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# The Failure of Economism in Western and Eastern Integration Policy

by Alfred Schüller, Marburg \*

**The proposition that economic integration can help to smooth the way to political integration has been described by Wilhelm Röpke on many occasions as a dangerous manifestation of economism<sup>1</sup>. The experience of the EC and the CMEA tends to bear out this opinion.**

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**T**he term "economic integration policy" is in this article understood to denote the measures aimed at removing obstacles to economic intercourse between the states of a certain economic area with the intention of improving the division of labour and of directing thereby the productive forces into optimum channels according to scarcity considerations. The theory of integration distinguishes the following forms according to the degree of economic entanglement<sup>2</sup>:

*Functional Integration of the First Degree* comprises free trade zones and customs unions and is concerned essentially with the removal of tariff and non-tariff barriers to trade. Under free trade conditions the exchanges of goods are characterized by a relative output maximum which Giersch has called the "trade optimum".

*Functional Integration of the Second Degree* is the term applied to the Common Market. The extent of the international division of labour is not determined by the absence of trade obstacles of the mentioned kind alone but by the elimination of institutional constraints on factor migration. All goods, services, personal and capital movements are free.

*Institutional Integration of the First Degree* is the term for an incomplete economic union. It involves extensive harmonization of the national economic policies. *Institutional Integration of the Second Degree*, finally, denotes full economic and monetary union: uniformity of economic policy is achieved by supranational authorities with such far-reaching political powers over the

partner countries that this form of integration can only function if there exists at least a federal-state constitution. A possible criterion for a further differentiation between institutional forms is whether the communitization relates to all or only a few economic areas. In the former case F.W. Meyer speaks of horizontal integration, in the latter of vertical integration<sup>3</sup>. But whatever form the integration is to take, its minimum requisite is an efficacious payments union able to ensure long-term equilibrium of international payments<sup>4</sup>.

## Economistic Integration Policy

*Economistic* is the term used here to describe measures of integration policy which are confined to "purely" economic sets of facts and part-solutions and are not consistent with the overall political or economic order desired or indicated on conceptual grounds. To justify apposite modes of procedure, which are often labelled "pragmatic", the following arguments are advanced:

□ Uniform progress to political and economic integration is according to order-political theory desirable but for the time being unattainable. Here and today we should undertake what is practicable. Economic part-solutions are best suited to this aim. Inherent in this argument is a danger that it leads to the adoption of the line of least political resistance.

<sup>3</sup> F. W. Meyer, Die europäische Agrargemeinschaft und ihre Auswirkungen auf die gegenwärtige und zukünftige Handelspolitik und das Transferproblem (The European agrarian community and its effects on the present and future trade policy and the transfer problem), in: Gutachten zu Fragen einer europäischen Agrargemeinschaft, Bonn (Auswärtiges Amt) 1953, pp. 225-253. More recently: H. Willgerodt, Sectoral Integration: Agriculture, Transport, Energy and selected industries, In: F. Machlup (ed.), Economic Integration: Worldwide, Regional, Sectoral, London-Basingstoke 1976, pp. 117-128.

<sup>4</sup> Cf. W. Röpke, Gemeinsamer Markt und Freihandelszone 28 Thesen als Richtpunkte (Common market and free trade zone. 28 theses as guideposts), in: ORDO, Vol. X, 1958, p. 41.

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<sup>1</sup> For the last time in 1966 in his essay on "Nation und Weltwirtschaft" (Nation and the world economy), in: ORDO, Vol. XVII, 1966.

<sup>2</sup> Cf. B. Balassa, The Theory of Economic Integration, London 1962.

□ Inferior economic part-solutions – such for instance as are incompatible with the desired order in the community – inevitably involve integration sacrifices but would nevertheless be warranted because these are outweighed by the great overall gains for the integration policy which can be expected to ensue eventually.

□ It is because of the existing differences in economic structure and level of development between the member countries that for the time being no real progress towards integration is possible. Only with progressive alignment of economic development levels will the order problems which are now standing in the way of a more extensive division of labour such as would benefit all parties disappear, and this, as it were, by themselves. Order-politically viable and efficient integration solutions are thus seen to depend ultimately on development-economic factors.

A few examples will be given to show that economic integration attempts are not confined to one system. As such attempts are however inevitably devoid of a foundation in order theory, this kind of integration policy cannot lead far no matter whether it is applied to any specific system or not.

### **The Example of the EC**

The EC is guided by the exemplar of far-reaching institutional integration. Conditions resembling those of a domestic market are to be created by advancing beyond a customs union. For some members, foremost amongst them probably the Federal Republic of Germany, economic integration is also a motive force driving Europe to political union – albeit at the price of economic drawbacks. The typical example is agriculture which is enacting one variant of isolated vertical integration. The European monetary union provides another example of the economic integration policy of the EC:

It was at the summit conference in The Hague in December 1969 that the countries of the EC first manifested their will to move faster in the direction of an economic and monetary union with a uniform currency so as to ensure the irreversibility of the integration process even if the progress towards economic union and towards political union were not to be so fast. The stage-by-stage concept inaugurated in 1971 with this end in view has come to nothing. It failed by 1974/75 at the latest. The demand for a monetary union was revived in the EC Commission's report on the prospects for progress towards an economic and monetary union of December 5/6, 1977 and in its essentials reaffirmed at the Council of European Ministers' meeting in Copenhagen on April 9, 1978. Conditions to facilitate the political-institu-

tional transition to a central monetary authority in the EC are according to the Commission's report to be created by a five-year programme.

Article 39 of the Treaty of Rome of March 25, 1957 showed already that agriculture was intended to act as a pioneer for the integration policy of the EC. This article contains more economic-policy targets for agriculture than for other economic sectors. Although the EC countries had no uniform concept for the Community's overall political and economic order, Article 40 put the EC countries under an obligation to carry through a common agricultural policy. The requisite competences were to be transferred to Community organs (the Council of Ministers, the Commission and the Assembly). Of the possible solutions the EC countries chose the creation of European market orders, in some ways the most far-reaching form of integration. Over 95% of all agricultural products are by now covered by market orders. A system of common minimum prices, safeguarded by manifold internal and external defence and support measures, is the cardinal feature common to all of them. Incomes conforming to the parity principle, i.e. in line with the incomes levels of "comparable" occupational groups, are thereby to be guaranteed to farmers. The common prices are fixed mainly by the rules applying to cartel prices: the weakest partner and the marginal operation provide in principle the yardstick for price decisions.

According to the economic point of view this price policy purports to promote integration through alignment of the incomes levels. It is however due to this policy that agricultural production and productivity reserves are again and again being underestimated and that investment stimuli are created in contradiction to the reality of agricultural surpluses as if specific shortfalls had to be offset. The scope for maladjustments in agriculture due to the effects of this price policy is correlated to the certain knowledge that the agricultural prices have been immunized by the integration policy and that the consequential costs of production surpluses are borne by countries which hope that their own "prepayments" in the agricultural sphere will lead to incomparably larger integration gains in other sectors or in the economy generally once the anticipated speed-up of political-institutional unification gets under way.

Not only has the common price policy had the partial effect of further depressing the stagnant or regressive demand for agricultural products but it has checked the process of structural adaptation and rehabilitation of the farming industry in accordance with realistic cost and demand situations and led to a reverse policy of re-

agrarianization with completely distorted supply structures.

### **Disintegrative Effects**

In addition to the disintegration phenomena inside the EC, sketched here briefly, the agricultural price policy has had external disintegrative effects with negative repercussions on the integration process in the EC to which little thought is being given. The policy of re-agrarianization contrary to market considerations has ruinous consequences for the international trade: insofar as this policy is copied by others, farming countries, including many developing countries, cannot expect their agricultural exports to make a significant contribution to their general economic development. They are forced to divert their production and specialisation in international trade from the direction indicated by relative scarcities of production factors and comparative cost advantages. Developing countries can increase their exports of agricultural products significantly only when the EC has had a bad harvest so that a supply shortfall has to be made good. The role of stop-gap is however no more profitable in international trade than elsewhere, especially if supply bottlenecks cause the affected countries to embark on measures which lead to proper production battles and early closure of the supply gaps. If production stimuli are offered, they rarely work before the world market has got over the shortages<sup>5</sup>. The economic agrarian policy has a penchant for economically costly forecasting and planning errors because it bears no relation to a viable agricultural market order.

The economic argument for the policy of minimum prices led logically to the fulfillment of the demand for a corresponding integration symbol in the monetary field, namely, for fixed exchange rates. There is an imperative need for fixed parities — so it was argued — in order to maintain real equality of prices which was taken to mean maintenance of the average farm cost prices at their relative levels at the time when the agricultural prices had been fixed in terms of so-called units of account. By resorting to European Units of Account the EC tried to establish a uniform international agricultural price level irrespective of the price trends in individual member countries and parity changes between them. This attempt was tantamount to the creation of a monetary union exclusively for agriculture. By early 1969 at

the latest it was clear that this way of dealing with food prices would not work. Revaluations and devaluations became a regular feature at that time, especially from March 1973 onwards. If the parity adjustments had been prevented as demanded by many people in the EC out of regard for the interests of agriculture, trade and payments restrictions would have had to be imposed on an extensive scale, and the relinquishment of the requisites of a viable payments union would at the same time have removed the minimum preconditions for a full integration in the EC.

Measures to make agricultural imports dearer and agricultural exports cheaper were felt to be imperative so that the farmers in the countries with upvalued currencies should not be at a disadvantage as far as their nominal incomes were concerned. Correspondingly, compensatory payments in the opposite direction were used in order to prevent benefits accruing to agricultural industries in devaluing countries from their parity changes. Such a policy of hampering exports and facilitating imports has the overall effect of putting the farmers in revaluation-prone countries in a privileged position as far as foreign exchange rates are concerned, for they can pass on the burdens of post-revaluation adjustments to other industries while normally the sectors with stagnating or regressive markets — agriculture amongst them — would be hit hardest by a revaluation.

### **Narrow-minded Protectionism**

Although the agrarian sphere has been segregated more and more securely from economic events elsewhere<sup>6</sup>, many responsible officials in the member states and in Brussels have never hesitated to assert that agriculture has made the greatest progress towards European unification and is subject to the present difficulties only because the monetary union has not made as much progress as planned. They ignore the fact that the incomes differentials in EC agriculture today must be regarded as greater than in 1967 when the policy of uniform prices was inaugurated. There are also greater legal uncertainties and arbitrary interpretations of the regulations. That farmers are still entertaining thoughts of autarky and do not shrink from aggressive acts of self-defence has been shown by the blocking of the Brenner pass.

A danger springing from the narrow-minded agrarian protectionism is that many Europeans may have second thoughts about political union of

<sup>5</sup> The sugar shortage in Great Britain in 1974 for instance was regarded as the result of a chronic shortfall of supplies although the country was self-sufficient for 88% of its consumption and the notable scarcity had been caused by panic buying due to dwindling confidence in the economic policy of the British Government. Brussels reacted in a typically economic way: the existing system of agreed production quotas based on a European supply plan which imposed a duty on governments to purchase sugar at guaranteed minimum prices was stepped up by nearly 50%. It was not long before the EC "went up" again and became an important net exporter of sugar.

<sup>6</sup> Not only the compensatory payments but many other special measures on the national level not all of which were introduced by Community decision served this purpose. There were grants, bonuses, subsidies, interest rate support, VAT relief and open or covert import impediments, like those applied in recent years by Italy in particular.

Europe and may modify their practical attitude accordingly. There is evidence that many developing countries are trying to apply the basic elements of the EC's agricultural market system (especially the price arrangements and the provisions for the financing of consequential costs) on a global scale, and they may yet meet with success if the EC, possessed by a breath-taking protectionist fervour, goes on meddling with more and more — economically more and more outrageous — market orders (such as the one for wine) and is apparently not going to stop until the system has been extended to all agricultural products. At the same time the EC Commission is seen to tinker with ever new packages of defensive and remedial measures for specific products and to work on what are deceptively called "refinements" of the import protection system which actually aggravate the import protectionism.

All in all, the experience with agricultural part-integration bears out those who — like F.W. Meyer and W. Röpke — noted at an early stage that this method of integration promotes the disintegration of the European economy<sup>7</sup>.

### European Monetary Union

The basic law of the EC, the Rome Treaty of 1957, aimed at the creation of a customs union. A unified European monetary order was not proclaimed as an explicit objective, possibly because at that time it seemed too bold to assume that the member countries might be prepared to sacrifice their autonomy in matters of credit policy on the altar of the integration policy.

Although it is probable that none of the member states was earnestly thinking of relinquishing its national autonomy over its monetary and fiscal policies, the EC Commission's memorandum on the action programme for the second stage of integration<sup>8</sup> contained the first reference to the subject: "The establishment of monetary union may become the objective of the third stage of the Common Market." In concrete terms the problem was stated as follows: "The EC ministers for economic and financial affairs acting together in the Council would determine the total volume of the individual state budgets and the Community budget and the general financing conditions on terms to be fixed at the time."

It is thus clear that harmonization of fiscal policies was regarded as the decisive prerequisite of a common monetary policy, and this may be seen as a reflection of a desire for parallel progress towards political and economic integration. This

view is borne out by the constitutional concept for the monetary union which is also to be found in the action programme for the second stage: "The council of central bank presidents would become the central organ of a central bank system of a federalist design." The analogy with the Federal Reserve System in the USA springs to mind. In the end however an economic decision was preferred. Let us briefly recall the various strategies which were discussed after 1969 before we turn to the details of the final decision<sup>9</sup>:

□ According to the "coronation theory", as it has been called, which abides by the concept that the political and economic order must be advanced in unison by an integration policy, the monetary union is to be the crowning piece in a sequence of convergent steps leading to the summit of a comprehensively harmonized economic policy.

□ According to the so-called "pacemaker theory", which conceives the economic and the political order as separate elements of integration policy, the advances to integration as envisaged by the "coronation theory" are unattainable. Instead, monetary union has to be established all at once so as to create inescapable compelling circumstances of a kind which force a change of attitudes and lead to a coordination and communitization of economic policy in its entirety. The pacemaker theory could therefore also be called the theory of compelling circumstances.

### A "Dilettantish Error"

The so-called Werner report which was put in force by the EC Council of Ministers on March 22, 1971 envisaged the achievement of economic and monetary union by 1980<sup>10</sup>. It suggested that an agreement had been reached in conformity with the coronation theory. The action which was actually taken however followed the line of least political resistance and complied in significant aspects with the theory of compelling circumstances. Exchange rate bands were agreed for the first stage already subsequent upon the Washington agreement of December 17/18, 1971 (the Smithsonian agreement) which were narrower than those permitted at that time under the Bretton Woods system. Other measures taken at the same time included an increase of the financial provisions for regional and structural policy, short and medium-term foreign currency support and a

<sup>7</sup> F. W. Meyer, *Die europäische Agrargemeinschaft...*, *ibid.*; W. Röpke, *Gemeinsamer Markt und Freihandelszone*, *ibid.*

<sup>8</sup> The three stages of four years each cover the periods of 1958 to 1962, 1962-1966 and 1966-1970.

<sup>9</sup> Cf., especially in regard to the coronation and pacemaker theories, H. Gröner, *Probleme einer europäischen Währungsunion* (Problems of a European monetary union), in: *ORDO*, Vol. XXII, 1971, pp. 291-312.

<sup>10</sup> In a simplified form the four stages may be characterized as follows: 1. Creation of the foundations for the harmonization of monetary and economic policies in all fields, 2. Achievement of more equilibrium economic development, 3. Transition to an economic and monetary union, 4. Completion of the economic and monetary union.

coordinated intervention system known as the "Snake".

All these measures including the narrowed fluctuation bands in particular amount to an attempt to embark upon monetary integration in isolation as it were, although there existed no realistic chance of progress to systematic coordination of the cyclical and financial policies, to say nothing of an economic order policy. By the end of the first stage it was already becoming clear that fixed exchange rates cannot act as a lever for integration policy if they are not set at realistic parity levels. The divergent order and process policies in the EC countries did not however allow of fixed and at the same time realistic exchange rates. "Fixed but adjustable" parities between the currencies of the member countries in combination with possible restrictions on capital movements were described in 1972 as essential and basic conditions for the achievement of a union even though this exchange rate regime had already proved most destabilizing and disintegrative under the Bretton Woods system. The reason for this is that it is inconsistent with the main prerequisite of international economic integration, namely, the compulsion for the preservation of a balance of international payments.

The beginning of a disintegration process in the EC was evidenced by the imposition of trade restrictions on balance of payments grounds and of strict controls directed against "speculative" capital movements. The real cause of these movements, the existence of unrealistic exchange rates, was not admitted. This policy is for two reasons to be described as economistic — first, because it rests on the assumption that the freedom of goods exchanges and factor migration can be maintained in the face of restrictions on capital movements; and secondly, because it was believed — and this is the fundamentally economistic trait of this policy — that it was possible to go on to a monetary union without paying the inconvenient price of a great measure of willingness to advance towards order-political integration. The idea that economic integration could be achieved on the way over monetary integration and that this could bring the EC nearer to political union proved a "dilettantish error"<sup>11</sup> with costly consequences<sup>12</sup>.

That agreement on the transition to the second stage of the monetary union was not, as scheduled, achieved at the end of 1974 cannot really

cause any surprise. At present no more can be done than to give an indication — with the help of flexible exchange rates — of the degree of possible economic integration which corresponds to the order- and process-political affinity of the various member countries.

### Costly Steps

To judge from the real degree of willingness among the EC member countries to advance towards integration, this variant of a market-economic method is the only one at present which is capable of taking the existing strains. For the time being it is also ineluctable although Röpke once voiced the view that the European countries were more likely to turn to monarchy than to abandon the — under existing conditions mistaken — ideal of stable exchange rates. Following up the quoted report of the EC Commission of December 5/6, 1977 the Council of Ministers actually decided at its meeting in Copenhagen on April 9, 1978 once more to establish a European currency system leading in the long term to a central monetary authority with sweeping powers. This system is to emulate in part the original central world bank design for the International Monetary Fund which has been shelved as absolutely utopian.

The starting move is again to be a "certain stabilization of the exchange rates" of the Snake currencies in relation to the other Community currencies. This is to be the first step in a five-year programme which has the attainment of monetary union for its ultimate aim. A coordination concept with a manifestly economistic bias has been adopted as a flanking measure for the new exchange rate cooperation: the internal market is to be "brought to completion" within five years; and the convergence of the national economies and the structural measures and solidarity in monetary matters are to be "improved upon" in this context. This quite non-committal programme deserves to be described as economistic because it shows no sign of a basic guiding idea but envisages nevertheless far-reaching and in economic terms costly measures in the spheres of monetary and structural policy. For instance, the Community is to be given much more scope for rendering foreign currency support although the allocations for this purpose were already doubled in December 1977, the persistently inflationary climate in the EC notwithstanding.

The "new" structural policy for the Community seems to relate primarily to attempts to solve the mostly self-inflicted structural problems in the iron and steel, textile and shipbuilding industries at the expense of third countries. This sort of structural policy amounts essentially to an imi-

<sup>11</sup> H. Willgerodt, Voraussetzungen einer Europäischen Währungsunion (Prerequisites of a European monetary union), in: *ORDO*, Vol. XXIII, 1972, p. 79.

<sup>12</sup> In 1976 alone the Federal Republic of Germany made an "integration sacrifice" of DM 13.2 bn for intervention measures to stabilize the Euro-Snake but the integration-promoting effect of this sacrifice in the meaning of the pacemaker theory did not become evident.

tation of the EC policy for the agricultural markets which aims chiefly at conserving the existing structures. The disintegrative effects of the agricultural policy have been described.

This concept which accords with the pacemaker theory makes it easy for all governments in the EC to continue to go their own ways in economic and monetary policy and to impede the integration process thereby. The EC Commission's new five-year programme for economic and monetary union cannot be discussed here in all its details. In the light of the experience gained so far we may however venture the prediction that it will prove impossible to advance by this route to the unified European monetary system by which German circles in particular set great store<sup>13</sup>.

### The Example of the CMEA

The order principles for the policy of integration to be deduced from the CMEA statutes of 1949<sup>14</sup>, the Principles of International Socialist Division of Labour of 1962<sup>15</sup> and the CMEA Complex Programme of 1971<sup>16</sup> suggest that it is intended to give effect to a variant of the functional integration, especially as institutions with supranational sovereignty over planning, direction and supervision do not yet exist. The establishment of apposite institutions seems to be ruled out for the near future by the constitutional reaffirmation of the national monopolies over external economic affairs and by the insistence on the sovereign right of the individual CMEA countries over planning matters. This means that the only method of integration which is practicable under the economic conditions set by central administration cannot be applied, for strict parallelity of internal and international forms of the planned economy follows logically from the Leninist principles of socialist economic planning, especially from the "unity of politics and economics" and from the "unity of the economic plan"<sup>17</sup>. This structural parallelism provides the conclusive argument for the effectuation of a comprehensive integration concept with a supreme supranational planning authority in the CMEA, which implies an all-inclusive institutional economic union branching out into national offices for external economic affairs; for integration-induced denationalization of planning, direction and supervision of the national economic activities requires an internationalization of the central foundations of the economic order, especially those relating to socialist property, and uniform political planning competences and powers of control. Economic integration of collectivist countries does indeed "because of the through and through political nature of their economic system presuppose an effective renunciation of the nation as an essentially sovereign entity"<sup>18</sup>.

The concrete substantive application of the Leninist principles of economic planning in the CMEA countries is marked by a pronounced heterogeneity — except, perhaps, in the USSR and the GDR<sup>19</sup>. If coordination of the economic plans is nevertheless to be a principal means of socialist integration while real internationalization of planning and direction of the external economic relations is still out of the question, it must be asked what other forms the economic cooperation in the CMEA may take. Bilateral trade and production treaties are the classical form of such cooperation but they presuppose for their efficiency prior multilateral adaptation of the economic plans, perhaps with a view to intra-CMEA specialization which may be desired for a variety of reasons and to varying degrees. One can only guess at the political exertions which have to be made in this connection, but politicians in CMEA countries are clearly as prone as those in the EC to put the blame for integration difficulties and the selfish hankering for autarky on factors which are supposedly beyond control. Special emphasis is put in this connection on differences of economic structure and development between the CMEA countries generally and various industries in particular.

### An Economistic Subterfuge

That CMEA terminology draws on integration terms and forms which have nothing to do with the system — such as trade liberalization, world market price orientation, multilaterality of economic relations, currency convertibility — may be described as an economistic subterfuge. There is evidently some connection between this and

<sup>13</sup> Cf. the Federal Government's report on integration in the European Communities, Bundesrat paper 212/78, April 28, 1978, p. 11.

<sup>14</sup> Cf. A. Ushakov, *Der Ostmarkt im Comecon* (The Eastern market in the Comecon), Baden-Baden 1972, p. 43 ff.; J. Bethgenhagen, H. Machowski, *Integration im Rat für gegenseitige Wirtschaftshilfe* (Integration in the Council for Mutual Economic Assistance, 2nd revised and extended edition, Berlin 1976).

<sup>15</sup> The ISDL principles are: 1. Close association of the socialist countries, 2. Coordination of the economic plans as the principal means of integration, 3. Specialization and cooperation in the most important production sectors, 4. Achievement of a high beneficial effect of ISDL, 5. Elimination of the historical differences in the level of development of the CMEA countries with due regard to the national preconditions, 6. Value equivalence in the exchanges of goods between the socialist countries, i.e. observance of the principle of mutuality and non-discrimination in economic intercourse. Cf. Neues Deutschland, East Berlin, June 17, 1962.

<sup>16</sup> Complex Programme for the further Intensification and Perfection of the Cooperation and Development of Socialist Economic Integration between the Member Countries of the CMEA, *Die Wirtschaft*, No. 32, August 11, 1971, p. 1-40.

<sup>17</sup> J. F. Kornov expresses the view (in: *Spezialisierung und Kooperation der Produktion der RGW-Länder*, East Berlin, 1974, p. 244) that such proposals for the elaboration of uniform standards for an all-inclusive general international plan have "objectively not yet fully matured".

<sup>18</sup> W. Röpké, *Nation und Weltwirtschaft*, *Ibid.*, p. 53.

<sup>19</sup> According to Jens Hacker it has often been said in the GDR that the integration of the Eastern bloc has gone so far that one may speak of an entity having a separate standing and its own principles under international law. Cf. Press and Information Centre of the German Bundestag (ed.): *Zur Sache. Themen Parlamentarischer Beratung: Deutschlandpolitik*, No. 4, 1977, p. 130.

the predilection in the CMEA for economic part-solutions which deserve to be described as economistic because they are inconsistent with the only form of integration which fits in with the CMEA system. Typical are the vertical integration forms practised in the CMEA such as the integration of raw material, energy and certain manufacturing industries. These and other forms of integration require common planning, direction and supervision, with appropriate international planning prerogatives, because they involve collectivist property dispositions.

It is a fact that the forms of specialized or communalized production, perhaps through International Economic Organizations (IEO), introduce "qualitatively new features into ownership relationships. The product is generated jointly. It becomes the common product of the partners. The appropriation process is changed."<sup>20</sup> To the extent to which common production facilities develop into a new motive power for integration the CMEA will however experience an ever stronger conceptual need for the centralization of the formerly national planning and direction powers. Taken to its logical conclusion, this method of integration comes close to the Leninist idea of a socialist large-area economy with a common overall plan for the CMEA (which would inevitably be dominated by the USSR) and not to the functionalist integration concept desired at present by the smaller member states in particular which is marked by a preponderant desire for economic escape routes. Some of these will be mentioned here.

### **A Price and Currency Community**

It is a central objective of the CMEA Complex Programme to advance by 1980 stage by stage to economically founded scarcity prices and realistic exchange rates as the basis for multilateral settlements by means of a system of transferable currencies with partial convertibility and partial trade liberalization. The concrete problem here is how to bridge the gulf between diverging national price structures which is an ineluctable consequence of the marxist theory of (labour) values and prices and how to cope with the ensuing dual and treble price systems.

Let us assume that the Complex Programme would try to accomplish this task along the lines of an integration concept of compelling circumstances (the pacemaker theory) as developed by Polish economists in 1969<sup>21</sup>. According to this

<sup>20</sup> F. Sack, Erfahrungen und Probleme bei der Bildung internationaler Wirtschaftsorganisationen der Mitglieder des RGW aus der Sicht theoretisch-methodologischer Grundfragen der politischen Ökonomie des Sozialismus (Experiences and problems of the formation of international economic organizations of the CMEA members as seen from the viewpoint of basic theoretical-methodological questions bearing on the political economics of socialism), in: Wirtschaftswissenschaft, 23rd year, 1975, No. 10, p. 1453.

the prices of a certain number of major selected goods (raw and energy materials and important primary products) are to be fixed more or less uniformly for all CMEA countries. Any price differences would be expected to be due, in the main, to the diverging costs and productivity rates in the manufacturing phase of the production process. It is argued that this form of price harmonization is justified because under the conditions of the classical free trade all that happened would, essentially, be an alignment of the international prices. That a wide measure of anticipatory trade liberalization is an indispensable requisite of such adjustments is deliberately overlooked. Nevertheless it is hoped to banish the existing multi-price system for the goods in question in this way, which cannot be described here in all its details<sup>22</sup>, and thus to achieve conformity between the internal purchasing power and external value of the national currencies.

### **Contrary to the Requirements of the Economic Order**

The exchange rates arrived at in this way are to remain fixed and act as a universal instrument for direct planning and direction of the foreign trade in the CMEA. A distinction between quota goods and non-quota goods was proposed, and introduced in the Complex Programme in 1971, in regard to the intra-CMEA exchange of goods. Multilateral settlement over the International Bank for Economic Cooperation (IBEC) is envisaged only for the non-liberalized trade exchanges. The liberalized trade is to be settled for a limited number of goods (chiefly consumer goods) on the basis of the socialist standard currency, the transferable rouble. Any balances left are to be settled in gold or drawing rights on certain major commodities with a world market. In this way the balances could be turned into convertible Western currencies at any time. Partial convertibility would thus be achieved, and this could be extended as and when the liberalized trade drew in proportion, so that one could also speak of a partly convertible transferable rouble.

Were this concept to be applied in practice, it is easy to predict that it would be the aim of every country in the negotiations about the liberalization lists to have as many of the goods which it possesses in abundance or which it can produce relatively cheaply or sell, for whatever reasons, at high prices included in these lists. The more successful a country is in this respect, the greater is its chance of emerging from the settlements

<sup>21</sup> Cf., for further details, A. Schüller, Osthandelspolitik als Problem der Wettbewerbspolitik (East trade policy as a problem of the competition policy), Frankfurt 1973, p. 201 ff.

<sup>22</sup> *ibid.*



with a surplus balance and of accumulating convertible currency balances for purchases in the world market. If the somewhat vague ISDL principle of equality of treatment and non-discrimination is applied, the liberalization lists can be expected to grow to enormous lengths, the more so as the described procedure for price alignment and exchange rate determination can be manipulated at will. Whether the exchange relations conform to the plans or not would become a marginal consideration in intra-CMEA trade. Such a result would however fly in the face of the order requirements of a system of central planning and direction of economic relations.

### A Narrow Marxist View

The economic origin of the outlined proposal is evinced by the fact that it was made when Poland was a chronic creditor in the CMEA. The Poles understandably did not cherish the prospect of mandatory clearing of balances by means of goods which they did not want and the danger of being stuck with balances for good. The substantial price increases for raw and energy materials in the world market since 1973 have changed the balance of interests of the individual CMEA countries in regard to foreign currencies profoundly: The USSR has become the outstanding creditor — especially in relation to Poland — and it is the Soviet economist T. O. Bogomolov who now opines that gradual convertibility of CMEA clearing accounts in gold or hard currencies is a suitable means of stimulating intra-CMEA goods exchanges while his Polish colleague A. Marszalek expects such a hardening of the transferable rouble to have adverse effects on the international socialist division of labour.

Marszalek uses an argument which may be described as a variant of the coronation theory of integration founded on development-economic considerations<sup>23</sup>. According to this view, which has often also been presented in the West, production cannot be freed from the intrinsic limitations of a planned economy until the "convertibility of goods" has been achieved, i.e. until the CMEA countries are capable of producing — and setting aside for the export trade — a "suf-

ficiency" of "hard" goods which are internationally in demand. The synchronous development of the convertibility of goods and currencies proceeds accordingly gradually over a prolonged span of time and only provided that the material constraints imposed by economic scarcities abate.

Seen from the obviously unrealistic and — owing to underlying Marxist ideas — narrow point of view, convertibility is the outcome of an economic development process which, it is true, needs a helping hand — such as the Complex Programme. The stage-by-stage plan to be carried out under the Complex Programme by 1980 resembles the Werner plan, and the EC Commission's five-year programme which took its place, in that it offers to the participants the political advantage that there is hardly any real need to justify solo tours and that any failure to reach the ultimate aim can be easily explained away as due to arrears in the economic development of individual member countries. The blame can, besides, be put on external factors supposedly beyond control. It is possible to revert in this way again and again, at one's own discretion, to a relatively non-committal integration programme for multilateral plan coordination, currency convertibility and a common external economic order, simply by referring to the indeterminable precondition of the "necessary alignment of economic development levels" in the CMEA area.

### Conclusion

Under the conditions of the market economy the order and process policy offers a large variety of alternatives in regard to the desired degree of integration. So there is no need to resort to economic part-solutions of a kind which — like those described here — raise more integration problems than they resolve. Theoretical reasoning and practical experience show alike that the choice between alternative solutions is not available to centrally directed economies. The abortive attempts to give a real meaning to certain terms of the free trade language (like multilaterality, liberalization, convertibility) within the compass of the CMEA demonstrate the dilemma of operating with such concepts in the absence of a basic market-economy concept of the order of the international division of labour and currency exchange relations.

Reference to other attempts to create a socialist price and payments community<sup>24</sup> would also show that the efforts to extensive division of labour and effective forms of an equilibrial regulation of the external economic relations in accordance with scarcity considerations into the CMEA come up against an economic order limit which is dis-

<sup>23</sup> Marszalek refers to an argument which allows of arbitrary application, namely, that the economic requirements for the introduction of even partial convertibility of the transferable rouble do not exist as long as the CMEA countries do not possess the requisite reserves of hard currencies. Cf. A. Marszalek, *The Transferable Rouble*, quoted by H. Trend, *Some Issues for the 30th Comecon Council Session*, Radio Free Europe Research, RAD Background Report/151, July 2, 1978.

<sup>24</sup> Mention may be made in particular of the static concept of "international socialist price determination" on the basis of unavoidably obsolete reference prices in the world market and of Kormnov's proposal for a jointly organized procedure for ascertaining the optimum structures for specialization in the CMEA. Cf. J. F. Kormnov, *op. cit.*, and for a critical view, A. Schüller, *op. cit.*, p. 183 ff. Concerning the state of the various forms of integration in the CMEA cf., also, the survey by H. Trend, *Comecon at the Beginning of 1977*, Radio Free Europe Research, RAD Background Report/65, March 25, 1977.

cussed in the marxist literature as a "basic contradiction between the internationalization of the productive forces and the national organization of production and social life". Consistently with this basic contradiction socialist state ownership is to be regarded as the decisive impediment to integration in the CMEA<sup>25</sup>. The economic approach to integration policy obviously offers no escape from this dilemma which is inherent in the existing order. The only alternative left is a socialist super-state which, by definition, has no integration problems. However, it has to cope with all the more regional and structural problems. From this situation it is often concluded that such a socialist economic integration cannot be attained except by a route which is at least as long and difficult as that in prospect for the economic and monetary union of the EC.

Whatever may be thought of such predictions, it is crucial to note one continuing difference between the Eastern and Western integration efforts which is of great moment for the welfare of individuals and nations: No bottomless hole will open below the member countries of the EC as far as their integration is concerned even if the Community does not achieve the objective of eco-

nomic and political union. They will still enjoy the advantages of a widely ramified and efficient international division of labour and factor migration even if, and especially if, the exchange rates are flexible. Under a market-economy order the activation of these advantages depends upon the extent of liberalization. The CMEA, in contrast to the EC, cannot develop an even approximately comparable integration mechanism with a similar impact on the general welfare as realistic exchange rates. One need only look at this fact soberly and without illusions to appreciate that suggestions for the incorporation of the Eastern bloc in what has been called a "fully integrated international monetary order" should be dismissed as economic daydreams which have nothing to do with reality.

<sup>25</sup> Cf. T. Kiss, Probleme der sozialistischen Integration der Mitgliedslander des RGW (Problems of socialist integration of the CMEA member countries), Moscow 1971, p. 155; G. Kohlmeier, Ökonomische Theorie und sozialistische Integration (Economic theory and socialist integration), East Berlin 1975, p. 35 f. K. H. Stiemerling (Die sozialistische ökonomische Integration — ein Merkmal der Gestaltung des entwickelten Sozialismus [The socialist economic integration — a characteristic feature of developed socialism], in: Wirtschaftswissenschaft, 24th year, No. 8, 1976, p. 1121 ff.) does not voice any pessimism in regard to integration policy as suggested by this impediment but takes a rather optimistic view, and this on the mysterious ground that the potentialities of the socialist states and the socialist means of production are still far from having been exhausted.

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