequently implies the risk of premature conciliation of conflictive goal-orientations, of a diffusion of perspectives, and of the erosion of power. Conversely, the strength of the *Leninist Party* lies not in its representativeness, but in its force as a "cadre party." "In the period of building socialism, cadres decide everything."³⁵

The cadres, however, are individuals who have experienced a reforming of their identity in a phase of isolation and indoctrination. Their commitment and duties to the extra-party environment have been reduced to a minimum. The Leninist party is a party of battle, its tools violence, compulsion, terror. Its ideology is not co-operative but consensual. The presupposition is consensus, not only regarding immediate policy, but also the long-term perspective. The party members are expected to bring sacrifices for the "high goals" proclaimed. Precisely this attachment to "ultimate" goals makes necessary the power monopoly of the party, the destruction of all other power centres in the society, the expropriation of the upper strata, forced conformity of the press, and so on. Precisely the complete elimination from the political scene of traditional élites and the minimalization of the leadership's moral and political obligations vis-à-vis all segments of the social setting distinguishes the dictatorship of the Leninist party from technocratic or populist right-wing dictatorships which, even when they pursue absolutely different aims, continue to feel obligated to parts of the traditional élites. This is one of the reasons why the latter form of dictatorship is relatively unsuccessful in the industrialization of agrarian societies.

The policy of the party is not confined to the establishment of a political monopoly of power. It aims at the penetration and transformation of social and cultural life at all levels and in all dimensions. The immobility of men and resources, conditioned by the traditional

social compartmentalization, is eliminated by drastically restricting the influence of such units as families, "clans," communities, and parishes on the action of individuals.

The behaviour patterns of a status-oriented peasant society, vertically structured by patrimonial principles and personal authority, have to be replaced by the impersonal norms and behaviour patterns of a horizontally structured industrial society. A "secularization" of behaviour, the spread of an instrumental orientation is enforced. This change of norms, values, and authorities means nothing less than a redefinition of the basic understanding of the members of society about the meaning of individual and social life. This explains the "totalitarian" character of Leninist regimes. It motivates the destruction or transformation of all forms of representation of social groups with other goal and value orientations. Contrasting life styles are discriminated, the influence of the churches is reduced and "horizontal communication" within the society is blocked. Although this totalitarian collectivist world view seems to have a positive orientation, for the party does offer a comprehensive interpretation of individual, social, and cultural life, in reality, the aim is actually negative. The precondition for the successful outcome of the industrialization campaign is not so much the identification of the majority with the party's ideology, but the destruction of traditional orientations and behaviour patterns. That the population is not full of enthusiasm, as officially claimed, is irrelevant. The prerequisites for the success of industrialization policy are the amorphous passiveness of the population and an actively loyal minority. The rapid expansion of the education system enforces social mobility and the penetration of new orientations. This reformation of mass behaviour patterns is at the same time promoted by a policy of industrial over-employment, i.e., by the absorption of a maximum number of people by the existing industrial capacity.

The destruction of traditional social organization and orientation was presumably the actual goal of agricultural collectivizations. There was no urgent economic necessity for collectivization, because the industrial inputs which would have necessitated a highly differentiated

division of labour and the creation of large units of farmland were at the time not available and would not be available for a long time ahead. No political necessity existed for collectivization either. On the contrary, these campaigns were as a rule started after the consolidation of power in periods of relative political stability. The unrest in the countryside, the obstructive attitude of the peasants, and the threats to the political system which, according to official claims, were partly the reason for collectivization, were in reality only provoked by these campaigns. The actual achievement has been the establishment of wage-labour relations in the agricultural sector. The peasant family as the basic work unit has been replaced by the brigade. Formal organization and a remuneration system based on individual working time became predominant. "To date, the difference between Leninist and third-world regimes is precisely in the greater success the former have had in subordinating status practices and orientations to the level of informal (not insignificant) behaviour."³⁶ As a result of collectivization, the population of the countryside became adapted to the social and organization conditions of industry, to which the majority was in fact shifted during the following decades. To be sure, it is an open question if even the goal of national industrialization can justify such an intensity of terror and of social and cultural destruction, which has been regularly connected with these collectivization campaigns. At least for nations which have an excess supply of labour force for the process of industrialization, other strategies of agricultural modernization seem to be less costly.

Because of this policy of destruction and discrimination of the values and orientations internalized by the people and of the general spread of fear about property, status, personal freedom, and life, the Leninist parties suffered a dramatic loss of authority and support immediately after their advent to power. The social and political isolation from the "masses" in turn reduced the sense of attachment and commitment the core of the party has had in relation to its social detachment. With this increasing detachment, the leadership got the political flexibility which they regarded as a prerequisite for pushing through the industrialization programme. Increasing isolation reinforces

coherence, homogeneity, and discipline among the party cadres. The relationship to the social setting and communication are instrumentalized. Social integration is achieved by virtue of compulsion. On the other hand, the break-off in information flows and the hypertrophy of the repression apparatus thrust the party into a state of political rigidity in which receding power to the military and the secret police paves the way to political depravation. Precisely the functionality of a certain measure of terror for achieving party aims and goals can induce the party ultimately to justify statist terror and coercion as such and in any form and to destroy even that minimum of legitimacy without which no political order can exist in the long term.

The interest of the political leadership is focused on the control and transformation of the system and centres less on authority and reciprocal acceptance — it is not community-but state-oriented. Leninism is only interested in a selective revival and integration of tradition after the function of tradition has been fundamentally redefined. The precondition for such a development is a qualitative breakthrough — a politico-social transformation that precludes any return to the status quo ante. Such a breakthrough can apparently be brought about by the combined effect of the ideology of class struggle, the instrumental orientation, and intense commitment to industrialization, which are the distinctive features of Leninism.

In the new political order, authority and loyalty are systematically assigned a place within the party. It is here that party members know the feeling of being held in a system, of being persons to whom the party shows gratitude for their contributions to the common cause, and experience a deep sense of belonging to this exclusive and charismatic community.

In Leninism, we find traditional and modern elements amalgamated into a strategy and into a system of organization designed to advance modernization. (Worth mentioning in this context is the emphasis given to the instrumental dimension and the priority that programme holds over the person of the leader, by which Leninism stands in contrast to fascism.)

Leninism is marked by the congruence of the normative system and structure of the party itself with the norms and structures of pre-industrial or status-oriented societies. The originality of Leninism lies in its instrumentalization of the norms and behaviour patterns of the traditional or status society to destroy that society and to spur on the nascent new order to cross the threshold of industrialization. The charismatic impersonality of the heroic party is a functional substitute for the non-available institutional and value order of the impersonal market society.

On the other hand, the conservation of traditional norms and behaviour patterns within the party itself carried an additional risk of the degeneration of Leninist regimes. That personalized cliques or neo-feudal clans can achieve substantial political influence is made evident by the history of the CPSU and eastern European state parties. The weight of feudalistic elements within the Leninist Party is one of the reasons for the difficulties the CPEs have in adapting the political structure to the level of economic development they have reached today and, further, can be held to have contributed to the low degree of success of these parties in Western industrial countries.

Because, subsequent to achieving independence from colonialism, nationalist ideologies with diffuse programmes and reformist strategies often prevail, political structures are imitated which do not fit the conditions for passing the threshold of industrialization and which stabilize a neo-colonial structure. With the advent of political disillusionment, the need is felt for an intelligible explanation of the continued existence of stagnation, dependency, and mass poverty, and for a convincing conception and a political strategy which may be expected to carry through the obviously necessary "second revolution." It is this point of development which a number of third-world countries seem to have reached today. Therefore a renaissance of Leninism can be expected. For that reason, an analysis of its economic components, their costs, and their degree of necessity gains new relevance. The following part of the paper intends to contribute to the clarification of the economic political latitude of central planning and to the elaboration of an optimal version of it.

3.4. Costs and Achievements of an Administered Industrial Revolution

The economic successes of communist Romania are impressive, both in international comparison as well as within COMECON, and certainly when set against the results of pre-communist economic policy (see table 1).

TABLE 1. Principal Indicators of National Economic Development

	Indices 1979 (1950 = 100)	Annual average growth rates					
		1951- 55	1956- 60	1961- 65	1966- 70	1971- 75	1975- 79
National income (net material product) ³⁷	14x	13.9	6.9	9.0	7.7	11.3	8.4
Gross industrial output	31x	15.2	11.0	13.8	11.9	12.9	10.3
Sector A (producer goods): gross output	44x	16.8	12.8	15.7	12.9	13.7	11.0
Sector B (consumer goods): gross output	17x	13.1	8.4	10.5	9.8	11.1	8.3
Global agriculture production	365	10.1	1.1	2.5	1.9	6.5	6.4
Fixed assets	762	4.6	5.2	6.7	8.6	9.6	9.3
Volume of investment	32x	18.2	13.7	11.2	11.2	11.2	10.0
Labour productivity per employee in industry	885	9.9	8.2	7.7	7.3	6.4	7.4
Per capita real incomes	457	6.5	3.3	5.9	4.2	6.8	5.7

Official data at comparable prices; source: Annual Statistics 1978 and 1980.

The achievements in changing the economic structure are no less imposing.

The share of national income accounted for by industry rose from 18 per cent (1950) to 57 per cent (1977), while that of agriculture fell from 57 per cent (1950) to 16-18 per cent (calculated in 1977 prices). The share of industrial employment in total employment rose from 12.0 per cent to 34.7 per cent (1979), compared with a fall in agricultural employment from 74.1 per cent to 30.7 per cent. And whereas industry had accounted for 19.8 per cent of total fixed assets in 1950, this figure rose to 43.5 per cent by 1979.

Clearly, these figures are strongly influenced by institutional and political factors. Re-calculations according to the UN system of national accounts indicate slightly lower growth rates in some spheres — but do not necessitate a qualitative revision of the basic picture. (In agriculture, where volume statistics allow a very reliable reconstruction of actual growth, careful calculations carried out in the West scarcely diverge from the official figures.³⁸) According to official indices of growth, Romania heads the growth table in Comecon, whereas Western estimates put it on a par with Bulgaria.

Figure 1 illustrates the structural development which took place in the sphere of foreign trade.

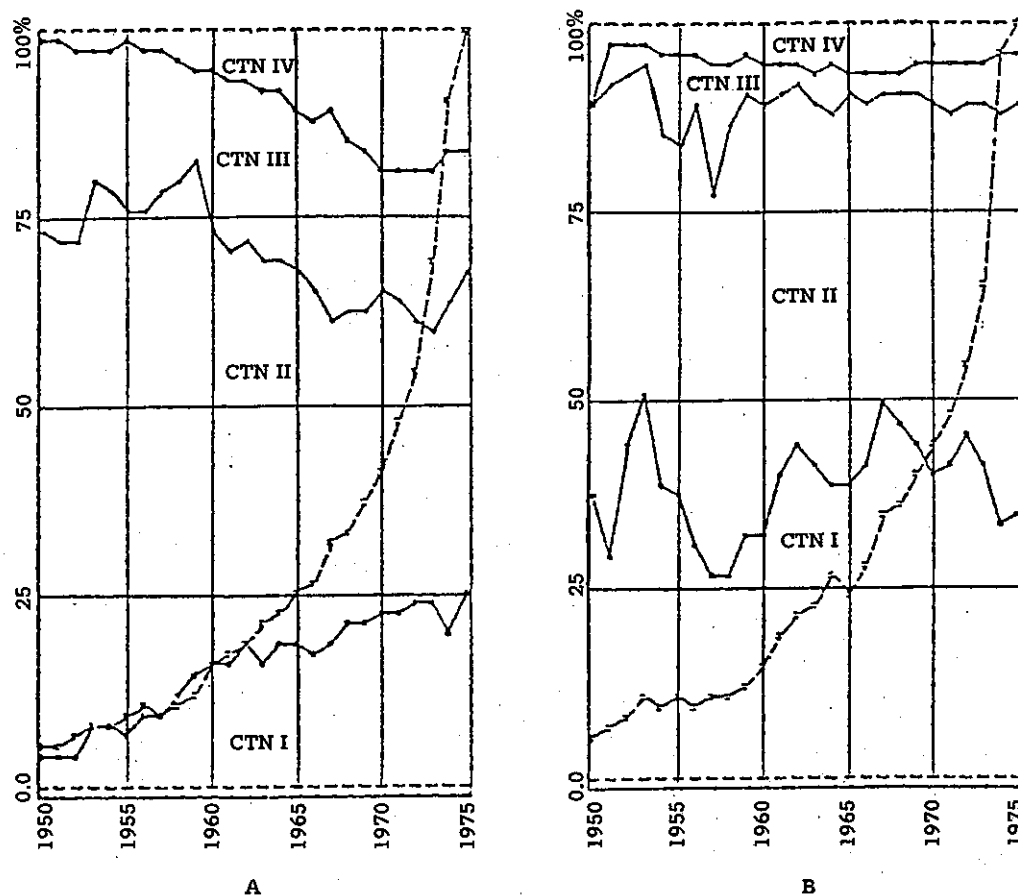


FIG. 1. (A) Commodity Structure of Exports. (B) Commodity Structure of Imports. Index, 1975=100. CTN I, capital goods; CTN II, raw materials (excluding foodstuffs), chemicals; CTN III, foodstuffs, agricultural products; CTN IV, industrial consumer goods.³⁹

The advance in development can also be seen in a number of social indicators. From 34,000 in 1938, the number of hospital beds rose to 69,000 by 1950 and reached 206,000 in 1979. The number of doctors per head of population rose from 1 : 1047 (1950) to 1 : 579 (1979). The percentage of still births was reduced from 2.5 per cent (1938 and 1950) to 0.9 per cent (1979), and the infant mortality rate (0-1 year) after an initial increase from 17.9 per cent (1938) to 20.0 per cent (1947), fell to 11.7 per cent (1950) and further to 3.2 per cent (1979). Life expectancy — which was given as 42 in 1932 — rose from 63.2 (1956) to 69.8 (1975-1977).

The results are fascinating, not least because of the particular costs and handicaps which the Romanian path had to cope with. In particular, the disadvantageous circumstances of the first ten years after the war (reparation payments, unfavourable terms of trade with the Soviet Union, the burden of military expenditure, Western embargo, etc.), had a greater impact on Romania than on other Eastern European countries.

Within the space of a few years, Romania had to supply goods worth 808.5 million dollars to the USSR as reparation payments, including 10 million tonnes of oil (cf. annual production of 6.6 million tonnes in 1938) — all at scarcely realistic 1938 "transfer prices."

At the same time, the country had hardly any significant export earnings as in 1950 the grain harvest still stood at only 52 per cent of its 1938 level (ca. 70 per cent of its average level of the years 1934-1938), and was barely enough to feed Romania's own population. Oil production, like all other key sectors, was controlled by joint Soviet-Romanian companies, 50 per cent of whose output was shipped without payment, and independent of other reparations, to the Soviet Union.

Whereas Bulgaria, Poland, and Czechoslovakia recovered rapidly after the cessation of hostilities, the Romanian economy stagnated between 1945 and 1948 — eventually inducing the USSR to adjust the prices of reparation goods, reduce its demands by a half, and allow a longer period for payment. Thus — in stark contrast to Bulgaria — in Romania

the death rate reached its highest point and the birth rate its lowest in 1947 -- three years after the end of military activities on Romanian soil. The brutal levies imposed on agricultural output led to such a precarious situation that it became necessary to ease the tax burden and accumulated debts of farmers. The official figure of defence expenditure amounted to 9.9 per cent of national income in 1950, 9.4 per cent in 1951, 10.7 per cent in 1952, 8.6 per cent in 1953, 5.9 per cent in 1954 and 6.0 per cent in 1955.⁴⁰ Furthermore, it is important to appreciate that Romania received during the following decades only a small fraction of the amount of loans which the Soviet Union extended to Bulgaria.⁴¹

A number of features specific to Romanian economic policy added to these external burdens. In comparison to other CPEs, Romanian policy makers were clearly willing to accept enormous economic costs in order to push through structural change in a very short period of time, although it is not easy to say to what extent the leadership was fully aware of the costs which their policy aims implied. Romania was to be transformed into a modern industrial state in record time: the leadership had an extremely restricted concept both of the aims and the means open to them and, in addition, lacked strategies which might have taken account of some of the country's specific features. The main guidelines were the branch structure of industry and the per capita output of key industrial countries. (Recent official Romanian statistics now present a branch structure which very closely resembles that of the industrial countries cited.) The conception was clearly emulative, and the economic thinking behind it rather crude. (However, the fact that this success in administered industrialization did not rest on highly sophisticated or hidden recipes is not without significance in evaluating it as a model for development.)

The extent to which Romania pursued a "hard" and ambitious path in comparison to other CPEs, and applied some of the doubtful "classical" political and economic strategies of the Soviet model more radically than its "fraternal neighbours" is illustrated by the following data. At the same time, the figures indicate the breadth of options within a

centrally planned economy and give some indication as to the reserves available for reducing the costs of growth and thereby easing the burden on the population.

The costs of the economic policy pursued in Romania are reflected in the depressed standard of living. In 1950, net wages were 337 lei per month and the income of the peasants 169 lei.⁴² This means that the peasantry — 71.5 per cent of the population — consumed only 37.1 per cent of national income in 1950. Taking into account the higher participation rate in the countryside and the fact that retirement pensions were not granted to peasants until the late 60s, in 1950 per capita income in peasant families amounted to about 58 per cent of that of wage earners and their dependents.⁴³

TABLE 2. Retail Prices in June 1950 (lei per kg)

	Rationed	Free
Mixed bread	0.99	—
White bread	—	9.35
Wheat flour	—	9.35
Meat	3.86	14.33
Lard	—	20.40
Butter	23.15	52.92
Sugar	1.65	19.85
Cheese	13.78	22.05
Sunflower oil	3.00	17.09

Source: UN economic survey of Europe in 1953, p. 281.

Rates of turnover tax were exorbitant. Turnover tax revenue exceeded 60 per cent of total retail trade turnover every year during 1950-1955. Peasants were not issued ration cards. The amount of food sold at lower prices in 1950 obviously was not very high, as it can be calculated from the sales figures of physical quantities and total retail trade turnover (see table 3).

The share of the socialist sector in retail trade turnover grew from 88.5 per cent to 97.2 per cent during 1950-1955. Consequently, about

TABLE 3. Per Capita Sales from Retail Outlets (Socialist Trade, kg per year)

	1950	1955	1960	1970	1979
Sugar	5.2	6.4	8.1	11.5	18.6
Meat	4.7	5.5	7.5	9.2	20.0
Butter	0.1	0.7	0.5	0.7	1.3
Bacon, lard	0.4	0.6	0.8	0.7	0.9
Edible oil	1.4	2.7	3.8	6.7	8.7
Cheese	0.5	1.0	1.5	2.9	4.8
Leather shoes (pair)	0.4	0.5	0.9	1.5	1.9
Bicycles*	-	2	11	7	13
Sewing machines*	-	3	2	4	5

* Piece sold per 1,000 of population.

Source: Annual statistics 1967, p. 444 and 1980, p. 490.

one-third of the increase in turnover during these years is attributable to the elimination of private shopkeepers and does not indicate an improvement of the standard of living.

We do not have official figures regarding the meat, lard, etc., consumed by the peasants out of their own production. According to a Czech source, Romanian per capita consumption of meat (slaughter weight) stood at 16 kg in 1950 and at 23.4 kg in 1958, per capita butter consumption at 0.3 kg in 1950 and at 0.7 kg in 1958.⁴⁴ The official wage index shows very low growth rates until 1953 and a steep increase after the death of Stalin (see table 4).

In 1953, peasant consumption of meat, fats, bread, and eggs was still at least 20 per cent below the prewar level. The enormous discrepancy of income levels between wage earners and peasants does not seem to have been narrowed at least until 1965. For 1975, peasant income stood at 60 per cent of that of wage earners.⁴⁵

Investment in housing was also initially held down to low levels (see table 5). In the case of Romania, 57 per cent of investment in housing in 1951-1955 came from private sources. Of the newly constructed housing units in this period 89 per cent were financed completely from

TABLE 4. Index of Real Wages

1950	100	1960	182
1951	106	1965	226
1952	103	1970	271
1953	109	1975	325
1954	113	1979	404
1955	124		

Source: Dezvoltarea Agriculturii R.P.R.
Bucarest 1961, p. 370, Annual
Statistics, 1980, p. 87.

the "People's Fund" and built by individual means. Whereas the newly constructed urban housing area came to 3 mil. m² from 1950 to 1955, the population in urban areas grew by 603,000 (the urban population increase from January 1948 until February 1956 being 1.76 million, or 47 per cent).

TABLE 5. House-Building as a Percentage of Total Investment (1951-1955)

Romania	10.1	Czechoslovakia	18.0
USSR	20.0	Bulgaria	15.9*
Hungary	14.4	Greece	29.1
Poland	12.3	Italy	28.8**

* 1952

** 1956-1960

Source: Rocznik Statystyczny, Warsaw, 1967, p. 632.

Per capita personal consumption in Romania has been estimated at 48 per cent of the Hungarian level and 73 per cent of the Bulgarian level for 1963; and 48 per cent of the Hungarian and 76-78 per cent of the Bulgarian level for 1973.⁴⁶

The consequences of the excessively rapid pace of growth and structural change and overnight reversals in economic policy can not only be seen in the generalized repression of consumption, but also in macro-economic fluctuations which make nonsense of the concept of a planned economy. The picture conveyed by figure 2 is not peculiar to Romania, but can also be found in other eastern European CPEs.⁴⁷

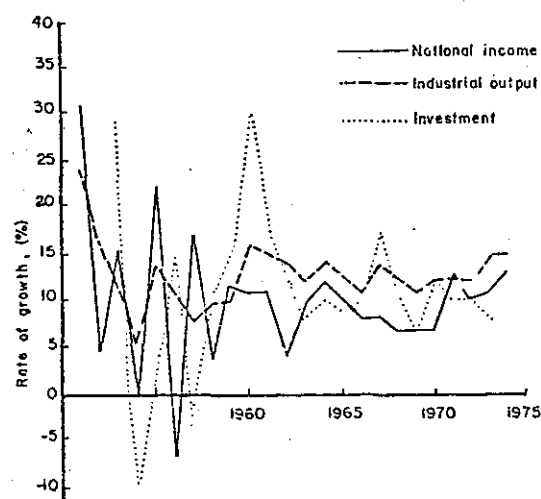


FIG. 2. Fluctuating Rates of Growth of National Income, Industrial Output, and Investment in Romania, 1951-1974

The extreme fluctuations of the 1950s are mostly attributable to the excessive repression of consumption, which in turn generated internal political instability, and thus necessitated short-term reversals in economic policy. A comparison of the rates of growth of output of heavy industry (Sector A) and light industry (Sector B) is particularly revealing in this connection (see table 6).

TABLE 6. Rates of Growth of Output of Heavy Industry (A) and Light Industry (B)

	Sector A	Sector B		Sector A	Sector B
1951	27	22	1960	16	16
1952	23	9	1961	16	14
1953	20	8	1962	18	8
1954	3	12	1963	14	9
1955	12	15	1964	17	10
1956	14	7	1965	14	12
1957	10	7	1966	12	10
1958	10	9	1967	14	13
1959	14	4	1968	14	8

In contrast, the cycles of the 1960s and 1970s — which are to be found

in all CPEs as well — can most likely be explained by bottlenecks resulting from disproportionalities between components of the capital stock, and are as such also the consequence of excessively high growth targets. That at least the growth rates of the 1950s can no longer be regarded as a viable paradigm seems to be clear.

3.5. Special Features of Romanian Economic Policy

The relatively high costs of growth are not only the product of excessively high growth targets per se, but of the structure of this growth. The process of growth in Romania was unbalanced in the extreme — both intersectorally and in its development through time. The changes in the structure of the economy which were envisaged are matched by the one-sidedness of the pattern of investment. Between 1951 and 1955, industry and construction accounted for 57.5 per cent of total investment, compared with 39.1 per cent in Bulgaria, 43.3 per cent in Hungary and 47.4 per cent in Poland. (Comparable figures from a Western industrialized country and one in the process of industrialization are: Belgium 32.8 per cent (1956-1960) and Italy 31.4 per cent (1956-1960).) Investments in agriculture amounted to 10.4 per cent in 1951-1955 in Romania and 15.2 per cent in Bulgaria. The next five-year period saw a slight drop in the share of industrial investment in Comecon as a whole, initially because of the "new course" following the death of Stalin and the easing of the burden of military spending after the end of the Korean War, and later as a result of fears of political instability following the 1956 Hungarian uprising. However, Romania continues to occupy the second place within Comecon (after the GDR) in terms of the share of investment devoted to industry.

Within industry, investments were very noticeably concentrated in the capital goods and basic industries (see table 7). As the table shows, only 10.7 per cent and 16.7 per cent of the industrial investments are channelled to the consumer goods sector. (The rise in the share of investment going into Sector B which began around 1965 should not be regarded as implying a proportional increase in provision for the local population: rather, Romania began to grasp the export opportunities

available in industrial consumer goods.)

TABLE 7. Industrial Investment and Output

	Share of Sector A in industrial investment (%)	Ratio between the share in industrial invest- ment and output*	
		Sector A	Sector B
1951-55	86.9	1.64	0.28
1956-60	87.2	1.56	0.29
1961-65	89.2	1.49	0.27
1966-70	84.7	1.30	0.44
1971-75	83.4	1.18	0.56
1976-79	86.0	1.20	0.49

* Output share at the beginning of five-year periods, e.g., 1950, 1955, . . ., using official data.⁴⁸

The relative productiveness of these investments can be seen in table 8. Clearly such figures can give only a crude indication of the variation in efficiency of investment between each sector. The values for gross output are deformed by domestic pricing policy. Furthermore, it is acknowledged that the significance of incremental capital/output ratios is open to question. For example, they do not embrace the extent of new labour inputs. However, in the Romanian example, in all the five-year plan periods there was clearly a much greater labour input into Sector A than into Sector B. An increase of 69.2 per cent in the industrial labour force in 1950-1979 went to the producer good sector.

TABLE 8. Relation of Incremental
Capital-Output Ratios

	Sector A/Sector B
1951-55	5.0
1956-60	4.4
1961-65	4.4
1966-70	2.6
1971-75	1.9

Calculated from official data.

In an agricultural country with marked underemployment, the creation of jobs is one of the chief motives for initiating industrialization. A comparison of the employment-generating effects of investment in each sector can be seen in table 9. These enormous discrepancies would have suggested that in order to achieve a faster integration of the vast amount of highly underemployed agrarian labour force into industry greater stress should have been placed on developing labour-intensive branches of industry. (One factor for the explanation of these discrepancies which had a strong influence at least during the earlier years is the well-known high capital-intensity of the oil sector. Between 1951 and 1955 this sector absorbed 28 per cent of industrial investment: between 1956 and 1960 the share was 22 per cent, falling to 7 per cent by 1971-1975.)

TABLE 9. Volume of Additional Employment per 1 Million Lei Invested

	Sector A	Sector B	B/A
1951-55	5.1	28.4	5.6
1956-60	2.6	12.2	4.7
1961-65	2.9	18.3	6.4
1966-70	1.6	6.5	3.8
1972-75	2.0	5.7	2.8

Calculated from official data, Annual Statistics.

Nevertheless, it is still necessary to explain the enormous rise in production and employment in the consumer goods sector which was occasioned by the low level of capital inputs. Gross output rose by 86 per cent between 1950 and 1955 and 49 per cent between 1955 and 1960, in spite of the fact that output was already by 1950 at the 1938 level or above it in most branches of the sector. The explanation is to be found in the fact that up until the end of the 1950s the increase in output in numerous branches of the consumer-goods sector was being achieved within the limits of the 1938 capacity, which had been grossly under-utilized at that time. Once these limits had been reached, the rise in production noticeably decelerated or stopped altogether in a number of industries, such as cotton and wool yarns, cotton fabrics,

and brick-making. One of the main causes of the slowing down in growth in the Second Five Year Plan may well be found in the achievement of maximum capacity utilization in the consumer goods sector.

It is therefore clear that the investment structure of Romanian industry cannot serve as a guide to other newly industrializing planned economies — unless, that is, they already possess a relatively developed light industry. On the other hand, the full and over-utilization of capacity is one of the major advantages possessed by CPEs, although it has also to be conceded that very often this relies on the operation of the inhuman 23-hour shift system.

Notwithstanding these particular conditions, it remains very much the case that Romania followed a highly capital-intensive path to industrialization — both in terms of its concentration of investment in basic industries and the choice of technologies. As a rule the most advanced techniques were chosen (which led to Romania's reputation as having a "fetish" for modern technologies). Such techniques are usually developed in countries where labour is expensive as compared to capital, whereas in newly-industrializing countries there is normally a shortage of capital and a surplus of labour. Consequently, it is often argued that alternative labour-intensive techniques should be developed. However, to a large extent technical progress is not only labour-saving, but capital- and raw-material-saving as well. The actual choice is often one between, on the one side, labour-intensive techniques, which mitigate the employment problem in the short run, and, on the other, modern capital-intensive techniques with a higher combined productivity of capital, labour, and raw materials, which render possible a higher rate of growth and by this lead in the long run to higher employment as well. Given the decision to concentrate investment in certain industries, the leeway for economically reasonable variations of capital-to-labour proportions is often very narrow. Centrally planned economies in the main tended to take over advanced technologies and took account of the vast labour potentials available by using manual labour for auxiliary operations, by a high use of capacities by multi-shift work, and by operating obsolescent plants far beyond the time possible in industrialized market economies. Considering additional

gains such as improved quality and adaptation of research and development capacities to a high technical level, it is difficult to accept without qualification the frequent argument that the preference for very advanced technologies by the Romanian planners was an irrational choice.

However, more important than the choice of technologies was the enormous priority given to the basic industries. The petroleum industry, metallurgy, and power production absorbed 55 per cent of industrial investment in 1951-1955, whereas their share in industrial output declined from 17.1 per cent to 16.6 per cent during the first five-year plan. (The incremental output capital ratio for oil extraction was 0.17 per cent — as compared with 0.99 per cent for the whole industry. The ratio between incremental crude production and investment in 1951-1955 was 0.13 for oil extraction and 0.29 for the whole industry.⁴⁹) Only 21,700 new jobs were created by these enormous investments, i.e., 8 per cent out of the total industrial employment increase. Of these industries, only electric power production as an industrializing industry is unquestionable. The forced development of crude oil extraction was a purely export-oriented endeavour and, in the case of metallurgy, it is a matter of cost-benefit analysis, depending on the raw material basis and the relative scarcity of capital, whether imports or domestic production are more favourable.

Only 7.8 per cent of industrial investment was channelled to the investment-good industries (in Romanian nomenclature "the engineering and metal-working sector") in 1951-1955, which was claimed to have a pivotal role in the industrialization of the country. In spite of this, 66,000 or 25 per cent of the new industrial labour force went to this branch: its labour productivity showed the steepest increase of all the important branches of industry, and its output share grew from 13.3 per cent (1950) to 18.8 per cent (1955). The capital invested per new job amounted to 39,500 lei, compared with 844,000 lei in metallurgy, oil, and power production. Marginal capital productivity (the incremental output capital ratio) exceeded the industrial average as well. Obviously, the educational effects and the spillover to other parts of the economy are more pronounced in engineering than in the case of oil

and metallurgy. During the second five-year plan period the investment-goods sector exhibited a similar growth performance. No other industry except textiles was allocated such a low share of investment in relation to its capital stock. In spite of the fact that only 7 per cent of industrial investment went into this sector, it contributed 37 per cent to the growth of overall industrial output, absorbed 54,000 or 32 per cent of the industrial labour force increase, investment per new job being 22 per cent of industrial average, and showed an increase in labour productivity of 79 per cent in the period 1956-1960 — as compared with 48 per cent for total industry over the same period.

Therefore, the famous capital intensity of Sector A is a very heterogeneous phenomenon. In all the five-year plan periods from 1950 to 1975, the capital intensity of the investment-goods sector (investment per job created) was far below 50 per cent of the average of the whole industry. Last, but not least, some lines of Romanian engineering production found remarkable export opportunities even outside the socialist camp.

So the actual point is not whether the priority paid to Sector A development was a reasonable decision but which branch structure inside this sector would have been the optimal choice. It seems that the burden forced on the population, the depressed standard of living, is not so much attributable to the priority which Sector A enjoys in all CPEs, but to forced development of raw material and basic industries. The over-ambitious growth targets of the early 1950s and the very structure of this growth do not seem to be an indispensable element of a centrally planned industrial revolution and they have proven to be enormously costly.

Clearly, the development policy pursued by Romania in the early 1950s was by no means a strategy of self-reliance and of dissociation from foreign trade connections. The enormous push of crude oil extraction, the steep increase in cement production and the huge amount of wood cutting were mainly export oriented — in exchange for imports of machinery, equipment, and basic materials. (Less than 10 per cent of

the investment into the oil industry in 1951-1955 went to crude oil processing. The degree of valorization of oil products seems to have declined during these years.) Even the persistence of monocultural wheat and corn growing was determined by foreign demand, especially by Soviet pressure. Western observers pointed to the autarkic tendencies during the first industrialization drive, the suppression of imports of all goods which could be produced at home. However, this did not reflect any autarkic policy but was simply a consequence of the enormous demand for imports of machinery and equipment, which resulted out of the ambitious industrialization targets.

Industrialization and foreign trade, on the contrary, have been strongly connected with each other. Obviously, export performance determined the growth of industry. The first industrialization drive of the early 1950s had to be stopped because of the lack of a sound export strategy. The progress of industrialization gave rise to steep growth of import requirements because an increasing share of foreign currency earnings had to be spent on raw material imports for the factories completed during the five-year plan. Exports consisted nearly completely of raw materials. Their availability was restricted in absolute terms. For oil, timber, and cement — the main components of raw material exports — export production could hardly be extended beyond the quantities reached already in 1953. Agriculture could not compensate these shortcomings. The depressed level of investment and the agrarian policy followed at this time considerably restricted productivity increases. Because the supply of raw material for completed factories had priority over the construction of new factories, capital goods imports showed a sharp decline after 1953. (In 1957, they stood at 51 per cent of the 1953 level.)

In the following years, growth of industry was more or less determined by the performance of national investment goods industries. They covered 82.4 per cent of investment in equipment in 1958 — as compared with 63.5 per cent in 1953 or 62.1 per cent in 1967. Consequently it is the period of 1954-1958 which could with some justification be labelled as a phase of self-reliance development. These factors, in

addition to political instability which marked the years from 1953 to 1958, led to the more modest growth rates of that period. (However, it is worth mentioning that according to two independent and very detailed Western recalculations, the growth of Romanian industrial output during the "period of consolidation" 1956-1960 has been higher and not, as officially reported, substantially lower than during the "big leap forward" of 1951-1955.⁵⁰)

The new industrialization drive, which started in 1959 and has continued without interruption until today, was made possible by a new concept for export development which at least in principle allowed for a steady growth of exports in relation to the expanding import requirements of industry. The new concept had three components:

- Valorization of raw material exports, involving the creation of a strong petrochemical industry and modernization of food processing.
- Promotion of investment goods exports, first through a mercantilistic policy vis-à-vis the Comecon-member states (cf. below), and secondly through a marketing campaign in developing areas. (In 1975, 39.2 per cent of Romanian investment goods exports went to socialist or other developing countries and 51.6 per cent to Comecon member states, investment goods contributing 25 per cent to total export earnings.)
- Export-oriented development of industrial consumer goods production. Its share in total exports grew from 1.3 per cent (1955) to 11 per cent in 1965, and has since 1971 ranged from 16 to 18 per cent of Romania's rapidly growing exports. About 40 per cent of these exports could be marketed in Western industrialized countries.

Especially this last component of the export strategy has sometimes been criticized by left-wing Western observers as a kind of betrayal of the principles of socialist development, as a gradual transformation of Romania from an autocentric economy to a dependent part of the vertical capitalist international division of labour. The structure of Romanian economic development during the last two decades does not justify this viewpoint. The Romanian planners have been able to restrict this type of export production to an auxiliary function in the creation of a modern industrial structure. It is surprising that intensification of agriculture did not play a more substantial role in Romanian foreign

trade development. Its share of exports declined steadily. Exports of agricultural products and foodstuffs per hectare of agricultural area in 1960 reached 26 per cent of the Bulgarian level and 32 per cent in 1975. The Bulgarian emphasis on promotion of agriculture did not prevent its industrialization nor did Bulgaria become a peripherized economy. The traumatic experience of Romania as a monocultural grain exporting economy from 1830 until 1945 for a long time seems to have worked as a barrier against the adequate development of the productivity and export potential of this sector.

Without any doubt, these strongly export-oriented developments enabled the country to follow a far higher speed of industrialization than any self-reliant strategy would have rendered possible -- notwithstanding the fact that such an unbalanced growth implies costs and risks for national economic development. It seems that central planning and complete control of the economy by the state can serve as a functional substitute for the dissociation of the economy from foreign markets, dissociation which in the case of many peripherized countries is believed to be a *conditio sine qua non* for overcoming stagnation and dependency.

Whereas foreign trade was by no means restricted by autarkic measures, the industrial structure built up with these machinery imports clearly exhibited autarkic objectives. An illustration of this is given by Romanian economic conflicts with Comecon, where indispensable requirements for economic development, e.g., the creation of national engineering industries, were amalgamated with more questionable objectives (cf. below).

The Romanian strategy for development expressed itself in a process of change in the pattern of employment which was quite untypical for Comecon countries (see table 10). In the first two five-year plan periods (1950-1960) Romania only made slight reductions in the rural labour reserve, cutting it back from 74.3 to 65.6 per cent of total employment whereas in Bulgaria agricultural employment fell in 12 years from 82.1 per cent of total employment to 55.5 per cent. In 1960, absolute

TABLE 10. Sectoral Distribution of Employment

	Industry			Agriculture*		
	Romania	Bulgaria	Hungary	Romania	Bulgaria	Hungary
1950	12.0	7.9**	19.4	74.3	82.1**	52.0
1955	13.1	12.9***	24.9	69.7	70.5***	43.7
1960	15.1	21.9	28.4	65.6	55.5	38.7
1965	19.2	26.3	34.3	56.7	50.3	28.7
1970	23.0	30.4	35.9	49.3	35.7	25.2
1975	30.6	33.5	35.6	38.1	28.1	21.3
1977	32.8	34.2	34.7	35.7	25.8	20.4

* Including forestry.

** 1948.

*** 1956.

Source: National Statistical Yearbooks.

employment in agriculture in fact exceeded the 1950 total — a singular development within Comecon. Clearly this implies high costs in the form of neglected opportunities for increasing overall output. Such a policy would not be suitable for a developing country where large sections of the population are marginalized. On the other hand, the rapid absorption of available labour by industry in the 1950s led to low productivity in many other CPEs, and in addition impeded later necessary growth in the tertiary sector. Romania's employment policy seems to have mitigated that problem.

This strategy has also enabled Romania to follow a path of extensive growth at a time when most other Comecon countries have been confronted with the problem of the transition from extensive to intensive growth (see table 11). (At the same time the slow growth in industrial employment made it possible to hold down investment in house building.)

Nonetheless, the question remains as to whether the minimal employment effect, especially at the outset of the industrialization policy, and the unfavourable ICORs in the heavy industry sector might not have made development via a prioritization of the consumer goods industry a more rational option. The development of light industries has usually proved to be the initial phase in the history of industrial revolutions: light

TABLE 11. Average Yearly Growth Rates of Industrial Employment

	Romania	Bulgaria	Hungary
1950-55	5.9	5.2	7.0
1955-60	3.3	11.5	3.8
1960-65	5.3	4.4	3.4
1965-70	4.1	3.9	2.4
1970-75	6.4	2.3	0.2
1975-77	4.0	0.9	-1.3

Official data, national statistical yearbooks.

industries are less technically demanding, less capital-intensive, and require fewer skilled workers — and relate to a pre-existing demand. However, a light industry which was large enough to satisfy internal demand had already developed as a consequence of pre-communist import-substitution policy. Moreover, the historical priority of light industry is itself a product of the conditions of a process of industrialization impelled by private capital via market mechanisms — conditions which do not apply in a CPE. There appeared to be no market to justify a further extension of the consumer-goods industry — at least not internally, since the high levels of intended investment did not leave a wide enough margin for increase in mass consumption — and the same applied at that time for the foreign market. Trade with the West seemed to be restricted for a long time ahead on political grounds and the other countries in the Eastern Bloc pursued a similar policy of repressing consumption. (In fact both these expectations proved to be incorrect, which led to a certain revision of policy toward light industries around 1960, as mentioned above. The USSR has become a marked net importer of industrial consumer goods. Thirty per cent of Romania's exports to the USSR and 20 per cent of its exports to the West consist of products of the consumer good industries (1973) in exchange for raw materials and industrial equipment.) Without a doubt, however, a policy of industrialization directed towards the domestic economy has to finance itself after a short transition period for the most part from increases in general economic productivity and, as a result, has to be tilted towards those industries whose outputs increase national productive

capacity. In addition, industrialization accompanied by "forward linkages" appears to be required in order to attain organic and plannable economic growth.

In addition, an industrialization policy following "forward linkages" for the first period of central planning in Romania seemed to be a reasonable complement to "pre-communist" industrialization, marked by development along "backward linkages." However, such a strategy makes the engineering industries too weak a link between these two sectors. The alternative to the policy followed by the Romanian planners would not have been a shift of priorities from Sector A to the light industries, but a shift within Sector A, and that from export-oriented raw materials, especially the oil industry, and the import-substitutive metallurgical industry (both extremely capital-intensive) to the labour-intensive engineering industries. The effect would have been to considerably develop and strengthen the inter-linkages within the national economy as well. Moreover, it would have rendered possible substantial gains in agricultural productivity and, as a consequence, a substitution of raw material exports by agricultural exports.

*A Note: Romania's Industrialization Policy as a Foreign Policy Conflict*⁵¹
After 1954, when most of the other people's democracies were heaving a sigh of relief at being freed from the necessity of bearing the expensive burden of one of the central tenets of Stalin's economic policy — the possession of an iron and steel industry — Romania became embroiled in a dead-on conflict, in particular with the USSR and Czechoslovakia, in insisting on creating its own national heavy industry. Originally conceived as a strategic device for creating an extensive degree of autarky for nations and regions expected to be drawn into an imminent war, this policy of war-readiness was dropped after Stalin's death and in fact turned into its opposite: instead of being regarded as a strategic benefit, the independence of the people's democracies could not be seen as a possible threat to the political cohesion of the bloc. (In general, in attempting to evaluate the CPEs as possible models for development, it should be noted that the form and extent of the growth of heavy industry was in large measure determined by military

rather than economic considerations.) The policy of national autarky of Comecon member states was replaced by a policy to make them complementary.

Secondly, conflicting economic interests between Comecon members now appeared. Countries such as Czechoslovakia specializing in the production of capital goods and armaments were forced, partly on political grounds, and partly because of their lack of competitiveness in Western markets, to rely on the more backward Comecon countries as outlets for their products. The building up of national capital good industries by these countries was therefore regarded as a threat.

It is quite fascinating to see the extent to which the patterns of conflict between the more and the less developed Comecon countries resemble those observable between the already industrialized and the developing countries in the West — and how neatly the Romanian position coincides with current conceptions of autocentric development.

Resorting to the logic of "comparative advantage," Czechoslovakia pressed for a vertical "socialist division of labour" which was meant to correspond to international variations in the levels of labour productivity. Mechanical engineering was to be concentrated in those countries which had the longest tradition in this sector. According to the Czech view, Romania would have best served the general socialist interest by specializing in labour-intensive agriculture and in chemical products based on mineral oil. The fundamental Marxist principle that industries producing the means of production (Sector A) should expand faster than those producing consumer goods (Sector B) was not meant to apply for each country taken individually, but for the socialist camp as a whole. "Autarkic tendencies" stood "in direct antithesis to the laws of development of the socialist world system" inasmuch as they would weaken the socialist camp. In fact, it is quite shameful, how the "common good of all nations," the underlying principle of free trade in English classical political economy, here found a new pointed application as an imperative for socialist solidarity with the implication that deviation from this doctrine was tantamount to the

deliberate weakening of the socialist camp in its conflict with world capitalism. Solidarity in the international class struggle in fact served to legitimate the petrification of an economic hierarchy between countries at different stages of industrial development (at the same time those countries committed to complete local industrialization also have been accused of damaging themselves in a purely economic sense).

In the course of this conflict, Romania clearly elaborated the basic imperatives of a strategy of autocentric development. The criterion of profitability in foreign trade — which had a rationale in avoiding trade deficits — was not to hold up the process of industrialization. If specialization between the socialist countries was to be determined by the level of labour-productivity or the relative costs of labour power, the less-developed countries would find that their backwardness and the structure they had inherited from the capitalist period would simply be perpetuated. Thus, the possession of a national mechanical engineering industry was of enormous importance for each socialist country. In addition to criteria of efficiency, such aspects as "the necessity to secure full employment, balance of payments equilibrium, the rise in labour-productivity, and the consolidation of national defence capability" also had to be given consideration in the establishment of a socialist division of labour. A number of Romanian contributions to the debate explicitly rejected economic specialization between socialist countries, even if the output and consumption of all countries concerned is improved, should such specialization widen the development gap between countries.

Partly because of this constellation of mutual economic interests, Romania categorically refused the proposals for supranational planning of economic development within Comecon and the shift of planning competence to Comecon institutions. After a long debate about the extent and form of Comecon-interpretation which the public came to know only after some years through a number of articles published in Czech, East German, and Soviet semi-official periodicals, which attacked the reluctance of certain Comecon members in regard to a higher level of economic integration and gave recommendations concerning

the kind of development strategy Romania should follow, the Romanian Workers' Party expressed its position in an official statement of the central committee in 1964:

During the development of the relations of cooperation among the socialist countries that are members of CMEA, forms and measures have been projected, such as a joint plan and a single planning body for all member countries, interstate technical-productive branch unions, enterprises jointly owned by several countries, interstate economic complexes, etc.

Our party has very clearly expressed its point of view, declaring that, since the essence of the projected measures lies in shifting some functions of economic management from the competence of the respective state to that of superstate bodies or organisms, these measures are not in keeping with the principles that underlie the relations among the socialist countries.

The idea of a single planning body for all CMEA countries has the most serious economic and political implications. The planned management of the national economy is one of the fundamental, essential, and inalienable attributes of the sovereignty of the socialist state — the state plan being the chief means through which the socialist state achieves its political and socioeconomic objectives, establishes the directions and rates of development of the national economy, its fundamental proportions, the accumulations, the measures for raising the people's living standard and cultural level. The sovereignty of the socialist state requires that it effectively and fully avail itself of the means for the practical implementation of these attributes, holding in its hands all the levers of managing economic and social life. Transmitting such levers to the competence of superstate or extrastate bodies would turn sovereignty into a meaningless notion.⁵²

When Soviet publications put forward the idea of an "interstate economic complex" in the lower Danube region engulfing core parts of Romania's economic potential as well as of Bulgaria and the USSR, a leading Romanian official with a touch of sarcasm suggested in an article that such a development might call for the establishment of "diplomatic relations" between the parts of Romania within the complex and those outside it.⁵³ The Romanian position toward Comecon integration was brought into a formula which rejected inter-industry specialization and accepted an intra-industry division of labour.

Consequently, Romania insisted on fully developing its capital goods

sector, including the iron and steel industry, against the determined opposition of the CSR and DDR. The USSR, which only a few years previously had tried to force all the Comecon countries to develop such an industry, finally threw its weight on the side of the more developed countries in this conflict, as much out of political as economic motives (cf. the tug-of-war over the iron and steel complex in Galatia). Romania's success in forcing through its policy against the much stronger powers within Comecon can be explained by two circumstances.

First, rather than the Romanians demanding a change in the economic policy of the GDR, Czechoslovakia, etc., in fact it was these latter countries who were demanding a change in *Romanian* policy. Romania could pursue its development strategy by simply not reacting and making its own economic decisions. In contrast, the GDR and Czechoslovakia could only pursue their interests through international institutions and agreements.

Second, within RGW/Comecon a distinction is drawn between "hard goods" and "soft goods." The first are both in short supply within Comecon and can be sold in the West for *convertible* currencies. The latter are more than plentiful in Comecon and are barely marketable in countries with hard currencies. Astonishingly, "hard goods" consisted of agricultural products, foodstuffs, and raw materials, and "soft goods" are engineering products manufactured at current Comecon levels of technology. Since Romania's exports were tilted towards the supply of hard goods, in contrast to Czechoslovakia's soft goods, Romania had access to much wider export markets than Czechoslovakia.

3.7. Overindustrialization, Export Drive and Agricultural Neglect — Some Questionable Developments

Although Romania's insistence on having its own capital goods and basic industries was certainly legitimate, it is nonetheless possible to ask whether the chosen structure of these industries was optimal. Romanian steel output, per capita, now exceeds that of France and the UK, and will overtake the USA and probably the FRG and USSR in 1980.

Originally intended as an industrializing industry, steel production in fact has become more and more a low-wage export industry. In 1970, 39 per cent of tubes and 28.4 per cent of rolled steel products were exported. Romania is viewed as an aggressive exporter of steel in the USA, containable only through import controls. Such a policy of export-oriented industrialization in capital-intensive spheres may seem attractive in the short run, when the capital originates in the industrialized countries. However, it is hard to understand why such a policy should be pursued in a country which is still hard pressed for capital, and must import 83 per cent of its iron ore and 40 per cent of its coking coal (1977). At the same time, the value of the iron and steel branch as an industrializing industry is itself open to doubt and the possibility of developing light industry through "forward linkages" from a national-based heavy industry has probably been overestimated. The import content of equipment in, for example, the wood and paper industry, textile and clothing industry, chemicals, and electrical engineering is still very high. Though 76 to 82 per cent of Romania's total requirements for investment goods are now covered by domestic production, about 35 per cent of the equipment in Sector A and 40 per cent in Sector B are still supplied by imports. (For agricultural equipment, the import share is about 2 per cent.)

For a country of the size and the level of industrialization of Romania, it is clear that the development of a national engineering industry must be very selective. The possibilities of exporting engineering products, when home demand does not allow the exploitation of economies of scale, can ease the costs of building up such areas of production, or may even be decisive in allowing such industries to exist at all. At the same time, it is extremely difficult for newly industrializing countries to find outlets for their engineering products in the industrialized countries, a fact which imposes a barrier to development in that field. State planned economies and the central control of foreign trade offer considerable advantages in this respect — at least as far as exchange with other countries with state control of foreign trade is concerned. Thus, in exchange for exporting engineering products to Romania, countries such as Czechoslovakia had

to accept a volume of engineering imports from Romania which extended to the point at which this trade might have become disadvantageous for the more industrialized CPEs. (The ratio of engineering imports to engineering exports in Romania's trade with the rest of Comecon was reduced from 4.0 in 1958 to 1.53 by 1965.) The import/export ratio for Romania's engineering industry as a whole improved from 0.095 (1950) to 0.55 (1965), and then stagnated for a while because of the growing share of its foreign trade taken up by OECD countries, now showing a value of 0.73. (These rough figures in fact overestimate the degree of development. Thus, in 1964, the value per ton of engineering imports was 2.3 times higher than that of engineering exports.) Clearly, such export opportunities gave an enormous boost to Romanian industrialization and its surmounting of the vertical international division of labour. It is obvious that such trade agreements are more feasible between countries with a state monopoly of foreign trade. Understandably, the more developed Comecon countries fought for a general decentralization of foreign trade -- whereas Romania and Bulgaria insisted on a state monopoly over foreign trade.

Nevertheless, the very limited possibilities for a horizontal division of labour between newly industrializing countries, and the fact that Comecon did little to promote such exchanges, can be seen in the share of Romania's trade with its three immediate neighbours, Yugoslavia, Hungary, and Bulgaria, which in 1965 accounted for only 5.4 per cent and in 1977, 7.9 per cent. (In 1938, these countries took 7.5 per cent of Romania's exports and supplied 4.5 per cent of its imports.) In contrast, the contraction in the Soviet share of foreign trade from 51.5 per cent (1958) to 15.7 per cent (1979) may have gone beyond what is economically optimal. Looked at as a whole, these developments show that within the centrally planned economy a high level of external trade is compatible with a strategy of autocentric development, and that in fields favourable for industrial development, like engineering products, the export of relatively high shares of output can be secured.

The export orientation of the steel industry and light industry's high import dependency in the sphere of equipment raise a number of doubts

as to whether it was entirely rational to extend the priority given to heavy industry to such an extreme. In particular, the marked disarticulation between development in this sector and the rest of the economy for a long time held back the formation of intersectoral linkages within the domestic economy and productivity increases in other sectors, especially agriculture. Since favourable market opportunities for agricultural products both within Comecon and in the Western industrial countries were already evident by the mid-1950s, well-timed efforts to increase agricultural productivity would have certainly made good sense. Greater exports of agricultural products in exchange for high-technology imports could have saved non-replenishable resources (oil and ores) for Romania's own development and, through the medium of foreign trade, may well have accelerated the pace of industrialization. At the same time, an orientation of engineering towards the requirements of agriculture would have also found good opportunities for export. In 1970, Romania exported 13,500 tractors, rising to 35,700 by 1975, of which a share worth US\$24 million went to OECD countries (1975). However, the export of iron and steel instead of tractors, of tractors instead of grain, and of grain instead of meat is nothing but exporting low-processed goods. Whereas in 1970, 46 per cent of tractor production was exported, and in 1975, 71 per cent, Romania's own agriculture has the lowest level of mechanization in eastern Europe (1973-1976, 1 tractor per 96 hectares, which is 47 per cent of the eastern European average and 44 per cent of Bulgaria's level). Output per hectare is 64 per cent of the Hungarian level and 41 per cent of the East German level.⁵⁴ Wheat yields per hectare remained below the pre-war level up until the end of the 1950s, while maize was only slightly higher. (Romania, the traditional domain of corn growing, has yields per hectare far below those of Czechoslovakia, Hungary, and Bulgaria.) The application of artificial fertilizers was 33 per cent of the eastern European average in the period 1963-1968, and reached 50 per cent between 1973 and 1976. Agricultural output per worker in the period 1971-1975 was a third of the Hungarian level and a quarter of the East German. The fact that these figures do not merely indicate a transfer of resources from industry to agriculture in the more productive countries can be seen in the agricultural net

product per worker (output less depreciation and current operating expenses): in the GDR this was five times higher than in Romania, and in Hungary three times higher.

Disproportionalities between sectors are correspondingly large. The ratio of labour-productivity in industry to that in agriculture was 5.3 in 1960, 5.1 in 1965, 6.6 in 1970 (when there was a bad harvest), and 4.3 in 1975 (the respective Hungarian values were 1.6, 1.45, 1.73, and 1.76). The capital intensity of Romanian industry exceeded that in agriculture by 6.3 times in 1950, 8 times in 1960, 6.9 times in 1970, and 3.9 times in 1977. The productivity of capital in Romanian industry (net value of production per unit of fixed assets) was 0.65 that of agriculture in 1960, and 0.93 in 1975. (For Hungary, the equivalent 1975 ratio was 1.5.) The ratio of total gross wages to gross production was 0.40 for Romanian industry in 1968, against 0.71 for agriculture in the same year. In Bulgaria, these values were 0.50 (industry) and 0.58 (agriculture), and in Hungary, 0.46 and 0.49 respectively.⁵⁵ Such disproportions are untypical even in relation to developments in other CPEs, and clearly imply costs and dis-economies.

The lack of investment is only one cause of the prolonged malaise in Romanian agriculture. It suffered also from an erratic and counter-productive agricultural policy. The new land reform completed the splitting up of the soil into dwarf holdings. The oscillations between campaigns for collectivization and relative liberalism, between intolerable and sustainable tax burdens, led to insecurity about land tenure and ownership which inevitably produced a low level of commitment and willingness to invest on the part of the peasants and farmers. An agricultural system consisting of dwarf holdings forced to make high deliveries often below cost prices and evidently only with a provisional title to the land is basically nothing more than a system of share-cropping — a structure hardly likely to stimulate increases in productivity and normally regarded as a dead-end of agricultural development. It seems the state simultaneously pursued a policy both of social justice and economic efficiency — and failed both. A phase of political consolidation eventually led to a clear choice of economic

efficiency. Total collectivization produced virtually wage-labour relations in the agricultural sector. The present structure of agriculture, with large farms and very small small-holdings of 0.5 hectares, bears an astonishing resemblance to early capitalist conditions.

The one-sidedness of the Romanian path of development has not only led to a sub-optimal structure of exports and prolonged repression of consumption, even in the sphere of basic foodstuffs, and in addition held up the formation of a coherent domestic economy — such as an agro-industrial complex: it has also noticeably increased the costs of growth. Of course, this does not mean that the country should have sought to intensify agriculture *in the place of* industrialization as the Soviet Union wanted in the mid-1950s (and as the World Bank would have probably recommended), but rather implies the adaption of a policy of more balanced development of economic sectors. The intended industrialization drive inevitably required the fixing of priorities. So the reduction of the extreme disproportions in regional development and the gradual levelling-up of agricultural incomes to industrial wages had to wait until the beginning of the 1970s. In addition, the peculiarities of Romanian agriculture necessitated high investments to extend irrigation systems prior to the large scale of application of fertilizers. Since 1960, the investment share of the agricultural sector has only been slightly less than the east European average. The most telling investment deficiencies, even by Comecon standards, were mainly to be observed in the earlier stages (see table 12). It has to be taken into account that, in all other countries except Bulgaria, agriculture contributed a by far lower share to national income than in Romania.

Since 1970, much later than planned, Romania's agriculture finally received a boost: despite the absolute low level of output, annual growth in output per worker at 3.5 per cent between 1965 and 1970 was, after Poland, the lowest in eastern Europe. However, between 1970 and 1975, growth in output per worker became the highest in eastern Europe with an annual rate of 10.8 per cent. Admittedly, part of this change

TABLE 12. Share of Agriculture* in Total Investment

	1949	1950	1951	1952	1953	1954	1955	1951-55
Romania**	9.4	10.6	7.7	8.8	7.3	11.8	13.9	10.4 (11.3)
Bulgaria	11.7	10.3	15.0	13.7	12.8	15.8	18.1	15.2 (16.4)
Hungary	18.1	(8.3)	10.6	12.8	13.2	13.2	(20.0)	(13.3)
Poland	10.5	(13.1)	8.8	8.3	8.6	11.6	(13.6)	(10.0)
USSR	19.0	(14.1)	n.a.	n.a.	n.a.	n.a.	(17.8)	(15.1)

* Data in brackets includes forestry.

** Romania's 1951-1954 share of investment in socialist agriculture in total socialist investment. (Investment in socialist agriculture amounted to 90 per cent of total agricultural investment for 1951-1955; the share of socialist investment to total investment was 93.2 per cent.)

Sources: Comecon-Yearbook 1971, pp. 141 and 146; Annual Statistics 1960, p. 280, 1976, pp. 278 ff., 1980, pp. 382 ff.; B. Kiesewetter, Deutsches Institut für Wirtschaftsforschung, Sonderheft, Neue Folge Nr. 33 C, Quellen: Statistiken zur Wirtschaft Ost- und Südeuropas, Landwirtschaft (Berlin, 1955), p. 10; Statisticheskij Godischnik N.R. Bulgaria 1979, p. 124.

can be explained by the onset of a rapid run-down of hidden unemployment through absorption by industry, and part by a statistical distortion because of the poor harvest in 1970. Nonetheless, land productivity, which had the lowest growth rate in eastern Europe from 1965 to 1970 at 1 per cent, jumped into first place between 1970 and 1975 with a rate of 5.8 per cent. Use of fertilizers rose by 3.14 times between 1963 to 1968 and 1973 to 1976, and the index of tractor use rose by 1.9 times in the same period.⁵⁶

Irrigation increased from covering 1.5 per cent of agricultural area in 1965, to 4.5 per cent in 1970, and 13.0 per cent by 1979. The bulk of cultivable land is intended to be embraced by irrigation schemes by 1985. Romania can be expected to continue with the progress in agricultural modernization, and both stabilize the extreme climatically-determined fluctuations in yields and attain at least the average yield per hectare for eastern Europe. This in turn should lead to a significant improvement in both the position of the economy as a whole and the material well-being of the population. Clearly, the intensification of agriculture has not been able to be achieved through

a "great leap forward," but required more of a policy of steady development. So, this sector shows the largest gaps between plan targets and actual results.

3.8. Résumé: Extent and Limits of a Soviet-Type Industrialization Strategy

Despite serious handicaps in the initial phases, Romania has managed to create a complete branch structure of industry, diversify the content and direction of its external trade and, accompanied by some delay, has embarked upon a path of revolutionizing agriculture and improving mass consumption. The results have been bought at the unnecessarily high expense of macro-economic fluctuations as a result of over-ambitious growth targets, the one-sidedness of industrial development, the delay in modernizing agriculture, and consequent prolonged under-utilization of land and labour. Some of the more important and expensive policy mistakes in the early stages included the discouragement of peasants through an erratic agricultural policy, prestige projects (such as the abandoned construction of a Danube-Black Sea Canal and the Bucharest Metro), the under-pricing of capital goods, and through the suppression of small private trade and handicrafts, the destruction of a substantial capacity for improvisation and repair — especially significant in a country lacking in capital and in a phase of permanent excess demand. In addition, it is also evident that the development and modernization of sectors, and in particular the building of the requisite competence, needs more time than was originally expected and that an economic policy which is organized along campaign-lines imposes considerable costs.

In the first place, policy errors and an excessive concentration on certain areas, which all CPEs exhibited at that time to some degree or another — and which in part are attributable to the specific political circumstances of those years and in part to once-and-for-all learning processes — increased the costs of economic take-off in the planned economies. In the second, Romania, the country with the lowest per capita product of all the European Comecon countries, pursued a particularly singular and unnecessarily expensive path to industrializ-

ation. Nevertheless, despite these high and not necessarily built-in burdens for centrally planned growth, the decades since 1950 have been the most successful in Romanian economic history. Economic indicators for the 1930s and 1970s present a diametrically opposite picture. A highly peripheralized agricultural state was transformed into an industrial growth economy. Precisely in view of the high special costs and the combination of a number of hostile circumstances the indisputable economic successes of the country are a telling argument for the capacities of central planning as a strategy for development.

On the other hand, there are as yet no signs that economic policy has adapted to the current level of development. Although some bottlenecks can be detected in the availability of labour — the rate of growth of industrial employment fell from 6.4 per cent (mid-year 1970-1975), to 3.1 per cent (1976-1979) — there are no indicators of an adaption to the requirements of intensive growth.

The much stronger dependencies on innovation and the need for greater cost-consciousness, which differentiate intensive from extensive growth just as much as the emergent complexity and diversification within the economy, demand a certain degree of decentralization. In contrast to other Comecon countries, this has not even begun to be attempted in Romania (let alone steps towards an accompanying political liberalization). On the contrary, problems of economic organization are responded to by even greater centralization.

The general concept of Romanian industrialization seems to have been a highly reified one from the very beginning — oriented towards the construction of certain types of industrial capacity rather than the initiation of processes. On the other hand, the rigidity in development policy which this reveals seems to originate in the political structure. The absolute power of the political leadership, which is highly functional in surmounting the threshold of industrialization, can later become inflexible and immune to change, and thus drive the CPE into a developmental dead-end (a danger already perceived shortly after the October Revolution). This then implies that the set of economic policy

instruments which was indispensable in the early stages, but later becomes dysfunctional, will not be dislodged, partly because these instruments fit so closely with the monopoly of power held by the leadership. This in turn serves to perpetuate some of the specific conditions which characterized the transition to an industrial economy. The reasons for the absurdity of the stereotypically ever-growing steel industry and huge plant size are therefore to be found more in the political than the purely economic sphere. (The average number of employees per industrial enterprise in Romania stood at 1,480 in 1973 against 520 in Bulgaria, 712 in the USSR, 197 in the GDR, 149 in Federal Germany, 87 (1972) in Great Britain, 58 in Canada, and 35 in Belgium.⁵⁷) Such large-scale industries easily fit in with a command management structure and as such are compatible with the symbiosis of party-leadership, army, and top economic management, which is now characteristic for Romania. So the functional use of feudalistic elements to achieve an economic breakthrough, which partly explains the success of Leninism in industrializing societies trapped in feudal relations or peripheral subordination (see 3.3 above), can eventually lead to the political dominance of these elements. (For example, the nepotism within Romanian leadership is without parallel in the history even of that country.) It is evident in CPEs that the process of bargaining between interest-groups, who are established in the centre of power, places a number of obstacles in the way of fulfilling the basic aim of a rationally planned economy. This can be discerned for instance from the fact that the draft plans show a better correlation with the final results than the actual plans legislated.

Leninism is a strategy for the industrialization of agrarian societies, whereas Marxism is a conception which attempts to lead on from the conditions of a fully developed capitalist industrial society. They are consequently concerned with quite divergent historical situations. Their amalgamation has reduced the political chances of a post-capitalist socialism in the West and created a virtually unbridgeable gulf between ideology and reality in the newly industrializing CPEs.

The state of development which Romania had reached in 1945 constitutes

the genuine historical starting point of Leninism — and as a strategy it clearly served to overcome and cope with the tasks it was called upon to perform as a policy for economic development. The next few years will show whether Romania will be able to adapt its structure to the level of development it has since reached or whether its political structure will act as an obstacle to the further development of productive forces.

NOTES

1. Samir Amin, contribution to the conference on Strategies for Economic Development, Dakar, 1972. *Tiers Monde*, 1972.
2. Dimitrie B. Ionescu, "Die Agrarverfassung Rumäniens, ihre Geschichte und ihre Reform" (thesis, Berlin, 1908). Leipzig, 1909, p. 50 ff.
3. David Mitrany, *The Land and the Peasant in Rumania*. New York, 1930, p. 80.
4. Annual Statistics, 1909, pp. 30, 49, 50.
5. John Lampe, Varieties of Unsuccessful Industrialization: The Balkan States before 1914. *J. Ec. Hist.* 35, no. 1 (March 1975): 56 ff.
6. Phillip G. Eidelberg, *The Great Rumanian Peasant Revolt of 1907*. Leiden, 1974, p. 35.
7. Ibid., p. 45.
8. C. Antonescu, "Die rumänische Handelspolitik von 1875-1910" (thesis), Munich, 1915, p. 66 ff.
9. Ibid.
10. Andrew C. Janos, "Modernization and Decay in Historical Perspective: The Case of Romania," in Kenneth Jowitt, ed., *Social Change in Rumania, 1860-1940*. Berkeley, 1978, p. 96.
11. Mitrany, p. 102.
12. Klaus-Detlev Grothusen, ed., in co-operation with the Committee of South-East European Studies of the German Science Foundation (Deutsche Forschungsgemeinschaft), *Südosteuropa-Handbuch II, Rumania*. Göttingen, 1977, p. 327.
13. Professor D.N. Dascovici, "Restrictions on the Use of Foreign Capital: A Legal Examination." *Manchester Guardian Commercial*, 26 May 1927, supplement.
14. Stephen Fischer-Galati, *Twentieth-Century Rumania*. New York, 1970, p. 39.
15. That the number of persons employed by industry was much higher in 1923 than before the war is attributed partly to the fact that statistical categories had been changed, so that they now included smaller enterprises as well, and partly to the enlargement of the country's territory by about 100 per cent as a result of the war, including the annexation of relatively industrialized Transylvania.

16. Kenneth Jowitt, "The Sociocultural Basis of National Dependency," in Jowitt, ed., *Social Change*, p. 10 ff.
17. A.D. Xenopol, *Comertul exterioral Romaniei*. Bucharest, 1881, p. 181.
18. Jowitt, *Social Change*, p. 28.
19. S. Voinea, *Marxism oligarhic*. Bucharest, 1926, p. 212 ff.
20. Prof. I. Raducanu, *Manchester Guardian Commercial*, 26 May 1927, supplement, p. 8.
21. Cf. Mihail Manoilescu's extensive main work, *Théorie du protectionisme et de l'échange international*. Paris, 1929, and the enlarged German edition, *Die nationalen Produktivkräfte und der Aussenhandel*. Berlin, 1937.
22. Mihail Manoilescu, *Le siècle du corporatisme*. Paris, 1934.
23. Ibid., p. 287 ff.
24. Ibid., p. 123.
25. Cf. Mihail Manoilescu, *Die einzige Partei*. Berlin, 1941.
26. Cf. Virgil N. Madgearu, former minister of commerce, in *Evolutia Economiei Romanesti dupa Razboiul Mondial*, Bucharest, 1940, p. 255 ff.
27. Cf. *Correspondance Economique Roumain*, 1937.
28. G. Leon, "Die Kriegswirtschaft in Rumänien." *Weltwirtschaftliches Archiv* 52, no. 1 (July 1940): 315 ff.
29. Carl Casper, "Probleme der wirtschaftlichen Neuordnung Romäniens" (manuscript). Institut für Weltwirtschaft, Kiel, 1940, pp. 8 and 10.
30. P. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South-Eastern Europe." *Ec. J.* 53 (1943): 202 ff.
31. Ibid.
32. Ibid.
33. A.K. Cairncross, "Capital Formation in the Take-off," in W.W. Rostow, ed., *The Economics of Take-off into Sustained Growth*, proceedings of a conference held by the International Economic Association. London, 1963, p. 240 ff.
34. This part of the paper mainly summarizes ideas and concepts by Kenneth Jowitt: Cf. "Revolutionary Breakthroughs and National Development: The Case of Romania 1944-65" (mimeographed thesis). Berkeley, 1970, and *The Leninist Response to National Dependency*. Institute for International Studies, Berkeley, 1978.
35. Gh. Gheorghiu-Dej, "Rapport d'activite du Comité Central du Parti Ouvrier Roumain, présenté au II. Congrès du Parti." Bucharest, 1956, p. 156.
36. Jowitt, *Social Change*, p. 67.
37. "Net material product" is the gross value of output of the material sectors at sales prices including turnover taxes, less material

costs including depreciation.

38. Gregor Lasarcik, "Comparative Growth and Levels of Output and Productivity in Eastern Europe, 1965-76," in US Congress Joint Economic Committee, *East European Economies Post-Helsinki*. Government Printing Office, Washington, D.C., 1977, pp. 88-523. In the following, data concerning agriculture are taken from this paper or other publications by Lasarcik, which seem to be the most careful and detailed quantitative estimations available on this subject. For intersectoral comparisons, official data are used.
39. From Löffelmann, *Intra-Comecon Trade*. Munich, forthcoming. Calculated in 1963 dollars.
40. For defence expenditure, cf. Annual Statistics, 1962, p. 364 ff.; national income calculated out of the value officially given for 1976 in Annual Statistics, 1980, p. 91; the official indices and the deflator of the national income calculated by John M. Montias, *Economic Development in Communist Rumania*. Cambridge, 1968, p. 275.
41. Richard F. Staar, *The Communist Regimes in Eastern Europe*. Stanford, 1971, p. 242: calculated from data provided by Ioan Totu, "Rumania's Economy in 1977." *Revue Romaine des Sciences Sociales, Série des Sciences Economiques*, 1978, p. 39. Also cf. Montias, p. 51.
42. Calculated on the basis of the wage increase and the increase in total real income of the population given in Annual Statistics, 1977 and 1980.
43. The percentage of the population economically active in 1956 was 64.3 per cent in rural areas, compared with 48.8 per cent in cities: cf. *Recensamintul Populatiei din 21 Febr. 1956, Rezultate Generale*, pp. 32 and 615.
44. Cf. Montias, p. 91.
45. Calculated on the basis of data provided by Totu, p. 39, and the structure of agricultural employment given in Annual Statistics, 1976.
46. Deutsches Institut für Wirtschaftsforschung, "Die Entwicklung des Lebensstandards in den osteuropäischen Ländern." *Sonderheft 108*, Berlin, 1975, p. 91.
47. George R. Feiwel, *Growth and Reforms in Centrally Planned Economies: The Lesson of the Bulgarian Experience*. New York, 1977, p. 42.
48. Output shares 1950-1960 in prices of 1955, 1965-1970 in prices of 1963, 1975 in prices of 1977; investment shares 1951-1965 in prices of 1959, 1966-1975 in prices of 1963, 1976 onwards in prices of 1977.
49. My own calculations on the basis of the cost structure of output of branches of industry and the cost structure of overall industrial output in the 1960s. Source: Annual Statistics, and Vassili Rausser, *Pretul de Cost in Industrie*. Bucharest, 1973.
50. Thad P. Alton et al., "Indexes of Industrial Rumanian Production,

1930, 1948, and 1950-67: Research Project on National Income in East Central Europe." Occasional Paper no. 10, New York, 1972, and Montias, p. 254 ff.

51. Cf. the detailed analysis in Montias, chapter four.
52. "Statement on the Stand of the Rumanian Workers' Party Concerning the Problems of the International Communist Working Class Movement." Bucharest, 1964, quoted in William E. Griffith, *Sino-Soviet Relations*. Cambridge, 1967, p. 282 ff.
52. Quoted from Montias, p. 219 ff.
53. Calculated for 1976 on the basis of the inland price changes for total investment goods imports and the price changes for investment in total equipment in the different sectors of the national economy.
54. Lasarcik.
55. Alton, ed., "Statistics on East European Economic Structure and Growth." Occasional Paper no. 48, New York, 1975.
56. Lasarcik.
57. Roy Pepper and Andrew C. Tsantis, *Romania. The Industrialization of an Agrarian Economy under Socialist Planning*. World Bank, Washington, D.C., 1979, p. 206.