Translator

EXEMPLAIRE N° 219
COPY

ENGLISH ONLY
4th November, 1965

NATO CONFIDENTIAL
WORKING PAPER
AC/89-WP/177

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

RECENT DEVELOPMENTS OF THE COMECON BANK

Note by the United States Delegation

At the last meeting(1) of the Sub-Committee on Soviet Economic Policy it was agreed that member countries would circulate information they might have on the recent developments of the COMECON Bank. The United States Delegation submits the following considerations which had been drawn up by mid-August 1965.

2. The apparent failure of the COMECON International Bank for Economic Co-operation (IBEC) to rescue intra-COMECON trade from bilateralism has provoked strong criticism in Eastern Europe. This year there were reportedly fewer multilateral barter transactions than in 1963, when the IBEC had not begun its operations. The Bank has failed to achieve its goals because the COMECON countries are not prepared to take the economic steps necessary for intra-COMECON convertibility.

3. The Poles, who have been the most vocal critics of the Bank, want to make the COMECON ruble, the Bank's accounting currency, partially convertible into gold and Western currencies. This move would allow members to use some surplus earnings from intra-COMECON trade for purchases in the West and would provide a firmer incentive for intra-COMECON commercial credit. It would also create greater indirect inducements to members to reform their pricing systems and make their export industries more competitive. The Poles are aiming towards a market integration in COMECON as opposed to the Khrushchevian concept of supranational planning, which failed to gain support in 1962.

(1) AC/89-R/73, Item VI

4. The Polish proposal that each IBEC member contribute gold and hard currency to the Bank's capital is likely to meet with strong opposition from the less industrialized as well as the more nationalistic COMECON members. Although the USSR has reportedly described the Polish proposal that members add gold and hard currency deposits to the Bank's capital as "useful", it has done no more than suggest that it be studied by all the members. Poland's dissatisfaction with the Bank and with the sluggish movement of COMECON has had a disruptive effect on relations within the Soviet bloc. In the unlikely event of meaningful implementation of the Polish proposals, there will be a long period of painful adjustment for the socialist economies. If the proposals are rejected, centrifugal forces in COMECON may all but destroy any plans for economic collaboration.

Intra-COMECON Trade: A Background of Bilateralism

5. Socialist economists view their market as a group of countries which have established economic relations on the basis of current and long-range national development plans, utilizing a division of labor to produce definite quantities of goods to be exchanged according to these plans. The aim of the exchange is not profit in the Western sense, but the receipt of goods with definite utility value for national plan goals. Money is the accounting unit but it is not considered a measure of payment. The national currencies circulate only within their own countries and domestic markets are insulated from the so-called "unchecked oscillations of the capitalist market".

6. These characteristics led very early to a bilateral trade pattern among the Communist countries, because such a pattern seemed to be most compatible with the conceptions of national planning. Trade patterns in the Soviet bloc still reflect an autarchical outlook, but the weaknesses of bilateralism are widely recognized among COMECON economists, both by those who would impose supranational planning and by those who advocate more liberal forms of interrelationship. Since the supranational planning approach called for by Khrushchev in 1962 has not gained acceptance, the market approach adherents have become increasingly vocal in presenting their prescriptions for COMECON trade.

7. The most articulate spokesmen for the liberal approach have been Polish economists and government officials, whose views have appeared in the Polish press and professional journals. These men recognize that under the bilateral system no country wishes to hold large currency claims against another country, for such a surplus would be an unplanned credit, not usable for purchases in any other country. Bilateral trade agreements must be relatively balanced; their volume is limited by the export capacity of the weaker partner and any imbalance between trading partners reflects a short-run failure to deliver goods as contracted. The imbalance can be brought into equilibrium only by delivery of goods corresponding in value to the temporary "credit".

8. The Polish economists feel that under this system commercial exchanges are too small and the goods assortment is too rigid to meet the growing requirements of the COMECON countries. They believe COMECON members must decide how and to what extent they will move toward a multilateral system of clearing (obtaining a trade balance with COMECON as a whole instead of with each trading partner) and whether to consider an exchange of currencies. The IBEC, which began operations in January 1964, is an attempt to cope with some of the problems of bilateralism by introducing a multilateral clearing system.

The IBEC as an Agent for Multilateral Clearing

9. Each IBEC member contributes a sum of its national currency to the Bank, the amount being determined by each country's share of intra-COMECON trade. The COMECON ruble, which has the gold value of the Soviet ruble, denominates all transactions of the Bank, and the transferable rubles are used to reflect each country's payments position with the others. They are, in effect, bank credits with the same function as swing and technical credits used in the bilateral system. The central institution performs the bookkeeping operation once handled by the national banks, the aim being to facilitate trade exchange over and above the framework of bilateralism. Each year, after the members have concluded bilateral trade agreements among themselves, they participate in a multilateral conference to offset any actual surpluses or deficits by negotiating additional barter agreements with third or fourth countries.

10. This system is similar to the European Multilateral Monetary Compensation Agreement of 1947, which used the Bank for International Settlement as clearing agent. The COMECON Bank is considerably less advanced than the European Payments Union of 1950. One difference between the two systems is reflected in the fact that most socialist planners abhor persisting commercial credit imbalances. Non-planned commercial credit is not in the COMECON tradition. It is better that the overall volume of trade be smaller than that such imbalances be allowed. Socialist commercial credit is used to cover only short-term fluctuations such as seasonal variations, delayed deliveries, and emergencies. At the end of the accounting year, there are not supposed to be any surplus funds or credits on the books. The Communist economists attacked the EPU because, with the support of the United States, it was willing to finance long-term imbalances. They criticize this system because they claim it perpetuates structural deficits and allows too wide a diversity of growth rates. (Theoretically, the COMECON countries are supposed to be developing together at the same rate.) Ironically, the recent Polish proposals, in providing incentive for permitting commercial credit accumulation, bear a certain resemblance to the EPU.

11. In contrast to past views of Communist trade officials, the Polish economists feel that if COMECON is to have a true multilateral system, some members will inevitably have surpluses in their accounts with the rest of COMECON. If these COMECON rubles cannot be converted into gold or hard currency and used for purchases in other markets, i.e., the West, then the surplus country has merely a paper asset. The surplus it has accrued reflects its reluctance to purchase additional goods within COMECON either because of lack of variety, high price, or inferior quality.

Polish Views on IBEC Failure

12. The Poles claim that after a year of operation, IBEC has failed to conduct trade on a true multilateral basis. National planners have refused to surrender the authority necessary for true multilateralization of trade, and individual countries still balance their accounts with one another instead of with COMECON as a whole. In 1964, there were reportedly fewer multilateral barter transactions than in 1963, when IBEC had not begun its operations. The Bank was given no independent power to grant credit and, in effect, it is merely an agent for the member countries. The differing pricing systems of the members also provided an obstacle to multilateral trade. Since in socialist economies goods acquire priorities in relation to their importance in economic plans and are not priced to accord with the market forces, internal prices cannot form a realistic basis for multilateral trade among COMECON members.

13. Since the Western market is becoming a more important trading area for all COMECON members, the Poles believe a limited convertibility of the COMECON ruble into Western currencies should be established. The resulting potential competition of Western goods, they believe, would speed up industrial development in the COMECON countries. The Poles feel that domestic price structures within COMECON will have to be brought into closer accord with world prices before any convertibility can take place, but they reject unlimited convertibility, which, in the words of economist Adam Zwass (Finanse, No. 2, February 1965) "would result in a rebirth of the market laws with all the manifestations of an unchecked circulation of goods and money". A socialist economist, they say, could not imagine a situation where the mere fact of purchasing power would be sufficient to buy merchandise on the socialist market. The state determines the size and composition of trade; trade agreements establish the prices of the merchandise, which usually differ from world and domestic prices. The ultimate end of "socialist convertibility", they continue, is to make the COMECON ruble (and not the currency of any particular COMECON country) a "universal purchasing means" so that the socialist countries can freely use it in the capitalist market if they wish.

14. In discussing the problem of determining a foreign exchange rate for the COMECON ruble, the Polish economists describe the present dollar price of gold set by the United States as unrealistically low. They seek a "real value" of gold based on the change in prices of other goods since 1934. This, of course, is one point where the Soviets and the Poles agree completely. However, in the Polish criticism of the Western monetary order, there is also the clear implication that the Soviets will have to revise their internal price structure because of the relationship between the COMECON ruble and the Soviet ruble.

15. The Poles are reticent in speaking about their own pricing system and the revisions that would seemingly be required by their convertibility proposals. Polish spokesmen have declared without explanation that a general equality of purchasing power between the COMECON ruble and Western convertible currencies would provide a sufficient pricing base for establishing convertibility of the ruble, but this reasoning leaves unanswered questions. For if price equality exists only in terms of indexes, and specific COMECON country prices diverge from world prices, then it would seem likely that holders of the COMECON ruble would want to concentrate their purchasing on the low-priced COMECON items. The Polish proposal does not allow for this, but rather envisages the state as continuing to determine the composition of trade.

Polish Suggestions for Strengthening the IBEC

16. In April 1965, Henryk Kotlicki, Director General of Poland's Finance Ministry, summed up in the press Polish dissatisfaction with the Bank and suggested steps toward convertibility of the COMECON ruble (Trybuna Ludu, 27th April). None of the suggestions are new; they have all been voiced at various stages during the establishment of the Bank, but they seem to be increasing in urgency. Kotlicki described the Bank's multilateral bookkeeping system as successful, but with little improvement over previous accounting systems. The trade turnover was 22.9 billion transferable rubles. Credits to the amount of 1.5 billion rubles were granted and paid off for short-term fluctuations, and the bank made a profit of 602,000 rubles. Poland received credits interest-free because the credits needed did not exceed 2.5 percent of Poland's total trade with the rest of the members. Kotlicki described the IBEC credit system and interest rate schedule as insufficient to maintain payments discipline and suggested that rates should be higher for longer-term usage. At present the clearing credit is interest-free, or only small interest is charged, regardless of the length of time for which the credit is granted.

17. Kotlicki said that because of lack of uniform prices, differences in internal systems, and nonconvertibility of the transferable ruble into gold or hard currency, trade agreements were still being concluded bilaterally. He advocated a system which would allow a country with a long-time payment surplus in the bank to convert part of such surplus (10 percent) into gold and which would force a country with a long-term payments deficit to pay 10 percent of its debt in gold or convertible currency. He said that when the multilateral negotiating process of offsetting imbalances has gone as far as it can, then part of the resulting surplus or deficit each country has with the rest of the members should be exchangeable for gold or convertible currencies. The desired result would be full convertibility for the transferable ruble in a few years. Kotlicki concluded that the measure would increase trade turnover, strengthen payments discipline, and cause an improvement in the quality of export goods. Buyers would demand the highest quality goods from COMECON trading partners because of the possibility that they might have to pay for them with gold or hard currency.

18. In subsequent Polish comment on the bank economist Stanislaw Albinowski pointed out that the initial members' contribution of 60 million transferable rubles to the bank was sufficient to facilitate all of the clearing operations and all of the limited credit grants within COMECON (Glos Pracy,17th May, 1965). He said each member should contribute gold and hard currency to the capital of the Bank in the next annual payment to facilitate the expansion of trade between COMECON and other countries. However, they have not proposed any methods of granting additional countries bank membership, and no mention has been made of the success or failure of multilateral barter arrangements between the bank and the less developed countries.

Reaction of the USSR and Other COMECON Members to the Polish Proposals

19. Moscow has reportedly accepted as "useful" the idea of gold and hard currency deposits in the Bank, according to a recent article in the Polish press, but the Soviets have not approved the principle of settling some bank transactions in hard reserves. In the past, the Soviets have been hesitant to accept any proposals which would result in convertibility for the COMECON ruble. K.I. Nazarkin, the Soviet national who is IBEC Chairman, told a United States banking official that the Bank's directors felt the necessity to integrate the COMECON banking system more closely with the international monetary system. He added that the COMECON countries should first overcome all their multilateral clearing problems and then move toward making the transferable ruble partially convertible into gold and hard currency.

20. The Soviets have been, and probably will continue to be, unwilling to provide large-scale backing to a multilateral payments arrangement in COMECON. They realize that centrifugal forces are driving the countries of Eastern Europe to form significant trading and production partnerships with the West, but they are still reluctant to abandon the economic tenets which have so alienated some of the COMECON members.

21. Hungary may soon join Poland as a westward-looking renegade dissatisfied with the slow pace of development and wasteful duplication of effort in COMECON. A.M. Fodor, Hungarian IBEC board member, publicly supported Kotlicki's proposals because he felt that the export prices of some COMECON countries were out of line.

22. The intensely nationalistic Rumanians still form the bulwark of opposition to any increase in intra-COMECON collaboration. They were successful in curtailing the bank's authority to extend credits and they choked off the investment function of the IBEC. The East Germans have also expressed dissatisfaction with the IBEC, but for different reasons. They feel that the sluggish movement of COMECON is thwarting their attempts to perpetuate their economic ascendancy over the less industrialized members. Reports from recent sessions of the COMECON Foreign Exchange Commission and the COMECON Executive Committee indicate that modifications in the bank's procedures are being seriously debated. The issue of expanding the activities of the bank was considered in detail, but none of the Polish demands have been implemented.

Possible Effects of IBEC Reform

23. The Poles have become impatient with their COMECON trading partners, and they want to make intra-COMECON trade more competitive. Ruble convertibility would allow the more solvent COMECON members to choose between the industrial goods of East and West. Not only would the reform allow surplus holding members to spend their COMECON trade gains in the Western markets, but because of the payments discipline exerted on deficit countries, these countries would have to modernize and improve their export industries and bring their pricing policies into line with the rest of the partners. Sheltered industries of the Soviet bloc would be subjected to direct Western competition.

24. Some Western observers feel that a system calling for partial payments in gold would soon strip the poorer COMECON members, such as Hungary and Bulgaria, of what little convertible reserves they had. This type of solution to deep-seated problems of the socialist economy would initially benefit these members.

with a potential trade surplus, such as the Soviet Occupied Zone of Germany and Poland. For the others it might prove too drastic and greatly complicate efforts to solve their internal problems of pricing, production, and allocation. The liberal market integration approach called for in the Polish plan faces enormous obstacles. The Poles want price reform which will interfere with present national planning; they are asking for deposits in gold and convertible currency which could mean a greater drain to the West; and they call for higher interest rates on longer-term credit which would squeeze debtor nations harder. The proposals will undoubtedly meet the continued opposition of some COMECON members who feel it will be less painful to stick to present methods. The Poles may realize this and may in effect be asking for something else. They may, for example, be threatening the Soviet Union with convertibility, in order to persuade the Soviets to bring their raw material prices more in line with world market prices.

OTAN/NATO,
Paris, XVIe.