

SOVIET AND EAST EUROPEAN STUDIES

69 CHRIS WARD

Russia's cotton workers and the New Economic Policy
Shop-floor culture and state policy 1921-1929

68 LÁSZLÓ CSABA

Eastern Europe in the world economy

67 MICHAEL E. URBAN

An algebra of Soviet power
Elite circulation in the Belorussian Republic 1966-1986

66 JANE L. CURRY

Poland's journalists: professionalism and politics

65 MARTIN MYANT

The Czechoslovak economy 1948-1988
The battle for economic reform

64 XAVIER RICHEL

The Hungarian model: markets and planning in a socialist economy

63 PAUL LEWIS

Political authority and party secretaries in Poland 1975-1986

62 BENJAMIN FINKUS

The Jews of the Soviet Union
The history of a national minority

61 FRANCESCO BENVENUTI

The Bolsheviks and the Red Army, 1918-1922

60 HIROAKI KUBOMIYA

Stalin's industrial revolution
Politics and workers, 1928-1932

59 LEWIS SIEGELBAUM

Stakhanovism and the politics of productivity in the USSR, 1935-1941

58 JOZEF M. VAN BRABANT

Adjustment, structural change and economic efficiency
Aspects of monetary cooperation in Eastern Europe

57 ILLANA ZLOCH-CHRISTY

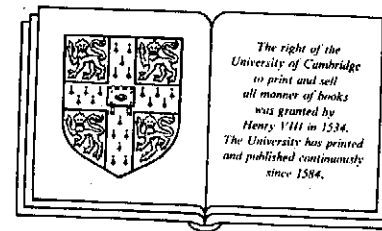
Debt problems of Eastern Europe

Series list continues on p. 404

Eastern Europe in the World Economy

by

LÁSZLÓ CSABA



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Contents

Foreword to the Hungarian edition and acknowledgements	11
Foreword to the English edition	13
Introduction	17
Chapter One	
The CMEA's monetary system and the epochal transformation of the world economy	27
The subject and its framework	27
Convertibility, transferability and exchangeability	30
The transferable ruble system	31
The regional division of labour and the common currency	35
Western European experiences	36
The conditions for the functioning of a common currency within the CMEA	39
The impact of the switch to sliding pricing on the transferable ruble system	43
The "purchasing power" of the transferable ruble	45
Exchange rate issues	46
Non-commercial payments	48
Some aspects of intra-CMEA trade in convertible currencies	54
On convertibility	60
Chapter Two	
A contribution to the theory of prices in a demonetized environment	69
"Fair prices", "cleaning up" world-market prices, business fluctuations	70

Prices and advantages	73
Western experts on mutual advantages	74
The debate over mutuality of advantage in the CMEA countries	82
Capital saving and prices in the international socialist division of labour	86
Some conclusions	91
The international flow of investment resources and the development of the CMEA's monetary system	92
Chapter Three	
Joint investments and mutual advantages in the CMEA—retrospection and prognosis	99
“Investment contributions” and the underdeveloped state of the monetary sphere in the CMEA	100
The emergence and the first wave of investment contributions	101
The impact of the Comprehensive Programme of 1971 and the second wave of joint investments	108
The experiences and lessons of the 1970s	111
The reemergence of the issue in the 1980s	117
Chapter Four	
Planning, enterprises and trade with the West	125
The interdependence of regional and global integrational processes	125
Plan coordination and flexible adjustment	129
Plan coordination and planned development	135
Theoretical bases of the long-term target programmes (LTPs)	139
Some practical aspects of the long-term CMEA target programmes (LTPs)	143
Regional integration as an instrument of export orientation	150
Chapter Five	
The CMEA in a changing world	165
Real economic developments—trends in the CMEA's participation in the global division of labour	166
Radical changes in the terms of regional cooperation in the 1980s	181
The pre-Gorbachev options	188

Chapter Six	
The strategic options of integrational policies	195
The theoretical debates preceding the Summit of 1984	195
Changes in real economic conditions in the 1980s	197
The initiatives of the Twenty-Sixth Party Congress of the CPSU and the revitalization of the Comprehensive Programme	202
Feasible alternatives for development: conditions and constraints	217
Chapter Seven	
Economic policy and planning in the CMEA	225
Planned development on a regional scale or the lack of integrational strategy?	226
Regional-level autarky, or something else?	233
Alternative ideas for integration in the second half of the 1980s	240
Some features of the post-summit integration practice	247
Chapter Eight	
Conditions for Eastern Europe's adjustment to the world economy in the 1980s	255
Conditions within the CMEA	262
Reflections on the conditions of adjustment to the West	281
In lieu of a summary	288
Chapter Nine	
<i>Perestroika</i> . The restructuring of the Soviet economy	291
The antecedents. Renewal—of what and as compared to what?	291
Half-measures: effective rear-guard action by the institutions	298
1987—year of the turn	306
1988—the All-Union Party Conference	313
The impact of external disturbances on the Soviet reform policy	318
Bilateral implications	321
Chapter Ten	
The CMEA under restructuring	329
The Programme	332
Direct interfirm contacts	339
Changes in the integration's institutions	346

Chapter Eleven	
Hungary in the COMECON	351
The controversy about the prospective model of integration	353
Short-term policy disputes of the late 80s	359
Prospects	362
Appendix	365
Bibliography	375
Index	399

Foreword to the Hungarian edition and acknowledgements

The line of thinking in this book is one of critical analysis. In writing it my purpose was to develop a new approach. What I have tried to do is to understand the CMEA not *per se*, but as an integral part of the world economy. Rather than camouflaging institutional and other peculiarities by wide-ranging generalization, I have attempted analyses based on the study of the most distinctive features of my subject. It was not my objective to present a complete list of the accomplishments of the past decades, though I do not question their existence. Nor do I wish to reinterpret certain arrangements from a historical perspective. My sole concern was to find an answer to whether or not the existing system of cooperation is able, in its present, in some modified or in a thoroughly reformed form, to promote the more successful adjustment of the Council's member states to the changes in the world economy. It seems to me that elaborating proper and feasible answers to these problems has by the early eighties become a real exigency for the CMEA countries, as they face increasingly fierce competition on world markets. The present volume might contribute to accomplishing this comprehensive task.

This book is a synthesis of my research conducted in the Department for Regional Economic Integrations in the Institute for World Economy of the Hungarian Academy of Sciences. Many of my colleagues from this and other institutions have helped me with their advice and criticism. A number of them read the first version of the manuscript for the discussion on it held at the Institute. I wish to thank them all for their comments, communicated to me both there and afterwards. Of the greatest help were the comments and criticism of László Szamuely, pertaining to both conceptual and editing matters. I am also indebted to the referee of this book, Rezső Nyers, who helped a great deal with the points he made in his report,

as well as suggesting phraseologies that have helped correct some of the shortcomings of the original manuscript.

My other constructive critics, the late Bálint Balkay, Tamás Bauer, Béla Kádár, András Köves, István Salgó and Iván Szegvári have helped me the most in finalizing the book. My immediate superior, András Inotai, has provided me with ideal conditions for elaborating, presenting and discussing my ideas at scientific fora.

Budapest, October 1983

The author

Foreword to the English edition

Five years after the Hungarian version of my book went to press, the Publishing House of the Hungarian Academy of Sciences and Cambridge University Press are making its updated and enlarged edition available to English-speaking readers. Fundamental changes have taken place in the meanwhile in the world economy, in East-West trade and monetary relations, as well as in the political attitude of the CMEA countries. Consequently, the complexion of a number of issues has changed far more in these five years than is customary in matters of world economy. A great many questions which indeed were questions in 1983 have been answered by the passing of time; others have reappeared in some different form. I did feel, however, that an English-speaking readership would probably be more interested in some other closely related aspects of the basic topic than the Hungarian public. Consequently I have revised the original Hungarian edition substantially, by updating the information contained in the statistical tables, deleting three, and adding seven new chapters to the original work. This decision was also prompted by the fact that the deleted chapters, or at least their primary messages, have already appeared in English; the articles are listed in the Bibliography under the author's name for 1980, 1983/a, and 1984. The new, or partially new subjects are the following: the East European enterprise network's role in the international division of labour during the years of adjustment; the comparative analysis of the CMEA countries' performance in the world market; questions pertaining to cooperation following the CMEA's 1984 Summit, i.e. the new forms of interest coordination within the CMEA; the highlights of the Soviet reform policy and its effects on the East European countries; and obviously, the evaluation of the plans and possibilities of the 1986—1990 period and the *perestroika* of the CMEA, primarily by analyzing prospective integration measures such as the Long-Term Programme

for Technological Progress and the possibilities for expanding direct interfirm relations in the CMEA.

To one who studies the Contents and the Bibliography, the question might well occur why Eastern Europe and not the CMEA figures in the title. The answer is this: numerous studies have appeared in both the socialist and Western literature which have analyzed CMEA matters from the point of view of the Soviet Union. This work—without pretending to be an exclusive or official approach—analyzes the questions of adjustment to the world economy primarily from the point of view of the small nations. It examines the East European countries' external trade policy alternatives and their capability and opportunities for action. Since, from the standpoint of foreign trade, the East European countries' determinant environment is the CMEA, and since, in my opinion, a number of questions have remained unanswered or have not even been raised in the relevant literature, it is perhaps warranted that the two primary subjects—the East European countries' external trade policies and the CMEA—are intertwined. The peculiarity of the present analysis is what most of the Soviet and American literature fails to emphasize that the small East European countries are, if not more open, certainly more vulnerable, to international economic disturbances. Therefore I find it important that their indigenous problems, which are transmitted to their regional cooperation, be analyzed in the context of the epochal transformations and ongoing structural changes in global trade.

Some of the analyses contained in this book have already been published in various languages in the form of articles. Chapter Three which deals with investment contributions, appeared in April 1985 in *Soviet Studies* (XXXVII/2); Chapter Six in February 1984 in *Economies et Sociétés, Série des économies planifiées*, No. 40 (joint edition of Presses Universitaires de Grenoble—Cahiers de l'I.S.M.E.A., Paris), as well as in German, by permission, in a collection of studies edited by A. Drexler, *Modernisierung der Planwirtschaft* (SOVEC, Göttingen, 1985). Chapter Seven appeared first in India in December 1985, in the quarterly of the Gokhale Institute of Economics and Politics, Poona (*Artha Vijnana*, XXVII/4), and later revised in French, in the 2/1987 issue of *Revue d'Etudes Comparatives Est-Ouest*, as well as in Italian in the 3/1986 issue of the quarterly *Economia e Banca* (Trento); its substantially shortened German version appeared in *Europäische Rundschau*, No. 2/1986. The latter text was translated into English by permission of Europa Verlag—but without the author's prior knowledge—in the 1/1988 issue of *Soviet and East*

European Foreign Trade (U.S.A.). A preliminary to Chapter Four and the original version of Chapter Five appeared in 1983 and in 1986 respectively in the Deutsche Gesellschaft für Osteuropakunde's quarterly, *Osteuropa-Wirtschaft* (Nos 2 and 3). Chapter Ten was first published in French by *Le Courrier des Pays de l'Est*, in December, 1986 while what has been revised to form the concluding chapter appeared originally in the quarterly of the Trieste-based ISDEE institute, *Est-Ouest*, in the 4/1987 issue. I should like to take this opportunity to express my gratitude to the above publishers and copyright holders for their consent to the publication of these studies, of their revised and updated version, in this book.

Although I originally set out to write several of the chapters upon requests from various Hungarian and foreign publishers, I mean this book to be not merely a collection of studies, but an intellectual product which reflects the author's way of thinking and gives a structured analysis of some of the as yet less explored areas of the East European countries' external trade policies. It is both a description and a diagnosis, reflecting as it does the search for self-awareness and solutions, as well as its stumbling-blocks, along with the intellectual struggles involved. Its aim is to find more fruitful ways of alternative action. As to how far it has succeeded—only time and the reader can tell.

Budapest, September 1, 1988

L. Cs.

Introduction

"In scientific work, just recognizing the limitations of our knowledge is already an important progress; a significant step forward from the time when while we 'knew' all the answers, yet we did not know all the questions."

(Goldmann and Kouba, 1969)

"In the CMEA integration, economic science developed much slower than economic policy; nor did the general application and practice or the critical analysis of these economic policies develop sufficiently. . . There was no critical analysis of the CMEA integration's progress, nor any in-depth study of the prospects of further development. The backwardness of the theory was significant in the methods and forms of the CMEA countries' economic cooperation developing inadequately." (Kiss, 1973, p. 116). Interestingly, the most prolific Hungarian economist on the subject wrote these lines at the very time of the series of debates which preceded the adoption of the Comprehensive Programme of 1971, when the gap between theory and practice was the smallest since the establishment of the Council in 1949. In this period of economic reform, a flourishing Hungarian economics joined forces with the economists of the other CMEA countries which had not yet lost all their reform momentum to eliminate the shortcomings of the previous period. Practice had come to recognize the need for analysis, and researchers turned from abstract theories to the realities, and engaged in practical studies instead of apologetics. The market model and the corresponding theory of integration were formulated, and Ausch (1972) explored with enduring validity and classic conciseness the laws, categories, and forms of action of the CMEA's traditional cooperation mechanism. Then, after 1971—in Hungary after 1973-74—the overall recentralization gave rise to a certain reticence, to regulations which affected both the cognitive and communicative methodology of scientific research, and characterized most of the seventies.

Yet it was in this very period that there emerged—first in the world economy, as global trends, and later in the East European region as well—those fundamental and irreversible changes which constituted a process of epochal transformation. New phenomena

surfaced, old relationships were replaced by new ones, trends changed and scales of value were modified. Within the CMEA cooperation, however, with a few notable exceptions, economic analysis kept within the limits of the politically determined compromise solutions embodied in the wording of the Comprehensive Programme of 1971, even after the real processes and scientific developments had gradually rendered them obsolete. Beyond this, the relevant literature was confined mostly to reporting and popularizing various points made in the joint communiqués of the CMEA Council Sessions, and to attempting to provide theoretical "justifications" for positions reflecting nothing but everyday commercial interests.

No doubt, certain of the prerequisites of advancing beyond this, as János Szita (1971, p. 41) pointed out in his study on the Comprehensive Programme, were lacking: an internationally open, free atmosphere of discussion, the availability of the most important data on CMEA cooperation, narrowing the class of secret and confidential documents, and clearing up the "frequently recurring misunderstanding" that each and every published study fully reflects the official stand of the author's country (and only that). Unconditionally identifying a theory with the official stand is inexpedient even in the case of statements published by government representatives. "To facilitate this distinction, a public agreement or at least an understanding should be arrived at to treat each and every publication—especially those of a theoretical nature—as being a reflection solely of the author's personal views, and not of government positions. Governments have various avenues open to them to voice their views at any time and in any form they deem appropriate", while "a freer expression of views might, in the end, prove helpful also for governmental activities", noted Szita.

This suggestion was, regrettably, disregarded during the seventies. Nor can it be claimed that a sober, objective scientific analysis of the subject, free from the undertones and considerations of officialism, was the general norm by the eighties. Still, after the Twenty-Sixth Party Congress of the CPSU, and also during the preparations for the Economic Summit of 1984, there was more open discussion of those theoretical and practical issues that had not been covered by the Comprehensive Programme of 1971. Economic analysts are wont to focus on the fifteen year interval between the two economic summits, as this has permitted a long-range overview which was not tied to the timing and other considerations of some Party Congress, or to the adoption of some new Five Year Plan.

In reviewing the major trends of the post-1970 period, I shall be trying to answer the following questions. 1) What has, in fact, changed in a system of cooperation where nothing has changed on the surface (i.e. what measures might solve those difficulties)? 2) How did policy choices (including inaction) influence the theoretical constructs reflecting the thinking of the 1960s, or conversely, contribute to their ideological rejection? 3) What were the past and future trends of the CMEA countries' involvement in the world economy? 4) What is new in the planning and monetary arsenal of integration among the planned economies? 5) What were the prospects of the CMEA, and what partial or comprehensive measures were possible and/or necessary to improve the region's performance during the 80s? 6) How did the CMEA member states use their increased room for manoeuvring in the mid-eighties, and what does the Gorbachevian programme for renewal hold for them and for the cooperation?

Discussing these issues is made both easy and difficult by the abundance of literature available on the subject. I have tried as much as I could to examine the available source material, since in dealing with a subject like this, there is a great danger of re-inventing. Because of this, I chose a method uncommon in Hungarian economics but widely practised in other social sciences and humanities and also abroad: that of comparative analysis. I have not only compared theories one to another, but have also matched them against reality. This way we may be better able to separate the relevant from the irrelevant, and the cyclical from the secular in the empirical material. With the widest possible use of the source material, I have tried to document previously available evidence, as well as conflicting schools of thought and statistical trends, in order to make my personal views more pronounced. An overview of the literature, primarily of that of the CMEA countries, has served as a starting point, since a realistic view can hardly be elaborated without taking into account the plurality of approaches in this polycentric organization composed of countries so different both in terms of their systemic models and their policy priorities. Following this, I have presented my own (normative) concept of how the CMEA could become an organic part of the world economy, and have elaborated the conditions and prospects of such an alternative scenario. I wish to call attention to my independent use of the source material. This means that my interpretations often differ from those of the quoted authors who have published the data I rely on, or who represent a view characteristic of a period, a view which I do not share, but have had to document,

since many of its former supporters would not re-state it today. This seems to be the only way one can show the context in which theories and proposals have evolved, without producing apologetics. It is this method which has suggested my use of quotations, a practice quite common in Britain and the US, but much less in Hungary.

Given the very wide topic I cover, this book primarily centers on issues of economic policy and the closely related theoretical problems. This is certainly only one of the possible options, and one that involves abstracting from a series of important subjects for reasons of space. To list some of the subjects I shall not be discussing: the problem of equalizing the level of development among the CMEA member states; the functioning of the law of value in the CMEA market; the general convergence among member countries; the general and specific laws of functioning within the world socialist economy, and the interrelationship of these regularities with the national economy and with a number of other theoretical matters. Some of these areas have already been sufficiently covered by previous writings. In others, we lack adequate information and further research must precede any relevant discussion.

The parameters of my subject are also determined by the range of issues that have been solved, or conversely, left unanswered, by the Hungarian economic literature. The book by the late Sándor Ausch (1972) has thoroughly discussed the traditional issues of the integrational mechanism; thus, I have confined myself to analyzing new developments. András Köves (1985) has described the process of world economic opening primarily from the point of view of the Soviet economy, whereas my angle of analysis is that of the small East European states. I also deal with the issue of how the mechanism of regional integration functions when I search for the conditions of a more efficient integration into the world economy. Finally, the exhaustive information provided by Meisel (1979) on the organs, setup and functioning of joint institutions applies for the whole period under scrutiny, making superfluous those descriptive parts and appraisals that are otherwise necessary in monographs.

In elaborating my ideas, I have proceeded as follows. After surveying the problems that appear on the surface of CMEA cooperation, I approach the reasons gradually. Having determined the causes, I recommend the therapy. I have tried to separate normative from descriptive parts, even though the possibilities for such an approach are quite limited: the very description of certain processes suggests alternatives to the existing methods. A more consistent separation of

the two aspects would substantially increase the size of this volume.

I consider the financial problems of CMEA cooperation as evident: both economic policy and business practice are confronted with those most tangibly. In the literature on the CMEA, it used to be common to find semi-critical views which attribute the problems in a given area to the underdeveloped state of finances. This was ritually followed by an optimistic prognosis that was substantiated by a vague hint at the need for "improving" or "further developing" this element of the integration's mechanism. What was less frequently discussed were the following issues: a) How exactly is the monetary sphere to be "perfected", i.e. what are the preconditions of introducing currency convertibility, something that would do away with the growth of bilateralism and the attendant predetermination of supplies in physical terms; b) What are the reasons for precisely this area's lagging behind, why are the results so meagre, if any, despite the fact that both Hungarian economic policy and the provisions of the monetary-financial chapter of the Comprehensive Programme of 1971 are quite specific in this area? Without addressing these questions, statements urging the "improvement" of financial arrangements in the CMEA or the "development" of the money function of the accounting unit, the transferable ruble (TR), were bound to remain empty declarations, with no consequences for either economic policy or business activities.

In analyzing intra-CMEA finances, I had had two objectives: 1) to point out concrete ways and means of enhancing the efficiency of this area both for companies and for the population at large; 2) to prove the *naïveté* of the widespread belief of those days that modifications in financial techniques could really induce a radical—or what is even worse, gradual—market-oriented overhaul of the entire mechanism of cooperation.

It is quite legitimate to question the general theoretical implications of the peculiarities of the CMEA's financial sphere. How can the advantages of regional international trade assert themselves? Are these advantages mutual, or, does one party or the other incur losses on occasion due to the distorted prices? This somewhat theoretical chapter tries to prove, by analyzing representative views from both East and West, that the disadvantages are, indeed, mutual. Though it is hardly possible to quantify the magnitude and distribution of advantages, the general tendency to mutuality does exist in intra-regional trade.

Despite the once recurring statements to the contrary, the inefficiency of the Comecon financial system has been amply proven. Producers of certain commodities feel that contractual prices do not cover their costs; therefore, they make the sale of their products conditional on investment contributions. Analyzing this peculiar form of integration, I attempt to prove in Chapter Three that it has nothing to do with capital exports. Nominal intra-CMEA prices have long not been taken at face value even at the macroeconomic level of intra-CMEA bargaining. Thus, any theory based on the comparison of nominal intra- and extraregional prices is, by definition, misleading and out of touch with East European realities. This is substantiated by the fact that the economies with mandatory planning have been forced to invent and apply for decades a wide variety of methods substituting for the market clearing function of contractual prices. Investment contributions, thus, have nothing to do with the particulars of the raw material and energy sector, but reflect the underdeveloped state of the system of payments and settlements within the CMEA. It was manifest in the primary products sphere only because of the peculiarities of physical planning. The shortage of primary products was recognized, first and foremost, at the level of macroeconomic decision-making. In fact, the essence of investment contributions was not the consumers' bearing part of the actual production costs of a priority, but the suppression of the demand for it. This is *par excellence* a function of prices in a market economy.

Like other market categories, this function of prices has been restricted in the CMEA region by the prevailing system of mandatory physical planning. How did the integration of planning hierarchies function in reality? What did integration in planning mean in a period when neither planning nor the market function in practice as they had conventionally been postulated to? What was the actual and possible role of firms which, in theory, are in a completely subordinate position? What are the implications of divergent trends in intra- and extra-CMEA developments for the organizational forms of economic activity? In the world economy, small and decentralized larger organizations have taken the lead both in terms of competitiveness and in technological change and innovation in the vast majority of sectors, and flexibility has been revalued. In the meantime, both in the CMEA and in the constituent national economies, an attempt has been made to ward off the spillover of these and other externally originated signals by a spatial and temporal extension of the role of physical planning, and by an emphasis on creating ever larger econom-

ic units (in decreasing numbers, of course, which reflect the administrative needs of detailed mandatory planning). Stability was supposed to be the major priority—although it could only be secured in very relative terms (for immanent reasons). How does all this affect the relationship between firms and the hierarchy, especially in foreign economic relations? These questions are addressed in Chapter Four, focusing on the repercussions of the oft-heralded priority of physical planning during a period of accelerated changes in the entire world economy.

The modernization of intra-CMEA cooperation became necessary not only on logical grounds, but also because of real economic developments. Eastern Europe and the Soviet Union became integral parts of the world economy in the 1970s. However, the countries of the region have experienced the disadvantages rather than the benefits of this development. This was due to the unilateral nature of their integration into the world economy: their export performance was so poor that it was unable to finance even an import that has grown at a considerably slower pace than the international average. What has changed between 1970 and 1985? Primarily the intra-CMEA conditions of trade, more precisely, the role and possibilities of the Soviet economy. This factor has always exerted a decisive influence on the East European economies, and has moulded their structures. An additional, though far from irrelevant, factor has been the impact of the epochal transformations in the world economy that have also had to be absorbed by the basically unchanged policies and structures of the region. The statistical series illustrating these developments place the fifteen years of relative intra-CMEA stability in an international context.

In the 1980s, when a peculiar sort of "adjustment policy" has overwhelmed the previously unchallenged growth policies in the CMEA countries, the marginalization of the region within the world economy has become even more pronounced than before. In the development of the Soviet economy, losing ground to the advanced Western nations in the international division of labour emerged as a lasting trend even prior to the "reversed oil price shock". Due to underlying trends in Soviet economic development as well as to the slow pace of adjustment in the East European states, an essentially new situation emerged within the CMEA even prior to the inception of the Soviet modernization endeavours. A description of some of the commercial policy implications of this fact concludes Chapter Five.

Demands for a conceptual overhaul of the entire intra-CMEA cooperation have been voiced all through the first half of the 1980s.

This was due to the changed position and interests of the member states as well as to the deterioration of the East-West political climate between 1979-84. Chapters Six and Seven analyze national approaches to and proposals for intra-CMEA change, and try to trace the interrelationship between the national positions and interests and their reflection in official standpoints. These analyses are followed by a summary and evaluation of the proposals for alternative forms and methods of harmonizing conflicting interests. Then some conclusions are drawn about the types of solutions that could realistically be suggested under the then existing arrangements, and why nothing short of radical reforms can bring about a more competitive performance than that of the previous fifteen years.

The concept of radical reform was first introduced at the Twenty-Seventh Congress of the CPSU. It is therefore expedient to review the series of practical measures that immediately followed, and to attempt to prognosticate the dynamics of this change.

First, in Chapter Eight an attempt is made at a comparative analysis of the 1986-1990 Five-Year Plans that were elaborated under the impact of *perestroika*, and of a temporary relaxation of the debt burden. It is proven that the enhanced room for manoeuvring has been used by the East European leaderships to further postpone painful decisions on adjustment and reform. On the other hand, *perestroika* itself has been a mixed blessing: more ideological leeway coupled with a stiffer Soviet commercial policy stance.

In Chapter Nine, an attempt is made to understand the Soviet reform as a historical process, something going beyond the specific economic and legal measures. Although its social and historical dynamism has been remarkable, it will take a long time for the fundamental changes to reach the Soviet foreign trade sector.

This conclusion is substantiated by the detailed analyses of Chapters Ten and Eleven. The former describes the drive to establish new East-East joint ventures and to develop direct contacts among firms within the framework of the long-term technological Programme of the CMEA. Adopted in the spirit of the Gorbachevian obsession with accelerating technological change, it was part and parcel of the new economic strategy. Our analysis of the CMEA's long-term Programme shows the inherent conflict between the novel aims and the traditional methods of cooperation: adequate financing was not secured, and technological objectives were set prior to decisions on financing. We find that the regulation of direct contacts does not, as a rule, increase the firms' elbowroom, since on the macroeconomic level

there are no indirect methods of securing bilateral trade equilibria in ways analogous to plan coordination. Thus, we are back to where we started: the problems of market, and the related arsenal of economic categories that do not evolve by *fiat*. This problem has been recognized at the Forty-Third (Extraordinary) Council Session, where a new concept of integration, the unified socialist market, has been drafted (the final version was approved by the 1988 Prague Session of the Council). The concluding chapter analyzes the evolution of the concept, and after a comparative survey of the national standpoints, it outlines the medium-run economic and trade policy implications of the new concept for Eastern Europe.

This book is applied theory. Based on empirical evidence, it draws new theoretical conclusions, but it also relies on theory in its attempt to understand new phenomena. The conclusions it draws are far from being tantamount to options which, obviously, would be more directly related to day-to-day considerations of national interest. However, I believe that only a theory which is not an apology for, but a criticism of, practice, one which is not remote from realities, can become an efficient tool for an economic policy trying to solve the problems of overdue adjustment. Reversing the acceleration of unfavourable trends in the CMEA member states is of interest to the Western countries as well, especially to those on the European continent, since it is economic prosperity, rather than decline, that can, in the long run, serve as a solid basis for cooperation.

Budapest, September 1988

The author

- 2 As reported in: *Ekonomicheskoye sotrudnichestvo stran-chlenov SEV*, 1986/3.
- 3 This is a descriptive statement, and does not imply my agreement with this point. Going into the details of an alternative strategy—as I did in several earlier writings—would go beyond the scope of this discussion.
- 4 Sovershenstvovanie mekhanizma sotrudnichestva. Editorial in *Ekonomicheskoe sotrudnichestvo stran-chlenov SEV*, 1986/5, pp. 21–24.
- 5 Klyuchevoy oblast sotrudnichestva. Editorial in *Ekonomicheskoye sotrudnichestvo stran-chlenov SEV*, 1985/8. Quote is from p. 5 of the Hungarian edition.
- 6 *Trud*, 19 August 1986.
- 7 Rozvijet primé vztáhy (Developing direct relations) Editorial in *Rudé Právo*, 9 June 1986.
- 8 A 7/1985. sz. KKM rendelet a külkereskedelmi jog megadásának és gyakorlásának rendjéről (Decree No. 7/1985 of the Ministry of Foreign Trade on the granting of foreign trade rights and their practice). *Magyar Közlöny*, 1985/56 — the official gazette of the People's Republic of Hungary.
- 9 The standing representative of each member country at the CMEA is a Deputy Premier. Since they have major functions within the national governments, the acting standing representatives residing in Moscow and dealing with current issues are their deputies, the *de facto* ambassadors to the CMEA. They are part of the national governments, while the officials of the Secretariat are formally not national "representatives".

Hungary in the COMECON

The dynamism of *perestroika* is sweeping away structures and attitudes that not so long ago were considered to be immutable. Thus, international relations are no longer conceived of as essentially bipolar, and the "necessary antagonism" of the differing social systems beginning to disappear from among the axioms of Soviet ideology. Another dogma that has undergone reevaluation is the Suslovian theory of advanced socialism, according to which mandatory planning constitutes the specific of all the East European economies. Little wonder, then, that the ongoing changes in the Soviet Union have been called truly revolutionary by some competent outside observers (Kaser 1987; and Meissner 1987), and have been likened to turning points in Soviet history as significant as the introduction of NEP in the early 1920s; or the switch to collectivization and heavy industrialization under Stalin in the late 20s and early 30s.

This being so, it is hardly surprising that even the Comecon, that self-confessed bastion of immobility, is undergoing a process of restructuring. The longstanding dissatisfaction of several member states with the arrangements and efficacy of the integration has intensified, fanned as it is by the refreshing Moscow winds. To put it in a nutshell, the new Soviet leadership has reevaluated the role of the CMEA and its member states within the overall Soviet strategy. The generally poor performance of the region in the 1980s, especially as far as technological progress and other qualitative indicators are concerned, has increased Soviet awareness of the costs of immobility. This performance is seen as clearly inadequate for supporting the Soviet aspiration to keep pace with global technological progress, a necessary precondition of maintaining the country's place in the international power-contest. The new East-West *détente* also necessitates the USSR's possessing a stable "backyard", rather than a region rent by the strains and unrest of protracted economic hardship.

The rather harsh Soviet criticism of the functioning of the CMEA—first expressed at the October 1985 meeting of the Political Consultative Board of the Warsaw Treaty Organization in Sofia—is, thus, not to be taken for a sheer change in rhetoric, a verbal adjustment to the domestic vocabulary of the *perestroika*. It is a reflection of the Soviet Union's vital political, strategic and economic interest in improving the East European region's actual performance. As such, it is a sincere attempt to do away with the ossified, out-of-date practices of regional cooperation.

The new initiatives and the policy shifts came in an environment which was anything but a *tabula rasa*. As I have tried to elaborate in detail in an earlier chapter, by the mid-eighties the differences among national approaches and the conflicts of commercial interest had come to the fore. Any feasible integrational solution thus presumes a new synthesis, and a willingness to come to a compromise from widely diverging national standpoints. It also requires that immediate commercial policy interests be given their due. Even optimally, and independently of the subjective intentions of the parties involved, what is feasible will fall far short of what is theoretically desirable (i.e. of what would lead to qualitative improvements).

The work of restructuring the CMEA was started at Soviet initiative at the extraordinary Council session of December 1985, with the first palpable results becoming evident at the extraordinary session that convened in October of 1987 in Moscow. The official Hungarian position has been clearly presented both from a political standpoint (Marjai 1987) and from the standpoint of economists (Osváth, Patai and Szegvári 1987), and stands in no need of reiteration. Instead, I should like to expound on my personal understanding of the ongoing changes, aware that this will not necessarily coincide with the official Hungarian view.

The communiqué published after the October 1987 Council Session (Communiqué 1987), is only half as long as what is considered normal for CMEA communiqués. Of the six newspaper columns, two contain the list of participants, and two discuss issues of foreign policy; only two are left for intra-Comecon affairs in the strict sense of the term. Quite meagre results for two years of intensive effort both at the expert and the political levels. The brevity of the account indicates how few were the areas in which the ten member states could come to an understanding within this particular period of time. With so many issues of substance left for later discussion we may well regard it as an interim account. In fact, all substantial and orga-

nizational aspects of the new integrational platform, the Joint Concept for Socialist International Division of Labour for the Years 1991-2005, were left to be determined later. In October 1987, only the proposal for its elaboration has been endorsed at the political level (Marjai 1987). In other words, the efforts at restructuring will continue, and the principle of gradual change emphasized by the communiqué was a reflection of the understanding that the enduring pluralism of the various national ways will not permit a sudden breakthrough to some new integrational mechanism, despite the political dynamism of the Soviet side. In practical terms, this means that the Joint Concept was meant to be a programmatic document similar to the Comprehensive Programme of 1971, one that would also have served as a basis for harmonizing economic policies and for dovetailing five-year plans (Antonov 1987). This point certainly needs clarification. In the following, I shall therefore discuss both more general issues, and short-term commercial policy problems. The two are intertwined, as they were in 1969-71, when elaborating the longer-term integrational strategies also bore the imprint of immediate commercial policy considerations.

THE CONTROVERSY ABOUT THE PROSPECTIVE MODEL OF INTEGRATION

It is not all obvious what the radically new parlance implies for regional cooperation within the CMEA.

Following the January and June 1987 sessions of the Central Committee of the CPSU, an analytical model of indirect planning emerged in the Soviet Union. We can take this as indicative of the objectives and methods of Soviet management practice in the course of the changeover from the present arrangements to the target model. By virtue of the above decision, the Soviet target model and Hungarian practice have come significantly closer to each other (although the Hungarian target model implies a critical reevaluation, rather than the apologia of the existing practice). In the case of the CMEA, the analytical framework has not yet reached this degree of concreteness.

First and foremost among the reasons is that in the CMEA, too, as in any regional grouping, the national commercial interests and official governmental philosophies of the member states vary considerably. The same empirical experience will lead to quite dissimilar diagnoses, let alone therapies.

In the compromise formulation of the communiqué of October 1987, the coordination of medium-term plans was to remain a major of cooperation, although it is to be improved to leave room for the growing role of decentralized decisions. Harmonization was to proceed on three levels: among governments, among sectoral organs and among enterprises. Not very much more was said in the joint position about this, but the interpretations that have been given by individual countries varied quite a bit.

In the original Soviet version (Konstantinov 1987, pp. 24–25), the three levels of coordination would not, in fact, have changed the hierarchical subordination of the various decision-making levels. What they did imply was an increase in the number of the participating organs, with primacy for the sectoral ministries, and a wider scope for coordination. This idea had met with Bulgarian and Czechoslovak support. The Bulgarian advocates of this line of thought have proposed forming a uniform economic complex of the national economies of CMEA member states, through the coordination of structural, investment, foreign trade and even of foreign debt policies (Alev 1986). Czechoslovak close-to-official analysts contemplating the variants of long-term integration strategies have also described the basic variant as one in which the CMEA region would evolve according to its internal logic: the core of the integration would be a joint structural policy, as contrasted to the present practice of a sectorally segmented partial harmonization of certain of its elements (Chalupsky 1987). Although on this latter view the predominance of physical planning would gradually give way to the parallel development of planning and monetary instruments, it reflects the foreign trade concerns of the more outward-looking Comecon partners that the communiqué of 1987 restated the need to develop external ties, in particular to the EC. Allusions to earlier top-level agreements, such as the Documents of the 1984 CMEA Summit, also served as counterweights to the above extreme proposals.

Countries with very centralized decision-making systems, such as the GDR or Romania, could hardly have an interest in giving up the prerogatives the national planning centres have to determine the international flow of commodities to practically the last detail. To do so would be to lay themselves open to those elements of unpredictability in international trade which take no account of national priorities. These two countries have also pronounced foreign policy profiles to maintain for obvious reasons. As far as Hungary is concerned, from the systemic point of view quite the opposite was the

problem. Namely, that the major intra-CMEA proportions tend to be fixed in physical terms, whereas in the Hungarian economy, fiscal policy and monetary categories are coming to play a determinant role, despite the many controversial solutions tried in preceding years (Csaba 1986a), which go a long way towards explaining why the performance of the Hungarian economy has fallen so far short of the expectations generated by reform theories. The two logics—the one of physical, the other of fiscal planning—have been mutually exclusive. Thus, from the Hungarian point of view, the monetization of cooperation as well as the decentralization of decision-making as steps to autonomous direct interfirm relations remain the crux of any CMEA reform. As a matter of fact, far from being a purely Hungarian problem, it is a paradox of the present Comecon arrangements in general that the principal integrating method of coordinating plans is based on fictitious five-year plan documents, while the actual economic processes in each and every Eastern European country are directed by short-term economic policies and regulatory instruments (Szegevári 1987, p. 92.).

In this context, the idea of predetermining economic flows according to sectors and countries in a matrix-like way from a single economic centre of integration seemed to be a bit utopian. From the Hungarian point of view, it is rather reassuring that even formerly not very reform-minded Soviet authors are nowadays questioning the very validity of the entire model of intra-CMEA integration (Nekipelov 1987 p. 78, p. 82); others of the same breed go as far as to expressly state that it is the whole idea of an inward-looking strategy and the system of shortage economy that are to blame for the current problems of integration (Shiryayev 1987, p. 785). This was a favourable sign, a step in the right direction, even if short-term Soviet practice is far from acting on such conceptual insights.

Another fundamental question was what degree of convergence of the national economic systems is at all desirable. In other words, are certain changes within the domestic economic mechanisms the *conditio sine qua non* of any meaningful change in the integration arrangements? Those answering in the affirmative are, as usual, divided into two groups. Those favouring convergence along traditional lines are exemplified by the earlier-cited Bulgarian and Czech authors (Alev 1986; and Chalupsky 1987), the other traditionalist approach is that of a Polish expert who is usually close to the official position (Bozyk 1986): the idea of creating a uniform integration market by opening up the national markets, a proposal taken up by reform-minded Soviet officials as well.

From the Hungarian point of view, the latter proposal is appealing, but its feasibility is more than questionable. In the late sixties, when Hungarian economists had made similar proposals, the idea was based on the presumption that market reforms were the inevitable concomitant of a higher level of development, i.e. were necessitated by the growing complexity of economic structures. This assumption proved to be wrong. Today, the plurality of national ways among the CMEA member states appears to be here to stay; an "all or nothing" stand, thus, is hardly a very constructive or helpful position to maintain. From the practical point of view the Soviet official stand, which lays emphasis on the exchange of experiences and on various common projects while definitely steering clear of some artificial unification (Bogomolov 1987), is more to the point. This idea is reflected in the earlier-cited position of gradualism in the communiqué of 1987, which is far from appealing on the theoretical level, but in practice was the most feasible at that time.

What, then, is meant by the proposal accepted by the Council session for the coordination of plans at other than the central levels? The growing role of the sectoral ministries is a typical feature of the new Soviet foreign trade legislation. Understandably, the Soviet position is that issues of investment policy and of technological progress were to be determined at this level (Antonov 1987).

From the Hungarian point of view, the growing role of the sectoral ministries is not a very promising proposition for two reasons. First, in Hungary sectoral ministries were instrumental in perverting the first phase of the reform in the mid-seventies. It is, therefore, difficult for Hungarian economists to see the regulations of the Soviet law on the state owned enterprise (Zakon 1987)—which also stipulates the increased foreign trade involvement of this particular management level by granting the sectoral ministries foreign currency funds and the right to initiate joint ventures with foreign partners—as the strongest element of a promising reform legislation. Second, in a more decentralized economic mechanism, sectoral ministries have an inherent propensity to disequilibrate planned bilateral trade flows, thereby eroding the bargains struck by the central planning organs in coordinating plans (see Chapter 4). Since the drop in oil prices has already spilled over to contractual prices in the CEMA leaving the small East European states with unintended surpluses in their transferable ruble accounts, such an institutional arrangement is hardly in the commercial policy interest of any of them. The point of

the communiqué that calls for a growing role for sectoral ministries is a compromise based on the understanding that branches were to play a relevant role in important member states for quite some time to come (Marjai 1987). Since the January 1988 government reorganization further cut back the number of ministries in Hungary, practically no agents have remained that can engage in intermediate level coordinative activities in CMEA fora.

As far as interfirm relations are concerned, this has already been the subject of separate analysis in earlier chapters. In the present context, two points should be made. For one thing, as Soviet officials have justly noted (Kamentsev 1987) this form of cooperation continues to be restricted to exchange of experiences rather than the firms' organizing cooperation, which is due primarily to unresolved issues of pricing and material-technical supply and/or company rights. For another, several member states have not provided the firms with rights that would permit them to function more organically and independently on external (Comecon) markets. This has to do with the management concepts of the given countries. Leaving apart the quasi war economies of Cuba and Vietnam, we shall find a recent article of the state secretary of the State Planning Commission of the GDR to illustrate the point. On this analysis (Hrablei 1987), East German combines have had direct relations with socialist partners since the mid-sixties; direct relations have developed successfully, and extend to 35 per cent of all industrial employees and 50 per cent of all industrial fixed assets. Joint analyses, the exchange of information and of experiences, as well as joint technological research are all part of direct interfirm contacts. The GDR did not intend to go beyond that range of these contacts which, however, the Soviets tend to find too narrow. As far as Romania is concerned, the major features of the regulation of interfirm contacts have been made public in a speech by Nicolae Ceausescu, delivered at his meeting with the Premiers heading the delegations to the 1986 Council Session (Ceausescu 1986). Accordingly, Romanian firms and *centrale* may enter into foreign contact following the detailed priorities of the national programmes and research projects, and through the foreign trade organizations. The priority of the national plans was to be guaranteed, and in intra-CMEA deals, compulsory interstate agreements had to pave the way for company action aimed at implementing central tasks in a creative manner. To put the gist of all this another way, a country that does not even contemplate economic decentralization can't be forced into it by a regional cooperation organ.

The Hungarian regulation of direct interfirm relations is based on the Foreign Trade Act of 1974. It is in line with the above-described realities, since no national legislation can be more "progressive" than the environment in which it functions. In the same way, the call for free pricing by companies so often voiced in the economic literature can only be perverted if other conditions remain unchanged. For instance, if control organs set the exchange-rate substituting coefficients at the product level, then "free" pricing can only lead to unilateral advantage for the stronger (more centralistic) partner at the macroeconomic level (Szelecki 1987, p. 43).

Cost-insensitive large enterprise with a one-sided vested interest in exporting for transferable rubles (without caring about counter deliveries) may actually disequilibrate trade balances as much as sectoral organs. Thus here, too, the official Hungarian restraint was justified. We cannot endorse the accusation that the Hungarian position was not sufficiently radical (Levcik 1987), since the conceptual issues under actual discussion did not call for more "reformism" than was feasible under the circumstances, and given the extent to which the idea of restructuring has found acceptance.

The reform of the CMEA's currency system was one of the conceptual issues under discussion. The October 1987 Council Session did achieve some consensus, although not one that met Polish and Hungarian expectations. It has been agreed that national currencies may, in fact, be used for accounting in direct interfirm relations. This is a very small step forward, since the major element of the Hungarian proposal (Osváth, Patai and Szegvári 1987), that year-end accounts be settled at least in part (25 percent) in convertible currency from 1988 on, has not been supported by most countries.

There is a chance that in the medium run, the Soviet and the transferable ruble will be more realistically evaluated both *vis-à-vis* each other and the convertible currencies. The Bucharest pricing principle also remained in effect—but this is already a subject for short-term considerations.

As far as institutional streamlining goes, a very moderate progress took place. It was expected that the Council Session of 1988 would decide on these issues. The number of Standing Committees were expected to be cut by a third (Maróthy 1987). Discussion of staff reductions and of the working procedures that might make for the better *ex ante* harmonization of national views was also on the agenda. However, judging by the tone of self-confidence and self-satisfaction that again characterized the writings of the re-elected Secretary of

the CMEA (Sychov 1987), the present author must concede that in his earlier analyses (Csaba 1986b), he had overestimated both the speed and the extent of the possible organizational changes. The vested interest of the sectoral ministries in maintaining their international representation will not make it easy to cut back personnel and to merge committees, although functional and operational rationalization would call for wider integration-level support for this Hungarian proposal.

SHORT-TERM POLICY DISPUTES OF THE LATE 80S

"The devil's in petty detail", says the German proverb, and it quite sums up why multilateral integrational practice was so slow to show the changes one might expect in view of the CMEA's novel policy objectives. The policy differences of the CMEA countries were not confined to commercial issues, but also relate to the ways restructuring should be organized. One of the problems, of course, is deciding who should head and manage the streamlining activities. According to the October 1987 decisions, coordination of plans is to be reorganized by the Committee for Cooperation in Planning, while the reorganization of the standing organs is to fall to the Secretariat and its leadership (Marjai 1987). No matter how reasonable this solution may sound—after all, who knows planning better than planners themselves—this option was dangerous.

There is hardly any organization that would readily cut itself back by half. It is a well-known empirical fact also in market economies that no company management, let alone the executive of state organs, tends to see itself critically, and even if it does a plethora of sociological factors militates against a cutback. External expertise, reorganization and/or new management are needed if a serious overhaul is intended or is deemed necessary. In the CMEA, however, no independent expert/political body has been called into life, not even one of an *ad hoc* nature, for the purpose of coordinating such an overhaul. And although nobody with a background in sociology will be really surprised by the fact that CMEA organs tend to survive and expand irrespective of external circumstances, the above-described small organizational shortcoming of the newly-approved "cutback" was decisive for its outcome. The Secretariat of the CMEA has never been very famous for its anti-bureaucratic and businesslike stands. It seems to be a warning sign that the Secretary and the various

official publications of the Secretariat repeatedly call for the reinforcement of the joint organs, playing up their role in the task of mastering the difficulties of cooperation without ever mentioning that the greater their putative importance the fewer the measures they pass, without detailing what activities they themselves find bureaucratic, and without even hinting that any existing joint organs might possibly be superfluous.

Other areas where the future is predetermined by past decisions are those dealt with in the CMEA's comprehensive programme for scientific and technological progress, to the year 2000 (see: Long-term Programme), which reflects the Soviet concern with the technological gap between East and West. The programme envisaged overhauling the existing integrational arrangements, and named the expansion of direct interfirm relations as the major way to do so. However, there has been little change in the actual methods of cooperation. At the political level, it is the sluggishness with which interstate and interfirm contracts are signed that has come in for most criticism. In business practice, however, other problems have proved to be of greater significance. As it is detailed by a recent analysis of the Secretariat, in most cases the coordinatory "head organization" (*golovnaya organizatsiya*) could not even produce an acceptable technical and economic feasibility study of the cooperation projects; thus, neither costs, nor benefits, nor by implication, their distribution among the participants could be exactly quantified. Neither the commissioning, nor the executing parties could be identified, since the determination of actual solvent demand was far too uncertain.¹ This is partly due to the fact that "effective demand" is determined, in the final analysis, when the national plans are dovetailed together. Thus—as other analysts have noted—the coordinative head organizations along with their putative activities have remained bodies alien to the intra-CMEA mechanism, since they have no way of securing either the financial, or the physical coverage of their contract (II'in 1987, p. 17).

The Long-term Programme has given rise to some special problems from Hungary's point of view. The idea of accelerating technological progress is, of course, dear to our hearts, and the promised radical overhaul of the integration mechanism was expected to remedy the longstanding problem of the incongruence of the Hungarian and the CMEA methods of management.

However, the Programme was promulgated at a time when the Seventh Five-Year Plan containing ambitious growth targets had

already been approved, though the restrictive financial arrangements that were necessary to maintain the equilibrium of the current account were still in force. Thus, many enterprises joined the Programme in the hope of thereby being able to circumvent stringent financial discipline. For them, the traditional features of the CMEA mechanism, i.e. relying on long-term interstate agreements based on the predetermination of supplies in physical terms, has been rather an advantage. The pressure for financial efficiency is done away with, as it is the control organs that have made the decisions involved in such companies producing what they produce and it is they that bear both the responsibility and the risks involved. Initially, thus, many companies saw participating in the Long-term Programme as a new opportunity to claim additional subsidies. When it turned out that no additional financing was to be had over and above the funds already available within the framework of various medium-term national priority research projects, they changed tactics. They tried to use the Programme to justify those exports to other Comecon countries which were not paid for in actual counterdeliveries, but only in nominal transferable rubles. As Head of the National Committee for Technological Development has noted with some embarrassment, although it is common knowledge that the Soviet Union has the greatest R + D potential among all the CMEA states, of all the cooperation projects proposed by Hungarian firms 90 percent is related to the export of Hungarian R + D, and only 10 percent to importing from CMEA partners (Müller 1987). This is a clear-cut example of the conventional attitude of large-scale state-owned companies, which try to boost their activities by unilateral exports for TR without any regard for the bilateral equilibrium of sales (an understandable attitude, but one completely unacceptable from the macroeconomic point of view). Owing to the changed bargaining positions of the various CMEA partners due to the spill-over effects of the collapse of oil prices, the above proposals were bound to fail. But when non-conventional, innovative, behaviour was needed, when true technological cooperation (rather than the traditional exports renamed) was at issue, the loss of interest was quite conspicuous. The failure of the cooperation mechanism to change has thwarted the achievement of the CMEA's novel aims—something the chief Soviet negotiator has also noted (Antonov 1987a).

The above also implies that until the problem of currency convertibility is solved—something that seems to be a long way off—Hungary cannot serve as a bridge for Western technology transfers to the Soviet

Union, because it is not in her interest to spend dollars for rubles if conversion in the opposite direction cannot take place. It is worth mentioning that the Soviet regulations of October 1987, also preclude such one-sided possibilities; (Clement, 1988-89, Csaba, 1988)² this frequently-made suggestion is, thus, simply out of touch with intra-Comecon realities.

In the daily bargains of state trading, some of the more traditional issues took much more time and energy than any analysis aiming at pinpointing (relative or absolute) novelties can and/or should survey. Discussing the evergreen subject of agricultural prices, the way the admittedly absurd pricing principles can be applied in practice to new technology or to spare parts, and the problems of energy supplies unfortunately sometimes continued to take more time and effort than is devoted to the creative search for new ideas. This was all the more unfortunate in that within the given model of co-operation, every way leads to a dead end. For an economist it must be surprising that, for example, the issue of the function of prices is not even raised, while various obviously tactically motivated propositions about price relatives proliferate. It is a reflection of the real state of things that the traditional mandatory planning model is still intact in the majority of the member states, despite a great deal of verbal criticism all throughout the 80s.

PROSPECTS

From the Hungarian point of view, it is promising that the policy of doing nothing has become the least acceptable option for the Gorbachevian Soviet Union. Considering its dynamism, in the longer run the evolving Soviet reform process is bound to exert its impact on the Comecon's mechanism as well. However, when it comes to defining Hungary's policy objectives *vis-à-vis* both East and West, one must take as one's point of departure the fact that the process of renewal within the CMEA will take much more time than world economic pressures will allow a small country for working out her adjustment policies. Thus, the consolidation and stabilization programme of the Hungarian government had to take on a different pace already between 1988-90 (Csaba, 1989b, Köves, 1988).

Within the CMEA, the lack of sufficient technological progress, the disregard for quality and the failure to reward performance is likely to lead to ever greater pressure for change. Thus what seems

only theoretically possible today will be inevitable practice tomorrow. A more circumspect strategic orientation would involve the reinterpretation and thorough rethinking of just what is in the national interest. A non-trivial answer presumes that it is the structural changes in the world economy and the imperative of adjustment to them that serve as the compass, rather than the desire for stability, security and other old-fashioned values. In reality, the future is much less pre-determined by present considerations than bargaining positions at international fora tend to be—and this in itself is encouraging. To adopt market principles including trade in convertible currency or to perish as a relict of the *ancien regime*: this is the real alternative for the East European regional cooperation system in the 1990s.

NOTES

- 1 Prioritetnye napravleniya mezhdunarodnoi kooperatsii i mekhanizm upravleniya (editorial), *Ekonomicheskoe sotrudnichestvo stran-chlenov SEV* 1987/9, p. 5.
- 2 Cf. Csaba 1988b for the details.

Table 15. Indebtedness of CMEA states (in billion US \$)

	1981	1983	1985	1987 ^a
Bulgaria	3.1	2.4	3.6	6.0
GDR	15.4	12.1	13.5	18.5
Poland	25.4	26.4	29.7	37.6
Romania	10.1	8.8	6.6	5.7
Soviet Union	26.5	23.5	28.4	128.6
Czechoslovakia	4.5	3.6	3.5	5.3
Hungary	8.6	8.2	11.7	17.5
	93.6	85.0	97.0	219.2

Source: OECD Financial Market Trends, February 1988

^a = forecast

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