Economic Development of Comecon Countries

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Abstract: In 1949, Soviet Union and some of its satellites created Comecon with the announced goal to facilitate economic cooperation between the socialist countries. The inefficiency of socialist systems affected the performances of Comecon members. However, the analysis of economic development from some of these countries should take into consideration the substantial subsidies received from other Comecon members.

Economic Development; Comecon; Socialist Systems

JEL: N10, O10, O20, P20, P36

1. INTRODUCTION

The concept of economic development is aproached from various perspectives in the specialized literature. The Human Development Report 1990, elaborated by the United Nations Development Programme (UNDP), defines the basic objective of economic development as “to create an environment for people to enjoy long, wealthy and creative lives” (UNDP, 1990). This objective is linked to the quality of life which is evaluated by various indicators: life expectancy, level of nutrition, literacy rates etc. (e.g. Birdsall, 1993; Easterlin, 1995; Easterlin, 2000; Alkire, 2002; Veenhoven & Hagerty, 2006; Easterlin & Angelescu, 2012). Sen (2001) included freedom among the main dimensions of the economic development. Todaro & Smith (2012) proposed three aspects to characterize the economic development:

-increase of living conditions;

-improvement of the citizens self-esteem needs;

-free and just society.

Other approaches of economic development are referred to the economic systems qualitative transformation. The industrialization, the reform of agriculture or the information technologies introduction could have a significant impact on the quality of life (Rosenstein -Rodan, 1943; Murphy et al., 1988; Mansell & Wehn, 1998; Saviotti & Pyka, 2004).

The economic growth is considered as the main tool in the life quality improvement

(e.g. Ramirez et al.,1997; Dollar & Kraay, 2002; Barro & Sala-i-Martin, 2004; Acemoglu, 2008). However, the effects of this process on the quality of life depend on some characteristics of the income distribution (e.g. Kuznets, 1955; Cornia et al., 2003; Birdsall, 2007).

The Marxist perspectives on the economic development assigned a primordial role to the mode of production (e.g. Marx, 1859; Kolakowski, 1978; Kornai, 1992). In the countries where communist regimes were installed, the application of Marxist principles generated significant changes in the economic systems (e.g. Kornai, 1982; Ofer, 1987). These totalitarian regimes also repressed civil liberties and human rights. Some dimensions of the life quality, such as the education and health, were among the main themes of the communist ideology. However, quite often, the governments of the socialist countries mystified the social -economic indicators and this fact affects the economic development analysis.

Another particularity of the Marxism regarded the income distribution. The wage systems applied in the socialist states were based mainly on equalitarianism principles. As a result, in these countries the income inequality was, in general, lower than in the capitalist ones (Wiles & Markowski, 1971). However, this kind of equalitarianism led to the decline of workers motivation (Minard & Michaels, 1982).

In this paper we approach the economic development among members of the former Council for Mutual Economic Assistance, also known as Comecon. This organization was established, in 1949, by Soviet Union and five of its Eastern Europe satellites: Bulgaria, Czechoslovakia, Hungary, Poland and Romania. In the next decades, Comecon composition was modified as new socialist countries joined: Albania in 1949, East Germany in 1950, Mongolia in 1962, Cuba in 1972 and Vietnam in 1978. In 1961, angered by the Nikita Khrushchev's repudiation of Stalin's cult of personality, Enver Hoxha de facto withdrew Albania from Comecon.

The creation of Comecon was, in fact, a reaction, mainly a propagandistic one, to the Marshall Plan which was perceived by Joseph Stalin as a threat to its domination on the countries occupied by the Red Army (Mastny, 1998; Zubok, 2009; Leffler & Westad, 2010). In fact, during Joseph Stalin's life, Comecon institutions were rather bypassed in economic relations among the members. After his death, their successors proclaimed their objectives of economic coordination and specialization by involving Comecon. The achievement of these objectives was affected by the inefficiency of the socialist planning system (e.g. Brabant, 1988; Crane & Skoller, 1988; Balassa, 1992; Bruno, 1992).

Three Comecon members (Cuba, Mongolia and Vietnam) had a special situation being the least developed countries. For strategic and propagandistic reasons their economies were supported by other Comecon members.

The relations between Soviet Union and its satellites evolved in time. During the Stalin regime, Soviet Union controlled strictly these countries, exploiting some of their natural resources. Instead, starting with 1970s, Soviet Union had to subsidize the other Comecon members affected by crisis by offering them energy and raw materials at low prices (Balassa, 1992).

We analyze the economic development of Comecon countries through several aspects: the economic systems qualitative transformation, the quality of life, economic growth and economic convergence.

2. THE QUALITATIVE TRANSFORMATION OF ECONOMIC SYSTEMS

The economic development of Comecon countries was marked by some significant qualitative transformation:

a. nationalization;

b. collectivization of agriculture;

c. industrialization;

d. coordination and specialization within Comecon;

e. economic reforms.

a. Nationalization. The Soviet ideology promoted the state ownership of all enterprises. One of the first acts of the newly installed communist regimes from the Eastern Europe was to nationalize almost enterprises (Herman, 1951; Staar, 1982). The state ownership over the economic activity facilitated the government control but it affected the enterprises efficiency (Shirley, 1983; Aharoni, 2000).

b. Collectivization of agriculture. Before the Second World War, Joseph Stalin enforced the collectivization of the Soviet Union agriculture, with the justification that collective farms should be more efficient than the individual ones. It was a long and dramatic process accompanied by the repression of the mid and high – income peasants. After the Second World War, Stalin imposed in the newly Eastern European satellites similar processes of the agriculture collectivization (e.g. Staar, 1982; Kligman & Verdery, 2011; Pryor, 2014). In general, the system of control prices for production and the weak motivation for peasants led to a poor efficiency of the collective farms (e.g. Suslov, 1967; Goldman, 1983; Easterly & Fischer, 1994; Gardner & Lerman, 2006; Dobb, 2012).

c. Industrialization. The rapid industrialization was another ideological motivated process. The growth of the industrial sector was viewed by the communist regimes as a way to strengthen the proletariat class. For the Eastern European countries, especially for the predominant agricultural ones, such as Bulgaria, Poland and Romania, the industrialization led to significant changes in the social classes. In general, this process increased the environmental pollution. Very often, the lack of qualified force and the inefficient management affected the performances of the industrial entities (e.g. Gomulka, 1983; Berend, 1996; Bideleux & Jeffries, 1998; Allen, 2003). The orientation of the industrialization suffered some changes in time. Joseph Stalin was a partisan of the heavy industry, while his successors promoted also the light industry.

d. Coordination and specialization within Comecon. N. S. Khruhschev promoted "the division of labor within the socialist camp" and a significant economic integration among Soviet Union and its satellites. In June 1962, he imposed in Comecon the adoption of the “Basic Principles for the International Division of Labor”. Khrushchev intended to achieve the economic integration by “planning coordination” on the Comecon level (e.g. Graziani, 1981; Balassa, 1992; Bideleux & Jeffries, 1998). However, some leaders of the other Comecon countries viewed the joint planning as a threat to the autonomy they gained since Stalin’s death and their resistance led to the economic integration failure. The

most visible opposition came from the Romanian leader Gheorghe Gheorghiu - Dej. Since 1958, when the Red Army had withdrawn from Romania, his position in Romanian Workers’ Party was strengthening and in 1960s he was able to confront with Soviet leaders (e.g. Montias, 1964; Betea & Bîrladeanu, 1997; Neagoe -Plesa, 2005; Badila, 2012). In 1964, in the context of dispute over specialization within Comecon, the soviet geographer E.B. Valev published an article that suggested the “creation of an inter-state economic complex”, which should include parts of the southern Soviet Union, the south¬east of Romania and the north-east of Bulgaria (Valev, 1964). Gheorghiu – Dej perceived the article as an attack to his industrialization program and he asked Romanian economists to criticize what they called “Valev Plan” (Brucan, 1992; Tismaneanu, 2014; Dumitrescu, 2015). In April 1964, the Plenum of the Romanian Workers’ Party adopted a “Declaration regarding the problems of world communist movement”, practically a Declaration of Independence, in which they stated that “it is a sovereign right of each socialist state, to elaborate, choose or change the forms and methods of socialist construction” (e.g. Scânteia,1964; Tismaneanu, 2002; Neagoe-Plesa, 2005; Mure§an, 2008). After Khrushchev was forced to retire, in October 1964, his radical plans of Comecon countries economic integration were abandoned. His successor, L.I. Brezhnev, preferred a more conciliatory approach to the Comecon partners. In 1971, Comecon approved “The Comprehensive Program for the Further Intensification and Improvement of Collaboration and the Development of Socialist Economic Integration of COMECON Member Nations”, which stipulated that joint planning “was not to interfere with the autonomy of internal planning” (e.g. Schultz, 1971; Hutchings, 1983; Lavigne, 1983; Brabant, 1988). In the next years, there were concluded bilateral agreements between Comecon countries that stipulated the specialization in some industrial sectors (Brabant, 1988; Balassa, 1992).

e. Economic reforms. Stalin’s successors relaxed his hard policies. Premier G.M. Malenkov reconsidered the industrial policy, assigning a more important role to the light industry. After had consolidated his position, Khrushchev launched an ambitious agricultural policy. These policies were imitated by the leaders of the satellite states. Khrushchev also granted more autonomy to the other Comecon members, allowing them to develop commercial relations with the Western countries (Grzybowski, 1971; Hoyt, 1983). The failure of Khrushchev’s economic policies motivated his successors to reforms. In 1965, Premier A.N. Kosygin implemented an economic reform which granted more independence to enterprises in order to increase their profitability. The Central

Committee General Secretary of the Soviet Union Communist Party, L.I. Brezhnev, allowed the leaders of the other Comecon members to implement their own economic reforms as long they didn't appear to contradict Marxist principles (e.g. Hare, 1987; Hankiss, 1990). In Hungary, in 1968, Janos Kadar launched the so-called "New Economic Mechanism" which established a new system of prices and it granted enterprises the freedom to decide about their production (Kornai, 1980).

In 1970s the "Détente" of the Cold War allowed a controlled access of Comecon countries to the Western markets. Government of the Eastern European states fructified this opportunity by importing modern technologies and consumer goods which increased the quality of life (Ransom, 1971; Kansikas, 2014). In these circumstances, obtaining western currency resources, by exports or by credits, became one of the main objectives of their economic policies. In 1980s, the External Debt Crisis affected Comecon countries, especially Poland and Romania. In order to solve this problem, the governments of the two states introduced, along with austerity, new pragmatic economic policies meant to increase the efficiency of the enterprises.

In June 1987, M.S. Gorbachev presented the basic theses of a radical economic reform called "Perestroika" which was supposed to bring efficiency to the Soviet economy. It should grant more independency to enterprises and allow the foreign investment in Soviet Union. However, the government maintained the control over prices. The leaders of other Comecon countries adopted various positions to Perestroika. In Poland, facing with a severe crisis, the government announced the introduction of the so-called "Market Socialism" which included self-management and self-financing of enterprises and measures to encourage the foreign investment. In Hungary, the leaders of the Communist Party were encouraged to continue the "New Economic Mechanism". In Romania, Nicolae Ceausescu refused to reform the economy arguing that his economic reforms applied since the early 1980s proved their efficiency. In Cuba, the end of subsidies from Soviet Union forced Fidel Castro to adopt radical measures, reducing the oil consume and shutting down some factories. Under Soviet pressures, although they were skeptic about the economic reforms, other Comecon leaders adopted their own versions of Perestroika. The fall of the Eastern European communist regimes, which started in 1989, ended the Perestroika.

3. THE QUALITY OF LIFE AMONG COMECON MEMBERS

We investigate the quality of life for Comecom countries by employing annual data of two variables provided by World Bank: School Enrollment, Primary (% gross) and Life Expectancy at Birth, Total (years). We use data from nine former Comecon members: Bulgaria, Cuba, Czech Republic (instead of the former Czechoslovakia), Hungary, Mongolia, Poland, Romania, Russian Federation (instead of the former Soviet Union) and Vietnam (until 1975, data expressed the quality of life for both North and South Vietnam). Unfortunately, World Bank doesn't provide values of these indicators for East Germany. For comparison, we also use the data for OECD members.

a. School Enrollment, Primary (% gross) is defined as "the total enrollment in primary education, regardless of age, expressed as a percentage of the population of official primary education age" (World Bank, 2015). The Table 1 presents the annual values of this indicator for Comecom countries between 1971 and 1988. The figures suggest, for all the countries, a substantial enrollment in primary education. However, these data do not offer a real image of the education quality from the socialist countries.

Tab.1 Evolution of School Enrollment, Primary (% gross) for OECD and some Comecon members between 1971 and 1988

Country Name	1971	1972	1973	1974	1975	1976
Bulgaria	106.2387	104.3197	102.0528	99.7469	96.35241	98.30579
Cuba	116.6296	116.2307	118.3766	119.1302	120.6102	122.0989
Czech Republic	124.6249	128.2291	130.1466	130.7862	128.7011	124.4441
Hungary	97.97811	100.9951	104.0629	105.7356	106.2307	104.6956
Mongolia	108.9007	106.8549	106.5079	104.235	102.9621	103.4831
Poland	102.0856	102.426	103.0741	103.2943	102.799	102.5205
Romania	128.1556	138.4956	134.7553	125.4613	x	x
Russian Federation	104.8802	101.7138	100.211	99.21459	99.1185	100.0535
Vietnam	x	x	x	x	x	108.7374
OECD members	100.2457	100.3577	100.78	100.6362	100.6185	101.1592
Country Name	**1977**	**1978**	**1979**	**1980**	**1981**	**1982**
Bulgaria	100.4196	103.1068	103.6508	101.4181	100.8171	103.5996
Cuba	120.7986	118.4519	114.7344	110.3621	105.9468	103.7368
Czech Republic	121.2278	118.9557	116.4966	x	97.86062	99.83076
Hungary	103.9511	101.6908	98.54153	97.68563	99.46972	105.3404
Mongolia	x	105.6883	104.3187	103.2765	103.1111	101.209
Poland	102.2967	102.127	101.8774	101.623	101.3707	101.8235
Romania	x	x	x	x	92.69027	x
Russian Federation	101.8619	104.05	105.2301	105.0742	102.0773	101.3743
Vietnam	111.8274	110.9078	102.6507	108.7578	106.335	x
OECD members	101.4629	101.4288	101.9613	103.9105	103.5902	103.9187
Country Name	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Bulgaria	104.7772	106.6614	107.4105	105.0584	106.0016	103.8419
Cuba	104.1963	103.7362	102.1442	101.8841	102.4938	101.6974
Czech Republic	101.266	100.6081	97.92776	96.10893	93.35767	91.41518
Hungary	108.6221	109.3144	105.6631	98.07509	91.71147	85.53671
Mongolia	101.2889	101.3588	101.0632	100.1243	100.7107	100.5864
Poland	102.3532	102.858	103.0505	102.9549	102.4873	101.6469
Romania	x	x	x	97.16831	93.51712	91.01982
Russian Federation	100.5625	100.9341	102.4254	103.67	106.3248	107.3447
Vietnam	103.2312	103.5772	102.9046	103.6361	107.0966	107.9766
OECD members	103.428	103.4932	103.4408	104.0941	104.4535	104.6454

Note: x means lack of data. Source: World Bank

b. Life Expectancy at Birth, Total (years) represents "the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life" (World Bank, 2015). For most of Comecon members the values of this indicator, reported in the Table 2, were

inferior to OECD values. Despite an ascendant trend, the life expectancy in Mongolia and Vietnam remained significant lower comparing to the other Comecon members. The third least developed country, Cuba experienced a substantial increase of life expectancy surpassing, in the middle of 1970s, the other Comecon countries and even OECD members.

Tab.2 Evolution of Life Expectancy at Birth, Total (years) for OECD and some Comecon members between 1971 and 1988

Country Name	1971	1972	1973	1974	1975	1976
Bulgaria	70.87366	70.89951	71.3422	71.20805	71.04976	71.39488
Cuba	70.37829	70.85639	71.32095	71.76949	72.19761	72.59885
Czech Republic	69.67707	70.17659	70.02268	70.08659	70.41463	70.53268
Hungary	69.05244	69.66463	69.51805	69.24805	69.29	69.57317
Mongolia	55.80146	56.1751	56.46027	56.65951	56.78078	56.8341
Poland	69.6122	70.66585	70.66341	71.11707	70.56098	70.6561
Romania	68.50415	68.47024	69.00561	69.49976	69.6139	69.69878
Russian Federation	68.37659	68.30854	68.29463	68.32024	67.7239	67.48756
Vietnam	59.17424	59.02161	59.38122	60.25344	61.53637	63.04285
OECD members	69.78266	70.07942	70.26413	70.68141	71.03591	71.31411
Country Name	**1977**	**1978**	**1979**	**1980**	**1981**	**1982**
Bulgaria	70.8161	71.18463	71.30829	71.15756	71.57195	71.1861
Cuba	72.96627	73.29583	73.58454	73.83176	74.03637	74.20327
Czech Republic	70.57341	70.6439	70.74951	70.27805	70.7222	70.8078
Hungary	69.84805	69.3939	69.61537	69.06171	69.13927	69.3578
Mongolia	56.84641	56.84776	56.86361	56.92551	57.06402	57.28517
Poland	70.40244	70.35122	70.75122	70.09756	71.05122	71.10244
Romania	69.74195	69.48049	69.15317	69.09098	69.36829	69.53171
Russian Federation	67.37634	67.39098	67.11439	67.0339	67.2639	67.8061
Vietnam	64.52671	65.79634	66.77251	67.43315	67.82744	68.08729
OECD members	71.68086	71.86287	72.20871	72.2782	72.63848	72.97895
Country Name	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Bulgaria	71.38634	71.49976	71.22805	71.73073	71.52683	71.60439
Cuba	74.33939	74.44776	74.52893	74.58154	74.60771	74.61805
Czech Republic	70.59146	70.83756	71.04634	70.99732	71.44561	71.64146
Hungary	68.97366	69.02585	68.9722	69.17341	69.65122	70.02341
Mongolia	57.58541	57.95771	58.38085	58.82568	59.25761	59.64959
Poland	71	70.8	70.54878	70.84878	70.89756	71.33171
Romania	69.72634	69.65878	69.70683	69.49634	69.22683	69.38805
Russian Federation	67.65268	67.20268	67.85683	69.38976	69.44	69.46439
Vietnam	68.32159	68.56893	68.85283	69.17529	69.51268	69.84695
OECD members	73.1136	73.40747	73.5491	73.8052	74.09456	74.23898

Source: World Bank

4. THE ECONOMIC GROWTH OF COMECON COUNTRIES

We investigate the economic growth of some former Comecon members by employing annual values of real 2010 Per Capita ($) GDP as provided by United States Department of Agriculture, Economic Research Service (2015). The Figure 1 presents the values of real 2010 Per Capita ($) GDP between 1971 and 1988 for seven Eastern European Comecon countries: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Soviet Union. Unfortunately, United States Department of Agriculture doesn’t provide GDP values for East Germany. We use data for Czech Republic and Slovakia to express economic growth of the former Czechoslovakia.

Fig. 1 Evolution of the real 2010 Per Capita ($) GDP for some Eastern European Comecon

C Fig. 1 Evolution of the real 2010 Per Capita ($) GDP for some Eastern European Comecon countries between 1971 and 1988

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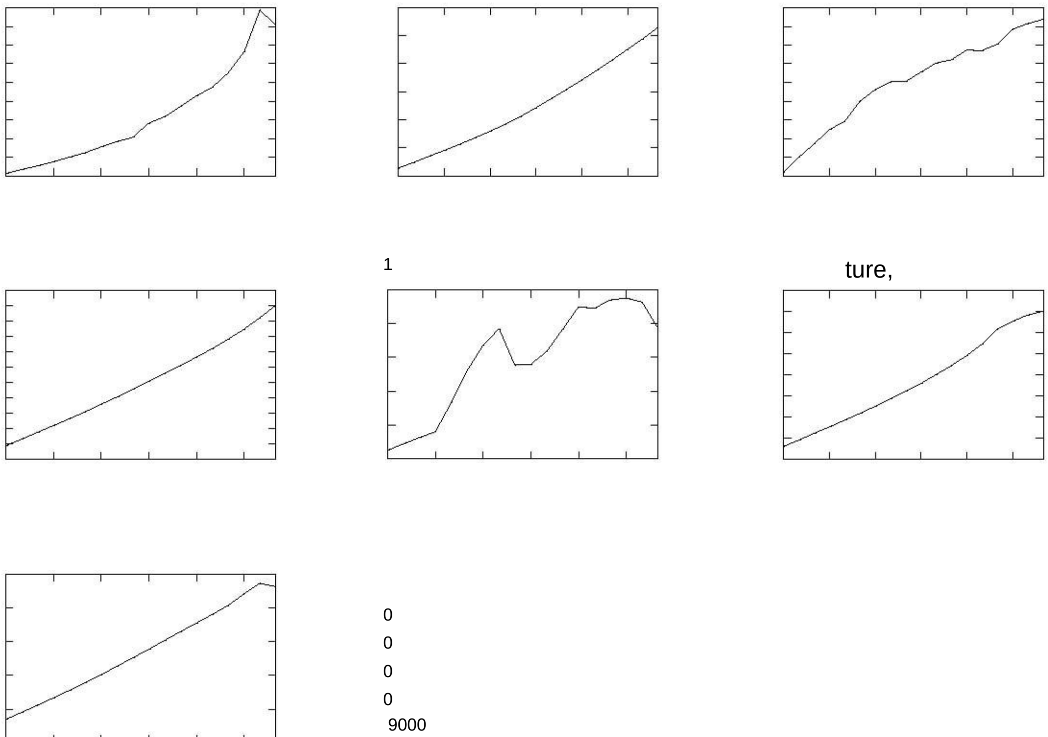

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Romania

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6500 6000 197119741977198019831986

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Source of data:
United
States

CzechRepublic

All Eastern European Comecon members experienced ascendant trends of the real Per Capita GDP. There are significant differences among the seven countries. Bulgaria was the poorest Eastern European Comecon country, while the former Czechoslovakia was the richest.

The Figure 2 presents the values of real 2010 Per Capita ($) GDP between 1971 and 1988 for the least developed members of Comecon: Cuba, Mongolia and Vietnam (until 1975 the data reflect the situation for both North and South Vietnam). In that period of time, Cuba and Mongolia experienced substantial economic growth. In case of Vietnam, the slow economic growth until 1980s could be linked to the involvement in military conflicts.

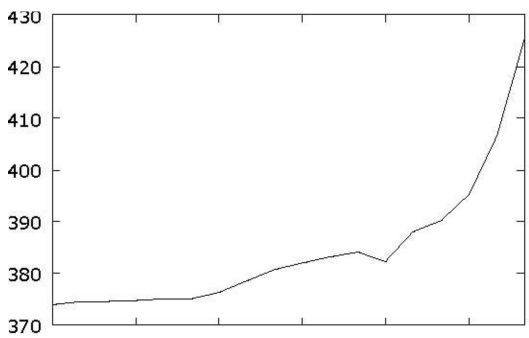
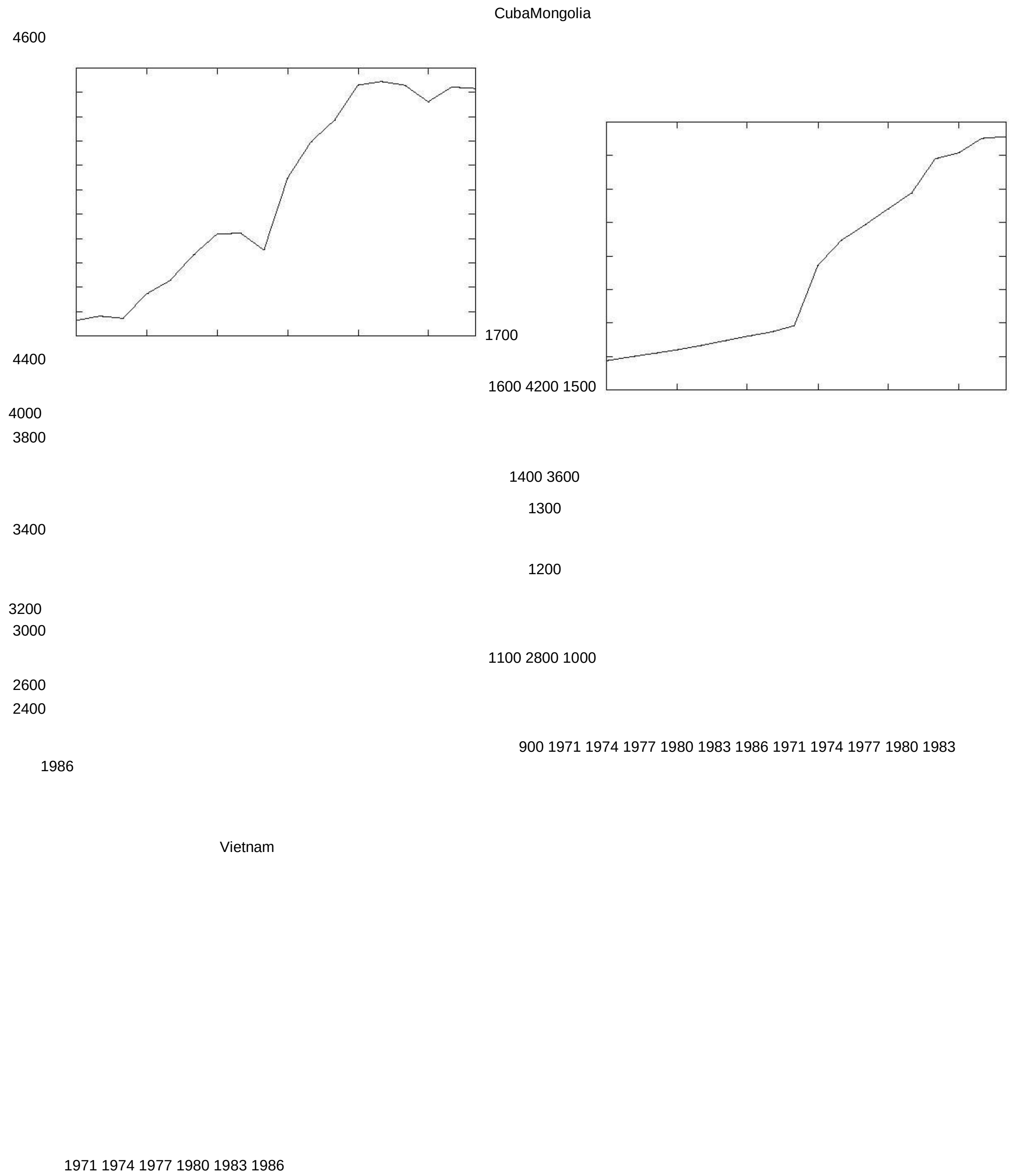


Fig. 2 Evolution of the real 2010 Per Capita ($) GDP for the least developed Comecon countries between 1971 and 1988



Source of data: United States Department of Agriculture, Economic Research Service (2015). ERS International Macroeconomic Data Set

5 THE ECONOMIC CONVERGENCE AMONG COMECON MEMBERS

We investigate the catch-up effect on Comecon countries, employing the real 2010 Per Capita ($) GDP used before to study the economic growth. We analyze two forms of economic convergence: sigma (0) and beta (1).

a. Sigma (0) convergence reflects the decrease in time of the real per capita GDP dispersion (Barro & Sala-i-Martin, 1992; Quah, 1996). We express the dispersion by the coefficient of variation. The Figure 3 presents the evolution of the variation coefficient of real 2010 Per Capita ($) GDP for Comecon members between 1971 and 1988. Although it decreases for some years, the general trend is ascendant, suggesting a sigma economic divergence.

Fig. 3 Evolution of the coefficient of variation for real per capita GDP for COMECON countries between 1972 and 1990

1972 1974 1976 1978 1980 1982 1984 1986 1988

Source of data: United States Department of Agriculture, Economic Research Service (2015). ERS International Macroeconomic Data Set

b. Beta (�) convergence reflects a situation when the poorest countries grow faster than the richest ones (Baumol, 1986; Barro & Sala-i-Martin, 1992). It is investigated usually by analyzing the dependence of the income growth on the initial income level:

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× log( ) = a + b × log(Y) +c (1)

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where: -T is the length of time (in years) over which the beta convergence is investigated; -Yit represents the real per capita GDP of the country i at the end (t) of period of

analysis;

-Yi0 represents the real per capita GDP of the country i at the start (0) of period of analysis;

-a stands for the intercept term corresponding to the (Solow, 1956) steady-state point of convergence;

-b is the slope term reflecting the variation of dependent variable when the independent variable increases by one unit.

Beta convergence occurs when the coefficient b is significant negative.

The parameters of the regression (1), presented in the Table 3, suggest the absence of beta convergence among the Comecon members.

Tab.3 Parameters of the beta convergence regression

Source of data: United States Department of Agriculture, Economic Research Service (2015). ERS International Macroeconomic Data Set

5. CONCLUSIONS

The Comecom membership influenced the economic development by many channels. First, the national economies' performances were affected by the inefficiency of socialist systems. In general, the attempts to reform these economies weren't consistent. Second, the economic integration process was bad designed and faced a consistent resistance from some of the Soviet Union satellites. Despite the specialization, in some industrial sectors the market potential wasn't full exploited. Third, the effects of nationalizations, industrialization and agriculture's collectivization were in general harmful for the national economies. Fourth, the income distribution specific to socialist systems attenuated the social inequalities. Fifth, the communist regimes financed in high proportions the main social services, especially education and health. Sixth, from the mid¬1960s, the Soviet Union subsidies supported substantially the economic development of other Comecon countries. For geostrategic and prestige reasons, Cuba was the main receiver of these subsidies: Soviet Union imported, at preferential prices, large quantities of Cuban sugar production (Pérez-López, 1988; Feinsilver & Apter, 1993). Vietnam also benefited from Soviet Union subsidies but the war efforts hampered the economic development.

For most of the Comecon members the real per capita GDP remained, despite significant economic growth, inferior to the Western countries levels. The substantial wealth of the former Czechoslovakia and Eastern Germany proceeded from times previous to the communist period. Another symptom of Comecon's inefficiency is the economic convergence absence.

The lost of Soviet Union markets and subsidies were major challenges for many former Comecon members which had also to face the difficulties of transition to the market economy. The communist regimes survived only in Cuba and Vietnam, but these countries were also forced to substantial economic reforms. However, the effects of some qualitative transformation from Comecon period still persist in these countries.

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