

Intra-CMEA Relations and Domestic Reforms in the USSR and Eastern Europe: Some Interactions

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I. Introduction

The 43rd "extraordinary" session of the CMEA which was held in October 1987 in Moscow was to be devoted to the "restructuring" (*perestroika*) of the mechanisms of the CMEA, as well as to the discussion of a draft document on "the collective conception of the International Socialist Division of Labor". In fact, nothing definite came out of the session. The following 44th session held in Prague in July 1988 adopted this document, of which we only know the basic outlines at the time of writing. Apart from this, it added some clarification about the goal to be reached, that is, a "unified market"⁽¹⁾ As the "administrative" restructuring goes silently on, with rather severe cuts in the number of committees (and of their employees), the political conception of what the CMEA should become in the future is far from ready.

To this uncertainties one should add the obscurities stemming from the link between domestic reforms and the *perestroika* of the CMEA itself. Are these

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(1) The CMEA regroups 10 countries. This paper is concerned with the industrialized members of this community, that is the USSR itself and the Six East European countries (Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania) hereafter designated as the Six, letting aside the three developing countries (Mongolia, Cuba, Vietnam), which will be mentioned only as concerned by the cooperation and aid policy defined within the CMEA.

The paper is a part of a work in progress and draws on several other papers by the author (in particular, "The Evolution of CMEA Institutions and Policies and the Need for Structural Adjustment", to be published in *Economic Adjustment and Reform in Eastern Europe and the Soviet Union*, [Essays in honor of Franklyn Holzman] and on presentations in several institutions, such as the European University Institute in Florence (February, 1987) and the Graduate Institute of International Studies in Geneva (March, 1988). Along with the literature on CMEA, the author relies on personal expertise and contacts, such as an interview with the Secretary General of the CMEA, V. Sychev, in December 1986, with the Director of the International Institute on economic problems of the world socialist system in May 1988.

reforms pushing the restructuring of the CMEA? Or does it go the other way round, in the sense that a more efficient socialist economic integration would require a change in the way of functioning of the national economies?

The very existence of the link has been admitted at the 43th session by the different participants. The Secretary general of the CMEA, having declared that the session was only the first step toward revising the mechanisms of cooperation, added that "the participants agreed to introduce a *perestroika* of these mechanisms... by stages, taking into account the peculiarities of the national economic mechanisms, and the measures taken to improve them". (Sychev, 1988:79) Did the participants really agree? Probably yes, to do something, but not to make the same moves. While the Bulgarian Premier G. Atanasov agreed that it was necessary to tackle together the reform process on the international and the domestic levels, he mentioned that "behind the unified orientation, in principle, of the ongoing reforms of the national mechanisms there is a lot of differences in the approach and regulation of fundamentally similar processes". (Atanasov, 1988: 18) The Polish Premier Z. Messmer limited himself to states that there was "an important interdependence" between the domestic and the international reforms, while the Czechoslovak L. Strougal insisted on the interdependence "between our and the Soviet economy". As for the three other European members of the CMEA, they quite explicitly refused to acknowledge such an interdependence; the Romanian Dascalescu as usual stressed the principle of national sovereignty, the Hungarian K. Grosz insisted on the reform of the CMEA in the direction of the market while the German W. Stoph equally firmly identified the main development of CMEA as the improved of plan coordination. (Messner, 1988: 40) A year later, the dividing line was apparently between Romania, on one side, and the rest of the CMEA on the other, as Romania refused to join the CMEA members in the move toward a unified market. But a Hungarian delegate warned that Hungary could not long remain within the organisation if radical steps were not made toward its modernisation so as to bring it closer to the EEC model, while the GDR adopted the statement without any comments about the possible implementation of the blueprint.

The Hungarian and East German positions, opposed as they are, bring back to the debates which took place in the late sixties, when the "Complex Program" of integration was being prepared. If one assumes that the Soviet "*perestroika*" is something like going back to the 1965 reform, is it possible to apply the same line to CMEA? In this case we should conclude to a shift back to the Integration Program of 1971. The question was asked in a different light at the press conference conducted by V. Sychev at the 43rd session.

Question: Here we recalled the Complex Program of socialist economic integration. It was adopted for a duration of 15-20 years. Simple arithmetics suggest that during this five-year plan it will come to an end. Should we consider that the collective conception of international division of labor for 1991-2005 /.../ is going to pursue this program? Or will it be a document of quite different character?

V. Sychev: To my mind, the link between the collective conception and the Complex Program of integration of 1971 is undisputable. /.../ On the other hand, the collective conception will be a different document." Following this, V. Sychev expanded on the main differences. The point he stressed was that the needs for modernization within the CMEA required to set up new capacities, for the processing of new products. This could not be done, he argued, without a prior concentration among the CMEA countries on the main future orientations of investment in each country.

The views of the Secretary general clearly point to a resumption of the plan coordination. Does this really mean a continuum of the 1971 Program? And is this acceptable from the point of view of the domestic trends?

II. The Concept of Socialist Economic Integration: From the Comprehensive Program of 1971 to the Collective Conception for 1991-2005

The Comprehensive Program (1971) defined socialist economic integration (SEI) in a pragmatic way, through the aims and methods of the international socialist division of labor. It viewed integration as a long-term process, to be achieved through a balance of "market" and "production" (or "plan") mechanisms. The use of "monetary-market mechanisms" implied the following according to the Program: a limited liberalization of mutual trade (through an increase in the share of goods exchanged without fixed quotas specified in value or quantities); a "further improvement" in the price-fixing system; an introduction of a limited convertibility of the domestic currencies, i.e. among themselves and with the transferable ruble, but not with the capitalist currencies. "Production" integration meant coordination in planning, through a complicated system with different time-spans. Long-term programs (up to 20 years), coordination of five-year planning, and joint planning for a few products were to be combined so as to ensure a growing cooperation and specialization in production.

The energy crisis which developed from 1973-74 has the effect of concentrating the operation of the CMEA mechanisms almost exclusively on the energy supply problem, and of privileging coordination in planning.

However, up to the end of the seventies, the 1971 Program remained the reference for the building of socialist integration. This was the case until the

idea of a CMEA Summit emerged, its aim being to improve the integration mechanisms. This idea was first suggested in 1981 at the 26th congress of the CPSU. Then L. Brezhnev underlined three basic forms of SEI which were to supplement the traditional means of plan coordination: the concertation (*soglasovanie*) of economic policies; the bringing nearer (*sblizhenie*) of the structures of the economic mechanisms; finally, the future development of direct interfirm or interassociation links, including the creation of joint firms. (Brezhnev, 1982: 9-10)

The later changes of the Soviet leadership did not make these ideas obsolete. They survived Brezhnev (and his immediate followers), and the new orientations of the Gorbachev era only led to a different emphasis on these themes, with a growing importance attached to the last one — the “direct links”.⁽²⁾ Both the 1984 Declaration of the CMEA Summit (Text of the Declaration, 1984) and the 1985 Program of Scientific and Technical Progress⁽³⁾ (hereafter called the STP Program) incorporated these concepts, though in an unbalanced way, the Declaration insisting almost exclusively on the two first ones, and the Program on the third.

1. The New Concepts

(a) The *concertation of economic policy* is defined in the 1984 Declaration as “..the elaboration, on a collective level, of the main ways to solve large economic problems, bearing a mutual interest and having a significant meaning for the determination, by *each* brother country, of the orientations of economic growth and long-term cooperation; the *joint* definition of direct interaction in the field of science, technology, material production and investment” (Text of the Declaration. Italics mine).

Clearly “economic policy” in the Summit Document refers to growth strategy, along the lines of what Western economists would label as “industrial

(2) The Hungarian specialist of CMEA, Lazlo Csaba, as strongly emphasized the importance of Brezhnev's statements in 1981 (“CMEA perspectives for the 1980's”, in *Economies et Societes*, Vol. 18, No. 2, Feb. 1984, series G “Geconomie planifiee” No. 40, p. 150 as he readily forgot about them some years later, quoting Gorbachev instead (“CMEA and East-West Trade”, *Comparative Economic Studies*, Vol. 28, No. 3, Fall 1986, p. 48). We do think that there is a continuity of the Soviet purpose, which is to make the integration process more effective and more efficient. L. Csaba comes back to a more balanced view in “CMEA in the challenge of the 1980s”, *Soviet Studies*, Vol. 40, No. 2, April 1988, p. 266-289.

(3) The Program was published in *Ekonomicheskaja Gazeta*, December 1985, No. 52, along with the Communiqué of the 41st Session (17-18 December, 1985).

policy". The components of this strategy include those of the concept of intensive growth as defined in Soviet and East European textbooks: rationalization of factor utilization, better technical level and quality of production. To these components the text adds "the development of the export potential, mainly in the manufactured goods sections of the economy", and "a more rational location of productive forces". The reference to the "export potential" has gained relevance since. It does not just mean an export-led growth strategy in general. It also expresses the specific Soviet requirement that the USSR receive more high-quality manufactured goods of its partners. And finally, following the 1986 changes in the Soviet foreign trade mechanisms, it nowadays expresses the Soviet wish to appear increasingly as an exporter of manufactured goods on the CMEA markets as well as an importer.⁽⁴⁾ The mention about regional allocation of productive forces apparently refers to a scheme advocated by the USSR in the late seventies, according to which energy and raw materials-intensive activities are to be developed on the territory of the USSR, while the smaller CMEA countries would concentrate on less material-intensive production.

The "concertation" thus implies that the CMEA would interfere with the industrial policy of individual countries. In this context, there is some obscurity in the division between fields of mutual cooperation, where *all* member countries should take part in the concertation, and "other fields of social and economic development, where only *interested* countries should decide to harmonize their interests to the extent of what they feel necessary. This concept of "interested countries" is a basic one on the CMEA Charter, and has up to now prevented the organization from exerting supra-national powers. It means that all decisions within the CMEA must be made unanimously; but that unanimity is restricted to "interested countries". This principle has repeatedly allowed some countries, such as Romania, not to take part in joint measures or specialization patterns of which they disapproved. On the other hand, it helped

(4) See Kheifets, B. A., "Razvitie eksportnogo potenciala SSSR i sotrudnichestvo so stranami SEV" (The development of the export potential of the USSR and the cooperation with the CMEA countries), *Izvestiia Akademii Nauk SSSR (seriia ekonomicheskaiia)*, 1986, No. 6, p. 85-99. The author is specifically linking this with possible changes in the intra-CMEA price system: "especially taking into account possible changes in the price-fixing of fuels and raw materials, the most promising orientation of the Soviet export potential and of the improvement of its structure is to expand the deliveries of machinery, equipment, other modern manufactures high quality goods, as well as to increase the export of technology and new types of services" (p. 91).

to implement some actions, for instance the creation of international economic organizations, or the realization of large joint investments, by a fraction of the member countries leaving outside the uninterested countries. The concept of *interest* is thus crucial. One should note that the first politically significant theoretical article on integration under the leadership of Gorbachev, by Academician Oleg Bogomolov, was precisely devoted to the same topic. (Bogomolov, 1985: 82-93) The same author insists, in a book which he edited on the concertation of economic policy, on the fact that it has "a narrower sphere than national planning" but that its scope is expanding. (Bogomolov, 1986: 289) The Romanian abstention at the 44th CMEA session in 1988 is quite in line with the "interested country" principle: while Romania decided to stay out, the other delegations and the Secretary general of the CMEA expressed the hope that it might later on join the movement.

(b) Let us now turn towards the second formulation about the "convergence" or "rapprochement" (*sblizhenie*) of the *structures* of the economic mechanisms.

Did it mean, when the term was first used by Brezhnev in 1981, that the national systems of planning and management had to follow the same pattern? In the context of the *perestroika* initiated by Gorbachev in the USSR, the question becomes crucial. In 1985, some of the Eastern European countries were already engaged in economic reforms, along various patterns more advanced (on the road of the market) than, or different from, the Soviet scheme (Hungary, GDR, Bulgaria); others were struggling with acute economic difficulties (Poland, Romania) or just living in inertia (Czechoslovakia). It seems now obvious that in the Soviet view all the CMEA countries should go on with their reform, not necessarily according to the same (or Soviet) model, as stated in the text of the CPSU's Program adopted at the 27th Congress in 1986:

...."The CPSU devotes a special attention to the conjunction of the efforts of the brother countries towards such key directions as the intensification of production, the acceleration of scientific and technical progress....The levels of economic and political development are not identical, neither are the historical and cultural traditions on the countries, the conditions in which they find themselves. The social development of the socialist countries is not always linear. Every important stage puts new complex tasks forwards, the solution of which is linked with struggles and quests, with the overcoming of contradictions and difficulties."⁽⁵⁾

In this respect it is indeed remarkable that the CPSU Conference in June 1988 did not refer at all at the reforms in progress in other socialist countries,

(5) Quoted according to the text published in English by the Soviet Union.

and that the final resolution did not even allude to the Eastern European countries, while M.S. Gorbachev has just very briefly mentioned the undergoing changes in the socialist world.

There is indeed a marked shift in the meaning of the (potential or desirable) rapprochement of the national economic mechanisms. In the Brezhnev period, and even afterwards, up to the 1984 CMEA Summit, it implied that even though the national economies might be run differently, some "borrowing" or "exchange" of experiences might be useful. This was indeed the implied conclusion of a very interesting book published in 1984, *Problems of Balancing the Socialist Economy*.⁽⁶⁾ The last chapter of this book, dealing with imbalances in the foreign trade sector, suggested that there were basically two types of economic mechanisms proper to achieve (or restore) a balance in this field. The first one would rely upon such instruments which would help to promote exports (through the price system, the credit conditions, supplementing the planning of foreign trade). The second would be a directive type of planning based upon the distribution of tasks and resources between ministries and enterprises, as in the classical Soviet model. Although no preference was expressed in favor of any of these models, it was suggested that the first one might prove more effective in the long run, and the second in the short run (as indeed was the case in the stabilization policy conducted by Romania, for instance).

The new perspective is different. R. Evstigneev, a Soviet economist from the Institute of the Economy of the World Socialist System, contends that the national economic mechanisms do follow the same trend (and have to do so) because it is a precondition of international integration: "The need for a restructuring (*perestroika*) of both economic mechanisms (national and international) stems from the same reason: the need for the CMEA countries and for the SEI itself to engage on the intensive path of growth" (Evstigneev, 1986: 138-145). Then what should be dominant, the planning principle or the market regulation? Evstigneev does not specifically answer the question, and quotes efficient forms of planning (in the GDR case) along with the increase of economic independence at the enterprise level—criticising the Western sovietologists who like to oppose the Hungarian model to the other CMEA countries so as to "prove" the existence of centrifugal tendencies within the CMEA. (Ev-

(6) K. Mikul'skii from the Soviet Institute of the Economy of the World Socialist System (IEWSS) edited this book, with the participation of economic institutes of 5 "brother" countries (Romania did not take part), under the title *Problemy sbalansirovannosti sotsialisticheskoi ekonomiki*, Moscow, Ekonomika 295p.

stigneev, 1986: 139)

An increasing number of Soviet economists suggests that such a restructuring should, however, privilege the market principle. This is necessary if the "direct links" between the enterprises have to expand on the international level.

(c) The direct links between economic units of different countries were on the tentative agenda of Brezhnev for a Summit meeting, but when the latter convened in 1984, this theme appeared only as "an important orientation", in a rather restrained formulation. It was said that the creation of joint firms should find "favorable conditions". But at the time such conditions did not exist. Symbolically, in 1983 the Soviet Union had adopted a legislation on joint enterprises to be founded on its territory with the participation of CMEA member countries. (Ukaz, 1983) But this law was never applied. Apart from the few cases of joint organizations founded just after the adoption of the 1971 Program, no new entities were created.

The 1985 Program gave a new impetus to this form. Its Chapter III devoted to the "means of implementation" advocated "a large development, on a contractual basis, of direct links between organisations and enterprises", and named a whole range of joint entities to be formed for the needs of RD, production and training. The 41st CMEA session which adopted the STP Program also established a new multinational entity, a "joint enterprise" in the field of robot technology, Interrobot. A little more than a year later, the USSR took a new decree on joint ventures between Soviet and CMEA enterprises, the same day as the decree on joint ventures with the participation of Western enterprises—this may be the reason why this text was largely unnoticed in the Western press. (Decree of January 13, 1987) And during the 42nd Session of the CMEA in November 1986, all the CMEA countries except Romania signed bilateral agreements with the USSR to develop interenterprise links.

This form thus emerges as a major instrument of SEI. But then it means the *within* each country the independence of the enterprise must be enhanced. This is far from being reformed as in the USSR (where a new law on enterprise was adopted in June 1987) and Czechoslovakia (where a new law on enterprise was adopted in June 1987) and Czechoslovakia (where a draft for a similar law was published beginning 1987). The limited powers of the enterprise may hamper the development of direct links in case of "the possible non-coincidence of the state interests with the interests of the enterprises and the workers' collectives". (Silvestorv, 1987: 129) Up to now there are few new joint ventures between CMEA members, especially on a multilateral level.

Some enterprises were established, for instance two mixed (Soviet-Bulgarian) companies in the area of machine tools. But the joint enterprises will not dynamise modernization if they are entangled in a whole set of regulation—as is the case now.

The operation of joint enterprises (or even of “direct links” not embodied in a joint entity) is difficult not only because on the national level the participant enterprises lack real autonomy. It is also hampered by the present regime of monetary settlements, price-fixing, multiple shadow exchange rates. Instead, as Oleg Bogomolov advocated already in 1985, one needs “an improvement of the economic mechanism of cooperation. Besides the coordination of the long-term economic and scientific-technical cooperation, the role of the economic conditions of exchange increases in the concertation of interests. This means an economically justified improvement of foreign trade prices, credit relations, exchange rates, methods of determining the economic efficiency of foreign trade and of specialization and cooperation”. (Bogomolv, 1986: 90) But all this was already suggested in the 1971 Comprehensive Program, and forgotten since then.

2. A Resurrection of Market Integration?

In the Declaration following the 1984 Summit, the “market” component of integration found little place. It emerged at the very end of the Declaration: “the organic combination of cooperation in the field of planning and active use of monetary-market categories remains actual”.

Such a treatment was in line with practice. The meaningless character of intra-CMEA prices, the inconvertibility and actual intransferability of the “transferable ruble”, had led to a growing bilateralism in intra-CMEA trade, each country trying to balance its deliveries with its purchases with each other CMEA partner, not only overall but by types of goods (“hard”, or priority goods, and “soft”).

In fact, the more the system was moving away from a market-type operation, the less market categories were significant, and this relates first and foremost to the price issue. Let us quote a Hungarian author: “in the system of trade within the CMEA relying on bilateral interstate agreements..the fact that a given product is exported or not does not depend on the price that may be attained, nor on the profitability of the given export deal...but on the particular logic of the given system of bilateral reations”. (Koves, 1983: 239)

Here precisely lies the core of “the subsidy debate”, to which the quoted article refers. This debate, aroused by Marrese and Vanous,⁽⁷⁾ focussed on the

(7) Marrese, Vanous, Desai, Brada, van Brabant, Holzman.

following question: does the price structure in Soviet-East European relations turn out into a Soviet subsidy to Western Europe? If so, what is the amount of the subsidies? If not, what are the Soviet gains? In any case, what are the trade-offs, or why did the Soviet Union chose to act the way it did? This issue is not to be discussed here as it is basically a debate among Western economists. From the point of view of the East (here including the USSR as well as Eastern Europe), which it is our purpose to disclose, the issue is hardly relevant. Price do not matter in intra-CMEA relations. The whole set of *real* processes within the CMEA is unfavorable to the economic development of Eastern Europe.⁽⁸⁾ This is why, in discussions with Eastern European economists, the conclusion strongly emerges that the reversal in the trend of world oil prices in 1986, and in the ratio between the world prices and the intra-CMEA prices, is not tantamount to a radical change. There is no end in the subsidies because there were no subsidies in the past: there were just meaningless prices. Thus, the operation of the intra-CMEA relations is based on two distinct rules:

i) the rule of barter in kind on an inter-governmental level, on a country-by-country and product-by-product basis.⁽⁹⁾

ii) a recourse to market categories, but not to the CMEA ones: settlements in convertible currencies, from which Hungary benefitted greatly in the early eighties, deriving large surpluses in its trade with the USSR; direct use of world prices in dollars.

Nonetheless, the 43rd meeting insisted on a reform of the trade mechanisms, a "further rationalization" of prices, and on the gradual introduction of the convertibility of the socialist currencies, which is clearly in line with the issues already discussed in the early seventies.

let us revert to the main themes of the 1971 Program.

(a) The mechanisms of trade between the CMEA countries.

It is increasingly felt that the rigid bilateralism in trade, along trade agree-

(8) See for instance A. Koves, *op. cit.* in note (20): "On Soviet part demands are formulated more and more definitely that those (Eastern European. M. L.) countries should transform their export structure in a way that would result in a pushing into the background of several sectors which have developed dynamically up to now precisely according to Soviet demands" (p. 131-132); also L. Csaba, "Joint investments and mutual advantages in the CMEA—Retrospection and Prognosis", *Soviet Studies*, Vol. 37, No. 2, April 1985, p. 242.

(9) This has already for long been analyzed by J. van Brabant as "structural" bilateralism, in *Bilateralism and Structural Bilateralism in Intra-CMEA Trade*, Rotterdam, Rotterdam University Press, 1973.

ments negotiated on the intergovernmental level and specifying the quantities and/or the values of the goods exchanged, are strongly impeding the "direct links" between cooperating enterprises of different countries (a priority of the 1985 Program) and the operation of equity joint ventures between enterprises of CMEA countries.

However, a liberalization of intra-CMEA trade is possible only if and when the *domestic* enterprises have a free access to their *domestic* market, which is far from realized.

This is why the proposals in this field remain very vague. Prior to the 1988 session of the CMEA, different concepts were used ("free trade", "customs union", "zone of free exchange", even "common market"), without any precise specification. For instance, at a conference on alternative models of socialist economic systems held in Gyor (Hungary) in March 1988, a Hungarian economist, Ferenc Janosi, advocated the establishment of a "democratic common market" on the model of the EEC, taking into account "the specific differences of the socialist conditions of commodity production"...but how? The author did not disclose that. (Janosi, 1988) The point was very strongly made in an article by a Czech economist, Ladislav Rusmich, in the journal of the CMEA Secretariat. (rusmich, 1988: 51-56) Rejoining a Soviet economist, A. Nekipelov, who had made the point earlier, he stressed that the "new language" of the market might be quite equivocal. Indeed, the opponents of the market felt compelled to pay at least lip-service to the new ideas, but in that case just argued that the justification of the market stemmed from the "individualisation" (*obosoblenost'*) of the States acting as owners of the means of production. Thus one could state that a given good became a "market commodity" when it left the national economy and entered the international trade flows. An international market could then exist *without* a domestic market. According to the Czech economist, such ideas are particularly dangerous because they look positive, while they in fact preclude any real operation of a market on the international level. At the 44th 1988 session of the CMEA, it was indeed quite clear that the concept of a "market" did not mean the same to everybody.

(b) The setting of prices.

The "Moscow rule" of 1975 is always said to be valid (i.e. the setting of prices on the basis of a sliding average of the world market prices of the previous five years, recomputed every year). But it is also said that one should move nearer to the "real" world market prices (a shortening of the period for which the average is computed is sometimes advocated, but no agreement emerges on the suitable period: 3 years? 2 years?).

Nobody advocates, as in the early sixties, the construction of an "own basis"

for CMEA prices, deriving them from the *domestic* prices. There are proposals for a "concerted restructuring of domestic prices", but this means essentially that the *relative* prices in all countries should be nearer to the *relative* world prices. Again, there is no agreement on the *methods* to achieve that; the Hungarian version would be to link more closely the domestic prices to the world prices through the exchange rate; the Soviet version would be to move up the prices of raw materials and agricultural goods, and to scale down the prices of manufactures. Should the domestic prices indeed get closer in their structure, the debate on the "one basis" might be revived. In any case, the domestic prices are already the basis for fixing the prices to be applied between enterprises which have "direct links"; they are also used *in fact* to set foreign trade prices in all cases when a "world market price" does not exist or cannot be easily evidenced, for manufactured goods in particular.

(c) The convertibility of domestic currencies

This is the most visible issue. But there are serious conflicts, first of all, as to *what currency* should be made convertible (the transferable rouble? the Soviet rouble? the currencies of the smaller CMEA countries?) and *in what* (other "socialist currencies"? capitalist currencies?). In any case, nobody now would even try to argue that the collective monetary unit of the CMEA, the transferable rouble, is an adequate instrument.⁽¹⁰⁾

A first move has been made beginning March 1988 when the Soviet Union and Czechoslovakia decided to settle all payments arising from "direct links" and "joint ventures" between Soviet and Czech enterprises in crowns or roubles using a special rate of exchange (10.5 crowns to 1 rouble, which means a slight devaluation of the crown by comparison with the official rate, which is 8 crowns to 1 rouble). This is more symbolic than effective due to the very few cases to which such settlements might apply. An identical agreement was further on reached by both countries with Bulgaria. During the 44th Session of the CMEA in June 1988, Czechoslovakia signed a similar agreement with Hungary.

Another proposal relates to the creation of a 3rd CMEA bank for managing

(10) N. P. Shmelev, "Avansy i dolgi" (assets and liabilities), *Novyi Mir*, No. 6, 1987: "We have to think about the considerable debt of the CMEA countries vis-a-vis us...this is largely a political problem. However one must act in such a way that our debtors would have an incentive to settle their debt with us...For this we have to open the Soviet market to them...This to open the Soviet market and to create a "common market" of the CMEA countries is impossible without changing the rate of exchange of the rouble and introducing the free convertibility within the framework of the CMEA" (p. 150).

such settlements related to "direct links". Many ideas expressed already in the seventies and earlier reappear: the setting of a mechanism more or less similar to that of the European Payment Union (a model of an international organization as it disappeared in 1958 having successfully achieved its task which was to restore the convertibility of the Western European currencies; the introduction of a "sub-regional" convertibility between willing smaller East European countries.

Again, it is felt that the "direct links" cannot be managed without more realistic exchange rates between domestic currencies. But here again the preconditions are many, and impossible to meet in the near future: a more active role of money in the domestic economies, a rapprochement in the domestic relative prices...The problem of the rate of exchange is to be related to this. In all the discussions on convertibility, it is assumed that a "realistic" exchange rate may be found between a given domestic currency and foreign currencies. In fact, at present, there exists a multitude of coefficients linking socialist and convertible (or inconvertible) currencies, varying according to the products exchanges. When there is a single commercial exchange rate (as in the case of Hungary, Poland, Romania) the cross-rates ruble/dollar are very divergent, and there is no rational way of making them compatible. The divergences stem precisely from the way these "commercial rates" are computed, as the average cost in domestic prices for earning a unit in exports to a given country or area. The differences in relative prices, as well as in the commodity composition of exports, explain the differences in the cross rates. This might be an effective reason to remain in a regime of inconvertibility with some partial arrangements.

Significantly, the solutions proposed go back to the past. Thus, it is suggested to take as a basis the so-called "Karl Marx Stadt rates". (Shelkov, 1988: 13-18, Jozef, 1988) These rates had been fixed by an agreement of October 19, 1973, for the management of joint investments. But what could make them consistent? A major problem is avoided in this case: as the rates are fixed between each domestic currency and the transferable ruble, the issue of divergent cross-rates ruble/dollar disappears. But the problem of coherence still exists, and it is suggested to introduce a periodical readjustment of the rates in a concerted way. But who will monitor the concertation? Along which rules? This is not clear in the proposals made up to now.

Thus, the evolution of the CMEA toward a "unified market" is as difficult as the "coordination in planning". The reason for this is that a "common market" way operate only when the domestic economies themselves are functioning in a market system, and when their domestic structures are sufficiently close, as

the experience of the EEC has demonstrated.

The contradiction between the operation of the CMEA and the domestic constraints is no less obvious when one looks at the *perestroika* from the point of view of the structural long-term policies, that is of economic modernisation. This was precisely the purpose of the 1985 STP Program; but was it compatible with the national modernisation programs?

III. The Instruments for Modernisation: A Common Policy or National Achievements?

In all CMEA countries, it is acutely felt that the socialist bloc is falling behind in its competition with developed market economies and even with some developing countries such as the NICs—the newly industrializing countries, which are increasingly taking market shares from the CMEA countries on the EEC market. How to overcome that? The domestic programs for modernisation are an answer—but they are hampered by the burden of the past which has given too much place to the heavy industry, and by the lack of hard currency to buy modern equipment from the West, even if the hardest times of the adjustments in the early eighties are past. These adjustments have in any case brought about a dramatic decrease in investment in almost all countries, except the USSR. One needs now to reinvest, and in doing so to improve the industrial structure. The STP Program has the same aim.

1. The STP Program of 1985: already dead, or still viable?

The STP Program has been adopted in December 1985 so as its provisions might be included in the five-year plans 1986-1990. It covered five areas: electronics, automatization, nuclear energy, new materials and biotechnologies. Within these areas, the Program had been broken down into 93 "complex projects" which have all been placed under the responsibility of a Soviet organization (called *golovnaia*, leading). Overall more than 700 organizations are taking part in the implementation of the Program. Each "complex project" encompasses the whole chain "RD—production of prototypes—large-scale production—distribution—servicing". 17 agencies of the CMEA were coordinating the whole process. The projects were to be launched both through inter-governmental agreements, and through direct interfirm contracts. In the beginning of 1986, it was stated by the Secretary General of the CMEA that 84 multilateral agreements already concluded were to be detailed, and 67 new were to be concluded (Sychev, 1985, *Planove Khoziaistvo*), but the Communiqué about the 42nd CMEA Session held in Bucharest on November 3-5 did not mention whether these agreements were finalized (*Ekonomicheskaiia Gazeta*, n°

47, p. 20), and contained significant allusions to the poor quality of cooperation and specialization. The comments of the 42nd Session by Sychev (*ibid.*, n° 48, p. 23) just mention that the most of the projects were being tackled.

Already then it seemed that the implementation of the projects was falling behind schedule. During the 42nd Session, the host country—Romania—openly expressed dissatisfaction, but this had been the case previously for other countries, in particular GDR who did not sign the major agreement establishing a joint organization, Interrobot, in a field where GDR is the leading country.

The degree of completedness varied from one field to the other. Nuclear energy was ahead in the beginning, with 60 enterprises taking part in the Program; in November 1986, a special agreement had been concluded to expand the nuclear-power capacities of the member countries up to the year 2000 despite the Chernobyl accident. But even apart from the consequences of Chernobyl, the nuclear program is now falling behind, with many delays. (McMillan, 1987)

The very sophistication of the areas of research may have delayed the launching of projects in some areas such as biotechnologies and new materials. But in general the CMEA members are reluctant to involve their economic potential in the implementation of the Program.

The difficulties of specialization within CMEA are well known, and have been often stressed (Ligaj and Fokina, 1984). Iu. S. Shiriaev, the chairman of the International Institute for Economic Problems of the World Socialist System—the main research institute of the CMEA in this field—has devoted many reflections to the specific problems of specialization in new technologies. Already in 1984 he was pointing to the need for a revamping of the economic mechanism of socialist integration in this area, with a critical examination of the experiences of the capitalist countries (Shiriaev, 1984). In a 1986 article, published after the launching of the Program, he stressed the difficulty of combining the traditional approach of an interstate cooperation mainly based upon raw materials, and the new one based upon the massive deployment (he used the word *tirazhirovanie*, large-scale development) of modern production, when one has to go simultaneously ahead on all fronts:

“the “ranking” of priorities does not lead to the result that “non priority” areas of cooperation (or the lower priorities) should be excluded from the planned interaction between the economies of the CMEA countries...It means that any hierarchy of the priorities must be in line with a hierarchy of the levels of management of the cooperation...In the future there will be two distinct flows of credit means, one in the traditional direction of expanding and sustaining a rational level of extraction of primary resources, and the other in the direction of concentrating these means for

the creation and development of new technologies"...(Shiriaev, 1986: 133)

But than, the question arises of the coordination of the domestic modernization drive and the priorities of integration, keeping in mind that for the CMEA member countries two rows of priorities exist as well—how to secure their needs for raw materials and how to put their economies on the path of "intensive growth". In both cases investments are needed; after several years (1981-1984 or 1985) of declining domestic investment there is now a rebuilding of capacities going on in most of the CMEA countries. To these domestic efforts they have to add contributions to "integrated" investments within the CMEA: after a pause in the joint investment policy in the "crisis" years 1981-1985, several big projects are resumed, such as the Krivoi Rog iron ore capacity, the new Urengoi gas pipeline, nuclear power stations, etc. No overall figures have been given for the magnitude of the investments projected for 1986-1990 (see Belovich, 1985; Bogomolv, ed., 1986). But the burden of such operations is very heavy. For Poland, for instance, the contribution to the Urengoi gas pipeline represents an amount of almost 2 billion dollars, and almost the whole investment provision for the energy sector as specified in the five-year Plan (Financial Times, February 2, 1987). As for the cooperation in the field of technology, additional investment are required; here again the amount of the means needed is not known.

2. Implementing the STP Program and conducting domestic modernization: synergy or contradictions?

The conflict between the domestic policies and the orientations of integration is obvious as far as the financing is concerned. There may also be a conflict between the strategies themselves.

There is a vast literature on the modernization processes going on in the CMEA countries (see, for instance, *Intensifikatsiia ekonomiki...*, 1986; *Intensivnoe sotsialisticheskoe proizvodstvo...*, 1986; *V usloviakh intensifikatsii...*, 1985); and, in parallel, on the scientific and technological cooperation within the CMEA (see *SEV—Novyi etap sotrudnichestva...*, 1986; *Vneshneekonomicheskie...*, 1985), but the two issues are seldom linked together. One may consider as exceptions two books, one of them edited by Mikul'skii (1986), and the other by Bogomolov and Bykov (1986), where these links are quite strongly stressed. In Mikul'skii's book the author of the relevant chapter is Shiriaev, who expands his 1986 article of *Voprosy Ekonomiki* already quoted, and in Bogomolov's book his co-editor Bykov and the well-known specialist on science and technology S. Simanovskii present some rather critical views on technological integration.

When analyzing these writings, one clearly sees, behind these issues, another conflict between the ways of implementing the modernization strategies.

All the Eastern European countries, as well as the Soviet Union, are now engaged in domestic reforms. These aim at giving more efficiency to the domestic economies and also at favoring the restructuring process. Already at this point, there might be a conflict between short-term and long-term aims and means. Changes in the present industrial structure of the Eastern European countries are not easy to make, because this structure has been shaped according to the growth strategy which was imposed upon them by the Soviet Union in the late forties. High energy intensive and raw materials intensive industries have been developed to process energy and raw materials obtained from the USSR. Mass production of machinery capacities have been set so as to satisfy the needs of the Soviet Union, the poor quality of the production making it impossible to sell these goods on Western markets. Those structures are powerfully protected by domestic heavy industry lobbies. Whereas efficiency considerations would require more flexible mechanisms, the industrial structure inherited from the past both requires and favors centralized protective pattern of management.

Within the CMEA, there are similar problems. According to the usual distinction between "plan" integration and "market" integration, the Program is doubtlessly oriented toward the former pattern. Its chapter III on means of implementation mainly focusses on plan coordination and on a set of agreements concluded on the state level, both bilateral and multilateral—but the bilateral pattern is bound to prevail according to the usual practice. However, most of the experts—and sometimes officials—are growingly conscious of the impossibility to realize the Program without a more flexible pattern. This in turn implies a reform of the CMEA mechanism.

As the domestic reforms, the *perestroika* in CMEA is a complex process. If one is pessimist, one may say that the Program is bound to fail because it needs flexibility which will remain absent. The optimist would say that just because the Program cannot function at all without this flexibility, the integration mechanism has to change.

Is the 1985 Program obsolete after the 1988 44th Session of the CMEA? Already before the session, it was widely acknowledged that the "93 themes" in which it had been broken down had to be scaled down to 18, and according to some sources even to 6 or 5. (Ekosot, 1988) The Communiqué of the Session states that the meeting has reviewed the first priority area of the Program—electronics. In this case, the GDR delegates may be happy as GDR

has regularly stated that for it was indeed the priority. But this leaves open the ways of implementation of the Program. We have seen that the main way—the creation of direct links—is itself depending on the progress made in the “perestroika” of CMEA.

The former instruments set in the seventies—the Concerted Plan of Integrated Multilateral Measures, the Long-term Target Cooperation Programs, have themselves underwent radical changes. The latter have simply vanished, and what is left are the few—but costly—joint investments in progress in the field of energy and raw materials. As for the “Concerted Plan” which was in fact an instrument for coordinating the five-year plans among the CMEA countries, it seems to have been integrated in the “collective conception” for 1991-2005 adopted at the 44th CMEA session in 1988, as its first stage, the communique suggesting that the agreements for 1991-1995 are being prepared.

The reform of the CMEA, then, mainly boils down to some organizational changes—with a striking similarity with the Soviet domestic processes. In the Soviet Union, supplies are not better, the enterprises lack autonomy, but ministries are merged and their employees dismissed, as a beginning. In the CMEA, equally, a reorganization of agencies is going on.⁽¹¹⁾

In 1988, obviously the CMEA looks at the EEC. The socialist countries are

(11) The 43rd Session (1987) suppressed:

1 “Committee of the CMEA”, the one created in 1974 for “cooperation in the field of material-technical supplies” (with the same name as that of the Gosnab, the corresponding Soviet agency, and to please its chief, Mr. Dymshits, as then said.)

12 Standing Committees: for cooperation in the field of utilization of nuclear energy for pacific uses (a), of electric energy (b), of radiotechnical and electronic industry (c), of agriculture (d), of food processing industry (e), of civil aviation (f), of foreign trade (g), of construction (h), of health (i), of new materials (j), of biotechnology (k), for cooperation with developing countries (l).

6 (in fact, all of them) Conferences of the chiefs of (domestic) agencies for: legal problems (m), prices (n), domestic trade (o), inventions (p), labor (q), water management (r)

=a total of 19 agencies.

The session decided to create:

3 Committees of the CMEA: for cooperation in the field of foreign economic relations (an amalgamation of (g) and (l), as in the domestic reform of foreign trade in the USSR; in electronics (a modernization of (c)); in the agro-industrial complex (an amalgamation of (d) and (e), as for the Soviet Gosagroprom);

3 Standing Committees: for cooperation in the field of electric and nuclear energy (an amalgamation of (a) and (b)); for the protection of environment (an acknowledgement of the growing importance of this issue) for legal questions (an upgrading of m).

increasingly conscious of their weaknesses, want a better integration in the world economy even more than between themselves. They are very much concerned and anxious about the evolution of the EEC toward the Western European unified market, which consequences they dread for themselves. They wish the CMEA to be more like the EEC—probably overlooking the internal crises of the Common Market over a large range of issues—but they do not clearly sense the domestic preconditions for that, including those in the political field.

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