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Modern Industry in Southeast Europe
1945–2010:
From Rapid Industrialization to Deindustrialization

aus dem Band:

**Wirtschaft und Gesellschaft
in Südosteuropa nach 1800**

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1. Introduction

During the Cold War, no matter what the economic system, industrialization or industrial development accelerated in Southeast Europe (SEE) or at least occurred there. In Bulgaria, Romania, and Albania it was centrally planned, in Yugoslavia there was “market socialism” and in Greece there was capitalism. Independently of deep-seated ideological and political differences among them all the Southeast European socialist states aimed at rapid full scale industrialization. All of them – Romania and Bulgaria as part of the Soviet-controlled Eastern Block, Maoist Albania, and non-aligned Yugoslavia – legitimized their rule by proclaiming that they would achieve the long-desired modernization of their countries, a historical mission all bourgeois governments had failed to accomplish since their independence from the Ottoman Empire. As in many developing nations around 1950 not only Southeast Europe’s communists but large parts of the elites and the general population saw Stalin’s industrialization as a great success and as the appropriate strategy to achieve national independence and escape “backwardness” once and for all.

However, Greece developed completely differently, for the Greeks consciously avoided a state-driven and long-term industrialization strategy aimed at diverting as many resources as possible into the development of modern heavy industry. Instead they concentrated on achieving macroeconomic stability and became one of the most successful emerging economies anywhere in the world during the long post-war boom from about 1950–1973. Even so, an industrial take off comparable to the experience of the Southeast European Socialist countries did not occur even if Greek industry at times did develop dynamically. Structural transformation in Greece did not mean transition from primary to secondary production but to tertiary production, accompanied by mass emigration of the rural labour surplus.

Even these short introductory paragraphs demonstrate therefore that the degree of pro-industrial state intervention varied greatly among Southeast European countries.¹ It is such ideological and institutional diversity which makes a comparison of industrialization among Southeast European countries after 1950 especially interesting. In fact, despite fundamental differences in their economic systems all Southeast European countries (SEEs) followed

¹ Ivan T. BEREND, *Central and Eastern Europe, 1944–1993. Detour from the Periphery to the Periphery*. Cambridge 1996; Michael C. KASER (ed.), *The Economic History of Eastern Europe 1919–1975*. Vol. 3: *Institutional Change within a Planned Economy*. Oxford ²2003; George PAGOULATOS, *Greece’s New Political Economy. State, Finance, and Growth from Postwar to EMU*. New York 2003.

more or less similar trends in industrial growth after 1950 with the highest growth being in manufacturing, with similar rates in all SEEs from 1950–1973.² In about 1975 industrial growth slowed markedly all over Southeast Europe independently of the particular economic systems concerned, and then fell even further after 1990 (tables 1, 2, 3 and 4).³ What differed was only the course of deindustrialization between Greece and the socialist SEEs.

In the following we shall analyse the rise and decline of industry in Southeast Europe after the Second World War. Apart from to a certain extent in Slovenia and Croatia no modern, large and robust industrial sectors emerged in Southeast Europe comparable to the ones in leading European economies or contemporary emerging economies of the Far East. Our main purpose here is to explain why the development of a large and competitive modern industry finally failed despite strong efforts. We shall therefore not only analyse industrialization but we shall look too at the driving forces of subsequent deindustrialization in Southeast Europe. Deindustrialization as a global process began in the mid 1970s and gathered pace after 1990⁴ and until the financial crisis of 2007 was often described as successful structural adjustment to globalization and transition towards a modern service economy. Concerning the European periphery and especially Southeast Europe that very positive interpretation of deindustrialization as capitalist creative destruction now seems questionable. The question must then be asked to what extent the failure of industrialization and the decay of industry

² As far as possible we used comparable data on manufacturing based on Western estimates for all Socialist SEEs (table 1) because output and productivity were notoriously overestimated in official statistics, not least because of confusing Marxist concepts of social product (Thad P. ALTON [ed.], *Bulgarian GNP by Sectors of Origin, 1950, 1955, 1960–74*. New York 1975; IDEM, *Production and Resource Allocation in Eastern Europe. Performance, Problems, and Prospects*, in: *East European Economic Assessment. A Compendium of Papers Submitted to the Joint Economic Committee Congress of the United States. Part 2: Regional Assessments*. Washington/DC 1981, 348–408; IDEM et al., *East European GNP by Origin and Domestic Final Uses of Gross Product, 1965–1984*. New York 1985 (Research Project on National Income in East Central Europe, Occasional Paper, 89); IDEM, *Comparison of Overall Economic Performance in the East European Countries*, in: Reiner WEICHHARDT (ed.), *The Economies of Eastern Europe under Gorbachev's Influence*. Brussels 1989, 26–52; Éva EHRlich, *Economic Growth in Eastern Central Europe after World War II*. Budapest 1992; Paul MAREK, *Historically Planned Economics. A Guide to the Data*. Washington/DC 1993.

Western estimates are still available for Albania which had the worst statistical record. For example, no Albanian statistical yearbooks were published during the decisive period of 1972–1988. However, at least the estimates for Albania follow the same trends as in other Socialist SEEs. Even if contemporary Western estimates are the best available data on industrial output in Socialist SEEs they need improvement. Reconstructing manufacturing output 1950–1990 according to current international standards is a task still waiting to be done.

³ Crude output data of certain industrial products measured in physical units seemed to be the least manipulated data in Socialist countries (Garabed MINASSIAN, *Bulgarian Industrial Growth and Structure, 1970–1989*, *Soviet Studies* 44 [1992], no. 4, 699–711). Thus, in table 3 the physical output of a selection of industrial key products and of electric energy are presented to check the trends of total industrial output shown in table 1. Crude output data fully supports the trends in total modern manufacturing in table 1.

⁴ Dani RODRIK, *Premature Deindustrialization*. Cambridge/MA 2015.

Table 1. Manufacturing growth in Southeast Europe, 1950–2007 (annual rates).^a

Country	Official indexes 1953–71	Western estimates 1950–71	Western estimates 1973–1990	1990–2007
Bulgaria	12.6 (11.9)	8.3	2.8 (4.4)	0.1
Romania	12.1 (10.1)	7.8	3.5 (1.0)	0.9
Yugoslavia	10.5 (9.8)	9.2	3.2 (3.7)	–
Greece	–	8.2	1.9	1.4
Albania	–	10.7 ^b	4.7 ^c	1.2

Notes: ^a Data in brackets are alternative estimates from BÉNÉTRIX/O’ROURKE/WILLIAMSON, *The Spread of Manufacturing to the Poor Periphery 1870–2007*, 30; ^b 1955–1971, ^c 1973–1989.

Sources: For countries other than Albania see KOPSIDIS/IVANOV, *Industrialization and De-Industrialization in Southeast Europe*, 97; for Albania 1955–1989 authors’ own calculations based on data from Adi SCHNYTZER/Ramat GAN, *Industry*, in: GROTHUSEN (ed.), *Südosteuropa-Handbuch*, Vol. 7, 312–342; for all countries 1990–2007 see BÉNÉTRIX/O’ROURKE/WILLIAMSON, *The Spread of Manufacturing to the Poor Periphery 1870–2007*, 30.

Table 2. Share of industry^a in GDP, 1950–2010.

	Romania	Bulgaria	Yugoslavia ^b	Greece ^c
1950			21.5	21.4
1955			26.5	21.6
1960			29.0	21.8
1965	26.4	29.0	33.6	19.4
1970	35.5	34.1	36.1	22.9
1975	39.8	35.9		22.9
1980				22.6
1985				22.9
1990				20.7
1995				18.7
2000	29.0	21.3	23.4 / 29.0	13.9
2005				
2010	29.7	23.2	19.0 / 24.3	13.8

Notes: ^a Industry comprises manufacturing (including handicraft) and the energy sector (including mining) but not construction. Because of the low figures for relative shares of energy, mining, and handicraft “industry” closely approximates to modern manufacturing; ^b 2000–2010: Ex-Yugoslavia (Croatia/Slovenia); ^c 1994 instead of 1995.

Sources: KOPSIDIS/IVANOV, *Industrialization and De-Industrialization in Southeast Europe*, 97.

Table 3. Annual growth rates of key industrial output, 1950–1993.

	<i>Greece</i>	<i>Romania</i>	<i>Bulgaria</i>	<i>Yugoslavia</i>
	<i>Industrial output indices</i>			
1950–1973	8.12	12.18	11.90	8.51
1973–1989	2.52	5.66	4.91	4.11
1989–1993	-1.66	-13.17	-16.81	–
	<i>Pig iron (metric tons)</i>			
1950–1973	–	13.01	29.94	8.68
1973–1989	–	2.33	-0.67	3.12
1989–1993	–	-28.63	-5.21	–
	<i>Crude steel (metric tons)</i>			
1950–1973	–	12.86	25.49	8.09
1973–1989	–	3.16	1.94	3.92
1989–1993	–	-25.43	-11.46	–
	<i>Cotton yarn (metric tons)</i>			
1950–1973	4.32	6.29	6.45	6.81
1973–1989	4.02	-3.38	0.39	1.53
1989–1993	-4.46	-25.07	-34.94	–
	<i>Sulphuric acid (metric tonnes)</i>			
1950–1973	12.87	15.27	20.56	15.48
1974–1989	0.32	0.51	0.42	5.06
1989–1993	-16.39	0.51	-17.10	–
	<i>Electric energy (gigawatt hours)</i>			
1950–1973	13.15	13.86	14.90	12.16
1974–1989	4.99	2.77	4.61	5.60
1989–1993	2.83	-7.97	-4.71	–

Source: Authors' own calculations, data from: B. R. MITCHELL, *International Historical Statistics. Europe 1750–2000*. New York 2003, 419–567.

in Southeast Europe instead represents simple economic decline which has in fact prevented the emergence of a modern service economy? Moreover, because of the heavy impact of global processes on economic development in all SEEs and the continuing decline of industry during the long final phase of the central planning system and the subsequent transition period, our chapter's discussion of industrial development will not end with 1989 but will deal with the long period from 1945–2010.

All the same, these few remarks reveal how we must analyse the interaction between powerful international economic developments and internal factors if we are to understand the course of industrial development in SEE. Our desire here is to consider country-specific

Table 4. Official industrial output indices, 1950–1993 (1963 = 100).

	<i>Romania</i>	<i>Bulgaria</i>	<i>Yugoslavia</i>	<i>Greece</i>
1950	16	18	35	38
1960	68	73	77	84
1970	227	213	167	196
1980	656	439	340	382
1985	797	542	389	409
1989	702	610	407	432
1993	420	325		401
	1993 = 1975	1993 = 1975		1993 = 1987

Notes: Given the use of unrevised official data in all Socialist SEEs the drop after 1990 is partly the result of changes in the official statistics. However, the fact remains that industrial output shrank by between a third and half in former Socialist SEEs during the 1990s.

Source: MITCHELL, *International Historical Statistics*, 425–426.

developments as well as the patterns which characterized post-war industrialization all over the region and regardless of economic system. Even in the apparently monolithic Soviet bloc single countries were able to follow their specific industrialization strategies, even risking serious conflict with the USSR as demonstrated by the exemplary case of Romania. Furthermore we will show that not only in Greece but under the conditions of centrally planned economy, pre-war national traditions continued to influence industrial policy and therefore industrialization. Furthermore, we shall ask whether full-scale industrialization based on heavy industry – as envisaged not only by the Communists – was ever a realistic or even desirable option for Southeast Europe.

2. Stalin's Long Shadow: Enforced Industrialization in Romania, Bulgaria, and Albania

In Romania and Bulgaria the transition to a socialist economy took almost a decade. The first important steps were taken in 1947–1948 with the nationalization of all existing industrial and mining undertakings, 7,000 in Bulgaria and 35,500 in Romania. Many were soon consolidated into larger industrial complexes and simultaneous forced collectivization created a drain of labour from agriculture unprecedented even by Soviet standards. Albania, the most backward Southeast European country completely lacking modern manufacturing, experienced the same radical changes as Bulgaria and Romania albeit delayed.⁵

⁵ Michael C. KASER, *Economic System*, in: Klaus-Detlev GROTHUSEN (ed.), *Südosteuropa-Handbuch*. Vol. 7: Albanien. Göttingen 1993, 289–311, 300f.; SCHNYTZER/GAN, *Industry*. An exception was the nationalization of the tiny non-agricultural sector which proceeded early in 1945–1947 unimpeded by any bourgeois opposition. A middle class was in fact still non-existent in Albania. However, collectivization began late and was completed only in 1967.

Planners focused on boosting capital accumulation and channelling as much of it as possible into industry. Living standards that were already very low were initially reduced even further as consumption was suppressed in order to accumulate more capital for accelerated industrialization. That was done so effectively that by the mid-1960s structural transformation had been completed with “striking rapidity” in Bulgaria and Romania⁶. Manufacturing and GDP growth there strongly exceeded those of other COMECON-members, especially during the late-1940s and 1950s.⁷ However, although annual manufacturing growth rates in Socialist SEEs hovered around 10 per cent during 1950–1973, in comparison with non-communist countries at the same early stage of development their growth performance appears to be unexceptional and was realized at much higher human cost.⁸ From a global perspective the Socialist SEEs in fact experienced the “standard post-war growth miracle” of an emerging economy.

According to all available data, industrial development rested on rising factor intensity to a much larger extent than in the West.⁹ In Southeast Europe around 1950 labour productivity in modern industry was several times higher than in agriculture, so that inter-sector trans-

⁶ Georg R. FEIWEL, *Economic Development and Planning in Bulgaria in the 1970s*, in: Alec NOVE et al. (eds.), *The East European Economies in the 1970s*. London 1982, 215–252, 216; John Michael MONTIAS, *Economic Development in Communist Romania*. Cambridge 1967, 1–86; Andreas C. TSANTIS/Roy PEPPER, *Romania. The Industrialization of an Agrarian Economy under Socialist Planning*. Washington/DC 1979, 562–567; John R. LAMPE, *The Bulgarian Economy in the Twentieth Century*. London 1986, 139–155.

⁷ The Council of Mutual Economic Assistance (COMECON or CMEA) was founded in 1949 at the initiative of the Soviet Union. Its task was to organize economic cooperation between member states. COMECON was the answer to intensified international cooperation and trade within Western Europe consequent on the Marshall Plan. It was the direct “Eastern” counterpart to the newly founded Organization for European Economic Cooperation (OEEC). Because Marshall Plan aid and international cooperation with the West was highly attractive for the war-destroyed European states in the Soviet orbit Stalin wanted to create a “Socialist alternative”, his main motive being to forestall Western influence in the “European apron” of the Soviet Union rather than any belief in the advantages of international trade.

⁸ Nicholas CRAFTS/Gianni TONIOLO, *Aggregate Growth, 1950–2005*, in: Stephen BROADBERRY/ Kevin O’ROURKE (eds.), *The Cambridge Economic History of Modern Europe*. Vol. 2: 1870 to the Present. Cambridge 2010, 296–332; David F. GOOD/Tongshu MA, *The Economic Growth of Central and Eastern Europe in Comparative Perspective, 1870–1989*, *European Review of Economic History* 2 (1999), 103–137; John H. MOORE, *Growth with Self-Management. Yugoslav Industrialization 1952–1975*. Stanford 1980, 3. The high human costs of Stalinist industrialization in all Socialist SEEs mainly accrued in the late 1940s and 1950s from forced collectivization which resembled a “war against peasants” (exemplarily: Gail KLIGMAN/Katherine VERDERY, *Peasants under Siege. The Collectivization of Romanian Agriculture, 1949–1962*. Princeton, Oxford 2011). “Primary socialist accumulation” to build up a heavy industry in “peasant nations” put still low living standards under severe pressure as described in more detail below. Brutal totalitarian repression was necessary to bring emerging social unrest under control. By contrast Greece’s transition to modern growth was linked with rising living standards right from the beginning.

⁹ Gregor LAZARCIK/Alexej WYNNYCZUK, *Bulgaria. Growth of Industrial Output 1939 and 1948–1965*. New York 1968; John Michael MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*,

fer of labour to industry had the potential to raise total productivity substantially.¹⁰ Around 1950 the low-productive peasant labour surplus of the European periphery was largest in the Southeast.¹¹ Thus, in Europe it is probable that extensive industrialization based on the forced redirection of labour from agriculture to industry delivered the highest productivity gains in the SEE, although further research is needed to substantiate that hypothesis.¹² Certainly, during 1950–1989 no European region experienced a stronger labour transfer from agriculture to industry than Socialist SEE. Between 1950 and 1980/85 labour forces in manufacturing roughly quintupled in Albania, quadrupled in Romania, tripled in Bulgaria and Yugoslavia, but increased by only 55 per cent in Greece (table 5).

However, the demand for labour in Socialist industry in Southeast Europe seemed to be insatiable during the entire period from 1950–1989. As the inter-sector flow of labour from agriculture to industry abated during the 1960s the female share in total industrial employment nearly doubled in Romania from around 25 to 44 per cent and substantially increased in Bulgaria from 36 to 50 per cent from about 1965–1990 (table 5). By contrast the female share expanded much more slowly in Yugoslavia and in Greece almost not at all. Incidentally it is very likely that the boom in female employment in Romanian and Bulgarian industry was not the result of any participative gender politics but simply indicates severe problems in productivity growth, but more research is necessary on that point too.

Rapid capital accumulation for the swift building of large-scale heavy industry based on coal and steel was at the core of all socialist industrialization strategies in Southeast Europe. However, data on capital accumulation are difficult to compare among SEEs. The existing rates of accumulation support the literature which suggests – fully in line with Marxist-Stalinist theory and with the rapid Soviet industrialization as role model – that capital deepening was an essential feature especially of extensive socialist industrialization.¹³ In Romania fixed assets in industry increased annually by 10.5 per cent from 1951–1975. Capital intensity in industry as expressed by capital per worker roughly doubled and the share of industry

East European Politics and Societies 2 (1988), 522–557, 542; CRAFTS/TONIOLO, *Aggregate Growth*, 305.

¹⁰ Michael KOPSIDIS/Martin IVANOV, *Industrialization and De-Industrialization in Southeast Europe, 1870–2010* in: Kevin Hjortshøj O'ROURKE/Jeffrey G. WILLIAMSON (eds.), *The Spread of Modern Industry to the Periphery since 1871*. Oxford 2017, 91–114.; Michael KOPSIDIS, *Missed Opportunity or Inevitable Failure? The Search for Industrialization in Southeast Europe 1870–1940*. London 2012.

¹¹ Wilbert E. MOORE, *Economic Demography of Eastern and Southern Europe*. Geneva 1945.

¹² Still around 1960 labour productivity in Yugoslav industry was 6.6 times higher than in agriculture. In Greece the inter-sector difference accounted for an increase of 3.2 times whereas in Spain and Portugal respective for only 2.5 and 2.2 times (Hollis CHENERY/Sherman ROBINSON/Moshe SYRQUIN, *Industrialization and Growth. A Comparative Study*. Oxford 1986).

¹³ CRAFTS/TONIOLO, *Aggregate Growth*, 314f. Capital deepening means the process of increasing capital per worker which corresponds to rising capital intensity as a result of capital accumulation. Capital deepening has the potential to raise dramatically the productivity per worker. Higher capital intensity in industry was and still is held responsible for the significant gap in labour productivity between modern industry and agriculture in developing economies.

Table 5. Labour force in manufacturing, 1950–2000 (economically active persons in '000).

	<i>Romania</i>	<i>Bulgaria</i>	<i>Yugoslavia</i>	<i>Albania</i>	<i>Greece</i>
1950	814	509	840		461
1955	1478	658		138	
1960			1371	204	509
1965	2070	1142		270	
1970			1575	392	579
1975	2802	1467		479	
1980			2209	622	690
1985		1778		730	
1990	3701	973		837	746
2000	2224	650			587
	<i>1950 = 100</i>				
1950	100	100	100		100
1955	182	129		100	
1960			163	147	110
1965	254	224		195	
1970			188	284	126
1975	344	288		347	
1980			263	450	150
1985		349		528	
1990	455	191		605	162
2000	273	128			127
	<i>Share of female employment in manufacturing (as a percentage)</i>				
1950			22.7		26.2
1955	22.2	26.7			
1960			27.3		30.8
1965	24.8	36.3			
1970			30.6		
1975		46.6			
1980			34.8		26.7
1985		46.6			
1990	43.9	50.3			31.1
2000	45.3				29.0

Notes: Figures printed in bold types include mining. For Albania the industrial labour force corresponds to so-called “state sector employment” which roughly corresponds to industry plus mining.

Source: MITCHELL, *International Historical Statistics*, 145–160; TSANTIS/PEPPER, *Romania*, 208; LAZARCIK/WYNNYCZUK, *Bulgaria*, 9; SCHNYTZER/GAN, *Industry*, 34.

in the total fixed assets of the economy rose sharply from 20 per cent in 1950 to 42 per cent in 1975.¹⁴ Albania's industrial capital stock annually increased by 12.3 per cent from 1955–1973 and capital intensity too roughly doubled.¹⁵ Bulgaria's increases in industrial capital stock were of about the same scale.¹⁶

Only after Stalin's death was it possible to work out national development strategies within the framework of existing economic and political systems. Certain states such as Hungary or Poland developed "liberalized", less centralized versions of the planned economy. However, quite the opposite happened in Southeast Europe although with the exception of Yugoslavia where a "socialist market economy" was introduced with pared-down planning.¹⁷ Ironically, only the death of Stalin in 1953 and the following "period of thaw" created the scope for Romania, Bulgaria and Albania to establish their own "neo-Stalinist" economic systems and especially to establish centralized and strict types of planned economy. Hungary and Poland were very quick to implement far-reaching reforms relaxing the strictness within their systems in attempts to combat the inherent problems of central planning, but Bulgaria, Romania, and Albania followed the opposite strategy by strengthening central control over lower administrative levels.¹⁸ In this context it should be mentioned that the "Balkan version" of strict centralization meant control of party, state and economy by one or two clans at the top – a peculiarity absent from Central European Socialist countries but which affected any reform efforts or changes to economic strategy before 1989.

Because no Southeast European country had a functioning, effective, and non-corrupt bureaucracy, all the tightening of centralism seems to have had a negative effect on the coordination of the planned economy, so that it might be assumed that if anything administrative deficits intensified the fundamental flaws of central planning. However, the history of the rise and fall of the central planning bureaucracy has yet to be written for all Socialist SEEs¹⁹ and in this context the historically deeply rooted traditions of weak "state-ness" (*schwache Staatlichkeit*) and "culture of corruption" in their impact on economic or industrial development under the conditions of "real socialism" (*Realsozialismus*) is another research lacuna. At the same time, the legacy of state intervention from the pre-communist period and its impact on economic policy-making in the state socialist countries has itself not been systematically explored. Until now the state of research allows us to consider the

¹⁴ TSANTIS/PEPPER, Romania, 201.

¹⁵ SCHNYTZER/GAN, Industry, 341.

¹⁶ LAMPE, The Bulgarian Economy, 161–165.

¹⁷ See Palairé's chapter on Yugoslavia within this handbook.

¹⁸ BEREND, Central and Eastern Europe; KASER (ed.), The Economic History of Eastern Europe 1919–1975, Vol. 3.

¹⁹ It would seem very interesting to look at whether the defects of central planning could have been overridden during the long post-war boom but came into full effect during the stagnation and crisis period c. 1973–1989.

influence only of cultural factors on economic modernization in Greece. That does not, of course, mean that those factors did not play an important role in Socialist SEEs too.²⁰

Facing steadily declining growth rates in manufacturing from the mid-1960s which gained even more momentum after the mid-1970s, the communist regimes not only in Bulgaria and Romania but in Albania too were preoccupied with managing the transition from extensive to intensive growth.²¹ To a certain extent all three centrally planned Southeast European economies followed different strategies to fight the slowdown and eventual full-scale decline of their industrial growth. In the end, however, all three economies failed to manage the transition to intensive, productivity-based and technology-driven growth. The continued stubborn adherence to an out-dated model of neo-Stalinist industrialization under completely changed conditions after the mid-1970s goes a long way towards explaining the collapse of industry in former Socialist SEE during the early 1990s which was dramatic even using a Central and Eastern European comparison. All the very different strategies within the “socialist camp” to return to the dynamic post-war growth trajectory only aggravated the economic crisis in Socialist SEE, as will be analysed in the following three sections on Romania, Bulgaria, and Albania.²² In Yugoslavia, as shown by Palairt, at least certain industries especially in Slovenia to the north did manage to become competitive, while those industries that continued to depend on state support suffered a similar unfortunate fate to those elsewhere in the SEE – in the Yugoslav case, of course, aggravated by the war of the 1990s.

2.1 Romania

To implement a centrally planned economy the Communist parties could draw on the strong interventionist traditions of Southeast Europe’s national elites. During the Interwar period and especially during the Great Depression the conviction grew all over Southeast Europe in all political camps that the desired swift transition from poor agrarian economy dominated by peasants to industrialized and thus powerful independent nation could be managed only by strong state control of the development process. In no country was that

²⁰ Quite the opposite seems to be true bearing in mind that according to all recent corruption indices Southeast Europe leads Europe and is topped only by countries of the former Soviet Union. Within Southeast Europe Greece performed slightly better – defined as lesser corruption – than all other SEEs whereas Albania’s performance is the worst (Transparency International, Corruption Perceptions Index [CPI], on <<http://www.transparency.org/research/cpi/>>, 10.8.2018; Daniel TREISMAN, *Transformational Recession*, in: Paul HARE/Gerard TURLEY [eds.], *Handbooks of the Economics and Political Economy of Transition*. London, New York 2013, 209–216).

²¹ Exemplarily are the Bulgarian growth rates of industry in table 11 which steadily slowed after the mid-1960s.

²² In this context it should be mentioned too that because of the prominent role of the state, industrialization in socialist Southeast Europe had a strong political dimension. Until the end of the 1970s substantial increases in living standards which were attributed to successful industrialization, strongly contributed to legitimize the dictatorial regimes of the Communist parties. Afterwards, a failed industrialization strategy which caused steeply falling living standards during the 1980s helps explain the unexpectedly quick end of the Soviet system in the region in 1989/1990.

interventionist approach to modernization and industrialization more deeply rooted than it was in Romania.²³

During the Interwar period non-communist Romanian economists like Mihail Manoilescu developed elaborate theories about the development of terms of trade between agriculture and industry and according to Manoilescu they were inevitably based on “unequal exchange” between the two sectors. The allocation of resources should not be governed by the static Ricardian theory of comparative advantages and short term profits in foreign trade, but by expected long term gains in productivity. For peasant nations like Romania a swift shift of resources from low-productive agriculture into much more productive industry would represent the only way to increase productivity in the long run and to close the gap to the leading industrial nations.²⁴ In fact Manoilescu was a highly influential authoritarian-fascist economist and politician. He was one of the founding fathers of the Latin American dependence theory and of agrarian nations’ economic nationalism who anticipated most communist ideas on Romanian industrialization. He argued for import substitution tending towards autarchy as the best strategy to implement rapid full scale industrialization. Romanian communists deliberately and successfully referred to their domestic traditions of thinking about enforced modernization in order to justify their own Stalinist approach to industrialization. As a result Romanian communists developed their own “national Stalinism” connecting extreme nationalism and reckless industrialization at any cost, and their particular ideological construct was indeed effective until the violent end of the communist regime in Romania at the end of 1989.²⁵

After Stalin’s death Romanian leaders were able to begin developing their own industrialization strategy. Even if they adhered to a very strict neo-Stalinist version of a centrally planned economy and even if they never challenged the primacy of heavy or producer goods industries over consumer goods industries, they strongly adjusted their “industrialization target programme” to reflect contemporary leading Western economies. In fact West Germany, not the USSR, was the benchmark for Romanian industrialization. Furthermore, Romanian leaders and experts unanimously refused what they disdainfully referred to as “calico-indus-

²³ Ivanciu NICOLAE-VĂLEANU, Theories on the Evolution and Structure of Inter-War Romanian Economy, *Revue roumaine des sciences sociales. Série sci. économiques* 26 (1982), no. 1–2, 145–165; Trond GILBERG, Nationalism and Communism in Romania. The Rise and Fall of Ceausescu’s Personal Dictatorship. Boulder 1990; Angela HARRE, Wege in die Moderne. Entwicklungsstrategien rumänischer Ökonomen im 19. und 20. Jahrhundert. Wiesbaden 2009.

²⁴ MONTIAS, Economic Development in Communist Romania, 195f. His non-communist version of Preobrazhensky’s theory of primitive socialist accumulation and extensive industrialization as a development programme for Romania if not Southeast Europe involved Manoilescu in fierce and internationally noticed arguments with the famous economists Bertil Ohlin and Jacob Viner (Mihail MANOILESCU, Arbeitsproduktivität und Außenhandel. Ein neuer Beitrag zur Theorie des internationalen Handels, *Weltwirtschaftliches Archiv* 42 [1935], no. 1, 13–43; IDEM, Die nationalen Produktivkräfte und der Außenhandel. Berlin 1937; IDEM, Die sozialökonomische Struktur Südosteuropas, *Weltwirtschaftliches Archiv* 60 [1944], no. 1–2, 1–22).

²⁵ Its repercussions even affected the transition period and contributed to the comparatively slow implementation of market reforms in Romania.

trialization” based on traditional light industries the expansion of which was not connected to any diffusion of modern high technology. In the view of such leaders only the expansion of traditional but even more importantly, modern high technology heavy industries would allow the advance of the new industries so far lacking in Romania. Ideally, those industries completely new to Romania should act as leading sectors and would produce strong linkage effects. Only investments in new capital industries using modern technology could result in broad-based productivity increases and ensure maximum growth. To recall a contemporary catchphrase of the 1960s and 1970s, the explicit target was to build up a “diversified and modern industry” in Romania.²⁶

In the first phase, output of certain base industrial commodities like cement, metallurgical products, and basic chemicals had been increased using domestic raw materials.²⁷ After creating a broad base of basic industries the focus turned to the establishment of technologically advanced “secondary industries” among which engineering was seen as the most important because with its diversity and strong linkage effects in all branches of industry it would support a modern Romanian economy. The creation of a differentiated engineering industry which included the foundation of completely new industries remained at the core of Romania’s industrialization strategy from the mid-1950s to the 1980s. A second focus was directed onto the chemical industry, and part of the new strategy was to effect a complete change in Romania’s exports away from raw materials like oil, timber, and grain towards high value-added manufacturing goods.²⁸

If we consider indicators of industrial development like output, investments, employment, and exports differentiated for branches we can see that the Romanian planners were in fact rather successful until the mid-1970s (table 6a) with the share of engineering and chemicals in industrial production rising from 16.4 to 43.7 per cent between 1950 and 1975. The share of producer goods too increased substantially (table 6b) and the intra-sector allocation of industrial investment confirms those trends (tables 7a and 7b). The concentration of resources on producer goods can be shown as well by looking at industrial exports. The share of equipment goods in total industrial exports increased from 18.6 to 27.5 per cent over the 15 years from 1960–1975 (table 9a). Moreover total annual industrial investments seem to have risen by a factor of eight from 1950–1965 (investments in 1959 prices) and by three between 1965 and 1975 (investments in 1963 prices) (table 7a).

According to Tsantis and Pepper the total industrial labour force increased annually by 5.1 per cent from 1950–1975 (table 8a) with the highest rates seen in engineering and chemicals. Romanian employment data reveal too that extensive industrialization of the Stalinist type based on the transfer of labour from agriculture to industry continued until roughly 1980 whereas most other European countries of the Soviet bloc had abandoned that strategy by the beginning of the 1960s (table 8b). Whereas during the 1950s roughly

²⁶ MONTIAS, *Economic Development in Communist Romania, 1967*; TSANTIS/PEPPER, *Romania*.

²⁷ MONTIAS, *Economic Development in Communist Romania*, 6; TSANTIS/PEPPER, *Romania*, 201.

²⁸ TSANTIS/PEPPER, *Romania*, 1–7, 25–33.

Table 6a. Growth of industrial production in Romania 1950–1989 for key industrial outputs.

		1938	1950	1960	1970	1980	1989	Annual growth rates (%)			
								1950s	1960s	1970s	1980s
Electric energy	bn. kWh	1.13	2.11	7.65	35.09	67.49	75.85	13.7	16.5	6.8	1.3
Extracted coal	m. tons	2.83	3.89	8.16	22.83	37.81	66.46	7.7	10.8	5.2	6.5
Extracted crude oil	m. tons	6.59	5.05	11.5	13.38	11.51	9.17	8.6	1.5	-1.5	-2.5
Petroleum	m. tons	1.53	1.5	2.79	2.79	4.76	6.07	6.4	0.0	5.5	2.7
Extracted methane gas	bn. m ³	0.31	2.06	6.7	19.97	28.16	22.22	12.5	11.5	3.5	-2.6
Steel	m. tons	0.28	0.55	1.81	6.52	13.17	14.41	12.7	13.7	7.3	1.0
Electric motors	1000 kW	2	94	559	2834	10067	6351	19.5	17.6	13.5	-5.0
Cars	1000	–	–	1	24	88	144	–	37.4	13.9	5.6
Chemical fertilizers	m. tons	–	0.001	0.07	0.89	2.45	2.8	52.9	29.0	10.7	1.5
Cement	m. tons	0.58	1.12	3.14	7.97	15.61	13.26	10.9	9.8	7.0	-1.8
Sawn timber	m. m ³	2.24	3.56	3.93	5.3	4.59	3.78	1.0	3.0	-1.4	-2.1
Paper	1000 tons	61	86	140	431	633	555	5.0	11.9	3.9	-1.5
Textiles	m. m ²	130	193	329	603	1154	1109	5.5	6.2	6.7	-0.4
Shoes	m. pairs	5	11	30	66	113	111	10.6	8.2	5.5	-0.2
Soap	1000 tons	9	17	37	42	66	31	8.1	1.3	4.6	-8.1
Meat	1000 tons	170	140	270	425	993	686	6.8	4.6	8.9	-4.0
Meat products	1000 tons	7	10	48	104	279	276	17.0	8.0	10.4	-0.1
Edible oils	1000 tons	18	36	118	274	369	248	12.6	8.8	3.0	-4.3
Sugar	1000 tons	95	87	391	377	509	693	16.2	-0.4	3.0	3.5
Sugary products	1000 tons	7	17	50	96	245	359	11.4	6.7	9.8	4.3
Beer	m. hl	0.51	0.87	1.63	4.37	9.9	10.57	6.5	10.4	8.5	0.7

Source: Bogdan MURGESCU, România și Europa. Acumularea decalajelor economice (1500–2010). București 2010, 341f.; and author's own calculations.

Table 6b. Structure of Romanian Gross Industrial Production, 1950–1989 (in %).

	1950	1960	1965	1970	1975	1980	1989
Electric power	1.9	2.5	2.6	3.2	2.7	1.8	3.9
Fuels	11.3	9.1	7.0	5.3	3.6	4.5	11.5
Metallurgy ^a	7.5	8.4	11.5	11.8	10.7	10.6	9.8
Engineering and metal working	13.3	24	21.2	25.0	32.4	35.2	27.7
Chemicals	3.1	6.1	6.7	10.1	11.3	8.7	9.8
Construction materials	2.4	3.2	3.3	3.4	3.1	3.4	3.7
Lumber and wood processing	9.9	7.5	8.2	6.4	4.7	4.1	3.8
Textiles, clothing, footwear, leather, furs	22.6	16.3	14	13.6	13.8	14.0	12.9
Food processing	24.2	18.9	22	17.3	13.1	12.8	11.6
Other	3.8	4.0	3.5	3.9	4.6	4.9	5.3
Producer goods	53.0	62.9	65.2	70.5	72.3	–	–
Consumer goods	47.0	37.1	34.8	29.5	27.7	–	–

Notes: ^a Ferrous and nonferrous metallurgy including mining and dressing of ferrous and nonferrous ores. Source: For 1950–1975 see TSANTIS/PEPPER, Romania, 197; for 1980 and 1989 see MURGESCU, România și Europa, 343.

440,000 entered the industrial sector, that number increased to 840,000 during the 1960s to reach 1.4 million individuals during the 1970s. Only during the 1980s did the growth of the Romanian industrial labour force slow down substantially. Between 1950 and 1989 the proportion of industrial labour within total labour increased constantly from 12.0 to 38.1 per cent (table 8c).

However, the population of Romania had to pay a high price for its rapid transformation into an industrialized country. Until the 1960s heavy industry remained absolutely dominant when compared to agriculture and the consumer goods industry. Preobrazhensky's "primitive socialist accumulation" put into action by Stalin during the 1930s in the Soviet Union was the model for the industrialization of Romania too. During its first years especially Romanian industrialization was connected with severe reductions in consumption and complete neglect of the basic needs of the population. Enforced collectivization meant that in stark contrast to industrializing Western European countries Romanian industry expanded at the expense of agriculture. Boosting savings and investments as quickly as possible to accelerate the creation of a substantial industrial capital stock was at the core of Romania's industrialization strategy. However, the first wave of large-scale industrialization had to be halted in 1953, first because Romania's foreign trade balance could not be maintained. Ro-

Table 7a. Sector Allocation of Romanian Industrial Investment, 1950–1975 (in %, total industry = 100).

	1950	1955	1960	1965	1970	1975
<i>Total Industry (millions of lei)*</i>	2.751	7.658	11.828	22.986	37.961	67.829
Electric power	9.7	11.5	9.9	16.9	15.2	14.1
Fuels	48.8	35.5	27.4	21.5	13.7	13.6
Metallurgy*	9.1	16.1	10.9	18.4	12.0	14.2
Engineering and metal working	7.4	6.3	8.9	6.7	19.8	19.6
Chemicals	3.3	6.5	12.9	12.3	11.3	14.7
Construction materials	3.8	4.4	2.3	3.9	5.6	4.4
Lumber and wood processing	4.0	6.9	7.2	5.8	4.5	3.3
Textiles, Clothing, leather, furs, and footwear	4.5	2.2	4.1	3.3	4.6	4.6
Food processing	5.2	7.5	8.4	4.1	6.4	6.6
Others	3.2	3.1	8.0	7.0	6.9	4.9
Producer goods	86.2	83.1	85.0	91.0	84.7	85.2
Consumer goods	13.8	16.9	15.0	9.0	15.3	14.8

Notes: *1950–1960 in 1959 prices, 1965–1975 in 1963 prices. The price differences are negligible (total industry 1965 in 1959 prices, mio lei: 22,321; in 1963 prices: 22,986).

Source: TSANTIS/PEPPER, Romania, 598f.

mania was no longer able simultaneously to raise its exports to finance technology imports and service its debts which were mainly to the Soviet Union. Secondly, consumption could not be further reduced without the risk of social explosion. The share of accumulation in social product had to be reduced. Capital accumulation and industrial growth were reduced in all Eastern Bloc countries, but least of all in Romania even if society there sorely needed a respite before continuing the envisaged modernization. Indeed, enforced industrialization in centrally planned economies was inevitably connected with severe economic imbalances all over Central and South Eastern Europe, which endangered the entire system.²⁹

During the 1950s the Romanian Communist leaders realized that to build up a technically advanced and broad-based modern industry operating to Western European standards implied modification of the preferred autarchic import substitution policy. In contrast to

²⁹ BEREND, *Central and Eastern Europe*, 94f.; MONTIAS, *Economic Development in Communist Romania*, 38–53; TSANTIS/PEPPER, Romania, 460f.

Table 7b. Sector Allocation of Romanian Investment, 1950–1989 (in per cent, total investment = 100).

	1950	1960	1970	1980	1985	1989
<i>Total Industry</i>	43.6	42.7	47.5	50.9	48.4	43.7
– Producer goods	37.6	36.3	40.2	42.7	43.4	37.7
– Consumer goods	6.0	6.4	7.3	8.2	4.9	6.0
Construction	5.9	1.9	4.5	4.6	4.6	4.7
Agriculture & Forestry	11.8	19.7	16.4	13.3	18.2	17.5
Services	38.7	35.8	31.5	31.2	28.9	34.9

Notes: Services includes transport, telecommunications, municipal services, education, research, culture, healthcare, and other public services.

Source: MURGESCU, România și Europa, 338.

Table 8a. Distribution and Growth of Employment among Specific Industries in Romania, 1950–1975 (in 1000 persons).

	1950	1975	1950–1975 ^a	1950–1975 ^b	1950	1975
<i>Total Industry</i>	813.5	2802.1	1988.6	5.1	100.0	100.0
Electric power	10.3	41.9	31.6	5.8	1.3	1.5
Fuels	61.2	101.5	40.3	2.0	7.5	3.6
Metallurgy ^c	50.8	170.3	119.5	5.0	6.2	6.1
Engineering and metal working	172.9	912.2	739.3	6.9	21.3	32.6
Chemicals	21.2	191.8	170.6	9.2	2.6	6.8
Construction materials	47.4	121.5	74.1	3.8	5.8	4.3
Lumber and wood processing	140.1	313.5	173.4	3.3	17.2	11.2
Textiles, clothing, leather, furs, and footwear	181.4	599.4	418	4.9	22.3	21.4
Food processing	89.5	215.0	125.5	3.6	11.0	7.7
Others	38.7	135.0	96.3	5.1	4.8	4.8

Notes: ^a Increase in absolute numbers; ^b annual growth rates; ^c ferrous and nonferrous metallurgy including mining and dressing of ferrous and nonferrous ores.

Source: Own calculation, data from TSANTIS/PEPPER, Romania, 208.

Table 8b. Distribution of Employment among economic sectors 1959–1989 (million persons).

	<i>Total population</i>	<i>Total number of persons employed</i>	<i>Primary production</i>	<i>Secondary production</i>	<i>Tertiary production</i>
1950	16.3	8.4	6.2	1.2	1.0
1960	19.0	9.5	6.2	1.9	1.4
1970	20.2	9.9	4.9	3.0	2.0
1980	22.2	10.4	3.1	4.5	2.7
1989	23.1	10.9	3.1	4.9	2.9

	<i>Employment ratio (%)</i>	<i>Sector share (%)</i>		
1950	51.5	73.8	14.3	11.9
1960	50.0	65.3	20.0	14.7
1970	49.0	49.5	30.3	20.2
1980	46.8	29.8	43.3	26.0
1989	47.2	28.4	45.0	26.6

Notes: Primary production includes agriculture and forestry; secondary production includes mining, manufacturing, and construction.

Source: MURGESCU, *România și Europa*, 340; and authors' own calculations.

Table 8c. Increases in Romanian industrial employment 1950–1989.

	<i>Industrial workforce (m. persons)</i>	<i>1950 = 100</i>	<i>Share in total workforce (%)</i>
1950	1.00	100	12.0
1960	1.44	144	15.1
1970	2.28	228	23.0
1980	3.68	368	35.5
1989	4.17	417	38.1

Source: MURGESCU, *România și Europa*, 342; and own calculation.

Stalin's Soviet Union Romania's domestic resource base was too small to carry out more or less autarchic industrialization based on heavy industry.³⁰ In fact, for a small country like Romania the raised demand for energy and the raw materials needed for rapid heavy industrialization strongly enhanced the need for imports, while the urgent and ever-rising demand for Western high technology required the development of a large export industry. Whereas

³⁰ TSANTIS/PEPPER, *Romania*, 195.

Table 9a. Romanian industrial exports by commodity categories, 1960–1975 (percentage of total industrial exports).

	<i>Equipment goods</i>	<i>Industrial materials</i>	<i>Consumer goods</i>
1960	18.6	62.5	18.9
1965	20.9	54.4	24.7
1970	24.5	45.3	30.2
1975	27.5	45.4	27.1

Source: TSANTIS/PEPPER, Romania, 605.

Table 9b. Romanian exports by destination, 1950–1989 (as percentage).

	<i>Socialist European countries</i>	<i>Developed Capitalist countries</i>	<i>Developing countries</i>
1950	83.3	16.7	
1960	66.8	22.3	10.9
1970	48.8	38.6	12.6
1980	33.7	35.5	30.8
1989	47.8	27.3	24.9

Source: MURGESCU, România și Europa, 358.

during the first phase of its industrialization Romania had imported mainly established standard technology from its partners in the Eastern Bloc, after 1958 it began attempting to obtain the most up-to-date Western technology.³¹ Compared to Western technology the machinery available from other COMECON states was of lesser capability, if not to say of inferior quality.

To continue Romania's industrialization at high speed and according to home-grown ideas meant harsh conflicts with both the USSR and other more developed COMECON states. The main point of conflict was the 1958 proclamation of further expansion of the Romanian engineering, iron and steel industry. Until then every country in the Eastern Bloc had followed a policy of "processing-self-sufficiency" as a result of coordination problems inherent in the system of central planning.³² Energy and raw materials were provided cheaply by the USSR and paid for with exports of industrial products. Partly out of considerations of power-politics and partly out of reasonable economic considerations, the Soviet

³¹ MONTIAS, *Economic Development in Communist Romania*, 246. "Romania and Bulgaria more than tripled the proportion of their machinery imports originated outside the CMEA area between 1958 and 1965" (MONTIAS, *Economic Development in Communist Romania*, 237). CMEA is a synonymous to COMECON.

³² BEREND, *Central and Eastern Europe*, 163.

leader Khrushchev wanted to establish a division of labour among all the countries of the Eastern Bloc with the intention of enhancing productivity. Such a thing would naturally have entailed supra-national central planning. The Soviets wanted particularly to establish a “Common Socialist Market” for chemical and engineering products, for it was felt that not every country should itself produce the whole range of such industrial products. The controversial question was whether Romania would be better advised to concentrate on only a few branches of industry and industrial products. For the Romanian communists, to do so implied curbing their ambitious industrialization targets, especially for engineering. That was in fact being demanded by the GDR and Czechoslovakia which were the two main exporters of engineering products within the COMECON. Romania refused to accept Khrushchev’s plans and in fact completely rejected any foreign intrusion in its industrialization.

This is not the place to reconstruct what is in itself a very interesting theoretical debate on industrialization within the Socialist bloc. The USSR, CSSR and GDR argued in favour of the efficiency gains of a global socialist labour division, but Romania argued in the spirit of Manoilescu that investment decisions should be determined by potential dynamic benefits and not only static efficiency and welfare gains. Because the Soviet Union put Romania under pressure by cutting or suspending economic aid, Bucharest began to look for Western partners to develop its engineering and metal processing industries.³³

During the 1960s it was its increasing connection to the West which allowed Romania to continue its nationalist and indeed autarchic industrialization strategy. Moreover, after Nicolae Ceausescu came to power in 1965 and once he had replaced the collective leadership of the Romanian Communist Party by his personal and autocratic rule, alienation from the Soviet Union reached new heights while cooperation with the West deepened. Ceausescu skilfully exploited the deep-rooted extreme economic nationalism of the Romanians in order to establish himself as the leader who had accomplished the mission that had hitherto remained unfulfilled since national independence: he had by his own efforts fashioned a developed nation from the previously backward Romania.³⁴ As the Hungarian economic historian Ivan T. Berend wrote:

³³ MONTIAS summarized: “When the Romanian Communists chose to respond to the more or less overt attacks against the protectionist policies of the less developed countries, they did so because they felt that their plans for a broad, multisided, industrialization were threatened, first by moves to put teeth into the organization of CMEA that might have forced Romania into a pattern of specialization contrary to these plans, and second, by Soviet schemes to hold back radical expansion of Romania’s metallurgical and machine-building complex, which was at the very core of her strategy of development” (*Economic Development in Communist Romania*, 228).

³⁴ Moreover, Ceausescu’s firm and successful resistance to all kinds of joint central planning in the COMECON and against any supra-national cooperation through the creation of large economic regions and interstate industrial complexes made him very popular in Romania (MONTIAS, *Economic Development in Communist Romania*, 203–230; BEREND, *Central and Eastern Europe*, 130–135). Already in 1964 the Central Committee of the Romanian Communist Party (RCP) had declared publicly: “The planned management of the national economy is one of the fundamental, essential, and inalienable attributes of the sovereignty of the socialist state. [...] Transmitting such

“In a paradoxical way, Romanian nationalism was also served by the most extreme Stalinist industrialization, unique in Central and Eastern Europe in the late sixties and seventies.”³⁵

However, rising imports of western high technology sooner or later demanded rising Romanian exports. All the more so as the search for new energy suppliers outside the Soviet Union increased Romania’s demand for oil from the World Market. Despite possessing its own oil fields the ever rising thirst for energy of Romania’s energy-intensive heavy industry made the country in 1968 an oil importer for the first time in its history. Simultaneously, the domestic Romanian market became too small to absorb the output of its expanding manufacturing industry. In the beginning Romania had paid for its imports of Western technology with commodities which were scarce within the Eastern Bloc, mainly foodstuffs and raw materials including basic industrial commodities like cement and a few semi-finished products.³⁶ An important reason why investments in agriculture and consumer goods industries substantially increased during the sixties was the necessity to enhance exports to the West.

As long as the existing socialist economic and political system and the Soviet Union’s supremacy with it were not brought into question Southeast Europe’s Soviet satellites had much freedom to follow their own ambitious industrialization strategies, sometimes even against the will of Soviet leaders and at the expense of closer economic cooperation within the Soviet bloc.³⁷ Thus during the 1960s Romania was able to develop a very peculiar version of triangular trade to continue its industrialization. The main players were industrialized western countries, developing nations outside the Soviet bloc especially in the Middle East, and the members of the COMECON. Romania’s export statistics reveal the radical trade deflections connected with the opening up of her economy. The share of total exports going to Socialist European countries was almost halved from 67 to 34 per cent from roughly 1960–1980 whereas the respective shares of developed capitalist countries and developing countries almost doubled and tripled (table 9b). Romania continued to export raw materials and base industrial products to Western Europe in order to be able to purchase high technology. Permanent trade deficits with Western Europe were financed mainly by trade surpluses

levers to the competence of superstate or extrastate bodies would turn sovereignty into a meaningless notion” (quoted in MONTIAS, *Economic Development in Communist Romania*, 217).

³⁵ BEREND, *Central and Eastern Europe*, 135.

³⁶ In the terminology of contemporary communist economic experts raw materials and foodstuffs were so called “hard goods” feverishly demanded within the socialist world. In contrast there existed no great demand for machines which were labelled as “soft goods”. Romania’s reckless efforts to expand engineering and to increase its industrial exports led to trade in machinery products more closely balanced with its eastern partners 1958–1965 (MONTIAS, *Economic Development in Communist Romania*, 235).

³⁷ In 1967 the American economist Montias clear-sightedly summarized the situation: “[...] the threat to curb the delivery of raw materials in exchange for manufactures is one of the last economic trumps Moscow has left to keep the Romanians from going astray. If this threat can be parried and if Western markets can be found for the products of Romania’s new industries, the Romanians will be safe to pursue their independent economic policy” (*Economic Development in Communist Romania*, 230).

with developing countries and partly by credit. For example, rising oil imports were financed by exports of Romania's industrial production which went mainly to the Middle East, and by exports of Romanian industrial equipment – including entire plants – which found customers in developing countries. Romanian drilling technology and farm machinery enjoyed especially good reputations on world markets, the main arguments for both being cheapness and the sort of robustness which made them highly attractive to developing countries – although not to customers demanding high technology. Machinery and other industrial products which were second class even by Romanian standards and could not be sold on world markets were delivered to COMECON partners, mainly the USSR – indeed in most cases inferior Romanian industrial goods were actually better than Soviet products. As a result Romania's trade with Western European countries resembled that of a poorly industrialized developing country whereas towards COMECON countries and developing economies Romania could operate as a fully industrialized nation. In an expanding global economy such a highly vulnerable foreign trade system worked and despite all the systemic deficiencies of its centrally planned economy Romanian trade as well as the real incomes of the population grew until the oil crisis of 1973.³⁸

The 1973 oil crisis broke apart this triangular trade system and aggravated the deficiencies of socialist planning to the point where they threatened the functioning of the whole system. By 1975 it was clear that Romania's pronounced dependence on energy supplies from outside could endanger the competitiveness of its energy-intensive industries. Another problem was the preference of Romanian planners for large industrial enterprises to solve operational problems by strengthening central control and direction. Blind faith in unspecified economies of scale – the legacy of Orthodox Marxism and Soviet industrialization – played an important role in that context. Indeed, in about 1975 by international standards Romania probably had the highest numbers employed in each of its industrial enterprises. In 1973 Romanian industrial enterprises employed on average 1,480 persons compared to 712 in the USSR and 149 in West Germany.³⁹ Most jobs were generated in enterprises employing more than 2,000 workers.

Nevertheless, many industrial plants were forced purposelessly to combine high technology with completely out-dated machinery, which substantially reduced the rationalization effects of that modern technology which otherwise could have enhanced productivity. Whereas flexible medium sized enterprises were missing – which for example contributed and still contributes to the competitiveness of German industry – in Romania there emerged overstaffed large enterprises with severe overcapacities. In other words, although Romania imported labour-saving Western technology its industry remained highly labour-intensive and there are reasons to believe that inefficient use of both capital and labour caused enormous losses in productivity. However, much more research is necessary on the development

³⁸ TSANTIS/PEPPER, Romania, 109–139, 201–225.

³⁹ *Ibidem*, 200.

of industrial productivity in all SEEs. Moreover, because of the inflexibility of the centrally planned economy and their oversized enterprises Romanian planners preferred

“production with limited variation of specification, reduced number of types, and large serial volumes. Product lines with relatively short average runs, requiring frequent adjustments of equipment and tools and a rearrangement of process flows have generally been avoided. By keeping the product mix narrow, it has not only ensured higher equipment use, but also has employed to a certain extent labor with lower skill levels.”⁴⁰

However, that was quite the opposite of what was required in response to the intensifying international competitiveness of world markets.⁴¹ Since the 1970s modern engineering in western countries learned to adjust more and more flexibly to customers’ specific requirements. In engineering the transition to post-Fordist production meant the departure from the simple mass production that was perfectly adjusted to the hyper-centralized Romanian industry. Moreover, to compensate for the systemic coordination deficits of a planned economy which resulted in only limited cooperation and integration with other plants, every Romanian engineering enterprise tried to produce as many materials, components, and even machine tools and other instruments as possible within its own enterprise. Enterprise diversification and intensified cooperation through markets – to mention only the “out-sourcing” processes which changed engineering industries in the West – were simply not options for Romanian enterprises because of the fundamental lack of a functioning exchange mechanism between enterprises in a centrally planned economy. Add to that the fundamental Romanian weaknesses in marketing and it is no surprise that Romanian industrial products on world markets often had to be sold at a loss.

Nevertheless, until the mid-1970s Romania’s remarkable industrialization “is reflected in the rapid development and changing composition of its foreign trade” (tables 9a and 9b)⁴² and Romania continued to exploit every possibility to enhance its exports of manufactured goods. In doing so it tried to intensify international cooperation with Western enterprises and governments in many ways, including with joint ventures and cooperation agreements.⁴³ All in all, despite severe domestic problems and critical developments in the global economy, World Bank experts saw promising perspectives for the further development of Romania and concluded in 1979:

“Its growth rate will remain quite high by international standards, and, by maintaining its present momentum, Romania will be among the more developed of high-income countries of the 1980s.”⁴⁴

⁴⁰ Ibidem.

⁴¹ For example after the oil price shock traditional customers of robust and cheap Romanian technology especially in the Middle East could now afford costly high technology.

⁴² TSANTIS/PEPPER, Romania, 16.

⁴³ Experts guess that Romanian-West European joint ventures were responsible for most of the major technology transfers in the 1960s and 1970s (Cornel BAN, Sovereign Debt, Austerity, and Regime Change. The Case of Nicolae Ceausescu’s Romania, *East European Politics and Societies and Cultures* 26 [2012], no.4, 743–776).

⁴⁴ TSANTIS/PEPPER, Romania, 396.

That assessment came very close to the optimistic view of Romania's own planners and officials who boldly claimed they could close the gap to Western industrialized nations by 1990 – but things turned out very differently.⁴⁵

In 1975 Romanian planners postulated in their long-term planning that heavy-industrial development would continue with the engineering and chemical industries as the leading sectors.⁴⁶ Both were energy intensive branches and their rise was strongly connected to the post-Stalinist structural change in Southeast European industry which moved it away from a few strategic industrial goods. Moreover, focusing on those two branches was intended simply to copy Western developments of the 1950s and 1960s but the strategy reached its limits with the oil crisis in 1973. To build up a post-industrial economy based more on services and to create a competitive IT-industry in the course of a new technological revolution was beyond the capabilities of centrally planned economies. Southeast European countries especially continued to follow a rather orthodox economic policy preserving very low investment rates in the severely neglected and poorly developed service sector which included communications.⁴⁷

After 1973 the leading industrial sectors all over the European periphery slipped into a deep structural crisis and a long term decline, without the emergence of new leading industries. What aggravated the situation, in all the centrally planned economies of Central and Eastern Europe but especially in Southeast Europe, was the fact that industrialization strategies based on heavy industry continued to be promoted, to a large extent out of ideological blindness. That weakness had fatal consequences for Romania especially because Romania adhered to its obsolete industrialization strategy more strongly than any other European country of the periphery⁴⁸ – possibly excepting Albania. At a time of constantly deteriorating national Terms of Trade and steeply rising if not occasionally exploding energy prices, Romania still attempted to uphold its energy-intensive industry unimpaired by any structural change.

The fact that in contrast with its situation in 1973 Romania had no remaining buffer against the second oil price shock of 1979 was the result of its continuing expansion of oil consumption, mainly for its chemical industries. What Romanian planners labelled the second wave of socialist industrialization “dramatically tripled Romania's demand for oil, from

⁴⁵ Supported by the U.S.A. Romania was the first COMECON country to join the World Bank, IMF, and GATT, which it did in 1971–1972. Thus, Western Experts gained access to Romania to analyse its economic situation. Their reports are highly instructive not only about the defects of the Romanian economy but also about its (presumed) industrialization achievements just before the long crisis period. The reports are especially important since valid time series on efficiency and productivity are still lacking. That around 1975 Western experts assessed the mid-term prospects of the Romanian economy much too optimistically does not speak against the quality of their research but reminds us of the deficiencies of economics and all other academic disciplines in forecasting the future – namely anticipating secular historical changes that took place only in 1989.

⁴⁶ TSANTIS/PEPPER, Romania, 225.

⁴⁷ BEREND, Central and Eastern Europe, 191–232; CRAFTS/TONIOLO, Aggregate Growth.

⁴⁸ BAN, Sovereign Debt, Austerity, and Regime Change.

5 million tons in 1975 to 16 million in 1980”.⁴⁹ Whereas after 1973 the indebtedness of all Central and Eastern European states in the Soviet bloc increased to unprecedented levels in order that consumption levels be maintained – for political reasons –, Ceausescu finally “decided to safeguard the industrialization program at the expense of compressing consumption to near war-time levels”.⁵⁰ Ceausescu was able to do that because his autocratic rule was extremely repressive even by comparison with the rest of East Europe.

Between 1976 and 1981 Romanian external debts increased from \$0.5 billion (3 % of GDP) to \$10.4 billion (28% of GDP).⁵¹ In 1981 Romania was close to bankruptcy but Ceausescu wanted at any cost to prevent interference by the IMF in his country’s neo-Stalinist industrialization and modernization strategy. He therefore decided to pay all Romania’s debts but without reducing industrial investments so that imports of Western machinery had to be replaced by inferior domestic items. All imports were cut drastically while exports were increased and as a consequence Romanian living standards collapsed as the supply of staple foodstuffs almost halved between 1981 and 1989.⁵² The drastic measures were effective in that Romania was indeed able to pay off its debts before the deadline of May 1989. However, by the end of the 1980s Romania’s industrial capital stock was hopelessly out-dated and Romanian industry contracted during the 1980s more than that of any other Southeast European country.⁵³ In Romania a decade of “Stalinist austerity”⁵⁴ had severely aggravated the systemic defects of centrally planned economies which had come to light all over Central and Eastern Europe after 1973 when extensive industrialization reached its limits and there occurred no transition to intensive growth.⁵⁵

Romania paid a high price for its autocratic leader’s continued attachment to his industrialization project, under conditions that were catastrophic in spite of reaching the highest share of industrial employment of any of the European economies. In a comparison of East-Central European economies Romania experienced an above average contraction of its industry after the collapse of its centrally planned economy. During the three years from 1990–1992, its industry there contracted annually at rates of more than 20 per cent.⁵⁶

⁴⁹ Ibidem, 347–380.

⁵⁰ Ibidem, 756.

⁵¹ Ibidem, 758.

⁵² Even according to official data, consumption of livestock products per capita strongly decreased from 1980 to 1989 (meat and meat products: -19.1%; dairy products: -16.6%; MURGESCU, *România și Europa*, 760).

⁵³ Augustin BÉNÉTRIX/Kevin H. O’ROURKE/Jeffrey G. WILLIAMSON, *The Spread of Manufacturing to the Poor Periphery 1870–2007*. Cambridge/MA 2013, table 6a.

⁵⁴ BAN, *Sovereign Debt, Austerity, and Regime Change*, 743.

⁵⁵ Although the consensus is that technical change in the COMECON states slowed down 1973–1989 even if it did not become negative in some countries, reliable data and studies to prove that are still lacking for socialist Southeast Europe.

⁵⁶ BÉNÉTRIX/O’ROURKE/WILLIAMSON, *The Spread of Manufacturing to the Poor Periphery 1870–2007*; John Michael MONTIAS, *The Romanian Economy. A Survey of Current Economic Problems*, *European Economy* (1991), Special Edition no. 2, 177–198; Aver BEN-NER/J. Michael

2.2 Bulgaria

Bulgaria's state regulation of industry to enforce industrialization similarly dates back to the interwar period, in particular the second half of the 1930s. It emerged as a consequence of the Interwar period's global agrarian crisis which came to a head during the Great Depression. Like many agrarian countries on the global periphery with export economies Bulgaria was keen to build up a diversified domestic modern industry by following a strategy of import substitution. State control accelerated somewhat during the Second World War although factories were kept in private hands. Instead, the government practised indirect forms of control, for example by regulating prices, profit rates, labour relations, and exports.

Even though Sofia joined the Axis in March 1941 it avoided direct involvement in combat until autumn 1944 and Bulgarian territory and industrial facilities were mostly spared war damage. As a result of that, by 1944 Bulgarian industry was producing more in real terms than it had in 1939.⁵⁷ For nine years between 1934 and 1943, per capita output of the secondary sector recorded an annual increase of 5 per cent.⁵⁸

The Bulgarian communists, who assumed power in September 1944 after a military coup, were not content with those growth rates so they aimed for full-scale Stalinist industrialization. In their view the Bulgarian economy was still locked in a “vicious circle of self-perpetuating underdevelopment” which could be broken only by the complete nationalization of all means of production, which should include collectivization of all land and abolition of private property in secondary and tertiary production.⁵⁹ The main target was to redirect as many resources as possible into modern industry in order to industrialize as quickly as possible. To quote the Communist leader Georgi Dimitrov: “In 15–20 years we should achieve what other peoples, in different circumstances, have accomplished in a century”.⁶⁰ To achieve so ambitious a modernization programme within only one generation the regime first had to occupy the “commanding heights” of the economy.⁶¹ Industry was therefore nationalized quickly and subsequently “idle peasant labour” was redirected to factories after the collectivization of land. Bulgarian collectivization was actually the quickest and most comprehensive in the Eastern bloc.⁶²

MONTIAS, The Introduction of Markets in a Hypercentralized Economy. The Case of Romania, *Journal of Economic Perspectives* 5 (1991), no. 4, 163–170, table 16b.

⁵⁷ John R. LAMPE/Marvin R. JACKSON, *Balkan Economic History, 1550–1950. From Imperial Borderlands to Developing Nations*. Bloomington 1982, 557–563.

⁵⁸ Martin IVANOV, *The Gross Domestic Product of Bulgaria. 1870–1945*. Sofia 2012, own calculation based on data from 522f.

⁵⁹ Bogoslav DOBRIN, *Bulgarian Economic Development since World War II*. New York 1973.

⁶⁰ Quoted in Marietta STANKOVA, *Georgi Dimitrov. A Biography*. London, New York 2010.

⁶¹ The term “commanding heights” was coined by Lenin and refers to the locus of economic power – major enterprises and banks – that first of all should be put under control of the Communist party in order to consolidate its power.

⁶² Michail GRUEV, *Preorani slogove. Kolektivizacija i socialna promjana v Bälgarskija severozapad 40-te – 50-te godini na XX vek*. Sofija 2009.

In fact nationalization of industrial enterprises began in 1944 almost immediately after the communist take-over with the declaration that all German, Austrian, Italian, and Hungarian owned factories were to be considered as “spoils of war” and would be placed in Soviet hands. There were 41 such Joint Stock Companies and many of them were among the largest industrial and financial companies in Bulgaria.⁶³ On 23rd December 1947 the bulk of private enterprises in secondary production, 6,100 in total, was nationalized by forceful expropriation from their owners, without compensation.⁶⁴ By 1948 all large and medium-sized industrial undertakings were under full state control and during the late 1940s the remaining secondary sector operations too, many of them craft workshops, were expropriated by the state.⁶⁵

By 1951 a total of 6,971 nationalized industrial enterprises were officially reorganized in new, large units. For better management of the huge number of undertakings they were clustered into 20 economic consortia according to branch of industry and to exploit economies of scale existing enterprises with similar production lines were amalgamated into single units. As a result, taken together with newly founded state companies by 1952 the number of industrial units was reduced to only 812. According to experts the rapidity of both nationalization and amalgamation of enterprises had caused a certain amount of disorder in industrial production and management⁶⁶ which the government hoped to tackle with its newly introduced central planning.

The Communist rulers of Bulgaria too saw Five-year Plans as another efficient tool to organize the speedy transfer of resources from primary to secondary production thereby achieving rapid industrialization. Their first such Plan began in 1949 and over the years different methods were applied, ranging from more conventional ones like an official price policy to unorthodox measures of enforced “socialist primary accumulation”. Private consumption was seriously squeezed to boost investments mainly in capital industries and infrastructure. Public procurement prices for agricultural commodities were set very low while peasants, still the majority of the population during the 1950s, had to pay heavy taxes on turnover for manufactured consumer goods.⁶⁷ That type of industrialization strategy clearly demanded strict state control of all agricultural and industrial production.

However, it was not only peasants who paid a heavy price for industrialization, for the entire Bulgarian population was forced to accommodate itself to extremely low levels of

⁶³ Ten years later, in 1954, Bulgaria had to pay 270 mio. Levs to get back these “trophies” from the Soviet Union.

⁶⁴ Only French, British, and Swiss shareholders whose rights were provisioned in financial conventions, signed in the 1950s and 1980s, received modest compensation for their lost property. In 1955 the French, for example, had to be content with only 40% of their 15 bn. FFr claim.

⁶⁵ Nicolas SPULBER, *The Economics of Communist Eastern Europe*. Cambridge/MA 1954; L. BEROV/D. DIMITROV (eds.), *Razvitie na industrijata v Bălgarija 1834–1947–1989*. Sofija 1990, 266–273; LAMPE, *The Bulgarian Economy*, 133–136.

⁶⁶ LAMPE, *The Bulgarian Economy*, 132–146.

⁶⁷ DOBRIN, *Bulgarian Economic Development since World War II*, 152.

welfare especially during the 1950s.⁶⁸ Placing such complete restrictions on consumption for such a long period would have been impossible for any democratically elected government but could be done by a communist regime. The rule of brute force and systematically organized state repression continued, with varying intensity, until the late 1950s and any resistance was simply crushed. As in the post-war Soviet Union a mixture of propaganda and extremely heavy pressure motivated or, to put it more accurately forced Bulgarians to oversubscribe to three domestic loans. Those came in 1945, 1951, and 1952 and amounted to an enormous state-enforced wage reduction for a still-impoverished population. They were designed to push up savings for investments at a time when foreign loans were not available to a sufficient degree or were not desired for political reasons. In addition, two currency reforms, one in 1947 and most of all in 1952 allowed state planners to seize most of the population's savings. According to Vačkov and Ivanov⁶⁹ the 1951 and 1952 domestic loans alone realised about 85 million USD as compared to 100 million USD of investment and other credits from the USSR, Poland and Czechoslovakia.

The financing of forced industrialization under the conditions of central planning in poor Southeast European “peasant nations” is one of the most intriguing questions of the turbulent economic history of modern Southeast Europe, and significant research is still needed on the subject. If official Bulgarian statistics are to be trusted, for 11 years between 1949 and 1960 the regime invested 2.98 billion levs in industry⁷⁰ while the three domestic loans (total of 1.9 bn.) equalled 60 per cent of industrial investment, although they were used for other purposes as well. Substantial sums of industrial investment came directly from the state budget. Only 620 million roubles (approx. 1.3 bn. levs) were externally sourced from the USSR and other Eastern bloc countries. It is obvious therefore that the lion's share of Bulgarian industrial investment came through mobilization of internal resources and not through development funding from the Soviet Union and her allies.

Besides investment, the reallocation of “idle” human resources was the second engine of rapid industrial growth in post-war Bulgaria. From the late 1940s to the mid-1950s the communist regime pursued relentless collectivization of land. Deprived of property and the chance of a decent living, hundreds of thousands of young peasants moved to the cities and found work in factories. By its completion in 1958 collectivization had shifted 678,000 peasants – about a fifth of the active labour force – into industry⁷¹ and within the two decades from 1946 to 1965 agricultural employment almost halved from 3.16 million to 1.73 mil-

⁶⁸ As late as 1960 Bulgarian per capita consumption of meat was still only 51% of that in Czechoslovakia, with figures of 37% for milk and 47% for eggs. On top of that the Czech standard of living was as low as 30% of that of the French (DOBRIN, *Bulgarian Economic Development since World War II*, 151).

⁶⁹ Daniel VAČKOV/Martin IVANOV, *Bălgarskijat vānšen dālg 1944–1989. Bankrutāt na komunisticēskata ikononika*. Sofija 2007.

⁷⁰ BEROV/DIMITROV (eds.), *Razvitie na industrijata*, 320.

⁷¹ *Ibidem*, 330f.; LAMPE, *The Bulgarian Economy*, 153.

lion, while employment in secondary production almost tripled from 0.43 to 1.22 million.⁷² According to Lampe the average annual increase in industrial labour from 1955–1960 was the “highest ever recorded in post-war Eastern Europe”.⁷³

As in Romania, industrialization in Bulgaria, based to a large extent on factor mobilization, demanded the deployment of female labour too. The communist regime lifted social and gender barriers to intensify the transfer of rural-agrarian female labour into other economic sectors. Party propaganda praised women’s employment in “typically male” occupations like mining, construction or metallurgy.⁷⁴ However, the female contribution to such physically demanding branches never crossed the 20 per cent mark. Peak employment of women in manufacturing was in 1985 but the sector attracted only 31.6 per cent of the female labour force as compared to 53.5 per cent for services.⁷⁵

The dramatic movement of human resources from low-productive farming to much more productive industry pushed up output growth. The share of total output (GNP) provided by industry increased from 23 to 48 per cent from 1948–1960.⁷⁶ Official calculations attributed 55 per cent of industrial growth to reallocation of labour from farming to industry during the first and second Five-Year Plans. During the third Five-Year Plan (1958–1960) that figure increased to 75 per cent.⁷⁷ However, a reliable shift-share analysis accounting for the impact of structural change defined as inter-sector shift of labour on productivity growth (total factor productivity) is still lacking for post-war Bulgaria and all other Socialist SEEs.

At the moment we do not know for any Socialist SEE how far the productivity-enhancing impact of shifting labour from low-productive farming to much more productive modern industry was reduced by the inevitable failures of hasty industrialization under the centrally planned system. However, it appears that despite all problems productivity growth was substantial during the period from about 1950–1965. That was true not only for Bulgaria for inter-sector shifting of labour seems to have featured prominently elsewhere in SEE. Nevertheless, compared to Greece and other capitalist emerging economies, elements of extensive growth, namely a boosting of capital input into industry, seems to have played a much larger role in Bulgarian growth. But for the present we may only speculate and the estimation of reliable production functions to gain deeper insights into the sources of growth in Socialist SEEs remains a central task of future research.

Migration of rural labour to industry slowed down significantly after the mid-1960s. In fact the rate of expansion of the Bulgarian industrial labour force more than halved from

⁷² Martin IVANOV/Kaloyan STANEV, Structural Change and Economic Growth in Southeast Europe. Bulgaria 1888–2001, in: Leigh-Shaw TAYLOR/Osamu SAITO (eds.), Occupational Structure and Industrialization in a Comparative Perspective. Cambridge (in press).

⁷³ LAMPE, The Bulgarian Economy, 153.

⁷⁴ Iliyana MARCHEVA, Perestroika in Bulgaria in the Light of Modernization, *Historical Future* (2003), no. 1–2, 79–96.

⁷⁵ IVANOV/STANEV, Structural Change and Economic Growth in Southeast Europe.

⁷⁶ LAMPE, The Bulgarian Economy, 144.

⁷⁷ BEROV/DIMITROV (eds.), *Razvitie na industrijata*, 332.

5.46 per cent annually (1946–1965) to 2.46 per cent (1965–1975)⁷⁸ and sectoral growth most probably mirrored that reduction. Inter-sector movement of labour seems to have run out of fuel as the second growth-engine alongside capital accumulation. At about the same time similar processes took place everywhere in Eastern Europe as in parallel with other European centrally planned economies Bulgarian leaders too engaged in attempts to redesign their economic model. In the next two and a half decades up to 1989 a number of channels were opened to manage transition to a more productivity-based and less resource-consuming model for intensive growth. Administrative measures and political directives to improve the quality of industrial output were followed by modest liberalization of planning and management mechanisms which had been too centralized. Price incentives and bonuses were implemented to foster innovation. At times – especially during the early 1970s – further concentration of production was implemented which created industrial combines which were gigantic even by international standards. However, economic reforms within the planning system were often contradictory or half-hearted at best and always eclipsed by an ideologically neutral but still technocratic belief in “gigantism” which often ignored even the fundamentals of economic rationale.

Bulgaria also shared Romania’s vision of a strong national manufacturing sector and rapid industrialization, but Sofia chose a different route to achieve it (table 10 and 11). Bulgaria too wished to develop its own neo-Stalinist heavy industry based on engineering and industrial chemistry and was unhappy with COMECON’s 1958 and 1970 “specialization recommendations” which envisaged that Sofia could produce only 374 of the 3,000 types of machinery and equipment manufactured in COMECON.⁷⁹ In contrast to Romania the Bulgarian communists avoided a clash with the Soviet Union as Bulgarian party leader Todor Zhivkov attempted to seduce rather than to confront the Kremlin.⁸⁰ Drawing on widespread Bulgarian Russophilia Zhivkov proposed in 1963 that Bulgaria should join the USSR as its sixteenth republic and only Khrushchev’s removal from power prevented that plan’s implementation. Nevertheless, the “sixteenth republic” proposal had serious economic and political repercussions since after 1963 Bulgaria became the Soviet Union’s closest and most obedient ally. Moscow proved willing to grant various concessions to Sofia so that for example Bulgaria obtained a monopoly of the production of hauling and lifting machinery, and was able to specialize in food-processing, agricultural and, later, electronic equipment. Those industries attracted most investments, showed the most dynamic growth of all industrial branches and dominated Bulgarian exports after 1970 (table 12). Thus, throughout

⁷⁸ IVANOV/STANEV, *Structural Change and Economic Growth in Southeast Europe*.

⁷⁹ MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*, 524f.

⁸⁰ A cooperative strategy was much more promising for Bulgaria because of its traditionally very close relations to Russia. Moreover, during the Interwar period the Bulgarian Communist Party was by far the strongest in Southeast Europe and absolutely obedient to the Kremlin, playing an important role in the Comintern. Important too was that even though Bulgaria was allied to Nazi-Germany during the Second World War it refused to participate in the war against the Soviet Union. After the war the Soviets saw Bulgaria as a brother nation whereas they distrusted Romania whose tiny Communist party had had no more than 1,000 members in 1944.

Table 10. Origin of Bulgarian Social Product (Net Material Product) 1939–1980 (sectoral shares in %).

	1939	1948	1952	1956	1960	1970	1980
Industry	15	23	29	37	48	55	57
Agriculture	65	59	40	32	27	17	11
Construction	3	4	7	8	7	9	9
Trade & transp.	14	10	19	17	15	16	20
Other	3	4	5	6	3	3	3

Source: LAMPE, *The Bulgarian Economy*, 144.

Table 11. Growth of Bulgarian industry 1949–1983 (including mining but excluding construction; annual rates, in %).

	<i>Official</i>	<i>Alton (Western estimates)</i>
1949–52	20.7	–
1953–57	7.8	–
1958–60	11.6	–
1961–65	11.7	11.5
1966–70	10.9	4.7
1971–75	9.1	6.4
1976–80	6.0	3.2
1981–83	4.5	2.8

Source: LAMPE, *The Bulgarian Economy*, 162.

the 1970s and early 1980s Bulgaria was able to adopt an export-oriented industrial policy.⁸¹ Between 1955/7 and 1981/3 the share of machinery in major exports increased from 8.2 to 53.8 per cent.⁸²

In contrast to Romania which oriented its industrial exports towards western or rather towards international markets, Bulgarian exports went mainly to the Soviet Union and other COMECON member states. Contemporary Western researchers observed that

“those countries that developed industries with a view toward serving the Soviet or COMECON markets have been more successfully in achieving exports from targeted industries than those countries that sought to compete on world markets”.⁸³

⁸¹ MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*, 533; LAMPE, *The Bulgarian Economy*, 156.

⁸² LAMPE, *The Bulgarian Economy*, 180.

⁸³ Josef C. BRADA/Michael MONTIAS, *Industrial Policy in Eastern Europe. A Report to the National Council for Soviet and East European Research*. New Haven/Conn. 1987, I-II, 37–42.

Table 12. Structure of Bulgarian industrial production, 1939–1983 (percentages).

<i>Branch</i>	<i>1939</i>	<i>1952</i>	<i>1960</i>	<i>1970</i>	<i>1980</i>	<i>1983</i>
Electricity	1.8	2.1	2.0	2.5	2.4	3.9
Fuel, heat	4.6	3.2	2.8	4.6	3.7	1.4
Metallurgy	0.5	3.7	5.6	6.6	3.4	3.5
Machinery	2.4	10.0	12.4	16.5	15.6	14.2
Electronics					7.6	8.8
Chemicals	1.9	3.1	3.7	7.5	8.9	8.2
Food processing	51.2	39.2	33.5	25.4	22.9	26.9
Textiles	19.8	14.7	13.5	9.1	5.1	5.5
Construction, wood processing	1.8	2.2	3.1	3.7	4.9	4.5
Other	16.0	21.8	23.4	24.1	22.5	28.1
	100	100	100	100	100	100

Source: LAMPE, *The Bulgarian Economy*, 166.

Bulgaria was seen as the most successful exponent of an industrial policy of expanding intra-industrial trade within COMECON. It could “prevent the development of competitors within COMECON by appealing to COMECON specialization” and compared to Romania could realize narrower specialization in certain industrial branches, which allowed better exploitation of economies of scale.⁸⁴

However, in the end Bulgaria’s rapid industrialization created the same insurmountable structural problems within a centrally planned economy which Romania too had encountered and found insoluble. Expanding the Bulgarian engineering, petrochemical and pharmaceutical industries required increasing amounts of inputs of raw materials, fuel, and semi-manufactures. According to Kramer’s estimates Bulgaria’s “energy gap”, defined as the share of Bulgarian energy consumption supplied by imports, almost tripled between 1960 and 1975⁸⁵ and had widened mainly because of an industrialization strategy based on always energy-intensive heavy industry and in which Bulgaria was using energy wastefully anyway. The emphasis was on developing new petrochemical and pharmaceutical industries for the purpose of diversification but there was strong investment in traditional heavy industries too such as steel-making which was a highly loss-making investment right from the beginning and became a heavy burden on the entire Bulgarian economy – and its environment. The planners knew that Bulgaria was a totally unsuitable location for a steel industry, but for

⁸⁴ *Ibidem*, 13–17, 32–37.

⁸⁵ John M. KRAMER, *The Policy Dilemmas of East Europe’s Energy Gap*, in: *East European Economic Assessment*, Part 2, 459–475.

political reasons a large steel mill was built anyway, near Sofia; because for Socialist countries industrialization without a sizeable steel industry was unthinkable.⁸⁶

Most if not all raw materials and fuel came from the USSR and to pay for them Sofia strongly increased its exports of machinery, processed foodstuffs and manufactured consumer goods. Yet even the growth of exports from 1970–1983 which consisted mainly of manufactured goods (including processed foodstuffs) failed to keep pace with imports. Then, the two oil crises made it almost impossible for Bulgaria to reduce its trade deficit with the USSR.⁸⁷ By 1980 the purchasing power of Bulgarian manufacturing exports as against Soviet oil had fallen six to seven times relative to 1970.⁸⁸ Feeling mounting pressure, Zhivkov played the “sixteenth republic” card again and in 1973 a new plan for unification received a warm welcome this time from Brezhnev. Five years later Zhivkov appealed to Brezhnev that he should not treat Bulgaria differently from any Soviet Republic⁸⁹ and Sofia received considerable concessions, most importantly an unspecified amount of Soviet oil far exceeding its needs. During the early 1980s re-exported Soviet oil accounted for roughly 50 per cent of Bulgaria’s total exports to the West.⁹⁰

Soviet oil helped significantly in resolving Bulgaria’s foreign currency debt problem. Furthermore, from the early-1970s onwards bank loans helped Sofia finance a growing trade deficit with the West. In order to service those debts Bulgaria resorted to a triangular trade similar to that practised by Romania. Between 1970 and 1983 the share of Bulgarian exports going to developing countries more than doubled from 6.5 to 13 per cent, most of the increase based on exports of machinery and armaments.⁹¹ However, it soon became apparent that trade with developing countries was insufficient to overcome the foreign currency shortage. Bulgarian engineering exports were just enough to pay for oil imports from Arab countries, but that left a substantial deficit from imports of machinery from Western economies. The Bulgarian foreign exchange imbalance was finally rectified with large re-exports of Soviet oil and bridging loans from Moscow in 1977 and 1978.

The programme for industrial modernization after the 1970s oil crises merits special attention. In reaction to the deteriorating terms of trade the Bulgarian Politburo decided

⁸⁶ Michael PALAIRET, “Lenin“ and “Brezhnev”. Steel Making and the Bulgarian Economy, 1956–90, *Europe-Asia Studies* 47 (1995), no. 3, 493–505.

⁸⁷ MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*, 546. Total output and exports of different branches of the machinery and equipment industry were boosted between 1960–1975. Output was between seven times (ships and other water-going vessels) and 78 times greater (hauling and lifting equipment) and the respective exports between three and 40 times (MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*, 530f.). MONTIAS writes that “in the late 1970s, some 70% of the branch’s total output was exported” (*Industrial Policy and Foreign Trade in Bulgaria*, 529).

⁸⁸ K. KIRJAKOV et al., *Naučno-tehničeskata revolucija i strategijata za socialno-ikonomičeskoto razvitie na NRB*. Sofija 1986, 18.

⁸⁹ Martin IVANOV/Daniel VAČKOV, *Istorija na vāšnija dāržaven dālg na Bālgarija 1878–1990*. Vol. 3: *Vāšnijat dālg na Bālgarija prez perioda na komunizma (1945–1990)*. Sofija 2009, 207.

⁹⁰ MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*, 548.

⁹¹ *Ibidem*, 547.

to promote electronics and computing. Developing a high-tech sector, it was felt, would save both fuel and foreign currency due to its low energy and capital intensity. Zhivkov and his team successfully gambled on the CoCom⁹² embargo which hit the Soviet Union very hard but was enforced less restrictively on insignificant COMECON-members like Bulgaria. During the 1980s Sofia embarked on various projects which envisaged acquiring new technologies, adapting them to Eastern conditions and exporting the output to the USSR and other COMECON countries.⁹³

At first things went well. Electronics and computing output tripled in a decade and their exports more than doubled, reaching the highest proportion in all exports in 1987 with 19 per cent. Bulgaria's answer to Apple's MacIntosh PC, the *Pravetz*, became a major export item with Moscow absorbing 78 per cent of Bulgarian electronics exports between 1980 and 1989. But such success proved to be a mixed blessing. The Bulgarian strategy rested on science-intensive commodities like electronic calculators, micro-computers, and CDs, but their production relied heavily on semiconductors, memory chips and other basic elements imported from Western hard-currency countries, while output was sold to the Soviet Union and earned roubles. In a daring 1988 analysis Bulgarian economists accused electronics and other high-tech branches of "bringing larger expenses but not higher efficiency" even if efficiency gains were supposed to be the key result of the Socialist "scientific-technical revolution".⁹⁴ Even as late as the 1980s many of the quality and incentives problems of the Bulgarian electronic industry remained. In 1986 Zhivkov himself confessed that "the reliability and the quality of the devices are still the Achilles heel of our electronics".⁹⁵

To summarize, Soviet support was essential for Bulgaria's industrialization. The USSR provided cheap loans, acted as a guarantor for Western loans, granted both explicit and implicit price subsidies, permitted specialization in a number of strategic industries, and offered a vast market for Bulgarian manufacturing exports.⁹⁶ Furthermore, it supplied cheap oil that Sofia could re-export, thus at least partially financing its machinery imports from the West. However, in less than a year Gorbachev ended that industrialization strategy. The flow of Soviet oil and trade subsidies then dried up and after a decade of significant trade deficits all interim commercial loans were swiftly called in and Sofia had to transfer \$1.2 billion to the ailing USSR during the last two years of the Communist regime.

⁹² During the Cold War the Coordinating Committee for Multilateral Export Controls (CoCom) regulated the export of Western high technology to the countries of the Eastern Bloc.

⁹³ IVANOV/VAČKOV, *Istorija na vāšnija dāržaven dālg*, Vol. 3, 286f.; MONTIAS, *Industrial Policy and Foreign Trade in Bulgaria*, 556.

⁹⁴ Vencislav ANTONOV, *Problems of the Economic Development of Bulgaria and the Immediate Tasks of the Economic Policy*, *Yearbook of High Economic Institute Karl Marx 2* (1988), no. 1, 45–72, 54.

⁹⁵ Martin IVANOV, *Reformatorstvo bez reformi. Političeskata ikonomija na bālgarskija komunizām 1963–1989*. Sofija 2008, 253f.

⁹⁶ Michael MARRESE/Jan VĀŇOUS, *Soviet Subsidization of Trade with Eastern Europe*. Berkley 1983, 50; Marvin R. JACKSON, *The Rise and Decay of the Socialist Economy in Bulgaria*, *Journal of Economic Perspective* 5 (1991), no. 4, 203–209, 206.

2.3 Albania

During the 20th century Albania had the least developed economy and was the most backward country in Europe.⁹⁷ Economists of the Interwar period described Albania as a classical dual economy, as later defined by Arthur W. Lewis. Its economy consisted of a large pre-modern agrarian “subsistence sector” and a tiny market-oriented “modern sector” consisting of a few plantations and mines. According to Schnytzer and Gan, Albania’s per capita industrial production on the eve of the Second World War was about 8 USD a year, with an estimated contribution of industrial production to net material product of only about 4.5 per cent (1938). In 1938 only 150 industrial enterprises existed in a country with a population of 1,040,353.⁹⁸ Many of those enterprises were nothing more than larger-than-normal handicraft shops. Moreover, even though it had an agrarian economy Albania regularly needed large food imports because of the agricultural limitations imposed by its mountainous terrain. The export weakness of the Albanian economy with its chronic high trade deficits had in fact prevailed since the foundation of the Albanian state in 1912⁹⁹ and Albania could survive first only because of regular remittances from emigrants and later thanks to enormous capital flowing in from Italy which finally annexed Albania in 1939.¹⁰⁰ During the Second World War Italian colonization culminated in a planned war economy to exploit rich Albanian mineral resources which included oil, chromium, copper, iron, manganese and natural gas. Modern mining included the development of suitable infrastructure. During the occupation Italian-owned firms earned 142 million FrA (Gold Franc) in Albania but “the country as a whole had an excess of imports from Italy during the same period of 640 million FrA. To that extent Albania benefitted from Italy”.¹⁰¹ The Italian-financed transport

⁹⁷ Throughout the entire 20th century Albania had by far the lowest GDP per capita of all SEEs. Only just recently (2010/2015) has Albania fully caught up to Romania (THE MADDISON PROJECT, Maddison Historical Statistics, on <https://www.rug.nl/ggdc/historicaldevelopment/maddison/>, 10.8.2018).

⁹⁸ SCHNYTZER/GAN, *Industry*, 314; Michael SCHMIDT-NEKE/Örjan SJÖBERG, *Bevölkerungsstruktur*, in: GROTHUSEN (ed.), *Südosteuropa-Handbuch*, Vol. 7, 464–490, 465; Albert CALMES, *The Economic and Financial Situation in Albania*. Geneva 1922.

⁹⁹ Between 1927 and 1939 only 36.2% of Albanian imports were covered by exports (Roland SCHÖNFELD, *Außenwirtschaft*, in: GROTHUSEN [ed.], *Südosteuropa-Handbuch*, Vol. 7, 427–451, 428).

¹⁰⁰ Between 1928 and 1939 Italian capital inflows amounted to some 280 million FrA (Gold Franc) compared to an estimated annual Albanian social product (net material product) of 175 mio. FrA in 1927 (KASER, *Economic System*, 297).

¹⁰¹ KASER, *Economic System*, 299. However, it should not be forgotten that Albania’s population suffered terribly during the Second World War. The whole country became a theatre of war and especially the German retreat in 1944 was linked not only with war crimes but large-scale destruction of the newly built Italian industrial and transport infrastructure which for example had included a large oil refinery.

infrastructure and the nucleus of a modern mining industry were in fact an important contribution to Socialist Industrialization after 1945.¹⁰²

Under the leadership of Enver Hoxha the Albanian Communists followed a purely Stalinist industrialization strategy later supplemented by a radical autarchy-oriented economic policy which followed the Maoist principle of “self-reliance”. The Albanians justified their “self-centred” development strategy by describing it as a triumph over colonial exploitation but in fact Albanian communists merely replicated the pattern of development established during the “colonialist” Interwar period.

Fascist Italy was the first in a long line of foreign powers to finance Albanian development because Mussolini wanted to incorporate a modernized Albania as part of “Greater Italy” into an autarchic Italian *Großwirtschaftsraum* (economic sphere).¹⁰³ During the Interwar period the Albanian King Zog had followed a policy of very close economic cooperation with one powerful partner in an attempt to develop the country. Expansionist fascist Italy therefore became the all-important long term-oriented investor and trading partner of Albania.¹⁰⁴ However, contrarily to King Zog’s intentions Albania was transformed into an Italian colony, although it turned out to be a “high loss colony” for imperialist Italy which had invested heavily in long-term projects and had financed huge Albanian trade deficits.

Exactly the same pattern of quasi-colonialist dependency on one “partner” to develop Albania was perfected to their own advantage by the Albanian communists after 1944. Under the conditions of the Cold War, Albanian Communists played the “geopolitical card” with masterly skill to receive as much unconditioned external aid as possible, first from Yugoslavia then from the USSR and other COMECON-members and eventually from the People’s Republic of China. The risks of their strategy finally became clear when China turned away from Albania in the late 1970s, leaving the Albanians literally on their own.

In a small poorly developed country like Albania the two key Communist targets of heavy industry-based industrialization and simultaneous implementation of economic autarchy in order to safeguard national independence and to uphold the purity of Communist doctrine were irreconcilable contradictions.¹⁰⁵ A capital-poor, small, and scarcely developed country needs especially high capital imports to service rapid and capital-intensive Stalinist-style industrialization. Such imports must be used sooner or later if a country like Albania is to produce sufficient exports to pay for machines, equipment, and the consumption of intermediate products in the meantime of the expanding industrial sector. However, an industrial sector oriented on the principle of as much import substitution as possible cannot form the basis for export-led growth. Albania’s circumstances meant that the only way it

¹⁰² Andreas WILDERMUTH, “Sich stützen auf die eigenen Kräfte”. Die Wirtschaftspolitik Albaniens nach dem Zweiten Weltkrieg. München 1995, 63–83.

¹⁰³ SCHÖNFELD, Außenwirtschaft, 428.

¹⁰⁴ Hermann GROSS, Wirtschaftsstruktur und Wirtschaftsbeziehungen Albaniens, *Weltwirtschaftliches Archiv* 38 (1933), 505–551.

¹⁰⁵ WILDERMUTH, “Sich stützen auf die eigenen Kräfte”; SCHÖNFELD, Außenwirtschaft; KASER, Economic System.

could resolve the contradiction inherent in its wish for both autarchy and industrialization was periodically to make radical cuts to its debt and if necessary, to find new sponsors of the autarchic model. Such sponsors would have to have geo-politically-derived reasons for their willingness to continue to offer enormous amounts of external support, but exactly that happened in Albania from 1948–1978. Then, when the Albanian model of autarchy was forced to “stand on its own two feet” at the end of the 1970s its days were numbered. Just as in Romania and to a lesser extent in Bulgaria, Albania’s desperate clinging to an out-dated model of resource-intensive industrialization caused its economic decline to accelerate during the 1980s, which led to the impoverishment of the whole population and in 1989/91 caused the almost total collapse of the state itself, to say nothing of its industry. During the 1990s Albania fell back on its primitive agrarian subsistence economy which was again kept alive only by remittances from emigrants. Recovery began to come only after 2000, although at least this time mining and modern manufacturing were part of it (table 13).

After the Communist seizure of power in 1944 Yugoslavia replaced Italy as Albania’s main financier. Yugoslavia also sent thousands of experts to Albania to create the preconditions for industrialization by reconstructing transport and mining infrastructure as well as building power stations. The Albanian communists rejected the alternative, which would have been to diversify economic relations and make use of international aid to modernize the country. In 1948 Albania followed Stalin in immediately breaking with Tito, an action which implied the cancellation of all Albanian debts to Yugoslavia.¹⁰⁶ Stalin rewarded Albania’s absolute loyalty with extensive and almost unconditioned aid because by now, after the “defection” of Yugoslavia, Albania was the only route for Soviet access to the Adriatic Sea. Moreover, Stalin allowed the Albanian communists complete freedom to follow their own industrialization strategy which was full Soviet-style industrialization to build up what contemporary Marxists called a “diversified industry.” However, all that changed radically with Khrushchev’s arrival.

Unlike all other SEEs, Albania in about 1950 had no modern consumer goods industry at all, which meant large-scale imports of such items where necessary. To enlarge the scope for capital goods imports and to reduce food imports, Albania first concentrated on building up a domestic light industry and agricultural machinery industry. Even if to a certain extent Albanian communists followed such a more consumer-oriented strategy, their main aim was to start as soon as possible on the development of a diversified domestic heavy industry. They wanted to export more sophisticated products than raw and first-stage processed mineral resources and food. As already mentioned, after Stalin’s death the new Soviet leadership wanted to implement regional specialization within the Socialist orbit to reduce costs and improve efficiency. That would obviously require in turn coordination of all national economic plans as well as cooperation in supra-national planning institutions which would have amounted to a Soviet version of the contemporary EEC (European Economic Community). In fact, Soviet plans were an almost exact copy of the previous Italian ideas for Albania’s role

¹⁰⁶ In 1947 Yugoslav aid made 58% of all Albanian government revenues (SCHÖNFELD, Außenwirtschaft, 430).

Table 13. Structural change and growth of the Albanian economy 1951–1990/2007.

	<i>Sector structure of GDP (share as percentage)</i>							
	1951–55	1956–60	1961–65	1966–70	1971–75	1976–80	1981–85	1986–90
Agriculture	80	60	53	44	36	36	34	33
Industry	14	19	24	28	35	40	43	45
Construction	–	7	8	7	7	7	8	7
Services	–	14	15	21	22	17	15	15
<i>Annual growth rates (between aggregate values for each Five Year Plan period)^b</i>								
		51/55– 56/60	56/60– 61/65	61/65– 66/70	66/70– 71/75	71/75– 76/80	76/80– 81/85	81/85– 86/90
NMP ^a	–	7.4	7.6	7.5	7.5	3.5	3.0	1.2
Agriculture	–	1.3	4.8	3.6	3.5	3.5	1.7	0.5
Industry	–	15.3	12.3	10.7	12.5	6.6	4.3	2.4
Construction	–	–	10.4	6.6	6.9	3.0	4.8	-1.6
Services	–	–	10.3	14.3	8.4	-2.0	1.9	0.7
<i>Structure of employment (shares in %)</i>								
	1960	1970	1980	1985	1989	1995	2000	2007
Agriculture	55.6	52.2	51.4	51.3	50.5	67.3	72.7	59.5
Industry	15.1	19.2	21.8	22.3	23.8	8.2	4.6	6.9
Construction	11.4	9.9	9.1	8.0	7.2	1.8	1.2	5.4
Services	17.9	18.7	17.7	18.4	18.5	22.7	21.5	28.2

Notes: ^a Net Material Product; ^b aggregated values for each FYP-period at constant 1986 prices. The growth rates represent an upper benchmark if not a slight overestimation of real values.

Sources: Mario I. BLEYER et al., *Albania. From Isolation Toward Reform*. Washington/DC 1992, 11; Örjan SJÖBERG, *Social Structure*, in: GROTHUSEN (ed.), *Südosteuropa-Handbuch*, Vol. 7, 491–504, 498; Anthony CLUNIES-ROSS/Petar SUGAR, *Albania's Economy in Transition and Turmoil, 1990–97*. Aldershot 1998, 40; Instituti i Statistikë (INSTAT), *Statistical Yearbook. Republic of Albania 1998–2007*. Tirana (2009), 93.

in a greater Italian economic sphere. That had not been meant to stall Albanian industrialization efforts but to carry out industrial development less rapidly and according to the existing resources, rather than following an ideologically-driven scheme combined with nationalist wishful thinking. But after all, to hold Albania in the Soviet orbit the Soviets found themselves obliged to finance Albania's ambitious plans.¹⁰⁷ More than anything else it was the fierce resistance of all less developed socialist SEEs including Albania which finally derailed plans for intensified economic integration within the Eastern bloc.¹⁰⁸

¹⁰⁷ SCHÖNFELD, *Außenwirtschaft*, 438.

¹⁰⁸ *Ibidem*, 433.

Table 14. The growth of industry in Albania 1955–1989 (annual growth rates, in %).

	<i>Industrial output^a</i>	<i>Industrial capital stock^b</i>	<i>Industrial employment^c</i>	<i>Capital/labor ratio</i>	<i>Labour productivity</i>
1955–60	16.7	15.2	8.8	6.4	7.9
1960–65	6.6	11.8	5.8	5.9	0.8
1965–74	11.0	10.3	5.7	4.6	5.3
1974–80	6.5	7.6	5.8	2.0	0.8
1980–89	2.6	5.6	3.4	2.2	-0.8

Notes: ^a Industrial output Index (1938 = 1); ^b in m. 1971 lek; ^c State sector employment in '000 (roughly corresponds to industry).

Source: Author's own calculations based on data from SCHNYTZER/GAN, *Industry*, 341f.

During the 1950s generous Soviet foreign aid combined with substantial forced loans from Soviet allies enabled a rapid increase of Albanian industrial capital stock and output, with annual growth rates of around 16 per cent (table 14). Khrushchev increased pressure on Albania to adapt its industrialization plans more in line with economic realities but Enver Hoxha skilfully exploited rising tension between China and the Soviet Union until finally he officially broke from Moscow in 1961 and allied himself with Mao's China. A far from amicable cancellation of all debt immediately followed. Soviet and Western experts expected the Albanian economy to collapse because its industrial sector in particular relied on thousands of Soviet experts who were forced to leave Albania overnight. Indeed, industrial growth was reduced substantially and efficiency in industrial production deteriorated significantly.¹⁰⁹ However China, after it had overcome the worst consequences of the disaster of its "Great-leap-forward", began to support Albania hugely and for purely political reasons by multiplying foreign aid and the number of experts in comparison with Soviet times. Moreover, during the 1960s and early 1970s China too allowed the Albanians complete freedom to realize their autarchy-oriented industrialization strategy without attaching importance to debt repayment. In fact, one of the reasons Albanian communists had turned to China was so that they would be able to continue their Stalinist industrialization.¹¹⁰ Industrial growth jumped again at double-digit-levels (table 14).

During the Chinese Cultural Revolution which had great repercussions on Albania a further ideologizing of economic decision making culminated in the firm conviction among the Communist leadership that Albania's comparatively rich natural resources would quickly allow the country to achieve "economic independence".¹¹¹ However, it was the final target of full autarchy which would require greatly increasing dependence on foreign aid in the short

¹⁰⁹ SCHNYTZER/GAN, *Industry*, 322–328.

¹¹⁰ *Ibidem*, 321; SCHÖNFELD, *Außenwirtschaft*, 436.

¹¹¹ It is worth recalling that Albania's territory was smaller than the smallest Chinese province of Hainan and had only 2,068,155 inhabitants in 1969 (SCHMIDT-NEKE/SJÖBERG, *Bevölkerungsstruktur*, 465).

term. In 1967 Albanian planners developed for the first time a precise development plan for Albanian industry. The plan defined three priority branches for a scientific-technical revolution based on capital deepening.¹¹² The top branches were congruent with the contemporary setting of priorities all over Socialist Central, Eastern and Southeastern Europe, with the chemical and engineering industries as well as electricity production seeing impressive annual growth rates of 47.5, 25.5 and over 21 per cent between 1965 and 1970.¹¹³ Furthermore, Albania built its first steel works (in the town of Elbasan) thereby acquiring the quintessential element of socialist modernity.

The “soft budgeting without limits” came to an end with the Chinese rapprochement with the West which began at the end of the 1960s. Since the early 1970s Enver Hoxha and his entourage had been expecting a split with China and were prepared for it when it eventually came in summer 1978. Again, Albania used the opportunity to cancel all its debt repayments. Albanian economic development reached the phase of “total self-reliance”, to use the words of the Albanian communists themselves.¹¹⁴ Imports of capital goods and industrial intermediate products had to be cut significantly. In the mid-1970s there began a long slowdown of industrial growth rates and efficiency until there was a full-scale industrial collapse in 1990/91. As in all Socialist planned economies capital deepening in Albanian industry increased continuously over the entire period from 1950–1989 even at falling rates, although labour productivity began to decline during the 1980s with negative annual rates of 0.8 per cent (table 14).¹¹⁵ Part of the story was a constantly high population growth at 2.5 per cent annually from 1950–1989.¹¹⁶ Nevertheless according to Schnytzer’s and Gan’s econometric estimates, efficiency losses in industry feature prominently to explain the slowdown in industrial dynamics during the 1980s.¹¹⁷

¹¹² As convinced Stalinists the Albanian Communists believed implicitly that capital deepening was in every case inevitably connected with rising productivity.

¹¹³ SCHNYTZER/GAN, *Industry*, 328; Adi SCHNYTZER, *Stalinist Economic Strategy in Practice. The Case of Albania*. Oxford 1982, 76–81.

¹¹⁴ SCHÖNFELD, *Außenwirtschaft*, 438.

¹¹⁵ Capital deepening continued to rise during the crisis-ridden 1980s because low-quality domestic engineering output further increased although at substantially lower rates compared to the 1970s (WILDERMUTH, “Sich stützen auf die eigenen Kräfte”, 170).

¹¹⁶ It should be mentioned here that only in Albania did urbanization more or less stagnate during the peak phase of Stalinist industrialization. After the 1960s almost prohibitive regulation of rural migration greatly restricted urbanization. Uniquely in Southeast Europe the urban share of the total population increased only from 30.9 to 35.5% from 1960–1989 (SCHMIDT-NEKE/Örjan SJÖBERG, *Bevölkerungsstruktur*, 476). Alone in Europe Albania had a clear majority of people living rurally in 1989 because Albanian communists espoused the idea that the urban and rural workforces should replenish themselves (see Brunnbauer’s chapter on migration: Ulf BRUNNBAUER, *Die Bewegung im Raum seit dem 19. Jahrhundert. Teil 1: Arbeits- und Binnenmigrationen*. Version: 1.0, in: *Online-Handbuch zur Geschichte Südosteuropas*. Band: *Wirtschaft und Gesellschaft in Südosteuropa nach 1800*, ed. by Leibniz-Institut für Ost- und Südosteuropaforschung, 7.5.2018, URL: <http://hgsoe.ios-regensburg.de/themen/wirtschaft-und-gesellschaft.html>).

¹¹⁷ SCHNYTZER/GAN, *Industry*, 321–327, 333.

Whereas consumer good sectors could more or less adjust to the new conditions “inputs necessary for the continued development of heavy industry were not forthcoming from abroad and their production domestically was impossible”.¹¹⁸ According to Wildermuth as well as other authors the desperate but failed Stalinist focus on heavy industry was what most firmly accelerated the unavoidable failure of autarchy and created the preconditions for the most severe peacetime economic collapse in 20th century Europe.¹¹⁹ In a small, underdeveloped agrarian country the simultaneous pursuit of two contradictory targets – autarchy and the creation of a heavy industry out of nothing – was effectively trying to achieve the impossible and it was no wonder that the economic collapse of 1990–1991 was already looming during the 1980s. As Schnytzer and Gan wrote:

“An industrial structure had been established which relied for its continued growth either on highly specific replacement parts which were no longer available after the split with China, or, retooling on the basis of a Western technology for which Albanian exports could not pay. Ideological considerations ruled out either a return to the Soviet orbit or reliance on any Western aid that might have been available to support such strategy. [...] The Albanian authorities were evidently aware that rapid rates of industrial growth were no longer possible, given the break with China.”¹²⁰

Enver Hoxha and his entourage refused to accept economic realities and instead sought refuge in illusory worlds of ideology. In the new constitution of 1976, which represented Enver Hoxha’s political testament, article 28 strictly prohibited any capital imports from capitalist and “revisionist” foreign countries and explicitly ruled out all forms of economic cooperation with them, and listed such forms of cooperation in detail. The guiding economic principle of “self-reliance” gained constitutional character in Article 14. After the Chinese reforms began in 1978 Albania was defined as the only remaining truly Socialist country in the world, alongside North Korea.¹²¹

Without foreign aid Albania’s industry slipped into a vicious circle of contraction which did nothing but gain momentum after 1983 as Albania’s foreign currency reserves dwindled ever more.¹²² Albania had to split its low export revenues between imports on the one hand of equipment and machinery to preserve its industrial capital stock, and on the other hand of intermediary products to maintain industrial production. The resulting insufficient imports both of capital and of intermediary goods had the effect of lowering industrial exports which further depleted capital stock and worsened the utilization of capacity in industry and

¹¹⁸ Ibidem, 330.

¹¹⁹ WILDERMUTH, “Sich stützen auf die eigenen Kräfte”, 1–60, 266; SCHNYTZER/GAN, Industry, 329–337.

¹²⁰ SCHNYTZER/GAN, Industry, 331.

¹²¹ WILDERMUTH, “Sich stützen auf die eigenen Kräfte”, 146; Per SANDSTRÖM/Örjan SJÖRBERG, Albanian Economic Performance. Stagnation in the 1980s, *Soviet Studies* 43 (1991), no. 5, 931–947, 931.

¹²² WILDERMUTH, “Sich stützen auf die eigenen Kräfte”, 169–301; SCHÖNFELD, Außenwirtschaft, 439–449; SCHNYTZER/GAN, Industry, 331–339.

mining. Efficiency in industry declined continuously after 1981/82.¹²³ According to Wildermuth the degree of processing of Albania's exports was comparatively low compared to the level of its industrialization such as had been reached at the beginning of the 1980s.¹²⁴ Mineral resources, energy-intense metals like chromium, copper and nickel – and electricity – formed the backbone of Albanian exports. To exploit profitably newly-discovered deposits of raw materials as well as to produce the high qualities of chromium demanded by the world market, high investments were necessary which Albania was unable to afford. For example, use of out-dated technology and lack of capable experts led to failure in the search for new oil deposits, not to speak of efficiency in exploitation of those already discovered. Albania's ever increasing technical obsolescence in turn further reduced the production capacity of its heavy export industries.

Capital-extensive light industries were unable to contribute substantially to increase exports of manufactured goods because they were forced to direct their production to domestic demand with attendant consequences for quality. Continuing concentration of scarce investment funds on inefficient heavy industry and mining had precluded the modernization of consumer goods industries, and after the withdrawal of Chinese experts Albania lacked human capital in the form of the skilled personnel needed to operate steel mills and mines even as "efficiently" as according to the low standards of a planned economy.¹²⁵ The Albanians' fundamental error was their failure to concentrate the generous Chinese economic aid on the development of a capable export industry – which would have made sense for a small country with two million inhabitants – instead preferring to build up capital-intensive import-substituting branches like chemicals, steel and engineering industries which in any case always operated below full capacity.¹²⁶ Paradigmatically for Maoist economic megalomania was the foundation of the large metallurgical complex "Steel of the Party" in Elbasan in the 1970s, which by around 1989 employed as many as 12,000 workers.¹²⁷ During the 1980s the plant's managers proposed to the party leaders that in the pursuit of profit most production should be halted to enable concentration instead on only a few exportable steels. The answer was uncompromising: any reduction in production was forbidden because domestic production of all kinds of steel was seen as a matter of national survival.¹²⁸

The collapse of Albanian industry was delayed by increasing forced savings at the expense of the agrarian population. Whereas rural and urban incomes had almost converged by the end of the 1970s, state measures led to a reduction of incomes of *kolkhoz* members by a quarter during the 1980s, whereas urban-industrial incomes, at least, did not fall. However, rising savings were not transformed into rising investments to improve the export potential

¹²³ SCHNYTZER/GAN, *Industry*, 342.

¹²⁴ WILDERMUTH, "Sich stützen auf die eigenen Kräfte", 262.

¹²⁵ Ibidem; Visar NONAJ, "Neues Werk, neue Menschen". Die Rekrutierung von Arbeitskräften für das albanische Stahlwerk "Stahl der Partei", *Südost-Forschungen* 72 (2013), 319–348.

¹²⁶ WILDERMUTH, "Sich stützen auf die eigenen Kräfte", 265.

¹²⁷ NONAJ, "Neues Werk, neue Menschen", 213.

¹²⁸ WILDERMUTH, "Sich stützen auf die eigenen Kräfte", 265f.

of the country. In 1987 as a sort of “last warning”, Albania only narrowly escaped a famine. However, instead of instituting fundamental reform the country’s communist leaders decided to fight rising trade deficits through partially debt-financed foreign exchange speculations, done on a large scale. The result was disaster as high speculative losses indebted the previously debt-free Albania, which had to stop its debt service in 1991.¹²⁹ The subsequent economic and political collapse had its heaviest impact on the industrial sector.¹³⁰ The share of industry in total employment fell from 23.8 per cent in 1989 to 8.2 per cent in 1995 and a practically negligible 4.6 per cent in 2000 (table 13). Meanwhile agriculture’s share jumped from 50.5 to 72.7 per cent. At the beginning of the 1990s Albania was practically back in 1912 – the year of the founding of the Albanian state. The main structural problems of Albania since its beginnings, its high trade deficits and export weakness, still await satisfactory solutions – other than mass emigration – even if the Albanian economy including industry and mining has substantially recovered since the end of the 1990s.

2.4 The Failure of Socialist Industrialization and beyond

Considering net material product (NMP) which is the conceptual equivalent of the West’s GDP, Romania and Bulgaria showed the highest growth rates of all East European centrally planned economies during 1950-89, 8.2 and 6.9 per cent per annum respectively.¹³¹ Initially “peasant nations”, by 1989 for both the proportion of the employed population working in industry was as high as in countries such as Czechoslovakia with long-established industry and was actually higher than in industrialized countries in the West. After 1989 Romania and Bulgaria both experienced the greatest contractions of industry in all European transition economies other than the former USSR and Albania (table 15). While the Central European transition economies compensated for deindustrialization during 1989-2000 by expanding their service sectors, agriculture’s employment share began to grow significantly in Bulgaria, Romania, and Albania.¹³² During the 1990s deindustrialization in former Socialist SEEs did not represent successful structural change towards a highly productive modern service economy but experienced instead simple economic decline back to a partly

¹²⁹ *Ibidem*, 303–343. In 1991 a full-scale famine could be prevented only by enormous Italian food aid supported by the European Community (EC) in “Operation Pelican”. After the collapse of the Communist system malnourished former Kolkhoz members increased their own consumption and stopped all deliveries to towns.

¹³⁰ In 1994 Albanian industrial output reached only 25% of the 1990-level (Daniel VAUGHAN-WHITEHEAD, *Albania in Crisis. The Predictable Fall of the Shining Star*. Cheltenham 1999, 13).

¹³¹ G. W. KOLODKO, *Globalization and Catching-Up. From Recession to Growth in Transition Economies*. Washington/DC 2000, 9. The Maddison Data on GDP per capita fully supports these findings.

¹³² During the 1990s agriculture’s share in employment grew the strongest in Albania from a still high 50.5% in 1989 to 71.8% in 2000. In Romania and Bulgaria the share of agriculture increased from 30.4% to 42.8% and from 19.0% to 26.2% (for sources see table 15; percentage share for Romanian agriculture in 2000 do slightly differ from table 16a even though the same sources are used).

Table 15. Employment share of industry and gross industrial output in former European COMECON states.^a

	<i>Employment share</i>		<i>Reduction</i>	<i>Lowest gross industrial output 1989–97 (1989 = 100)</i>	<i>Gross industrial output 1997 (1989 = 100)</i>
	<i>1989</i>	<i>2000</i>			
Bulgaria	45.2	28.3	-16.9	49.8 (1997)	49.8
Romania	43.4	26.2	-17.2	60.7 (1992)	66.6
Albania	31.0	5.8	-25.2	–	–
Poland	36.9	30.8	-6.1	68.7 (1991)	93.4
Slovakia	44.9	37.3	-7.6	67.9 (1993)	80.6
Czech Rep.	44.7	39.5	-5.2	65.4 (1993)	77.0
Hungary	35.0	33.7	-1.3	66.7 (1992)	91.3

Notes: ^a Industry comprises the entire secondary sector including mining, energy production, and construction.

Source: Except Albania see RAISER/SCHAFFER/SCHUCHARDT, *Benchmarking Structural Change in Transition*, 43–45; for Albania see SJÖBERG, *Social Structure*, 498; and INSTITUTI I STATISTIKI (INSTAT), *Statistical Yearbook*, 93; for gross industrial output see Marvin R. JACKSON/George PETRAKOS, *Industrial Performance under Transition. The Impact of Structure and Geography*, in: George PETRAKOS/Stoyan TOTEV (eds.), *The Development of the Balkan Region*. Aldershot 1991, 141–174, 145.

subsistence economy. For example, in Romania agriculture's share of total labour increased from 29.0 to 41.4 per cent between 1989 and 2000 whereas the share of agriculture in total GDP fell from 21.8 to 11.1 per cent (table 16a). During the 1990s subsistence agriculture absorbed the bulk of the newly redundant industrial labour force because there was no other employment available.¹³³

In 1990 Bulgaria and Romania displayed by far the highest degree of over-industrialization in a sample of 28 Eurasian transition economies, matched only by three other states.¹³⁴ The main reason for the subsequent severe contraction of industry in Socialist Southeast Europe was that more than other European COMECON-states the resource-poor Southeast European economies had pursued an out-dated Leninist-Stalinist industrialization model based on heavy industries with high demand for energy and raw materials. The Soviet model was tailored to large, resource-rich, more or less autarchic economies – quite the opposite of SEEs. Thus, after 1989 the adjustment to new market conditions was extremely painful for the Bulgarian, Romanian, and Albanian manufacturing sectors (tables 15, 16b). Producer

¹³³ David TURNOCK, *Aspects of Independent Romania's Economic History with Particular Reference to Transition for EU Accession*. Aldershot 2007, 128.

¹³⁴ Martha DE MELO/Cevdet DENIZER/Alan GELB/Stoyan TENEV, *Circumstance and Choice. The Role of Initial Conditions and Policies in Transition Economies*, *World Bank Economic Review* 15 (2001), no. 1, 1–31, 5.

Table 16a. Changes in the economic structure of Romania 1990–2006.

		1990	1995	2000	2006
Agriculture and forestry	share in total workforce (%)	29.0	34.4	41.4	30.5
	share in total GDP (%)	21.8	19.8	11.1	7.8
Industry and construction	share in total workforce (%)	43.5	30.4	27.3	30.6
	share in total GDP (%)	45.9	39.5	30.9	31.9
Services (including transport)	share in total workforce (%)	27.5	32.0	31.3	38.8
	share in total GDP (%)	34.6	43.8	57.8	60.3

Source: MURGESCU, România și Europa, 470, 475.

Table 16b. Growth and productivity in Romanian industry, 1990–2006.

	1990–92	1993–96	1997–99	2000–3	2004–6
GDP (average annual growth, %)	-9.1	4.1	-4.0	4.5	6.7
Industrial production (average annual growth, %)	-22.8	5.1	-7.8	5.7	4.8
	1990	1992	1994	1996	1998
Industrial labour productivity (1989 = 100)	75.9	53.1	64.7	87.0	101.9
	2002	2004	2006		
Industrial labour productivity (2000 = 100)	112.0	131.9	154.0		

Source: MURGESCU, România și Europa, 467, 475f.

goods industries especially, which had been the main focus of all socialist industrialization efforts, contracted severely during the transformational recession whereas consumer goods industries fared better. Romania is a fine example of that as demonstrated in table 16c.

Moreover, changing from a rapidly collapsing centrally planned economy to a market economy as happened in all European transition economies and all over the Former Soviet Union after 1989 caused a deep economic depression called “transformational recession”. The depression was unavoidable because in all cases the development of a functioning market system proceeded more slowly than the collapse of the planning system. Furthermore, industry’s agony during the transformational recession was extended by delay of the reforms needed to establish the correct institutional framework for a market economy. Throughout Europe experience showed that delayed market reforms prolonged the transformational re-

Table 16c. Structure of Romanian industrial output, 1990–2004 (in %).

	<i>Consumer goods^a</i>	<i>Producer goods^b</i>	<i>Industrial materials^c</i>	<i>Energy^d</i>
1990	41.5	38.1	11.0	9.3
1991	36.2	30.3	17.2	16.2
1992	33.9	25.2	19.2	21.6
1993	37.6	23.2	17.9	21.3
1994	38.4	25.3	15.5	20.7
1995	41.1	25.1	14.2	19.5
1996	46.8	26.3	13.6	13.2
1997	47.6	23.4	12.4	16.6
1998 ^e	44.5	22.6	15.5	17.3
1998 ^e	41.5	23.5	15.5	19.3
1999	42.2	20.7	13.3	23.6
2000	45.4	20.8	14.0	19.7
2001	47.8	22.0	12.9	17.0
2002	44.7	21.8	13.9	19.5
2003	46.9	22.3	13.9	17.0
2004	46.7	24.2	13.5	16.5

Notes: ^a Consumer goods include (1) wood, paper, and furniture, (2) textiles, clothing, and leather, (3) food, drink, and tobacco; ^b producer goods includes (1) metallurgy, (2) engineering; ^c industrial materials include (1) chemicals, oil refining and plastics, (2) building materials; ^d energy includes (1) extractive industries, (2) electricity, gas, and water; ^e methodology to calculate shares changed in 1998 with old and new calculations given.

Source: David TURNOCK, *The Transition from Communism to the European Union. Restructuring Romanian Industry and Agriculture since 1990*. Cheltenham 2009, 89.

cession of the early 1990s¹³⁵ so that it was not until the early 2000s that industry in Romania, Bulgaria, and Albania finally began to recover.

The evidence suggests that in Socialist Southeast Europe the brutal industrial contraction resulted not only from the “coordination void” which was inextricably connected with the sudden collapse of the centrally planned economy’s institutional framework.¹³⁶ However, the contraction seemed at least in part to reflect the necessary structural adjustment. After 1990

¹³⁵ Vladimir POPOV, Transformational Recession, in: HARE/TURLEY (eds.), *Handbook of the Economics and Political Economy of Transition*, 119–130; Nauro F. CAMPOS/Fabrizio CORELLI, Economic Growth in the Transition from Communism, in: HARE/TURLEY (eds.), *Handbook of the Economics and Political Economy of Transition*, 421–430.

¹³⁶ Janos KORNAL, Anti-Depression Cure for Ailing Postcommunist Economies, *Transition* 4 (1993), no. 1, 43–51; BEREND, *Central and Eastern Europe*, 350f.

over-industrialized Southeast European economies experienced a certain amount of such necessary contraction of their oversized and out-dated industrial sectors.¹³⁷

It must be emphasized that in Southeast Europe socialist industrialization did not fail only because of fundamental errors in the system of central planning. The severe flaws inherent in the system of central planning certainly played a significant if not decisive role, but they cannot alone explain the difficulties that emerged in the wake of the oil crises of the 1970s and the extraordinarily rapid collapse of industry in Southeast Europe after 1989. All the same, the ideologically motivated choice of the out-dated Stalinist model of rapid industrialization based on heavy industry also made a significant contribution because it completely ignored the specific conditions of Southeast Europe.¹³⁸ After the oil crises 1973 and 1978–1980 it was not only the dysfunction of Southeast European central planning which made adjustment of industry to new market conditions and rising energy costs so harmful but also the complete inability of the out-dated coal- and steel-based heavy industries to adjust to the needs of globalized, highly competitive world markets.¹³⁹

Moreover, as the ascent of industrializing Far Eastern economies to their position as the new “workshop of the world” began to affect global markets during the 1970s, Southeast Europe’s engineering and chemical industries lost their competitiveness. They had been the key elements of a diversified “second wave of socialist industrialization” after coal and steel, but now they began to lag behind desperately. To push forward into the high-price top quality segment of heavy industrial manufacturing was beyond the capabilities not only of Socialist Southeast European economies but of the entire European periphery. Very probably that periphery’s failure in high quality modern manufacturing sprang from deeply rooted structural deficits in manufacturing, although it is important to point out that much more

¹³⁷ RAISER/SCHAFFER/SCHUCHARDT, *Benchmarking Structural Change*.

¹³⁸ Of course even ideological blindness and lack of efficient mechanisms at the top for changing decisions are system failures. In emphasizing the consequences of an out-dated development model, our explanation of the decline of Southeast Europe’s industry borrows a certain amount from Robert Allen’s reinterpretation of the Soviet industrial revolution (Robert C. ALLEN, *Farm to Factory. A Reinterpretation of the Soviet Industrial Revolution*. Princeton 2003). However, Socialist industrialization even if not based on coal and steel would have been doomed to fail in the end because of insurmountable systemic weaknesses.

¹³⁹ German economists of the Interwar period were the first to analyse whether the coal and steel industrialization much desired by native elites would make sense in any Southeast European country. To do so they carried out simple feasibility studies according to the results of which any heavy industry-based industrialization in Southeast Europe would yield only great losses at the expense of the still-low living standards of the mostly rural population. Instead the Germans recommended the expansion of mining and light industries concentrating on low- and medium-quality goods for mass consumption (Oscar P. GRAF, *Die Industriepolitik Alt-Rumäniens und die Grundlagen der Industrialisierung Gross-Rumäniens*. Bucarest 1927 [Diss.], 149–186; Hermann GROSS, *Südosteuropa. Bau und Entwicklung der Wirtschaft*. Leipzig 1937, 214–222). Most preconditions for development of heavy industry were simply lacking in Southeast Europe – even in Romania – because in no single SEE did a large receptive domestic market exist comparable to those of the Soviet Union or the USA. Moreover, Southeast European economies were not only too small but simply lacked the resources necessary to develop a competitive heavy industry.

research is necessary on what is a sensitive subject. Alternatively, Socialist SEEs could have concentrated on building up a modern service sector, but that would have meant abandoning an industrialization strategy the early successes of which had legitimated the communist regimes. In any case such a radical change would demand radical market reforms as irreconcilable with the system of central planning as they were with the ideological pillars of communism itself. Communist leaders were completely overstrained; they were both unable and unwilling to rethink their Stalinist concept of modernization. Finally, the blind adherence to modified versions of Stalinist industrialization sealed the destiny of industry in Socialist SEEs in 1989–1990.

Serious delays to institutional change after 1989, caused by political and social barriers hostile to a speedy market-oriented transition, go some way too to explaining the extraordinarily severe contraction of industry in Romania and Bulgaria during the 1990s. Gradualism at its extreme and an inconsistent “stop-go transition strategy” impeded the privatization and restructuring of industry much more than of agriculture or the service sector. Unlike in Central European transition countries, former Communists in Romania and Bulgaria managed to win the first free elections and stay in power after the collapse of socialism.

In Romania both management and workers of the oversized and over-manned industrial sector strongly supported the newly emerging “crypto-communist” governments 1990–1992.¹⁴⁰ State-owned industrial enterprises were not properly privatized but became “autonomous” public enterprises. That meant that albeit in weakened form the “soft budget constraint” continued in large parts of the effectively state-owned or at least state-protected industry. Total protection from the claims of creditors and from any pressures of hard budget constraints led to the accumulation of huge debt payment arrears in the preferred parts of the state sector, mainly concentrating on industry.¹⁴¹ However, during the 1990s the quickly deteriorating economic situation and the threat of state bankruptcy connected with a full collapse of industry finally enforced some kind of market-driven reforms, namely privatization and the restructuring of state enterprises. But despite an urgent need for fresh capital early privatization in Romania blocked the free sale of industrial enterprises to foreign investors in order to preserve the country from being “sold-off”. Accordingly then, during the 1990s foreign direct investment in industry, despite being the most efficient way to modernize manufacturing, remained at a very low level in Romania compared to in Central European transition economies. Privatization in industry did begin but

“while the private sector share for GDP had risen from 16.4 per cent in 1990 to an estimated 52.0 per cent in 1996, the position in industry (35.0 per cent after 5.7 per cent in 1990) was

¹⁴⁰ TURNOCK, *The Transition from Communism to the European Union*, 3.

¹⁴¹ In Romania the accumulated debts of state enterprises accounted for 42% of GDP at the end of 1999 (TURNOCK, *The Transition from Communism to the European Union*, 43; TURNOCK, *Aspects of Independent Romania’s Economic History*, 95). However, autonomous state enterprises with close connections to the ruling party paid extremely high salaries even if they made high losses. For example “the salaries of the electricity company Renel were 0.83 per cent of GDP in 1999 and the company losses were 1.0 per cent of GDP” (*ibidem*, 102).

way behind agriculture (91.0 per cent from 61.3), services (70.0 per cent from 2.0) and construction (65.0 per cent from 1.9)".¹⁴²

During the first Iliescu presidency from 1990–1996 the ruling neo-communists in Romania managed to retain executive power and judicial control and established extensive client networks within the emerging business community. Such patronage networks between former state managers and the ruling party caused disproportionate allocation of resources to largely obsolete state-owned enterprises. Moreover, privatization proceeded such that a new domestic oligarchy emerged of 3–5,000 businessmen who had close connections with and obligations to the neo-communist PSD (Party of Social Democracy).¹⁴³ However, because of the shockingly bad economic situation and widespread corruption the neo-communists and President Iliescu were democratically replaced by a new president and centre-right parties which were much more market friendly. The Constantinescu-presidency of 1997–2000 supposedly intended to follow the radical Polish transition strategy but no radical change ever came. The extensive discord among the ruling coalition parties coupled with the Asian and Russian crisis adversely affected Romanian economic recovery and restricted the scope for radical reform. Nevertheless, important reforms were begun to implement the institutional framework of a market economy even if the problem of endemic corruption remained unsolved. For their part, the centre-right parties too began to organize their own business networks.¹⁴⁴

High tax, poor regulation and the decline of industry led to the expansion of an “underground ‘black’ economy accounting for some 6.7 per cent of GDP in 1992 but an estimated 20–40 per cent in 2000 [...]”.¹⁴⁵ Frustratingly, the foundation of (industrial) SMEs (Small and Medium Enterprises) as the most efficient strategy to create jobs and push back the underground economy was obstructed by over-complex regulations – namely strict licensing and administrative procedures; none which changed to the better until the early 2000s.¹⁴⁶

In Romania the “second transition crisis” at the end of the 1990s brought the neo-communists back to power. However, against all expectations the second Iliescu-presidency from 2000–04 saw important steps forward in the transition to a market economy under conditions of economic recovery which included industry (table 16b). In fact, it was the looming accession to the EU in 2007 which motivated all Romanian parties including the neo-communists to implement radical institutional changes. The reforms were indispensable to gain from the EU authorities the Functional Market Economy (FSU)-status which was an obligatory pre-condition for accession. After Bulgaria had received FMU-status in 2002 Romania finally obtained FMU-status in 2004, but could do so only because the EU proved tolerant

¹⁴² TURNOCK, *Aspects of Independent Romania's Economic History*, 98.

¹⁴³ IDEM, *The Transition from Communism to the European Union*, 45.

¹⁴⁴ *Ibidem*.

¹⁴⁵ *Ibidem*, 41; TURNOCK, *Aspects of Independent Romania's Economic History*, 100.

¹⁴⁶ IDEM, *The Transition from Communism to the European Union*, 47f. The SME-share of total employment in all enterprises in Romania increased from 12.3% in 1992 to 60.7% in 2005 (TURNOCK, *Aspects of Independent Romania's Economic History*, 100).

of Romania's "appalling corruption record with oligarchic domination a primary impediment to reform".¹⁴⁷ However, privatization of industry was able to make its own great leap forward at last during the early 2000s.¹⁴⁸ Romania was opened to foreign direct investment which soon began to develop very dynamically and contributed substantially to the recovery and modernization of Romanian industry, improving its international competitiveness.¹⁴⁹ In general, the Romanian oligarchs adjusted successfully to the new situation.

Bulgaria's transition to a market economy and the restructuring of her industry followed the same protracted "stop-go"-pattern as that in Romania although for Bulgaria's industry the consequences were even more dramatic. Whereas Romanian industrial output declined during the transformation recession to 60.7 per cent of its 1989 output value, Bulgarian industrial production halved (table 15) and no European transition economy apart from Albania's experienced a more severe decline of industry than Bulgaria's. Naturally, the collapse of the Eastern bloc during 1989–1991 which culminated in the dissolution of the COM-ECON and the Soviet Union deprived Bulgaria's industry of her most important export markets. Similarly to Romania, for Bulgaria too during the early 1990s the contraction of the manufacturing sector was further exacerbated by the refusal of a series of neo-communist governments to implement the painful but necessary structural reforms. To complicate the situation even further, in 1996 the minister responsible for the economy, K. Vutchev, openly invited the still state-owned and highly indebted industrial enterprises to refuse all interest and amortization payments to privately owned banks. The result was near-hyperinflation and a wave of bank failures so that Bulgaria's economy was threatened by a full scale meltdown. But then, in early 1997 with the mediation of World Bank and IMF a currency board was introduced while the new pro-market government embarked on comprehensive privatization of industry. The 2007 Bulgarian accession to the EU found its secondary sector better capitalized and more flexible than it had been in the 1990s.¹⁵⁰ Instead of another collapse of industry, which was feared by many at the time, EU accession brought growing foreign direct investment, intensified knowledge transfer, easier access to credit and, in some cases, Western ownership which advanced the modernization of Bulgarian industry and improved its international competitiveness. A good case in point is the Bulgarian automotive industry which in 2012 resurrected itself virtually from scratch to the extent that it already employs

¹⁴⁷ IDEM, *The Transition from Communism to the European Union*, 113.

¹⁴⁸ Concurrently, the number of active foreign industrial companies in Romania increased from 500 (1997) to 3,112 (2005) (TURNOCK, *Aspects of Independent Romania's Economic History*, 132). The share of the private sector in total value added increased from 42.5% (1998) to 81.7% (2003) (TURNOCK, *Aspects of Independent Romania's Economic History*, 130).

¹⁴⁹ IDEM, *Aspects of Independent Romania's Economic History*, 134.

¹⁵⁰ Ewald NOWORNY, *FDI and Trade as Pivotal Elements for Catching up and Competitiveness*, in: Klaus LIEBSCHER et al. (eds.), *European Economic Integration and South-East Europe*. Cheltenham 2005, 201–208; Dimitri G. DEMEKAS et al., *Foreign Direct Investment in South-East Europe. What Do the Data Tell Us?*, in: Klaus LIEBSCHER et al. (eds.), *European Economic Integration and South-East Europe*. Cheltenham 2005, 209–241.

over 40,000 workers producing components for industrial giants like Mercedes Benz and BMW.

It took until the end of the 1990s and the beginning of the 2000s for the Romanian, Bulgarian, and Albanian industrial sectors to show signs of recovery.¹⁵¹ Only recently have increases in total factor productivity become the main source of growth all over Southeast Europe, as restructured industries have adjusted themselves to world markets.¹⁵² Productivity gains within the sectors are now more important than cross-sector shifts of production factors, even if the reallocation of resources to services has boosted aggregate productivity.¹⁵³ Even so, the great age of their industry seems to be over for Romania, Bulgaria, and Albania and for none of them is industry any longer the most important economic sector. However, sufficient alternative employment to compensate for the severe loss of industrial jobs has not emerged since 1990, which is one of the driving forces of mass emigration from each of those countries.¹⁵⁴

*3. Southeast European Industrialization and Deindustrialization under Capitalist Conditions: the Case of Greece*¹⁵⁵

In Southeast Europe only Greece remained a capitalist market economy after the Second World War. A comparison between Greece and the Socialist SEEs can therefore be highly instructive. Such comparison easily reveals differences but much more interestingly it highlights common features too, showing similarities in the respective countries' industrial development despite all the fundamental differences in their economic and political systems. The question is to what extent historically deeply rooted structural deficiencies which are common to all SEEs prevented sustainable industrialization? Or rather, how did those deficiencies affect the possibility of the development of diversified and broad-based modern industry with a robust high-tech sector? However, at the present state of research only tentative speculations are possible.

¹⁵¹ Exemplarily for Romania see table 16a and 16b.

¹⁵² Asad ALAM et al., *Unleashing Prosperity. Productivity Growth in Eastern Europe and the Former Soviet Union*. Washington/DC 2008; Ivan T. BEREND, *From the Soviet Bloc to the European Union. The Economic and Social Transformation of Central and Eastern Europe since 1973*. Cambridge 2009; Wally BACON, *Economic Reform*, in: Henry F. CAREY/Norman MANEA (eds.), *Romania since 1989. Politics, Economics, and Society*. Lanham 2004, 373–390; Daniel DĂIANU, *Fiscal and Monetary Policies*, in: CAREY/MANEA (eds.), *Romania since 1989*, 391–417; TURNOCK, *The Transition from Communism to the European Union*.

¹⁵³ ALAM et al., *Unleashing Prosperity*. In Romania labour productivity in industry nearly halved from 1990–1996 despite a drastic reduction of the industrial labour force; but it quickly returned to the 1989-level until 1998. After that industrial labour productivity continued to increase dynamically, clearly outstripping the productivity-levels of the late socialist period (table 16b).

¹⁵⁴ BRUNNBAUER, *Die Bewegung im Raum*.

¹⁵⁵ We should like to express our deep gratitude to Leda Papastefanaki, who guided us so sure-footedly through the rich Greek literature on Greek industrialization.

Table 17. GDP per capita, 1950–2010 (Western Europe = 100).^a

	<i>Romania</i> ^b	<i>Yugoslavia</i>	<i>Bulgaria</i> ^b	<i>Albania</i>	<i>Greece</i>
1950/54	25	27	36	20	40
1973/77	30	40	46	18	63
1987/91	23	36	36	14	60
2006/10	21	30	40	22	70

Notes: ^a The Western European average is based on 12 already industrialized West European countries.

^b Bogdan Murgescu pointed out to us that the Maddison estimates for Bulgaria from 1960–2010 are too high and for Romania from 1990–2010 too low. For the period 1990–2010 certain of Maddison's estimates are inconsistent with information derived from other sources such as, for example, Eurostat. However, correcting the data according to Murgescu would not change the general picture showing Greece as the only successful “catch-up-economy” in Southeast Europe c. 1950–2010.

Source: THE MADDISON PROJECT, Maddison Historical Statistics, on <https://www.rug.nl/ggdc/historicaldevelopment/maddison/>, for 2014.

The subchapter on Greece will be longer than that for the other SEEs not only because there is much better data and more empirical research on Greece but because it contains a comparison between “capitalist” and “socialist” post-1945 industrialization. In this context it will also seek common historical factors that facilitated deindustrialization all over the region after 1973. In addition, for Greece the literature is the richest on if and how structural deficiencies impeded sustainable industrialization and the development of a competitive modern industry, such as for example the strong inclination of all layers of society to form “closed shops” of all kinds and to suspend formal rules, even though those tendencies were prevalent in all Socialist SEEs and certainly did not emerge only after 1990.

Greece was the only Southeast European country which managed substantial and in fact nearly uninterrupted post war catch-up growth over six decades from 1949 to 2009. All other, non-capitalist SEEs again fell back to the low levels where they had been at the beginning of the 1950s after modest catching up until the mid-1970s (table 17). Perhaps surprisingly, no European economy enjoyed more rapid growth than Greece between 1950 and 1973¹⁵⁶ although in contrast to non-capitalist SEEs enforced industrialization was not the cause of the exceptional growth experienced by Greece. Interestingly then, it was a less industrialized Southeast European economy which showed the best (modern) growth performance during the six decades after 1950. The share of secondary production and manufacturing in GDP changed only marginally from 1950 to 1985 (table 18). Continuing a 19th century trend, structural transformation in post-war Greece meant transition from an agrarian to a service

¹⁵⁶ CRAFTS/TONIOLO, *Aggregate Growth*, 301f., 306f.; BARRY EICHENGREEN, *The European Economy since 1945. Coordinated Capitalism and Beyond*. Princeton 2007, 17. Moreover, the available data on productivity reveal that after a substandard performance from 1973–1995 Greece belonged to the few European countries whose TFP growth recovered, in fact increasing more strongly than that in the US from 1995–2005 (CRAFTS/TONIOLO, *Aggregate Growth*; EICHENGREEN, *The European Economy since 1945*, 21).

economy, rather than to an industrial economy.¹⁵⁷ A sort of “mini industrial take-off” did take place but only from about 1963–1975 and from the beginning of the 1980s onwards the Greek economy deindustrialized so that by 2009 it was the only one in the region for which the share of manufacturing in its GDP was substantially lower than it had been six decades earlier. In 2009 that figure for Greece was a meagre 8.5 per cent, compared to 19.8 per cent in 1951 (table 18).¹⁵⁸ Most experts have interpreted Greek deindustrialization as a case of effective structural change, helping Greece to avoid costly “over-industrialization” and exploit “the opportunities of the ICT era” (information and communications technology).¹⁵⁹ However, the continuing economic crisis in Greece has given rise to doubts about the optimism of that interpretation.

No other Southeast European economy managed the transition from a low productive agrarian economy to modern growth more smoothly than did Greece. There was no forced reduction of living standards to build up a modern capital stock and Greece avoided a costly “industrialization-first”-strategy. It is true of course that extensive American aid was all-important, especially during the critical first years after wartime occupation and subsequent civil war. It were American experts who pragmatically decided to concentrate first on creating the preconditions for economic growth and to improve Greek living standards which were catastrophically low after 10 years of turmoil. In 1949 a third of the Greek population were fully dependent on state aid for survival. American officials then concentrated aid on major investments into production of energy, which was terribly scarce, and into the reconstruction of transport infrastructure which had been almost completely destroyed. Agricultural projects were supported in the early 1950s because at that time even small investments in farming yielded exports and high returns in the form of quickly rising incomes. A further achievement was the macroeconomic stabilization of the Greek economy.¹⁶⁰

International aid therefore contributed substantially to the speedy reconstruction of Greek industry. However, the real focus of development programmes was on mining and

¹⁵⁷ Alexis FRANGHOLIDIS, *Ελληνική οικονομία, 19ος–20ός αιώνας. Απο τον Αγώνα της Ανεξαρτησίας στην Οικονομική και Νομισματική Ένωση της Ευρώπης*. Athens 2007; LOURI/PEPELAKIS MINOGLOU, *A Hesitant Evolution*.

¹⁵⁸ By contrast the share of total services in Greek GDP increased more or less continuously between 1950 and 2014, from 43% to 80%. Secondary production’s share (manufacturing, mining, construction and energy) stayed roughly constant from 1950–1981 only to decrease from 23% to 16% between 1981 and 2014. Primary production’s share continuously dropped from 35% to 4% (table 18).

¹⁵⁹ CRAFTS/TONIOLO, *Aggregate Growth*, 308.

¹⁶⁰ OEEC, *Central Memorandum on the 1950–1951 and 1951–1952 Programmes*. Paris 1950; C. A. MUNKMANN, *American Aid to Greece. A Report on the First Ten Years*. New York 1958; Howard ELLIS, *Industrial Capital in Greek Development*. Athens 1964, 238–241; George STATHAKIS, *The Marshall Plan in Greece*, in: René GIRAULD (ed.), *Le plan Marshall et le relèvement économique de l’Europe*. Paris 1993, 577–589; George STATHAKIS, *US Economic Policies in Post-Civil War Greece, 1949–1953. Stabilization and Monetary Reform*, *Journal of European Economic History* 3 (1995), 375–404; Leda PAPAȘTEFANAKI, *Από τα ορυκτά για το Γ’ Ράιχ στα ορυκτά για την “άμυνα της Δύσεως”. Η εξορυκτική δραστηριότητα στην Ελλάδα, 1941–1966*, *Ta Istorika* 57 (2012), 367–408.

Table 18. Greek GDP and employment structure, 1951–2014 (in %).

	<i>GDP structure</i>						
	<i>1951</i>	<i>1961</i>	<i>1971</i>	<i>1981</i>	<i>1991</i>	<i>2009</i>	<i>2014</i>
Agriculture	35.2	30.6	18.6	17.7	16.4	3.1	3.8
Industry ^a	21.4	21.0	23.3	23.0	19.7	17.1	15.8
– Manufacturing	19.8	18.1	19.9	19.4	15.7	8.5	9.4
Services	43.4	48.4	58.1	59.9	63.8	79.7	80.4
	<i>Employment structure</i>						
	<i>1951</i>	<i>1961</i>	<i>1971</i>	<i>1981</i>	<i>1991</i>	<i>2009</i>	<i>2014</i>
Agriculture	51	56	39	29	19	11.5	13.4
Industry ^a	19	19	26	30	24	21.1	15.0
– Manufacturing	16	13	17	19	15	11.4	9.0
Services	30	25	35	42	57	67.5	71.5

Notes: ^a Industry includes construction, mining, and energy production.

Source: LOURI/PEPELASIS MINOGLOU, *A Hesitant Evolution*, 333f.; OECD data basis.

on stabilizing Greece's existing industry. There was no intention to introduce any radical economic or industrial structural change comparable to what was happening at the same time in Southeast Europe's centrally planned economies. Neither making Greek industry internationally competitive nor even improving hopelessly unbalanced balance of trade were on the agenda during the early post-war years. In fact, no industrial policy was designed and the implementation of an industrialization strategy was in any case beyond the scope of the Marshall Plan – or for that matter any other aid programme all of which were coordinated by the powerful American Mission for Aid to Greece (AMAG). In practice the AMAG controlled the Greek economy with the intention to stabilize what had become an outpost of the Western World in Southeast Europe.¹⁶¹

At the beginning of the 1950s American experts believed that Greece had only limited economic potential so they saw no justification for channelling resources into industry there. At that time such prudent “neglect of industrial development” was heavily criticized in Greece by Left and Right alike¹⁶² but as it happened growth and rising incomes were achieved without industrialization. Because savings and the mainly agrarian exports increased and im-

¹⁶¹ STATHAKIS, *The Marshall Plan in Greece*; IDEM, *US Economic Policies in Post-Civil War Greece, 1949–1953*; IDEM, *Η απρόσμενη οικονομική ανάπτυξη στις δεκαετίες του '50 και '60. Η Αθήνα ως αναπτυξιακό υπόδειγμα*, in: 1949–1967. Η εκρηκτική εικοσαετία. Athens 2002, 43–65; IDEM, *Το Δόγμα Τρούμαν και το Σχέδιο Μάρσαλ – η ιστορία της αμερικανικής βοήθειας στην Ελλάδα*. Athens 2004.

¹⁶² With hindsight this “neglect” was reasonable bearing in mind that at the beginning of the 1950s no immediate contribution could have been expected from Greek industry itself to achieve self-sustained growth and enhance then critically low living standards.

port substitution took place to a limited degree, there was a substantial reduction in Greece's dependence on external sources to offset balance of payments deficits.¹⁶³ Greece's economic development during the 1950s therefore represented a successful Western antithesis to Stalinist heavy-industry-based "industrialization-at-any-cost". In fact, to have channelled international aid for Greece into "modern" heavy industry projects would have created only another "development ruin". However, industrialization returned to the agenda at the beginning of the 1960s, as an export-led growth strategy based on manufacturing seemed to be the most promising way to fight Greece's by then notoriously high trade deficit.¹⁶⁴

At that time Greek manufacturing produced low quality consumer goods almost exclusively destined for the highly protected domestic market.¹⁶⁵ Creating a competitive industry to be the principal protagonist of an export-led growth strategy was an ambitious aim demanding nothing less than the complete overhaul of the organization of markets, society, and even the state in Greece. According to all studies it was not a lack of savings at the beginning of the 1960s that endangered the maintenance of dynamic growth but rather the structural shortcomings of the economy, the state, and Greek society. Together they obstructed the channelling of those Greek savings, which were extensive, into industrial investments and made it difficult to attract foreign direct investment to modernize manufacturing.¹⁶⁶ The main problems were poorly functioning capital markets and a low-productive manufacturing sector which was still "pre-modern" and almost completely protected by the Greek government's isolation of the domestic market from international competition. The historically deeply rooted alliance between government and "petit bourgeoisie" as the social basis of Modern Greece had created an environment which made it very difficult if not actually impossible for outsiders to enter Greek markets or start businesses in Greece. Large "capitalist family big business" existed only in trade, namely shipping. Moreover, until the immediate post war period most Greek big business avoided investment in manufacturing.¹⁶⁷

¹⁶³ Irma ADELMAN/Holis B. CHENERY, Foreign Aid and Economic Development. The Case of Greece, *Review of Economics and Statistics* 48 (1966), no. 1, 1–19, 2, 16–19; ELLIS, Industrial Capital in Greek Development, 238–241; STATHAKIS, US Economic Policies in Post-Civil War Greece.

¹⁶⁴ Andreas G. PAPANDEOU, A Strategy for Greek Economic Development. Athens 1962, 101–106; ELLIS, Industrial Capital in Greek Development, 240–252. At the end of the 1950s the outlook for Greek agricultural exports was rather gloomy and the future development of the substantial flow of invisibles based on remittances, international shipping, and tourism was unpredictable. Moreover, Greek experts acknowledged that Greece as a small country could follow only an export oriented path of development because rising incomes would be connected with even stronger expanding imports. In addition, the planned access to the European Economic Community (EEC) made import substitution impossible (ELLIS, Industrial Capital in Greek Development, 24–26).

¹⁶⁵ ELLIS, Industrial Capital in Greek Development, 243–245.

¹⁶⁶ Ibidem; George COUTSOUMARIS, The Morphology of Greek Industry. Athens 1963.

¹⁶⁷ According to all indicators shipping had a stronger position in Greece than in any other European economy but the "backward linkages" for example to Greek shipbuilding were at best modest (Gelina HARLAFTIS, *Ναυτιλία*, in: Kostas KOSTIS/Sokratis PETMEZAS [eds.], *Η ανάπτυξη της ελληνικής οικονομίας κατά των 190 αιώνων* [1830–1914]. Athens 2006, 421–462; Gelina HARLAFTIS/George KOSTELENOS, International Shipping and National Economic Growth. Shipping Earnings

Most Greek manufacturing in those days was family-based and involved pre-modern-style small-scale artisanal production, although a few joint stock companies had emerged. A characteristic pattern of Greek industry therefore was its extreme fragmentation and similarity to handicraft manufacturing (tables 19a and 19b).¹⁶⁸ Small scale production units dominated and even as late as in 1958 an average of only four persons were employed per manufacturing establishment – although that was an increase of one compared to 1930!¹⁶⁹ Production units with more than ten employees were actually defined as “large firms” in official Greek statistics.¹⁷⁰ The fact that Greek manufacturing was rooted in household production meant too that “closed family business units” dominated. Even joint stock companies tended to be transformed into “closed family business units of an oligarchical character”.¹⁷¹ Wishing to avoid any kind of influence or control from outside, families tried to retain full control over their small businesses. On the capital market industrial finance was therefore strictly restricted not only from the supply side but from the demand side too and any kind of business cooperation with non-family members was difficult and strictly limited. Traditional Greek business culture entailed also a strong aversion from mergers and a distinct individualism.¹⁷²

Many business relationships were family-centred and personalized to a degree that undermined the efficient functioning of markets.¹⁷³ A system of output, credit and factor markets had developed in manufacturing which often created local family-based monopolies. The “Greek system” tried to combine the impossible, an atomistic market structure with monopolist behaviour by small producers. Often local family-based monopolies rested upon a “live and let alive” philosophy which removed “the pressure toward consolidation of firms and plants into optimum-size units”.¹⁷⁴ Ellis concluded in 1964 that, “one of the greatest economic drawbacks of monopoly in Greece is precisely the diseconomies of small scale.

and the Greek Economy in the Nineteenth Century, *Economic History Review* 65 [2012], no. 4, 1403–1427).

¹⁶⁸ To interpret Greek industrial statistics around 1960 correctly it has to be considered for example that simple olive oil mills represented 80% of plants in the “chemical industry” (ELLIS, *Industrial Capital in Greek Development*, 112).

¹⁶⁹ *Ibidem*, 109.

¹⁷⁰ Dimitrios A. GERMIDIS/Maria NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece. A Case Study*, Paris 1975, 120. In 1958 larger establishments existed only in the textile industry (on average 15.9 employed persons per establishment), in the manufacture of paper and paper products (20.3 persons), rubber products (12.9 persons), petroleum and coal products (26.6 persons), and base metal industries (52.2 persons) (COUTSOUMARIS, *The Morphology of Greek Industry*, 38). The tobacco industry is not considered because production was entirely manual.

¹⁷¹ ELLIS, *Industrial Capital in Greek Development*, 119.

¹⁷² *Ibidem*; COUTSOUMARIS, *The Morphology of Greek Industry*.

¹⁷³ ELLIS, *Industrial Capital in Greek Development*; COUTSOUMARIS, *The Morphology of Greek Industry*.

¹⁷⁴ ELLIS, *Industrial Capital in Greek Development*.

Table 19a. Distribution of Manufacturing Output by Size of Establishments, 1959.

<i>Size of establishment in terms of persons employed</i>	<i>Percentage of establishments</i>	<i>Percentage output (value added)</i>	<i>Percentage employment</i>
up to 10	94.5	33	55
10–19	3.3	9	9
20–49	1.4	13	9
> 50	0.8	45	27

Source: COUTSOUMARIS, *The Morphology of Greek Industry*, 62.

Table 19b. Output produced by establishments of 10 or more persons (value added), 1958.

	<i>Share in gross output of total industry</i>	<i>Share in total gross output of a specific industry of establishments with 10 persons and more</i>
Food, drink & tobacco	23.7	73.7
Textiles	14.5	89.1
Footwear, clothing & leather products	14.9	18.8
Wood products & furniture	7.8	24.4
Paper & paper products	4.3	84.8
Chemicals	11.1	61.6
Stone, clay & glass	5.5	77.9
Basic metal industry & metal manufactures & electrical	12.2	57.7
Transport equipment	3.5	57.3
Miscellaneous	2.5	79.0
<i>Industry in total</i>	<i>100.0</i>	<i>60.9</i>

Source: COUTSOUMARIS, *The Morphology of Greek Industry*, 63.

We have, indeed, the worst part of two worlds; monopoly coupled with a great and wasteful number of producers¹⁷⁵.

The Greek state protected that system. To prevent social catastrophe after 10 years of war (1912–1922) the government closed off the Greek market for manufactured goods during

¹⁷⁵ Ibidem, 121.

the Interwar period.¹⁷⁶ Once established, the system of extreme protectionism proliferated until the beginning of the 1960s. “Greek mercantilism” entailed a restrictively managed licence system – the so called “expediency licences” – which not only controlled the founding of new enterprises but to a large extent regulated cooperation or the merging of enterprises as well. The state could also control the prices of manufactured goods. In a “Kafkaesque” system administrative decisions were completely arbitrary and opaque, because officials enjoyed wide leeway in their decisions. Established entrepreneurs with good relationships with the administration cooperated to their own advantage with representatives of banks in local markets to restrict market access.¹⁷⁷

Two aspects of that system had severely detrimental effects on investments in manufacturing. First, the system created prohibitively high barriers to market entry for newcomers and second, fearing the permanent threat to all manufacturing entrepreneurs from the arbitrariness of the actions of state officials, businessmen were motivated to look for quick profits with small investments. All in all the absence of competition caused an export failure in Greek industry and ensured the survival of uncompetitive industries. Diversification of industries and implementation of flexible demand-oriented business strategies simply could not take place.¹⁷⁸ To those deficiencies was added a barely developed capital market for industrial finance. On the supply side of finance, Greek banks traditionally concentrated on financing the government and trade but refrained almost completely from highly risky industrial finance, especially on long-term credit. Under existing conditions the excess liquidity of the private sector could not therefore be mobilized for industrial finance. As a result of all these fundamental shortcomings the investment necessary to raise exports of manufacturing goods failed to be realized.¹⁷⁹ Thus, “economic parochialism” – a term created by Allcock¹⁸⁰ to describe the formation of regional monopolies and fragmented factor and financial markets in Socialist Yugoslavia – was a problem in Greece too, as well as in Bulgaria, Romania and Albania, albeit under different circumstances.

In the early 1960s the opportunity arose to remove the rigidities that were impeding growth and to build up modern export-oriented manufacturing. Most important was the Agreement of Association between Greece and the EEC (European Economic Community), which came into force on 1 November 1962. The new tariff regime then introduced was immediately favourable to Greece. One of the obligations on Greece was to make its domestic

¹⁷⁶ After defeat in 1922 in the Greek-Turkish War, forced migration and large-scale population exchange led to an immediate 20% boost mainly of urban populations in an impoverished Greece. It was necessary to create employment opportunities in manufacturing as quickly as possible for the enlarged population. Thus, the extreme industrial protectionism of the Interwar period can be interpreted as an effective employment policy in situation of extreme crisis.

¹⁷⁷ ELLIS, *Industrial Capital in Greek Development*; COUTSOUMARIS, *The Morphology of Greek Industry*.

¹⁷⁸ ELLIS, *Industrial Capital in Greek Development*; PAPANDEIOU, *A Strategy for Greek Economic Development*.

¹⁷⁹ ELLIS, *Industrial Capital in Greek Development*.

¹⁸⁰ JOHN B. ALLCOCK, *Explaining Yugoslavia*. London 2000.

market fully open during a 22-year transitional period until 1984 when it would be able to join the European common market. The years following 1962 saw a substantial reduction of Greece's extreme protectionism and as desired the Agreement and simultaneous deregulation induced a small industrial "take off" around 1964/65–73/75 when a phase of rapid industrial growth occurred.¹⁸¹ However, in contrast to all Socialist SEEs the Greek government refrained from any coordinated or target-oriented industrial policy other than the creation of a few special economic zones to facilitate the establishment of foreign industries, the foundation of public industrial banks – which were underfinanced – and certain subsidies for imports of modern machinery. Effectively then, the Greek state purposely confined itself to the creation of good basic conditions for foreign industrial investments.¹⁸²

The fact that Greek economic policy was aimed at economic growth in general rather than purely at expanding modern manufacturing, is demonstrated by Greek capital formation as a key indicator of industrialization. Greek capital formation in total accelerated substantially during the 1960s¹⁸³ although industry's share of total investment was still low compared to the situation in socialist SEEs. The Greek share increased only from 22.0 to 29.2 per cent between 1962/64 and 1972/74 after which its share stayed more or less constant until the end of the 1980s. Over the entire period from 1961–1988 the bulk of Greek investment – 63.4 per cent – went to the service sector.¹⁸⁴ Greek capital formation in manufacturing developed only slightly above average total capital formation with 10.9 per cent per year during the 1960s and 12.6 per cent 1970–1973. The GDP share of annual gross investment in machinery and other equipment increased from a low 2.9 per cent (1961/70) to only 5.9 per cent (1971/75) even during the Greek "industrial take-off" (table 20). Those rates and percentages prove an accelerated expansion of manufacturing around 1964–1975 but are far from evidence of full scale industrialization.¹⁸⁵ Investments in residential and non-residential

¹⁸¹ FRANGHIADIS, *Ελληνική οικονομία*, 185f.; LOURI/PEPELASSIS MINOGLOU, *A Hesitant Evolution*, 333; ELLIS, *Industrial Capital in Greek Development*. EICHENGREEN summarizes the positive effect of the association agreement on Greek industry as follows: "[...] rather than transforming the economy into an agricultural backwater as some had feared it would, the process of opening stimulated the growth of labor-intensive manufacturing" (*The European Economy since 1945*, 204).

¹⁸² ELLIS, *Industrial Capital in Greek Development*, 272–301; GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 38–43. Efforts to mobilize FDI dated back to the early 1950s but without any considerable impact to modernize manufacturing. The protection of foreign investments was given an explicitly constitutional character in article 112 of the constitution of 1953.

¹⁸³ According to Tsaliki (Persephoni V. TSALIKI, *The Greek Economy. Sources of Growth in the Postwar Era*. New York 1991) the annual growth rate of the real domestic non-residential net capital stock jumped from 2.4% in 1951–1961 to 10.0% in 1961–1971.

¹⁸⁴ Our own calculation based on data from the OECD for Greece (OECD, *Greece. Economic Surveys* by the OECD. Paris 1969ff.). In Romania industry's share in total gross investment rose from 42.8% in 1960 to 53.0% in 1973 (own calculation; data for Romania from TSANTIS/PEPPER, *Romania*, 562–567).

¹⁸⁵ That investors concentrated on the Greek service sector can be interpreted as an economically rational decision reflecting the historically rooted better performance of the Greek service sector

Table 20. Share of gross investment in GDP (at current prices), 1961–1995.

	<i>IR (1)</i>	<i>IR (2)</i>	<i>IR (3)</i>
1961/65	20.8	2.9	14.0
1966/70	22.8	2.9	12.8
1971/75	23.6	5.9	25.0
1991/95	20.6	7.8	38.0

Notes: IR (1) = share of total gross investment in GNP; IR (2) = share of gross investment in machinery and other equipment in GNP; IR (3) = share of machinery and other equipment in total gross investment.

Source: Authors' own calculations; OECD, Greece, 1969ff.

private and public building expanded similarly during the entire period with approximately 60 per cent of all gross capital formation in the secondary sector from 1950–1970 appearing in housing. Meanwhile the relevant share of manufacturing increased only from 19.8 (1960) to 22.9 per cent (1970) during the core period of Greek “industrialization”.¹⁸⁶ Thus, in stark contrast to centrally planned Southeast European economies, Greece as the most dynamic European economy managed to both realize rapid growth and build up modern manufacturing without reducing or restricting living standards.

According to Germidis and Negropontis-Delivanis “it was recourse to external financing which made possible a reasonable standard of living for the Greek population and also a rate of investment appreciably higher than that based on GDP”.¹⁸⁷ In 1962–1964 about 62 per cent of investment in manufacturing was of foreign origin¹⁸⁸ and foreign ownership increased substantially in Greek industry during the 1960s. After 1962 especially the prospect of access to the EEC combined with profound deregulation and liberalization led to

than that of its domestic industry. That would mean that full scale industrialization was never a reasonable option for Postwar Greece. However, much more research is necessary on this central question.

¹⁸⁶ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 57. All contemporary Greek experts were anxious about the comparatively low investment in manufacturing which was quite the opposite of what happened in the centrally planned economies. Even during the peak of Greek post-war industrialization or rather “phase of intensified industrial growth” investment in housing was three times higher than in manufacturing (Nicholas Tsoris, *The Greek Economy. The Two Decades 1950–1970*. Athens 1975, 4f., 10).

¹⁸⁷ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 51.

Furthermore, public foreign aid was successfully replaced by foreign and domestic investments – an achievement which makes the essence of effective development policy. Indeed, even in a global comparison Greece was one of the most successful emerging economies of the period from 1950–1973 (ADELMAN/CHENERY, *Foreign Aid and Economic Development*, 1966).

¹⁸⁸ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 193; LOURI/PEPELASSI MINOGLU, *A Hesitant Evolution*, 332–337.

a significant increase in foreign and domestic investments in manufacturing.¹⁸⁹ FDI diversified and modernized Greek industry¹⁹⁰ even if the bulk of those funds were invested in certain large projects concentrated in very few still more developed regions, mainly Athens and Salonica.¹⁹¹ Those capital inflows contributed to the emergence of larger industrial units and of entirely new industrial products, especially from the 1960s onwards.¹⁹² Foreign investment was concentrated in a few “modern” branches like chemicals (including petroleum), base metals and transport equipment, and avoided traditional light industries although they remained important (table 21).¹⁹³ Thus, small scale structures and the “family bias” persisted in most Greek industries.¹⁹⁴ Structural reforms to end “Greek mercantilism” once and for all and to modernize the Greek state in order to prepare the Greek economy for its joining the European common market were not implemented even though they were feverishly demanded by Greek economists – most famously in 1962 from a young man called Andreas Papandreou.¹⁹⁵

The Greek industrial “take off” of 1964/65–73/75 led to export-driven growth with manufacturing featuring prominently.¹⁹⁶ However, as in other SEEs exports never matched strongly rising imports of consumer and investment goods even if exports measured as share in imports (= 100.0 per cent) increased substantially from 25.3 to 58.3 per cent between

¹⁸⁹ The military coup of 21 April 1967 led to the suspension but not to the revocation of the association agreement which was immediately restored on 24 July 1974 after the fall of the Junta. No further deepening of integration occurred during 1967–1974 but the association agreement remained in force. Greece’s accession to the EEC was expedited after the fall of the Junta and Greece joined the EU in 1981 – before Spain and Portugal.

¹⁹⁰ TSALIKI, *The Greek Economy*, 123f.

¹⁹¹ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 193; LOURI/PEPELAS MINOGLOU, *A Hesitant Evolution*, 332–337. Greek Aluminium (Péchiney Group) and the Esso-Pappas complex alone absorbed more than two-thirds of foreign investment between 1953 and 1967 (GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 193).

¹⁹² TSALIKI, *The Greek Economy*, 123f. “In the fifties, foreign investment was limited to relatively small industrial units that were geared to the domestic [...] in the sixties, the Greek economy experienced the most significant inflow of investment funds in the entire postwar period” (TSALIKI, *The Greek Economy*, 123).

¹⁹³ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 59. Traditional consumer industries (food & tobacco; textiles; clothing and food wear) still produced 45% of manufacturing output in 1975 and their share remained stable during the subsequent phase of deindustrialization. Industries attracting the bulk of foreign investment (chemicals; metallurgy; machinery) slightly increased their share in manufacturing during the “take-off” from 24 (1960) to 31% (1970). That percentage remained fairly stable thereafter (table 22).

¹⁹⁴ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 192.

¹⁹⁵ PAPANDREOU, *A Strategy for Greek Economic Development*, 25, 103–105. As Prime Minister (1981–1989 and 1993–1996) Papandreou completely ignored his own studies.

¹⁹⁶ Within only ten years the share of manufacturing products in all commodity exports jumped from 10% (1960) to 41% (1970) increasing further to 51% in 1980. The share of exports and imports in GDP raised from 21.8% to 47.8% from 1950–1985 (table 23).

Table 21. Share of foreign fixed investment in total investment in the various branches of Greek manufacturing, 1961–1968 (average).

<i>Branches of manufacturing</i>	<i>per cent</i>
Food products	4.6
Textiles	5.6
Footwear, clothing	16.7
Wood and cork	23.6
Paper	17.9
Chemicals (and petroleum)	82.6
Non-metallic minerals	12.6
Base metals	64.4
Metal products	0.7
Machinery	–
Electrical equipment	12.6
Transport equipment	81.6

Source: GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 59.

1950 and 1985.¹⁹⁷ The hope that export-oriented industrialization could end the chronic payments deficit was not fulfilled because the necessary large-scale imports of consumer and investment goods “weighed heavily on the country’s trade balance, especially as Greece’s export capacities remained limited in spite of substantial changes in their volumes and structure”.¹⁹⁸

Greek productivity (TFP: total factor productivity) developed favourably during the period 1950–1973, stagnated during the subsequent 15 years, and rose again after 1990.¹⁹⁹ Productivity increased in all industrial sectors during 1958–1980, most spectacularly in new branches like metallurgy, chemicals, rubber and plastics, and electrical machinery²⁰⁰ which attracted the bulk of FDI in manufacturing. According to the literature, from 1950–1975 technical progress in Greek manufacturing was strongly dependent on capital imports connected with capital-using, non-neutral technical change.²⁰¹ Besides technical change within

¹⁹⁷ Own calculation based on data from TSALIKI, *The Greek Economy*, 10; GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 192.

¹⁹⁸ GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 192.

¹⁹⁹ TSALIKI, *The Greek Economy*, 151–184; CRAFTS/TONIOLO, *Aggregate Growth*, 306f.

²⁰⁰ Alex J. PANETHIMITAKIS, *Direct “Versus” Total Labour Productivity in Greek Manufacturing, 1958–1980*, *Economic Systems Research* 5 (1993), no. 1, 79–93.

²⁰¹ G. C. ARCHIBALD, *Investment and Technical Change in Greek Manufacturing*. Athens 1964; Theodore P. LIANOS, *Factor Augmentation in Greek Manufacturing, 1958–1969*, *European Eco-*

Table 22. Structure of manufacturing output, 1955–1992 (in %).

Sector	1955	1960	1965	1970	1975	1980	1985	1990
Food & Tobacco	27.0	22.3	21.4	18.9	17.5	19.0	22.4	22.0
Textiles	18.5	15.9	15.7	14.1	17.8	17.6	16.6	16.5
Clothing & Footwear	15.3	12.8	11.2	9.4	9.5	8.9	7.2	6.2
Chemicals	4.5	8.1	8.7	11.2	13.1	12.8	14.8	16.9
Metallurgy	0.7	1.6	1.4	7.4	6.4	6.1	5.7	5.7
Machinery	11.8	14.1	13.9	12.8	11.4	11.8	11.1	9.3
Other	22.2	25.2	27.7	25.4	24.3	23.8	22.2	23.4
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Helen LOURI/Ioanna PEPELASIS MINOGLOU, A Hesitant Evolution. Industrialization and De-industrialization in Greece over the Long Run, *Journal of European Economic History* 31 (2002), no. 2, 321–348, 336.

Table 23. Structure of Greek exports and imports, 1950–1985.

	1950	1955	1960	1970	1980	1985
Exports (% in GDP)	4.4	8.2	5.7	6.3	12.5	17.6
Agricultural products		92.6	90.0	59.0	48.0	47.4
Manufacturing products		7.4	10.0	41.0	51.0	52.6
– Equipment		0.3	0.9	1.5	3.0	2.9
Imports (% in GDP)	17.4	16.7	14.4	17.4	21.5	30.2
Agricultural products		48.4	37.8	32.5	46.1	49.7
Manufacturing products		51.6	62.2	67.5	53.9	50.3
– Equipment		18.3	24.0	20.1	23.6	19.2
Exports and imports (% in GDP)	21.8	24.9	20.1	23.7	34.0	47.8

Source: TSALIKI, *The Greek Economy*, 10.

industry and other economic sectors, the reduction of the rural labour surplus through mass emigration contributed significantly to rising total productivity.²⁰²

conomic Review 8 (1976), 15–31; Dimitris A. KAZIS/Charalambos PERRAKIS, *Licensing and Industrial Development. The Case of Greece*. Athens 1986.

²⁰² From 1951–1971 the highest increases in labour productivity could be realized in industry (secondary sector) whereas in the primary and tertiary sector labour productivity performed below the average (GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 171). Of all European OECD countries Greece realized the highest growth in labour productivity from 1965–1973 (LOURI/PEPELASIS MINOGLOU, *A Hesitant Evolution*, 335). Rural mass emigration counted for a large part of that increase. From 1961–1970 rural migration

Following Chenery et al. we see that like all European economies of the Mediterranean periphery Greece belonged to the group of semi-industrial countries which emerged only after the Second World War.²⁰³ In semi-industrial countries the contribution of manufacturing to growth had begun to exceed that of primary production without manufacturing necessarily becoming the largest sector (table 18). Other Important characteristics were a minimum share of manufacture in exports and production, as well as a minimal per capita GDP. Even if Greek GDP and manufacturing developed highly dynamically by a South and Southeast European comparison, her degree of industrialization in about 1975 was clearly below average according to all indicators (table 24). The reason for that was that even compared to other countries of the Southern and Southeastern European periphery manufacturing's weight in the economy was significantly lower in Greece as the core phase of industrialization or rather of industrial development began. That is very true for manufacturing's share in Greek exports and GDP but is true, if to a lesser extent, for the labour force too.²⁰⁴

By the mid-1970s a decade of rapid industrial development and expanding manufactured exports to new markets in the EEC and the Middle East made experts optimistic that full scale industrialization – built on “modern” heavy industries – was both possible and desirable for Greece. Moreover, all Greek economists from Marxists to Neoclassics agreed that only the creation of a large Greek heavy industry would ensure sustained growth in the long run. In some memoranda the call for a coordinated industrial policy culminated in an urgent demand for Five Year Plans. As in all other Southeast European countries optimism was virtually boundless then.²⁰⁵ However, in the subsequent period Greece deindustrialized radically. The share of manufacturing in Greek GDP decreased from 19.4 to an insignificant 8.5 per cent from 1981–2009 (table 18). Even compared to 1950 when Greece was still wholly agrarian and not yet even a semi-industrialized country the share of manufacturing had halved.

Greek deindustrialization “was marked by a reversal of the trends established during industrialization”.²⁰⁶ In the course of the global economic crisis beginning in 1973 total Greek capital accumulation and total factor productivity became simultaneously nega-

for employment in Greece totalled 630,000 of whom only 274,000 were absorbed by the two domestic non-agricultural sectors. 356,000 went abroad. Therefore not only the productivity gains within certain sectors like manufacturing but the vanishing of the Greek rural labour surplus too seems to explain increases in general labour productivity during the 1960s – the heyday of Greek post-war mass emigration, which was mainly to Western Europe (GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 99–109; TSALIKI, *The Greek Economy*, 138f., 169; Adam A. PEPELASIS/Pan A. YOTOPOULOS, *Surplus Labour in Greek Agriculture 1953–1960*. Athens 1962).

²⁰³ CHENERY/ROBINSON/SYRQUIN, *Industrialization and Growth*, 84–118.

²⁰⁴ *Ibidem*, 110f.

²⁰⁵ Xenophon ZOLOTAS, *Guidelines for Industrial Development in Greece*. Athens 1976; IDEM, *The Positive Contribution of Greece to the European Community*. Athens 1978, 49; GERMIDIS/NEGROPONTI-DELIVANIS, *Industrialization, Employment, and Income Distribution in Greece*, 196–199.

²⁰⁶ LOURI/PEPELASIS MINOGLOU, *A Hesitant Evolution*, 338.

Table 24. Sector sources of growth in European semi-industrial economies, 1953–1973.

	<i>Annual growth rates</i>				
	<i>GDP per capita</i>	<i>GDP</i>	<i>Primary</i>	<i>Manufacturing</i>	<i>Services</i>
Greece	6.4	7.0	4.5	9.7	7.3
Yugoslavia	4.9	5.9	3.5	5.8	7.7
Spain	5.4	6.5	3.1	7.0	7.4
Portugal	7.4	7.6	4.0	9.8	8.0

	<i>Share of Manufacturing in GDP</i>	<i>Value added in manufacturing per capita</i>	<i>Percentage of manufactured exports</i>	<i>Industry index</i>
	<i>1976</i>	<i>1976 (in 1970 dollars)</i>	<i>1976</i>	<i>1953–1973</i>
Greece	20	296	49	0.66
Yugoslavia	32	326	70	0.75
Spain	28	532	69	0.82
Portugal	34	335	68	0.77

Notes: The industry index measures the contribution of manufacturing to growth (contribution to growth of primary production and manufacturing equals 1.00).

Source: CHENERY/ROBINSON/SYRQUIN, *Industrialization and Growth*, 34, 88f., 111.

tive from 1973–1985. That indicates that during the preceding Greek “take-off” technical change was incorporated and positively correlated with capital formation.²⁰⁷ As already mentioned the enormous inflows of foreign capital had featured prominently in that context. After 1974 FDI (Foreign Direct Investments) became less important in manufacturing, which negatively affected technical progress, productivity and capital formation.²⁰⁸

Globally, deindustrialization in developing and developed economies alike began slowly in the middle of the 1970s to accelerate dramatically after 1990 and Greece’s deindustrialization clearly followed the same pattern.²⁰⁹ The only exception to the global trend of deindustrialization was East Asia – namely China – which during recent globalization began its rise to take over as the “workshop of the world”. Developed economies reacted to the “East Asian challenge” by tremendously increasing productivity in manufacturing and expanding “high skill”-services. Rationalization and automation meant that employment in manufacturing considerably decreased especially in the “low-tech-sectors”, while the share of manufacturing in GDP remained more or less constant. By contrast, low and many me-

²⁰⁷ TSALIKI, *The Greek Economy*, 114f., 168f.

²⁰⁸ *Ibidem*, 9, 124f., 168f., 180f.

²⁰⁹ Ioannis KONSOLAS, *The Competitive Advantage of Nations. The Case of Greece*. London 1999 (PhD-manuscript), 75–95.

dium developed economies outside East Asia experienced “employment” combined with an “output-deindustrialization”.²¹⁰

Even if Greece clearly belonged to the higher-income economies of the world until the outbreak of the “Greek crisis” at the end of 2009, it followed a clear-cut “third-world”-pattern of deindustrialization combining halving of employment in manufacturing with halving of manufacturing’s share of GDP from 1981-2014 (table 18).²¹¹ During that long period Greece did not manage the often officially proclaimed transition from a “low-technology-low-skill-low-wage-industry” concentrating on simple consumer goods like textiles, shoes, building materials, food and beverages to a “robust knowledge-based economy” concentrating on high value-added high-tech products.²¹² Even if Greek industry’s competitiveness continuously deteriorated after the beginning of the 1980s, other than that it stuck to a product spectrum dominated by simple consumer goods and construction materials, where China and other East Asian producers had an uncatchable competitive advantage. As Giannitsis and Kastelli stated:

“Therefore, the lack of modernization, differentiation and complexity of the productive base, combined with Greece’s international specialization in low or low to medium technology goods and the preservation of a competitive position determined by low qualified labour and low wages, leads to a continuous deterioration of the Greek position vis-à-vis world competitors.”²¹³

The fact that Greece’s industry needs a radical structural change has been well known for a long time. Large national and even much larger European public funds have been spent since the 1980s to modernize the Greek economy and infrastructure but the impact of such attempted modernization on productivity in industry and agriculture has been insignificant – if not zero. Whereas the impact of the 1962 Accession Agreement on modernization of Greek industry was significant that does not seem to have been the case with actual EU accession which came almost two decades later in 1981. Public and private spending for Research and Development (R&D) were extremely low then and still are now. Greece’s

“innovative performance was one of the weakest in the EU. [...] All R&D and innovation indicators show reluctance, especially of the business sector, to improve its competitive posi-

²¹⁰ RODRIK, *Premature Deindustrialization*; Kevin H. O’ROURKE/Jeffrey G. WILLIAMSON, Introduction, in: O’ROURKE/WILLIAMSON (eds.), *The Spread of Modern Industry*, 1–12.

²¹¹ During 1990–2008 Greek GDP per capita ranked at around 35th of 187 countries (KNOEMA, *World GDP per Capita Ranking 2017*, on <<https://knoema.de/sijweyg/world-gdp-per-capita-ranking-2017-data-and-charts-forecast>>, 10.8.2018).

²¹² Tassos GIANNITSIS/Ioanna KASTELLI, *Industrial Policy in Times of Crisis. The Case of Greece*, in: Aurora A. C. TEIXEIRA/Ester G. SILVA/Ricardo PAES MAMEDE (eds.), *Structural Change, Competitiveness and Industrial Policy. Painful Lessons from the European Periphery*. London, New York 2014; Christos PITELIS/Nicholas ANTONAKIS, *Manufacturing and Competitiveness. The Case of Greece*, *Journal of Economic Studies* 30 (2003), no. 5, 535–547; KONSOLAS, *The Competitive Advantage of Nations*.

²¹³ GIANNITSIS/KASTELLI, *Industrial Policy in Times of Crisis*, 215–240.

tion through R&D activities, but also weak capacity to build endogenous capabilities based on imported foreign technology.”²¹⁴

The structural deficiencies of Greek industry which inhibit innovation activities today are the same as those that had the same effect during the 1960s. The mostly family-run firms are still small, orientation is still to traditional industrial activities, there is a lack of modern management, low demand from the private sector for either new technology or highly qualified personnel despite an overabundance of highly skilled labour – that at least is a difference from the 1960s – and there is still a lack of any great multinational activity while the domestic market remains small.²¹⁵ In general, Greek industrial enterprises have tried to remain competitive by keeping labour costs low and by mobilizing public subsidies, a strategy which until around 1990 more or less worked to reduce deindustrialization to a bearable extent. After that, the sharply increased competitiveness of East Asian producers, rising Greek wages and the country’s inability to develop its own high-tech industry significantly accelerated the pace of deindustrialization in Greece. Greek economists are convinced that quite simply it was poor economic performance that caused deindustrialization rather than any successful adjustment to a new international division of labour.²¹⁶

To the structural weaknesses of Greek industry must be added the fundamental deficiencies of the public sector and the peculiarities of the Greek political economy which regularly transforms public structural expenditures into consumptive private income streams. The performance of Greek industrial policy has in fact been one of the worst of all EU-members.²¹⁷ Since the 1970s Greece’s industrial policy fully concentrated on ensuring employment in ailing industries. However, post-1974 democratic Greek governments did nothing to encourage Foreign Direct Investment (FDI) to modernize industry – partly because important foreign investors had supported the military regime 1967–1974 but mainly because extensive transfers from the EU replaced private foreign investments and no targeted support

²¹⁴ *Ibidem*, 225.

²¹⁵ KONSOLAS, *The Competitive Advantage of Nations*, 77f.; GIANNITSIS/KASTELLI, *Industrial Policy in Times of Crisis*, 225.

²¹⁶ PITELIS/ANTONAKIS, *Manufacturing and Competitiveness*; GIANNITSIS/KASTELLI, *Industrial Policy in Times of Crisis*, 224. A few traditional industries managed modernization even if productivity and investments in manufacturing generally slowed down. Certain traditional consumer goods industries like food and beverages and to a lesser extent new capital goods industries realized substantial modernization investments. Simultaneously, radical restructuring and concentration took place to adjust those industries to increased quality requirements of consumers abroad (Kostas VAITSOS/Tasos GIANNITSIS, *Τεχνολογικός μετασχηματισμός και οικονομική ανάπτυξη*. Athens 1987, 38–40; Christos HADZIOSSIF, *Η πολιτική οικονομία της μεταπολεμικής Ελλάδας, 1944–1996*, in: Vasilis KREMMYDAS [ed.], *Εισαγωγή στη Νεοελληνική Οικονομική Ιστορία*. Athens 1999, 287–318, 315; FRANGHIADIS, *Ελληνική οικονομία*, 208f.).

²¹⁷ As stated by GIANNITSIS and KASTELLI: “Policy failure regarding productive transformation, the adaption to new competitive pressures, the development of technological and innovative capabilities, and the attraction of foreign direct investment in technologically more sophisticated tradable products and services, was probably one of the most decisive differences between Greek policy and policy in many other European countries” (*Industrial Policy in Times of Crisis*, 225).

was given to create competitive industries. Extensive state support for Greek industry was distributed according to the “scattergun approach” – even hotels benefitted! In fact, after the mid-1970s industrial policy degenerated to a purely rent-seeking activity.

Moreover, Greek governments partly returned to the traditional wide-scale protection of industry, which they did not so much by re-introducing trade barriers – impossible within the EEC – but by expanding direct subsidies by large scale nationalization of endangered industrial enterprises. It was claimed that such action would stabilize the young Greek democracy which had to face a great deal of social unrest with rising unemployment. Furthermore, in important parts of the manufacturing sector “Greek mercantilism” has survived up to today even after accession to the EEC.²¹⁸ Structural change of manufacturing slowed down but public debt increased substantially in the long run. It was a fatal policy, and it had started even under the conservative premiership of Konstantinos Karamanlis 1974–1980 but was continued and perfected by his socialist successor Andreas Papandreou, who headed the first PASOK government.²¹⁹

As still mentioned around 1975 economists and decision makers in the capitalist countries of the European periphery were not much different from their Socialist colleagues. They were firmly convinced that only heavy industry would create the necessary dynamic effects to achieve broadly based and self-sustaining growth. Believing in the inherent “modernity” or “backwardness” of certain industries – heavy as against light industries for example – even today Greek scholars argue that the weak growth and declining importance of capital-intensive capital goods industries was the main reason behind Greek deindustrialization after 1973. In that view the enforced opening of the Greek market in the course of European integration and simultaneous lack of a coherent industrial policy fostered the expansion of still-established consumer goods industries without sufficient backward and forward linkages sufficient to induce the emergence of a broad-based, diversified modern industry. The fact that superior West European modern capital goods’ industries could penetrate the Greek market is said to have prevented the further expansion of the infant Greek engineering industry which otherwise would have had the potential for large linkage effects. Hence, al-

²¹⁸ Deregulation of these sectors – taking the Greek cement industry as the prime example – with the intention of establishing competitive pricing on open markets forms one of the most contested “political battlefields” in present day Greece to fight the continuing crisis (Tássos TÉLLEGLU, *Kalter Krieg hinter den Kulissen. Die Auflösung von Monopolstrukturen*, in: Ulf-Dieter KLEMM/Wolfgang SCHULTHEISS (eds.), *Die Krise in Griechenland. Ursprung, Verlauf, Folgen*. Frankfurt 2015, 461–469).

²¹⁹ TSALIKI, *The Greek Economy*, 182f.; FRANGHIADIS, *Ελληνική οικονομία*, 200–202. Further research is necessary to analyse to what extent a vicious circle emerged characterized by loss of competitiveness and rising public debt which finally resulted in the on-going “Greek crisis”, because “the weakening of the productive base forced governments to try to mitigate the potential adverse implications by increasing public spending and deficits, using debt as leverage for growth. With the crisis, many established economic relations became unsustainable and broader economic and political relations have been destabilized” (GIANNITSIS/KASTELLI, *Industrial Policy in Times of Crisis*, 224).

lowing market forces to work meant that Greek industrialization was stillborn within the “Capitalist world system”.²²⁰

Bearing the Romanian, Albanian, and Bulgarian experiences in mind, that neo-Marxist line of reasoning which is still powerful in Greece, seems rather dubious. Had Greece indebted herself heavily to build up a domestic engineering industry at all costs, the only result would surely have been another heavy industrial “development ruin” in Southeast Europe. In fact, in Greece as in all SEEs most preconditions to establish a competitive large engineering sector were entirely lacking.

Further research is needed to analyse how external development like globalization and internal evolution interacted to produce the long decline of Greek manufacturing. We must ask too how far “industrial inertia” caused by social and political blockages within Greek society prevented necessary structural change. The task of abolishing “Greek mercantilism” and creating a competitive industry remains just as relevant now as it was at the beginning of the 1960s and it is fair to say that at least the first, promising, steps have been taken. Far-reaching structural reforms that will enhance productivity and more than anything to establish a flexible labour market that can redirect labour into export production are just as important and are also in the making.²²¹ As during the entire 19th and 20th centuries Greece’s limited export capability in relation to her high import demand is still the Achilles heel of the country’s economy. However, today even the necessary structural changes in manufacturing could not contribute substantially to short-term economic recovery, simply because of the small size of the manufacturing sector. But in the long run a competitive export-oriented manufacturing sector could help to achieve self-sustained growth in a diversified Greek economy, although to meet even that modest agenda would demand a radical break with the past.

4. Summary

Despite their fundamental differences all Southeast European countries share important common experiences. Global political and economic trends have had and continue to have a deep impact on Southeast Europe’s industry. During the Cold War all Southeast European countries received substantial foreign aid to carry out their ambitious development agendas, not least because the region’s geostrategic importance put all its individual countries in favourable positions to gain huge support and preferential treatment from the Great Powers. More importantly the region was and still is deeply affected by global economic trends which finally decided the matter of the industrialization or deindustrialization within it.

²²⁰ HADZIOSSIE, *Η πολιτική οικονομία*, 310–313; FRANGHIADIS, *Ελληνική οικονομία*, 190f.

²²¹ Manólis GALENIANÓS, Die Ursachen der griechischen Wirtschaftskrise. Eine europäische Perspektive, in: Ulf-Dieter KLEMM/Wolfgang SCHULTHEISS (eds.), *Die Krise in Griechenland, Ursprung, Verlauf, Folgen*. Frankfurt 2015, 89–110, 102; TÉLLEGLOU, Kalter Krieg hinter den Kulissen; Michael MASSOURÁKIS, Exportindustrie und Tourismus. Ihr Potenzial für die wirtschaftliche Entwicklung Griechenlands, in: KLEMM/SCHULTHEISS (eds.), *Die Krise in Griechenland*, 470–491; Panagiotis PETRAKIS, *The Greek Economy in Crisis. Challenges and Responses*. Heidelberg 2012.

The long global post-war boom from about 1950–1973 boosted the spread of modern industry all over Southeast Europe and “was also the high point of the periphery’s industrial catching up on the core” all over the world.²²² Emerging globalization coming hard on the heels of the two oil crises of the mid 1970s triggered the long decline of industry in Southeast Europe just as it did everywhere else in the European and global periphery, except for in the Far East. Since 1990 deindustrialization has further accelerated significantly in most parts of the world but has assumed catastrophic proportions in all the former Southeast European Socialist states because the global trend coincided with inescapable transformational recessions which came after the collapse of all kinds of Socialist planned economies in Europe. The rapid collapse of all kinds of economic integration, cooperation and trade in the former Eastern bloc only intensified the economic depression.²²³

What differentiated the Socialist SEEs from Greece was the sudden and brutal industrial collapse during the first years of the 1990s. Deceleration of growth passed into full scale contraction of industry in all Socialist SEEs after 1989: the huge “gains” of enforced Soviet style industrialization largely vanished within a few years as industrial production fell back to early/mid-1970s levels within a few years during the early 1990s (table 3 and 4). By contrast Greece’s deindustrialization proceeded much more smoothly. Growth in manufacturing began to accelerate again after 2000 in all Southeast European transition economies although not in Greece. Moreover, even if modern manufacturing boomed all over SEE until the mid-1970s, industry became the largest economic sector in only the former Socialist states. In Greece during the entire period under consideration tertiary production contributed most to GDP as the share of services in total Greek GDP continuously increased from 43.4 to 80.4 per cent in 1951–2014 (table 18).

Excepting Albania, all SEEs developed into much more open economies from the late 1950s and early 1960s onwards, because they saw that as the only way to continue their ambitious modernization programmes and to raise living standards. However, for all Socialist SEEs, their attempts to persevere with completely out-dated industrialization strategies indissolubly linked to the rigidity and inflexibility of centrally planned systems made it nearly impossible for them to adapt to the radical changes wrought to the world’s economy first by the oil crises of the mid 1970s and then by modern globalization. Just as in the capitalist economies of the European periphery, even in Southeast Europe’s socialist economies the decline of industry did not begin only after 1989 with the transition to a market economy but had its roots in the mid-1970s. Industrial stagnation and later decline in fact emerged roughly simultaneously all over the European periphery and independently of any particular country’s economic system. The driving force was radical structural change in the global capitalist economy, namely that the Far East and most importantly China developed into

²²² Augustin BÉNÉTRIX/Kevin H. O’ROURKE/Jeffrey G. WILLIAMSON, *Measuring the Spread of Modern Manufacturing to the Poor Periphery*, in: O’ROURKE/WILLIAMSON (eds.), *The Spread of Modern Industry*, 13–29, 28.

²²³ RODRIK, *Premature Deindustrialization*; O’ROURKE/WILLIAMSON, *Introduction*; KOPSIDIS/IVANOV, *Industrialization and De-Industrialization in Southeast Europe*.

the new “workshop of the world”. Hence, the collapse of industry in all the planned economies of Socialist Southeast Europe after 1989 had a long history. In fact, while the severe transformational recession of the early 1990s in all former Socialist SEEs strongly aggravated still current trends of industrial stagnation merging into deindustrialization, it did not cause them. It should rather be noted that other than in the Far East deindustrialization accelerated significantly all over the world from around 1990. It was therefore very bad luck indeed for Southeast Europe’s industry that the inevitable collapse of the planned system coincided with the beginning of a phase of strongly intensified deindustrialization which was occurring anyway in most parts of the world.

However, the global trend of deindustrialization seems to have been reinforced by internal factors in all Southeast European economies. All in all, the inability not only of socialist economies but of Greece as well to adjust manufacturing to the rising quality demands of global markets and to capture growing market shares, especially in newly emerging high-tech and high-value-added segments suggests historical deficiencies in the region independent of any particular economic system.²²⁴ However, much more research is necessary on this pivotal question.

²²⁴ KOPSIDIS/IVANOV, *Industrialization and De-Industrialization in Southeast Europe*, 110.

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