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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

THE PROBLEM OF PRICES IN INTRA-COMECON TRADE

Note by the U.S. Delegation

Although, indeed, this paper leaves many questions unanswered, we welcome this initial effort by the Economic Directorate to explore the difficult problem of prices in intra-COMECON trade and we are in general agreement with its conclusions. We do, however, have a number of substantive and editorial suggestions to make.

Page 3, paragraph 3:

The adjustment of intra-Comecon prices, although scheduled to take effect on January 1, 1966, seems to have begun in 1965 as evidenced by the downward trend of Soviet raw materials prices in that year. According to East European sources, the process apparently continued through 1967. Indications are, as stated, that the USSR's terms of trade were more adversely affected in 1965. For 1966, when presumably most of the price revisions for East European export goods took place, the situation is not yet clear, since the official Soviet physical index of trade volume between the USSR and CEMA countries is not available.

Page 4, paragraph 6:

The last sentence would read more accurately: "...receiving most of the machinery exported (not produced) by the other Comecon members."

Paragraph 7:

The third sentence states that there has been "a drain on Soviet raw materials." Any export, of course, represents a "drain" on Soviet resources. But it seems doubtful that the USSR could readily switch a substantial portion of such exports to the free world. Moreover, the share of raw materials in Soviet exports to the industrial West has been even larger than that for Eastern Europe.

The last sentence states that "because of the high capital-output ratio it became more economic for the Eastern European countries to buy raw materials from the Soviet Union rather than to produce them in their own countries." This seems to ignore considerations of "absolute" as well as "comparative" advantages as a determinant of East European trade with the USSR. Most of the East European countries do not have any, or inadequate, resources of major industrial raw materials. In the case of oil for instance, apart from Romania, only Poland, Hungary and Bulgaria have limited resources, and they have continued to expand production, as well as prospecting, even though production costs are undoubtedly high.

Page 8, paragraph 21:

The point that East European countries are paying the USSR for raw materials with goods most of which are not marketable in the West - at least not at the same price - deserves stronger emphasis. This point has been stressed, repeatedly by some East Europeans themselves e.g., by Czech foreign trade officials, in replying to questions about the high price Czechoslovakia is paying for Soviet oil. Third sentence would read more accurately "...paying in goods... (rather than local currencies)."

Page 9, paragraph 22:

The first paragraph of the conclusions states that the decline in intra-Comecon trade growth rates over the past years "is also a reflection of the price system." This has nowhere been demonstrated in the paper. Although it is clear, that predominantly downward price adjustments have tended to deflate trade figures in value terms, this would be relevant only for 1965 and 1966. Apart from the strictures of bilateralism, another factor hampering intra-Comecon trade expansion are excess capacities of similar products in Eastern Europe, especially conventional machine tools, which are the result of prolonged industralization along autarkic lines.

Page 9, paragraph 23:

The relationship between terms of trade, machinery exports and "average growth" of East European economies is not clear. In the case of Czechoslovakia, where the share of machinery exports is high and has been rising, there was no or little economic growth for several years in the early sixties. Returns on investment in the machinery industry in East European countries undoubtedly vary from those in the USSR--apparently in some countries many lines of production are not profitable because of the small volume produced. The entire paragraph seems to be based on conditions prevailing in the USSR as cited by Soviet economists in their discussions of relative profitability of exports for different categories of products.

In our view too little is known on this subject for the various East European countries to make possible any meaningful generalization without further intensive study.

Page 10, paragraph 24 - last sentence:

Although there have been recent indications that Soviet economists have been thinking in terms of the necessity for a meaningful link between internal prices and foreign trade prices, this does not mean that changes in the exchange rate of the ruble are under consideration. Such a revaluation alone would have no impact on the terms of trade.

OTAN/NATO,
Brussels, 39.