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ARTICLES

Discrimination between USSR and Its Partners?

By Dieter Gerlach, Hamburg

Eighteen years ago—in January, 1949—the Council for Mutual Economic Cooperation was set up in Moscow. With the establishment of COMECON there arose the question of the nature of economic relations between the member countries. Apart from the general problem of integrating the various centrally controlled economies there was the question whether the USSR used its superior power within COMECON to discriminate in its foreign trade against the other members. The following study attempts to examine the thesis of price discrimination by the Soviet Union against the other COMECON countries.

Two Theses

In a differentiating study two theses can be established:

1. that the discrimination by the Soviet Union against the various COMECON countries is one of direct price discrimination against these countries in favour of the prices determined in trade with Western Europe or one of price discrimination within the group of COMECON countries itself (direct discrimination);
2. that the discrimination against COMECON countries is conditioned by the close foreign trade ties which the Soviet Union has enforced within COMECON. The isolation of COMECON from the Western countries affects the Soviet Union less than the other COMECON countries, since the proportion of foreign trade to the national income is considerably smaller in the Soviet Union than in the other member countries (indirect discrimination).

It is difficult to produce evidence for both theses; on ideological grounds neither the Soviet Union nor the other COMECON states are interested in disclosing any discrimination in their foreign trade relations. In an attempt to harden the theses mentioned a theoretical and an empiric approach are being applied.

The Empiric Approach

An empiric analysis is based on the possibility of establishing standard values for comparable goods. Such calculation presupposes foreign trade statistical returns relating to the value as well as to the volume of traded goods. The proportion of the total value of

the goods to their total volume reveals their standard value. The yardstick for comparing the standard values in the trade between two countries allows two methods of empiric analysis:

Method 1: the average standard values for comparable goods in the trade between the USSR and the West-European countries are being used as a yardstick. This method shows a discrimination by the Soviet Union in exports if the standard values of Soviet exports to a COMECON country are higher than the average standard values of Soviet exports to Western countries. There is a discrimination in imports if the standard values of Soviet imports from a COMECON country are below those of Soviet imports from the Western countries.

Method 2: here the average standard values of comparable goods in the trade between the Soviet Union and all other COMECON countries are being used as a yardstick. A discrimination in exports becomes apparent where there is a positive difference between the standard values of exports from the Soviet Union to one COMECON country and the average standard values of exports of comparable goods to all other COMECON countries. The same method would show a discrimination in imports if there is a negative difference between the standard values of imports by the Soviet Union from one single COMECON country and the average standard values of comparable goods from the other COMECON members.

The soundness of such calculation depends on the quality of the foreign trade statistics on which they are based. This explains why empiric investigations of such kind have been very rare and have so far covered only the statistics of the Soviet Union, Poland and Bulgaria.

Application of method 1 to the exports from the Soviet Union to satellite countries in the period of 1955 to 1959 produces the following results (the calculation is based on Soviet statistical returns).

The figures show that in applying method 1 there is a clear discrimination effect against the other COMECON countries. The method will also reveal a discrimination in imports. But this is comparatively small.

Application of method 1, however, requires the answer to a general question: do the figures above actually indicate a direct price discrimination or are other conclusions from them possible? An analysis of the Polish foreign trade figures by applying method 1 showed for 1959 (assuming that the statistical returns on which it is based are correct) that in that year Poland discriminated against the Soviet Union in its export and import trade.¹ But the table above also shows that in the same year the Soviet Union discriminated against Poland as well.

Comparative Price Advantages of the USSR in Exports to the Various COMECON Countries between 1955 and 1959

(Free Europe = 100)¹

Countries	Actual export value as percentage of the hypothetical value ²				
	1955	1956	1957	1958	1959
Albania	153	118	117	120	115
Bulgaria	125	103	108	131	132
Rumania	117	107	98	116	128
Hungary	126	117	111	119	131
Poland	115	112	108	106	122
Czechoslovakia	120	117	112	110	122
East Germany	117	112	107	113	125
All Satellites	118	112	108	113	124

¹ Mendershausen, Horst: Price Relations in Trade between the Soviet Union and Its Satellites; in "Osteuropa Wirtschaft"; Vol 7, 1962, Issue 2, Page 101.

² The hypothetical value is calculated by multiplying the volume of goods delivered to the satellite countries with the average standard values of the same exports to Free Europe.

It is obviously not logical if in the same period and by using the same method not only the Soviet Union discriminated against Poland but also Poland against the Soviet Union. If it is assumed that this discrepancy is not due to the use of returns from different countries (Soviet Union, Poland), other conclusions will have to be drawn from the available material. Using the yardstick of average standard values of trade with the West-European countries for showing direct price discrimination is hardly appropriate, since this would not take the peculiarities of trade policy in the economic relations between East and West into account. The results from applying method 1 can be interpreted as arising from the isolation to which COMECON is exposed in its trade policy and consequently from its comparatively weak market position vis-à-vis the Western industrial countries. The apparent mutual discrimination merely reflects the fact that COMECON countries suffer losses in their foreign trade proceeds as a result of their isolation in foreign trade policy. Here it should be kept in mind that the Soviet Union can bear the consequences of this isolation—which it itself, has largely brought about—much easier than the other COMECON countries. This is due to the comparatively small importance of the Soviet Union's foreign trade volume in relation to its national income. To this extent method 1 supports thesis 2 of indirect price discrimination.

¹ Holzmänn, Franklyn D., Contribution to the Theme "Exploitation in Soviet Bloc Trade", in "Hinter dem Eisernen Vorhang" (Behind the Iron Curtain), Vol. 8, 1962, No. 7/8, Page 14.

Above criticism becomes irrelevant when method 2 is applied. An analysis of Bulgaria's foreign trade returns for the time between 1958 and 1959, by applying method 2, should be mentioned. Here in brief are the results²:

Bulgaria would have increased its proceeds from exports to the Soviet Union by 22% in 1958 and by 23% in 1959 if the USSR had paid the average prices which the other member countries of the Soviet bloc received. For imports from the Soviet Union Bulgaria paid in 1958 1% less and in 1959 3% less than it would have had to pay if its imports had been valued at prices corresponding with the average import prices of all the other COMECON countries. Assuming that the balance of payments between the two countries has been level, there is a fairly considerable discrimination by the Soviet Union noticeable. The analysis itself, it is true, emphasises explicitly that this effect could have also been due to differences in the quality of the goods and to quantity rebate. Besides, it is stated, the result is not representative for the other COMECON countries.

The Theoretical Approach

It has to be examined whether from the kind of price fixing during the negotiations conclusions can be drawn as to the existence of discrimination. The price talks take place between two foreign trade monopolies. The autonomous price systems of the various centrally controlled economies are very little suited as a basis of negotiations. As a rule world market prices are therefore being chosen as the starting point for price talks. But there is room to move about in these talks, since owing to their flexibility, world market prices cannot be readily accepted by the planning bodies of the centrally controlled economies.

From this the conclusion could be drawn that the partner with a stronger negotiating position will be able to place the weaker partner at a disadvantage. For various reasons it is not possible to compare talks between two foreign trade monopolies with those between two market monopolies. One reason for instance is that a government monopoly in foreign trade very rarely has a worldwide monopoly in a certain product. The partner in the negotiations can therefore switch over to other suppliers or buyers. More appropriate for clarifying the question appears to be the "theorem of the dominating economy" such as advanced by Perroux. The economic unit "Soviet Union" probably has supremacy over the economic unit "Central Germany" within Perroux's meaning. The impact of supremacy is defined as follows:

"Taking only two economic units we assume that A has a dominating position over B; that A, apart from having any particular design, has a decisive influence on B, while such influence in reversed direction is either altogether impossible or not possible to the same extent. A lack of symmetry, and this means a

² Holzmänn, Franklyn D., Soviet Foreign Trade Pricing and the Question of Discrimination, in "The Review of Economics and Statistics", Vol. 19, 1962, Page 144.

complete or partial inability of exercising a counter-influence, is the essential feature of the supremacy impact considered by us"³:

The supremacy impact of the Soviet Union is conditioned by numerous factors of which only a political and an economic one may be mentioned here: the political dependence of the COMECON countries on the USSR and the comparatively small importance of Soviet foreign trade in relation to the country's national income. Even if it is assumed that the Soviet Union does not deliberately display its supremacy, the impact of supremacy would unintentionally still exist according to the meaning of Perroux's theory. It is doubtful, however, whether in this case one can still speak of discrimination. Having this reservation in mind, the theoretical approach therefore appears to be suitable to support the thesis of direct as well as

³ Perroux, François, *Advance of a Theory of a Dominating Economy*, in "Zeitschrift für Nationalökonomie", Vol. 13, 1952, Page 5/6.

of indirect discrimination by the Soviet Union against the other COMECON countries.

Summing up it can be stated that there are many indications of Soviet discrimination against the other COMECON countries, though—apart from individual cases which are not representative for total trade between them—no clear evidence can be offered. Particularly in connection with the thesis of indirect discrimination the catchword "close economic community" of the German Democratic Republic and the USSR deserves attention. During his visit to Central Germany Mr Mikoyan said meaningfully in Chemnitz that the programme for developing the USSR included plans until 1980 for Soviet supplies to Central Germany as well as Central German exchange deliveries to the Soviet Union.⁴

⁴ Brauer, Rudolf: "Theoretical and Political Ideological Questions Relating to the Establishment of a Close Economic Community of the German Democratic Republic and the USSR" in "Wirtschaftswissenschaft", Vol. 10, 1962, Page 195.

Competitiveness of German Steel Industry

By Rolf Stuchtey, Hamburg

During recent months, the formerly very favourable German business climate has generally become much harsher. After coal mining had shown clear symptoms of a crisis for some time already, Germany's iron and steel industry is experiencing the same trend. Collieries and steelmills live in close interdependence both technically and economically, so that their respective destinies influence each other.

In 1966, the decisive feature in the German iron and steel situation has been the widening gap between costs and proceeds, caused by mounting expenditure, on the one hand, and increasingly ruthless competition, on the other hand. Annual deliveries have not contracted, their volume having remained almost unchanged at the level of about 36 million metrical tons. Representatives of the iron and steel industry consider such a sales level to be quite satisfactory. But the maintenance of this volume of delivery was possible only under conditions of prices that have been successively marked down, thus reducing the industry's profit margins. Declining prices are an indicator for the keenness of competition prevailing between German and foreign suppliers (the latter from within the ECSC).

German iron and steel makers have lost some of their competitiveness during recent years—this is shown by the continued progress made by suppliers from other ECSC countries in satisfying growing parts of German demand. In 1955, the share of iron and steel supplies bought by West German users from Germany's partners in the European Coal and Steel Community, amounted to a bare 10%, but today, this share amounts to no less than 25%.

This situation as described for the domestic market applies to all the countries of the ECSC. The drop in sales proceeds is even larger in third countries above all in European states, which, however, do not belong to the ECSC.

One explanation for the lack of expansion in sales volumes and for the declining prices is the fact that above a certain ceiling of development growth rates of steel consumption in a given economy will no longer be proportional to those of the Gross National Product but will be subject to a steady decline. Steel consumption per head of population is reaching an upper limit then, which fluctuates between 500 and 600 kilogrammes annually (1,100 and 2,200 lbs.) approximately. Other industrial materials are threatening steel with replacement; thus the inroads of plastics into the steel markets have even initiated a trend in steel consumption per head (in absolute terms) which points downwards. At the same time there are countries which had a tradition of iron and steel imports, but are now creating their own iron and steel industries, thus former foreign sales outlets of the German steel industry are lost.

Distortions of International Competition

One of the causes of the reduced competitive vigour of the German iron and steel makers are the distortions of competition as between the various member countries of the ECSC. There are especially two separate circumstances which exert an adverse influence on the German iron and steel industry:

□ Taxation system and tax burdens are partly very different in the individual member states of the ECSC.