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The CMEA economy

This study is an analysis of foreign trade prices in the Council for Mutual Economic Assistance (CMEA), of how they are determined and of what, if anything, they determine. The main orientation is empirical; theoretical concepts are developed and used only as guides to empirical enquiry.

Most of what follows is a chronicle of an unsuccessful attempt to replace the workings of the market with commands and socialist good will. This is a familiar scene to those acquainted with the economy of an individual CMEA country; the many extensive attempts at planning without economics have been well documented and need not be recounted here. What is of interest and has received less attention are the problems encountered by the CMEA economy which, while it is an association of similar centrally planned economies (CPE’s), is itself a decentralized, non-centrally planned economy. This is an economy of economies, with its own price system, currency, banking system and governing political-economic institutions, all of which combine to move a substantial amount of resources among the member CPE’s. Yet those resources move not in response to central administrative orders as in the individual CPE’s, but evidently in response to some other set of stimuli. The question is what causes resources to move in the CMEA economy? What role does the price system play? One might expect a fairly active role in such a decentralized economy; however, as yet there is no hard information to confirm or deny that impression. It is the purpose of this study to contribute answers to these questions by utilizing available empirical information to assess the determinants of and the role of foreign trade prices in the CMEA economy.

Throughout the book the words ‘CMEA economy’ refer to the entire set of economic institutions which exist to facilitate exchange and resource allocation among the CMEA countries; the word ‘CMEA’ is used to signify the actual organization by that name.

1 CMEA is also referred to in the literature as CEMA or COMECON.
2 Foreign trade prices in CMEA

This chapter describes the CMEA economy and provides the foundation for a general model which will be developed in later chapters to aid in an analysis of the importance of foreign trade prices as a determinant in the movement of resources.¹

The Council for Mutual Economic Assistance


Initially CMEA’s purpose was to work out ways to increase trade among the socialist countries in the face of a partial Western blockade, and to increase aid flows among socialist countries, thus enabling them to avoid what Soviet Leaders viewed as the threat to sovereignty implied in accepting Marshall Plan aid.² Not all countries shared the Soviet concern over their sovereignty; Poland and Czechoslovakia had planned to apply until Stalin vetoed their applications.³

CMEA undertook few substantive tasks while Stalin was alive, and it was not until the mid-1950s that members began to work together under its auspices, defining as they worked, reasons for CMEA’s existence beyond those of the blockade and the Marshall Plan. The member states seem in unanimity that CMEA’s general goal is to coordinate their efforts in using trade as a stimulus to the economic development of the individual economies. Frequently other goals are given prominence, such as increased efficiency in resource allocation, more rapid technological change, increases in the living standards of the populace, or the proof that the socialist central planning is a superior economic system.⁴ However all of these, and the majority of

¹ What follows is neither a definitive nor a complete discussion of CMEA economic and political institutions; rather, in this section the main features of CMEA are reviewed in order to establish the economic environment in which the CMEA price system operates. For a detailed discussion, see Michael Kaser, Comecon (2d ed.; London: Oxford University Press, 1967).
³ Kaser, Comecon, p. 9.
⁴ For a recent discussion of the goals for CMEA, see Kompleksnaia programma dal’neishego uglubleniia i sovershenstvenaniia sootrudnichestva i razvitiiia sotsial-
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all the goals for CMEA, are various ways of stating either how growth will be attained (e.g., technological change) or what benefits more rapid growth will bring (e.g., increase in real income).

There were and are no basic disagreements on these goals; they more or less reflect the strong growth orientation of planners in all of the CMEA countries. Where the enormous, so far almost insurmountable, difficulties have arisen is in finding a set of policies and institutions concerning intra-CMEA trade, which would simultaneously implement these goals and satisfy all of the member countries.

For example, one of the more important problems the CMEA countries face is to discover a means of achieving patterns of resource allocation and trade which achieve maximum gains from trade and specialization, and thus increase efficiency. They are aware of the problem and the first extensive and detailed policy statement to come out of CMEA in 1962, the ‘Basic Principles of the International Socialist Division of Labor’ (hereafter: Basic Principles), is concerned with ways to improve specialization. However, the debates surrounding the Basic Principles were acrimonious and inconclusive; consequently the document itself is so confusing as to be completely useless as a guide to solving practical problems concerning specialization.

The controversy arose in the course of an attempt to define the criteria for making decisions on specialization in specific products and industries. The levels of industrial development of the CMEA countries are not equal by any standard; the southern countries, Rumania and Bulgaria, are far less developed. When it came to specifying the principles of the division of labor (specialization to a Western economist), Rumania proved truculent in arguing for dynamic rather than static considerations, lest CMEA economic policies perpetuate the substantial differences in economic development among its members. The Rumanian position was that if rela-

sticheskoi ekonomicheskoi integratsii stran-chlenov SEV [Comprehensive Program for the Further Deepening and Improvement of Cooperation and the Development of Socialist Economic Integration of the Member-Countries of CMEA] (Bucharest: Soviet ekonomicheskoi vzaimopomoshchi [Council for Mutual Economic Assistance], 1971), Chapter 1.

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tive current production costs were used as the main criterion ‘... this would tend to perpetuate the backwardness of the underdeveloped countries and to conserve the old economic structure inherited from the domination of monopolistic trust’.¹

The more developed CMEA members argued that the bulk of gains from trade will be achieved when present endowments of all factors, including technology and raw materials, are used as the main criterion: i.e., specialization should be guided by current cost considerations.² The result was a dispute which had been in the making for years before it came into the open and which continues at present to influence all of Rumania’s relations with CMEA.

Work on the Basic Principles began formally at the 19th Session of CMEA in June 1958 in Bucharest.³ It was originally a Soviet and Czech proposal and thus, because it came from two of the most developed members of CMEA, probably emphasized the static gains from trade as the main criterion. The CMEA Standing Commission on Economic Questions passed this version in 1960 and sent it for discussion to the next scheduled Session of CMEA (xIV Session, February 1961 in Berlin). It evidently ran into trouble, however, at the November 1960 (Moscow) meeting of the party leaders where it was recommended both that the xIV Session in Berlin do further ‘editing’ (redaktirovanie) of the Basic Principles, and that it be ratified at the xv Session (December 1961, Warsaw). This was in

³ This topic was first breached, as far as I know, at the May 1958 meeting of the CMEA party leaders. Faddeev mentions this in his summary of the work of the xv Session where the Basic Principles were finally signed in 1962. (N. V. Faddeev. Soviet Eckonomicheskoi Vzaimopomoshchi [The Council for Mutual Economic Assistance] (Moscow: Economika, 1969), p. 250. The communique on the May 1958 meeting does not mention the Basic Principles project; however, it does discuss the need to improve economic cooperation in CMEA and to increase the role of CMEA institutions in facilitating that cooperation. (For the communique, see Tokareva et al., Mnogostoronnek ekonomicheskoe sorudnichestvo, pp. 14–15.)

Most of the time table, but not the interpretation, which follows is from O. T. Bogomolov, Teorii i metodologii mezhdonarodnogo sostaislisticheskogo razdeleniia truda [Theory and Methodology of the International Socialist Division of Labor] (Moscow; Mysl’, 1967), p. 31.
fact done. The party leaders finally approved it at a June 1962 Session in Moscow.¹

The resulting document is a tribute to Rumania’s tenacity and a nightmare of contradictions as a working guide to those involved in evaluating specialization possibilities. According to the Basic Principles, the overriding goal and, in fact, the duty of the CMEA countries is to achieve high growth rates in industrial and agricultural production, and thus to overtake capitalist economies in terms of both total and per capita production.² One of the important tools available to achieve this goal is ‘broadening’ and ‘deepening’ the division of labor (the former by expanding the number of goods specialized in, the latter by increasing the trade/production ratios of specific goods). The results of increasing the division of labor are increased factor productivity, an increase in the growth rate of production and an increase in the welfare of the community.³

The best way to expand specialization is coordination of the member countries’ plans.⁴ The main criterion that plan coordinators should use in deciding on specialization recommendations is the decrease of ‘socially necessary labor costs’ per unit of output and transport.⁵,⁶ Relative capital/output ratios and ‘natural’ indicators should supplement cost calculations in the evaluation of new investment proposals designed to expand specialization.⁷ Because all of these indicators may change over time, predictions of trends in relative production costs should be taken into account in the decision process.⁸ A special section of the Basic Principles is devoted to emphasizing how consistent is the concept of broadening specialization with the goal of balanced economic growth in individual socialist countries. Rumania’s powerful influence extended beyond special-

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¹ Bogomolov gives the date that the Basic Principles were passed as the xv Session in June 1962; that is an impossible combination because the xv Session was held in December 1961. In fact, it was at the xv Session that the Basic Principles were ratified (Faddeev, Soviet Ekonomicheskoi Vzaimopomoshchi, p. 250) and then the party leaders meeting in the xvi (Extraordinary) Session (June 1962) officially agreed to them.
² Tokareva et al., Mnogostoronnee ekonomicheskoe sotrudnichestvo, p. 24.
³ Ibid., p. 25.
⁵ ‘Socially necessary labor costs’ is a Marxist term which in practice is defined as the average costs of producing a product under average production conditions.
⁶ Ibid., p. 33.
⁷ Ibid., p. 34. An example of a ‘natural’ indicator is the ratio of physical units of resource x used to produce product y.
⁸ Ibid.
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ization policies into the area of designing institutions which would improve the allocation of resources among the CMEA states. Before that aspect of the specialization controversy is discussed, it is necessary to outline the main CMEA political institutions which are available to implement the goals described above.

CMEA political-economic institutions
From 1949 to 1960 CMEA operated on the basis of the 1949 communique announcing its establishment. This very short statement says nothing about organizational forms, duties or powers except in the two last sentences which specify that CMEA will meet periodically and that decisions must be unanimous among the countries interested in the problem being considered. Operational practices seem to have developed pragmatically in the second half of the 1950s and in 1960 the CMEA Articles were published which codified that practice.

The official CMEA organs are the Session of the Soviet, the Executive Committee, the Secretariat and the Standing Commissions. More powerful than all of these formal political institutions is a fifth, informal one, the Conference (soveshchanie) of party and (at times) government leaders which meets irregularly to discuss and make decisions which are, by definition, binding on the individual member countries.

The Session of the Soviet (Session) is the highest formal organ in CMEA and meets at least once a year. Each country sends delegates of its own choosing. The Session can make binding decisions only on procedural and organizational points (iv.2); on issues of economic and scientific-technical cooperation (i.e., substantive issues pertaining to resource allocation), it only has the power of recommendation (vi.1). Recommendations and decisions are voted on and accepted only by those countries interested in the issues in question (iv.3). Therefore there is no legal power for the Soviet, the highest

1 Ibid., p. 45.
2 This section is based on the CMEA Articles and supplementary agreements which are listed in Ibid., pp. 44–109. Unless otherwise specified, all Roman and Arabic numerals as well as lower case letters refer to sections and subsections of the CMEA Articles (ibid., pp. 45–54).
4 Ibid., iii.1.
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legal organ in CMEA, to make binding decisions concerning the real economic problems facing CMEA.

The Executive Committee (Executive) consists of one representative on the level of deputy minister from each country (vii.1). It meets at least six times annually. Its main functions are to check the progress in implementing Session decisions (vii.4.a), to guide work on plan coordination and specialization, as well as to take new measures in this area (vii.4.b and g).

As of 1969 there were twenty-one Standing Commissions which are sectoral level intra-CMEA bodies (Yugoslavia belongs to a few as an observer) composed of government representatives from each interested country. There are two types of standing commissions, those applying to one sector of the economy (e.g., chemicals, transportation or ferrous metallurgy) and those concerned with specific economic problems (e.g., statistics, currency and finance questions, and economic questions in general). In both cases the representatives are usually highly qualified technical officials from the government administrative-planning offices for the pertinent sector. The purpose of standing commissions is to encourage further cooperation in the restricted areas to which they apply (viii.4). For the sector commissions this usually involves detailed work on deriving specialization recommendations. Their rights pertaining to decisions and recommendations are identical to those of the Session.

The Secretariat works for all CMEA organs preparing documents, planning meetings, preparing questions to be considered, and organizing verification of the fulfillment of various recommendations and decisions made by one of the organs (ix.2).

The important point to make about these four CMEA bodies is that their potential power seems quite unimpressive. There is no sovereignty lost in participating in CMEA as it is outlined in the Articles; all the binding decisions are made by domestic governments, not CMEA.

The Conference of party leaders (i.e., at the level of first or general secretary of the party), a pseudo-CMEA organ, is the truly powerful institution which fills the vacuum. When substantive issues are at hand, invariably the party and (at times) government leaders (i.e., at the level of prime minister) meet and reach decisions which are then considered by the Session. One example of this already discussed is the decision of the Basic Principles which originated in a conference of party leaders and was finally approved in such a conference.
In 1957–8, during the initial stages of work on the Basic Principles and the Articles, party leaders met twice (November 1957 and May 1958) between the viii and ix Sessions (held in June 1957 and June 1958) in order to discuss these issues. The ix Session specifically moved to enforce the decisions of the second of these two conferences by seeking ‘practical measures’ to develop further economic co-operation in CMEA by stimulating specialization.¹ In 1960 with the crisis surrounding the drafting of the Basic Principles, there were again two meetings between sequential CMEA Sessions (between the xii in December 1959 and the xiii in July 1960 the party leaders met in February and June 1960). We have already discussed the results of the second conference of party leaders.

As another example of the function of the Conference, consider the 1962 (xvi) Extraordinary Session of CMEA, which was a meeting of party leaders. Out of this came the final approval of the Basic Principles, the creation of the Executive, the idea of the International Bank for Economic Cooperation, a number of new standing commissions, and an amendment to the CMEA Articles necessary to allow non-European members (Mongolia) to join.

A more recent example is the large reform program presented in the Comprehensive Program for the Further Deepening and Improvement of Cooperation and the Development of Socialist Economic Integration of the Member-Countries of CMEA (hereafter: Comprehensive Program) which will be discussed in Chapter 6.² The development of that program was officially initiated by the xxiii (Extraordinary) Session in April 1969, which was attended by party and government leaders; reports of working committees were discussed at the xxiv Session in May 1970 which was attended by government leaders; and the final document was ratified by the xxv Session which was attended by government leaders.³

Thus it appears that, as in many institutions, standard, relatively mundane decisions are handled by medium-range (in the decision-making hierarchy) functionaries using standard procedures. With problems of major dimensions such as principles of specialization or amendments to the CMEA Articles, the system does not, or is not allowed to, function; and high-level decision-makers conduct direct

¹ Faddeev, Soviet Ekonomicheskoi Vzaimopomoshchi, p. 247.
² See fn 4, p. 2.
³ The communiqués for these three sessions are available in the following issues of Pravda: xxiii, 27 May 1969; xxiv, 15 May 1970; xxv, 30 July 1971.
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negotiations. CMEA is therefore best regarded as a very large, well-organized executive for the Conference of party leaders. Its institutions are designed to perceive problems, discuss all of their technical aspects, monitor progress on problems already considered, suggest marginal solutions, and enforce all Conference decisions. Major decisions are left for those who will finally dictate the solutions in any event: the party and government leaders of the individual countries. Party leaders have decided on the principles of specialization; the CMEA organs have been charged with implementing the principles.

Attempts to strengthen CMEA

As it stood in 1962, the Basic Principles were to be implemented by CMEA in the form of recommendations on the division of labor to individual countries. The Soviets and the Poles were both dissatisfied with this set-up, desiring much greater economic integration. In 1962, Khrushchev proposed publicly, and in the Executive, that the Articles be modified to give CMEA new powers of compulsory plan coordination for large investment projects.

Romanian leaders perceived this as a direct threat to Romania’s sovereignty and threatened to leave CMEA if the Soviet Union attempted to push the amendment through. Very little of the apparently acrimonious debate that occurred during 1962–3 is now known. In April 1964, a full year after the actual crisis had been played out, Romania published what apparently was its position in 1963 (and remains its position to this day) on a supra-national planning body:

Our party has very clearly expressed its point of view, declaring that, since the essence of the suggested measures lies in shifting some functions of economic management from the competence of the respective state to the attribution of super-state bodies or organs, these measures are not in keeping with the principles which underlie the relation between socialist countries. The idea of a single planning body for CMEA has the most serious economic and political implications . . . undoubtedly, if some socialist countries deem it fit to adopt in the direct relations between them

1 Kaser, Comecon, pp. 105–9 is the basis for this section.
3 Quoted in Kaser, Comecon, p. 108.
forms of cooperation different from those unanimously agreed upon within CMEA that is a question which exclusively concerns those countries.

The Soviet Union acquiesced to Rumania’s demands. CMEA institutions remain operationally powerless on substantive issues. As Rumania suggested, the new more powerful plan coordination organs such as Intermetall and Interkhim, which are discussed in the next section, have been set up outside the official CMEA framework by the European members of CMEA (ECMEA), excluding Rumania. Furthermore, plan coordination comes from meetings where planners advise each other on what their countries are doing, instead of deciding definitely what all countries will do.

The economic problems which prompted Khrushchev’s attempt at centralization in 1962 remain a matter of deep concern for all CMEA members. Present attempts to coordinate plans seem unsystematic and are commonly regarded as ineffective. This was the impetus behind the Comprehensive Program which is designed to provide a framework for institutional reform in CMEA through the 1980s. The Comprehensive Program has not as yet wrought any visible substantive changes in the operation of the CMEA economy, therefore we will defer discussing the details until Chapter 6 which concerns the future of the CMEA economy and the CMEA price system.

Non-CMEA political-economic institutions
Some of the most interesting institutions which affect resource allocation in the CMEA economy are not part of CMEA. Their tasks overlap with those of other CMEA organs, and they frequently have protocols defining their relationship to CMEA organs.\(^1\) Nevertheless they remain outside CMEA, many times because the powers they possess are inconsistent with the CMEA Articles.\(^2\)

*The ‘super’ standing commission.* For example, although Rumania’s veto effectively blocked the establishment of a supra-national planning agency within CMEA, several organizations have subsequently been established outside CMEA with some supra-national powers.


\(^2\) Rumania’s debate with the Soviet Union technically revolved around a proposed amendment to the CMEA Articles strengthening the power of CMEA. Rumania won the argument and the Articles still do not allow CMEA or any of its constituent organizations any more than a purely advisory role.