

Bolz, Klaus

Article — Digitized Version

A new cooperative mechanism for the CMEA?

Intereconomics

Suggested Citation: Bolz, Klaus (1989) : A new cooperative mechanism for the CMEA?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 24, Iss. 1, pp. 41-47, <https://doi.org/10.1007/BF02928547>

This Version is available at:

<https://hdl.handle.net/10419/140170>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Klaus Bolz*

A New Cooperative Mechanism for the CMEA?

Dispute as to the need for any thoroughgoing reform of the Council for Mutual Economic Assistance flared up all over again at its 44th Congress in Prague in July 1988. The Soviet Union has now placed itself at the head of the movement for reform but the problems to be faced are considerable and it will take some time for substantial steps to be taken.

Even the economic reforms initiated in some Eastern European socialist countries during the 1950s and '60s were based upon a realization that economic progress can only be intensified if individual enterprises are more closely involved in production and investment decisions. Because it did not prove possible to carry out the reforms to the system designed to make this possible, namely the replacement of direct planning and control by a system of global planning and indirect control, it was also impossible to develop initiative in individual enterprises to the desired extent. In the light of this experience and as a result of greater overall pressure for reform, the system changes of the 1980s have aimed at a wide-ranging economic autonomy for enterprises right from the outset. The ultimate goal is to take the state out of the field of enterprise-level activities and decisions altogether.

A concomitant aim of the reforms is to give more momentum to the intensification of economic processes by having a more open economy. A reshaping of cooperation within the CMEA is also therefore of great significance when it comes to successfully enforcing reforms at a national level; that is to say, such cooperation needs to effectively support reform in individual countries, consistently with overall conceptions, and must not run counter to them. The present method of cooperation is characterized by strict bilateralism with all its implied negative effects, and cannot meet such demands. To put it differently, the national reform processes result directly in the need for action in external economic relations consisting of fundamental changes in the mechanisms of integration.

In parallel to its internal economic reforms granting a central position to the enterprise, the Soviet Union has

also introduced new arrangements in its external economic relations, no small part of which also involves confronting production enterprises more strongly with foreign markets.¹ Like Hungary and Poland before it, then, the Soviet Union is today strongly advocating that the CMEA's integration mechanism be reconceived. Czechoslovakia and Bulgaria are involved in an active rethinking process; only the GDR and Romania remain on the sidelines.

New Beginnings Attempted

There have been a number of CMEA conferences during the past three years where member countries have dealt with the need to create a new integrative mechanism. The urgency with which such a mechanism was demanded grew from one conference to the next. Deficiencies in cooperation and intensifying problems in individual socialist economies were exposed with what on occasion was a merciless degree of openness:² the complaints included stagnation in trade among member countries, socialist countries' declining share of world trade, inadequate competitiveness of products, slackening production growth rates, and so on. Thus leading representatives of the socialist CMEA countries reached the conclusion (once again) at a "working meeting" on 10th-11th November, 1986 that deepening socialist economic integration and the use of new, more advanced forms of economic cooperation were matters of great immediacy.³ Although no detailed information is available on precisely what was discussed at the working meeting, there is good reason to believe that the

* Hamburg Institute for Economic Research (HWWA), Hamburg, West Germany.

¹ Cf. K. Bolz, A. Polkowski: Stand und Entwicklungschancen der Wirtschaftsreform in der Sowjetunion zu Beginn des Jahres 1988, HWWA Report, Hamburg 1988, esp. pp. 19 ff.

² Cf. W. Sytschow (Sychev): RGW: Grundlegende Umgestaltung des Mechanismus des Zusammenwirkens, in: Außenhandel UdSSR, No. 2, 1988, p. 2.

³ Cf. *ibid.*

party heads were again unable to agree on substantial points involved in such a reform programme, despite the urgency of the problems amassing. The conference did not produce any direct results beyond the establishment of a working party to draw up a programme of reforms for the CMEA.

Honecker and Ceausescu both left no shadow of a doubt once the conference was over that any form of cooperation would have to leave individual countries' national interests unimpaired. Gorbachev, for his part, has made a number of remarks since then in which he made it clear that he also intends his *perestroika* to be taken seriously in the cooperation among CMEA members. At the Soviet Communist Party's June 1988 conference, he also formulated his view of CMEA integration to the effect that the rouble should be made freely convertible within the foreseeable future and that a uniform socialist market should be created.⁴

Aims of Cooperation

In what amounted to a continuation of the discussions during the November 1986 working meeting, the major aims and directions of development for the CMEA's joint endeavours to encourage changes in the cooperative mechanism were formulated at the 43rd (extraordinary) CMEA Congress. These were as follows:⁵

- ☐ to intensify economic development all round,
- ☐ to deepen reciprocal economic, scientific and technological relations on the basis of a more developed system of specialization and cooperation,
- ☐ to accelerate levelling processes in the development status of all CMEA countries.

The CMEA's Secretary, Mr. Sychev, emphasized that this congress was prepared as a joint effort by all CMEA countries and that great attention was paid during all the considerations made to whether the proposed reforms would be reconcilable with the national peculiarities of the economic systems in the individual countries concerned. The latter remark should presumably be interpreted to the effect that individual countries continued to express a large number of doubts regarding any new integrative mechanism.

The outcome of the 43rd Congress was the resolve to work out a collective concept of an international, socialist division of labour for the period 1991-2005, the aim being to secure a more rational and effective international division of labour; it was once again left

until some future occasion to seek any solution to awkward questions of detail.

It therefore came as no surprise when the dispute as to the need for any thoroughgoing reform of the Eastern economic community flared up all over again at the Council for Mutual Economic Assistance's 44th Congress in Prague in July 1988.⁶ Although the congress's closing communiqué does note that the CMEA members reaffirmed their intention of creating the conditions – step by step, and after conducting appropriate preliminary investigations – for a free flow of goods, services and factors of production with a view to building up a unified market, nevertheless, even after the congress vastly differing views continue to prevail from one CMEA country to another on how exactly to proceed; it really cannot be said that any breakthrough has been achieved towards more rational economic cooperation. Romania did not sign the closing communiqué and expressly distanced itself from it.⁷

It is extremely difficult for an outside observer to construct a picture of how strong the will to integrate is in the individual countries. The Hungarian Vice-Premier Marjai also contributed to this uncertainty in remarks he made after the congress. In Mr. Marjai's view the 44th Congress showed that all the countries concerned saw the situation in a much more similar way than they had done even a matter of months before (at the 43rd Congress), and that everyone was now beginning to realize that it would not be enough to improve and perfect the existing mechanism, but that it would have to be fundamentally changed. At the same time, however, he noted that CMEA members lacked the readiness to accept and implement proposals which had already crystallized and could in fact be rapidly put into practice. Despite this, Mr. Marjai believed the critical phase in internal CMEA discussions had now been overcome.

Consideration of National Interests

If one also examines recent comments by government representatives from other CMEA countries one will be aware that there are central issues where there is still no consensus, and indeed that there are fundamental questions where there is an unbridgeable gulf between the opposing standpoints, with the GDR and Romania both being especially unwilling, though for different reasons, to go along with the other members' positions. This has been apparent at all meetings of CMEA representatives, including those not mentioned in this article. The GDR, for example, is

⁴ Cf. Neue Zürcher Zeitung, No. 154, 6th July 1988.

⁵ Cf. W. Sytschow (Sychev), op. cit., p. 2.

⁶ Cf. Neue Zürcher Zeitung, No. 156, 8th July 1988.

⁷ Cf. Neue Zürcher Zeitung, No. 157, 9th July 1988.

quite open about its demand that whatever changes are made in the mode of cooperation the principle of preserving national interests must apply at all times; that is to say, reforms within the CMEA will have to take account of developments in the national economic systems of all of the individual member countries. That in turn means, however, that any comprehensive change in CMEA mechanisms will be doomed to failure unless and until the GDR is prepared to liberalize its own system.⁸

No wonder, then, that the closing communiqués of the meetings so far mentioned were all in the nature of a compromise, and that no agreement has yet been reached on any concrete steps to reshape the CMEA mechanism. Because its economic significance is relatively small, Romania's repeated resistance to the policies put forward by other CMEA countries is something which can be lived with. What does impose a burden on the CMEA's future, though, is that the organization's second strongest economic power after the Soviet Union, namely the GDR, cannot agree to the proposed solutions. One example of the problem is that even in future the GDR will only accept the direct relations between economic enterprises in different CMEA countries now being aimed for if wide-ranging central controls are maintained. The country has also been emphatically clear in expressing its disinterest in the introduction of currency convertibility among CMEA members and the granting of greater freedoms in the process of establishing prices for goods traded between them.⁹

Integration within a Central Group

Despite all the detailed differences of opinion, it is still crucially significant that Hungary and Poland are no longer alone in recognizing the inevitable need for change but that the Soviet Union, having been very guarded for 15 years or so, can now also be counted among the advocates of such a policy, and indeed has become its main driving force. Sooner or later, even if for no other reason than the Soviet Union's importance as a trading partner for each individual CMEA country, these other members will see it in their own economic interest to accept a new mechanism for cooperation which is favoured by the Soviet Union.

As a result of the pressure from economic problems which have become increasingly unbearable, and having seen the renewed evidence of reluctance on the GDR's and Romania's part, a number of CMEA countries now appear to be showing enough flexibility and courage to take leave of the familiar ways of the past. The Hungarians in particular are obviously now

prepared to take issue with what has so far been a taboo, namely the desire that all decisions made within the CMEA should be taken in unity and be generally applicable.¹⁰ They no longer see it as an impossibility that a new cooperative mechanism could first be put into operation – even if only on a temporary basis – by a smaller group of “interested countries”. This would mean the formation of what would effectively be internal areas of closer integration within the CMEA in which it would no longer be possible for progress in integrating the group to be disrupted by the mechanisms operating in other countries. Advances could thus be made in putting market-like mechanisms into practice in the CMEA which would not be affected by the GDR's or Romania's more centrally determined variants of the economic system. Integration, then, seems conceivable today on a basis allowing different countries to progress at different paces.

The Challenge of the EC Internal Market

Hungary in particular has been insistently pointing out in recent times that another reason why the CMEA integrative mechanism needs to be fundamentally reformed lies in an additional challenge:¹¹ when, by the end of 1992, the European Community's Internal Market has become a reality, this may well generate setbacks for the members of the Council for Mutual Economic Assistance. The threat is seen that efficient integration in the EC and increased competition within its market will, as it were, drive the CMEA countries out of the circle of European economic relations, and that the economic and technological gap which already exists will become impossible to close. The socialist countries, according to this argument, have to respond to the EC's integration processes by initiating fundamental changes in their own cooperative mechanisms. Only then could they hope to avoid falling even further behind in international trade and to develop into a partner that Western European countries could also take seriously within the foreseeable future. In short, it would be absolutely essential to depart from the conventional bilateral commodity trading between CMEA countries and to embark on genuine integration. The aim would have to be one of organizing the division of labour so that the flows of goods, money and finance would no longer stand in the way of multilateral relations but would actually encourage them.

⁸ Cf. *Neue Zürcher Zeitung*, No. 100, 2nd May 1988.

⁹ Cf. among other reports *Neue Zürcher Zeitung*, No. 273, 25th November 1987 and No. 154, 6th July 1988.

¹⁰ Cf. *Budapester Rundschau*, No. 250, 20th June 1988.

¹¹ Cf. *ibid.*

Direct Relations between Enterprises

The fact that the Soviet Union has now placed itself at the head of a movement aimed at reorganizing CMEA cooperation not only signifies that Nikita Khrushchev's approach of achieving CMEA integration by means of a supranational plan is finally passé, but also that integration should now in fact be achieved by the opposite approach of decentralization, with the predominant role played by direct relations between individual countries. The intended multilateral approach to cooperation involves direct relations between enterprises together with further links on two further levels: one of these is the official level of country-to-country relations, and the other is that of direct relations between branches of the economy in individual countries.¹² Considerable light is thrown on these aspects by Mr Sychev's statement that, although enterprises themselves become direct participants in the integration process, this does not on any account mean that the benefits of cooperation based on central planning would be lost. Indeed, at the closing session of the Prague Congress Sychev went so far as to declare that despite the need for radical changes in the mechanisms of cooperation, coordination based on plans would still remain one of the basic instruments.¹³

Preconditions for Direct Relations

When interpreting the phrase "Integration through Decentralization and Direct Relations", occasionally proclaimed as a form of catch-all, one ought not to overlook the fact that responsible bodies in individual CMEA countries do have quite different understandings of how much importance still ought to be attached even in future to the two higher levels within the framework of direct relations. The position they adopt on this matter is in turn a major determinant of the individual countries' attitudes to further-reaching, concrete steps towards integration. Nevertheless, the majority of CMEA countries do at present appear to regard direct relations between enterprises as the crucial driving force when it comes to reshaping integration. The expectation is that a large number of such direct relationships will bring about the desired multilateral dimension in the countries' relations in general. This view is to some extent a fallacious one, for permitting direct relationships, including joint ventures, does not of itself

create any new mechanism; in fact, if direct relations are to function properly, the establishment of a corresponding mechanism ought to be a prerequisite.

Direct contacts between autonomous economic units from different countries – without any mediation by foreign trade agencies – cannot be reconciled with the principles of planning and guidance applied to foreign trade up to now; they do not fit in with the system of bilateral trading agreements drawn up between governments, and they elude current price-setting procedures as well as the payment system in which all transactions are made through a special CMEA bank in Moscow. If, therefore, direct relations are to bring the expected results in terms of production, science and technology for the system of economic cooperation between CMEA countries, a whole series of crucial preconditions must first be fulfilled. A very clear indication of this is now available in the formation of joint enterprises by economic units from two or more different CMEA countries. So many unresolved questions crop up in practice when such ventures are formed that their numbers to date lag behind those of joint ventures set up with the participation of Western companies. There can only be any sense in direct contacts if the enterprises involved are able to negotiate their own prices for the goods and services provided, to make their own payments directly, and to charge and settle accounts in different currencies; what is needed is a system of prices and exchange rates geared to scarcity.

Inadequate Price and Currency System

Because neither the process of setting prices nor the absolute or relative level of those prices in individual CMEA countries bears any sensible relation to economic realities, those countries are still at present forced to conduct their bilateral trade on the basis of world market prices or, in other words, in the prices prevailing in the capitalist countries. The basis for bilateral price negotiations has been provided since 1976 by average world market prices during the preceding five years. This method of price-setting, together with the various surcharges and discounts also calculated, is the reason why all CMEA countries avoid allowing surpluses to develop in the bilateral trade of goods and services. The situation is that despite the general validity of this price-setting formula, the price of any particular good is not generally of an equal level in all country combinations; that is, in the real world a transferable rouble does not have the same value in dealings with all trading partners.¹⁴

Payments for the flow of goods between CMEA countries are made via the International Bank for

¹² Cf. W. Sytschow (Sychev), *op. cit.*, p. 3.

¹³ Cf. *Nachrichten für Außenhandel*, No. 130, 11th July 1988.

¹⁴ Cf., among others, F. Levick: *Der transferable Rubel und Probleme der Konvertibilität*, in: G. Zieger (ed.): *Finanzierungs- und Währungsprobleme des Ost-West-Wirtschaftsverkehrs*, Cologne etc. 1979, pp. 30 ff.

Economic Cooperation (IBEC), founded in 1964.¹⁵ The establishment of the IBEC and its system of settling accounts on the basis of the transferable rouble¹⁶ replaced the earlier clearing system where the means of calculation was the clearing rouble. Each country now simply operates a clearing account with the IBEC where all exports or imports are credited or debited accordingly. From a purely technical point of view, this is a multilateral accounting system. However, because all countries always take care to balance their trade with individual partners – that is, because trade is always strictly bilaterally oriented – the multilateral accounting system has not obtained any economic significance. Quite apart from the differences in the transferable rouble's purchasing power from country to country, any surpluses achieved could not be used to buy goods in a freely chosen CMEA country because a free goods market does not actually exist, and all transactions are conducted as part of firm planning agreements. Only about 1-2 % of all trade in goods and services calculated in transferable roubles represents multilateral trade.

The Need for Convertible Currencies

Before direct contacts between autonomous, profit-oriented economic units from different countries can function properly, an integrative mechanism in the CMEA must first exist which is oriented to the market economy. An institutional component of any such common market would have to be the convertibility of national currencies, for this is the only means by which enterprises can obtain a basis for calculating and evaluating the transactions they make.

Recognition of the fact that the convertibility of national currencies is indispensable if trade is to be lastingly intensified and made multilateral is not fundamentally new within the CMEA. As early as 1971, the member countries pledged as part of their comprehensive programme that they would work step by step towards convertibility. At that time, however, the ultimate aim was not to fundamentally reconceive the

way in which CMEA countries cooperated, but simply to perfect the existing system by making the transferable rouble properly convertible. In the light of the scarcity of resources and the rigidity of the systems in the individual countries concerned, Western observers did not see much chance of this goal being realized. As illustrated by the discussion on convertibility which has recently flared up all over again, the sceptics have been proved right in this instance.

It will be immediately obvious that convertibility can only produce favourable impulses towards multilaterality if exchange rates between the various national currencies are determined by economic factors. Convertibility thus itself has a precondition attached, namely a comprehensive price reform in all the socialist countries affected, the final result of which must be prices for goods and services giving a true reflection of scarcities. These brief remarks alone are enough to show that whether or not the rouble and the other CMEA currencies are made mutually convertible is not merely a question of political will. The decision as to whether this is a path which really can be trodden is much more dependent on a large number of economic factors, among which each country's economic potential is especially important, for when it comes down to it convertibility means nothing more than that the value of a country's currency reflects that country's real economic potential.¹⁷

Professor Shenayev, the Vice-President of the European Institute in Moscow, has summarized the task ahead as follows:¹⁸ To achieve convertibility both among the Eastern currencies and between them and hard, Western currencies, extensive convertibility of goods must first be attained or, in other words, goods must be produced in sufficient quantities and of a high quality. Shenayev believes convertibility is attainable for the Eastern currencies by the year 2000; official spokesmen/women from Poland, Czechoslovakia or Hungary are hardly any more optimistic than that.

Step-by-step Policy

Official opinion in the Soviet Union now seems to tend to the view that a whole set of conditions first needs to be fulfilled so that the way can be cleared towards convertibility. Ivan Ivanov, for example, who is Deputy Chairman of the State Foreign Trade Commission of the USSR Council of Ministers, holds the view that one needs to proceed very carefully in setting about making the convertible rouble a reality because the changes involved are of such fundamental significance that they not only affect the activities of joint enterprises and the

¹⁵ Cf., among others, V. Válek: Umgestaltung der Valuta- und finanziellen Beziehungen: Die tschechoslowakische Position, in: Tschechoslowakische Wirtschafts Rundschau, No. 7, 1988, pp. 45 ff.; F. Levčík, op. cit., pp. 27 ff.

¹⁶ The transferable rouble does not represent money in the true sense, but is only an accounting unit used exclusively for bookkeeping purposes at the IBEC. The national currencies of the individual CMEA countries are all purely domestic currencies. Each is used according to the country's own currency laws. Although exchange rates have been set between the national currencies and the transferable rouble, because these are not economically relevant the logical consequence is that the transferable rouble is not convertible.

¹⁷ Cf. *Ekonomičeskaja gazeta*, No. 9, 1988.

¹⁸ Cf. *Die Presse*, Vienna, 1st December 1987.

direct relations between firms in several countries but also bear upon all international economic relations and, beyond that, upon the very ability of the domestic economy, and especially domestic markets, to function properly. For these reasons, Ivanov recommends that the Soviet Union should follow a step-by-step policy towards convertibility.¹⁹

The first problem he believes has to be tackled is one which is characteristic of the socialist countries, namely that the disequilibrium between the quantity of money in circulation and the quantity of goods on offer needs to be overcome. If convertibility were to be introduced prematurely this might do no more than fuel inflationary tendencies which are already apparent. The first necessity therefore would be to bring more goods on to the market so as to achieve a degree of balance between the supply of goods and the quantity of money. What Ivanov does not mention, however, is how that should be achieved with the current endowment of factors of production.

Another step which Ivanov asserts would have to be taken before introducing convertibility is that of ascertaining the precise purchasing power of the rouble, the zloty, the mark etc. This could only happen if comprehensive price reforms are undertaken, which in the Soviet Union's case should be completed by 1991. This stage of the reform process in particular will, according to Ivanov, cause substantial hardship to the population, as there would inevitably be major price increases even for essential commodities and the price reform would need to be accompanied as far as humanly possible by the elimination of the subsidies which have been provided for decades. Once the purchasing power of the rouble could be calculated on the basis of these new prices, it would then also be possible to try and establish exchange rates on a proper economic basis. In practice, though, convertibility would still not be advisable even at this stage if short-term problems for both the domestic and the foreign-trading sections of the economy were to be avoided.

The price reform would need to be accompanied by adjustments to the system by which goods and services are distributed, especially as far as raw materials and other inputs are concerned. Distribution by centralized state bodies (materials departments) would have to give

way to a wholesale distribution system. Only then would individuals, but especially enterprises, have the opportunity to make their purchases where they see the most favourable combination of price, quality and other conditions. Once all these preconditions for the establishment of markets in goods and services have been fulfilled, the step of allowing convertibility could be taken. If, however, the supply side were to prove deficient in either structure or quality, there would still be a danger of the exchange rate being on a downward course right from the beginning. This is why Ivanov believes it is important for industrial structures to be properly adjusted to both domestic and international requirements, or in other words that the Soviet Union and other socialist countries should offer competitive products, before the crucial step to convertibility is taken.

Great Expectations

Others who include the Soviet economist Nicolai Shmelyev seem prepared to take that final step rather earlier.²⁰ They believe a low rouble exchange rate holds the promise of increasing incentives to export for Soviet enterprises and of reducing the demand for imports, along with other desirable processes this might generate.

Shmelyev summarizes the positive overall effects he would expect from currency convertibility as follows:²¹ "This would allow domestic and international prices to be linked, a real profitability principle to be introduced into foreign trade instead of the present ostensible principle, the transition to be made from bilateral to multilateral cooperation within the CMEA, the Soviet market to be opened up more widely for other CMEA countries, debts to be appropriately managed and, finally, the chief obstacle to joint ventures in our country to be removed."

In Shmelyev's view, these positive effects would not only be safeguarded by a balance-of-payments surplus with economically powerful countries, but it would also be possible to have recourse to certain product reserves (this presumably refers to raw materials and fuels), to some extent to gold and foreign exchange reserves and possibly also to new international borrowing. "With the strengthening of the rouble and of public finances we will help create conditions in which it does pay in real life, and not just in theory, to be honest and conscientious in one's work, and to show initiative and thrift, conditions in which the interests of the state, of enterprises and of each working individual can all be taken into account."²²

Given the great variety of problems still needing to be solved, however, influential circles in the Soviet economic administration and the academic world hardly

¹⁹ Cf. Moscow News, June 1988 (p. 11 in German edition); and Handelsblatt, No. 85, 3rd May 1988.

²⁰ Cf. Moscow News, June 1988 (p. 11 in German edition).

²¹ Ibid.

²² Ibid.

see any real chance of achieving convertibility among CMEA currencies until the end of the century. In order to draw some benefit from direct relations between economic units in different countries before that stage is reached, some CMEA countries are making efforts to put more modest currency models into operation.²³ The Soviet Union and Czechoslovakia are the first two countries to have put what is known as bilateral convertibility into practice.

Bilateral Convertibility

Express demands had already been made at the November 1986 working meeting for national currencies to be used bilaterally, especially to encourage direct contacts between production enterprises in different CMEA countries, in what amounted to a first step towards more comprehensive convertibility. A number of member countries have taken this route since the resolution was adopted. On the strength of inter-country agreements, enterprises and organizations with foreign trading rights obtain access to the currency of the other country involved. Thus the Soviet Union and Czechoslovakia have signed an agreement under which the koruna and the rouble are convertible, and economic organizations within the two countries are allowed access to the currency of the other for trading purposes. A Czechoslovakian enterprise, for example, can fulfil its obligations towards a Soviet trading partner by drawing roubles from the Czechoslovakian trading bank. Conversely, the Soviet enterprise concerned can obtain koruna to settle its account with its Czechoslovakian opposite number.²⁴

Various agreements have by now been concluded to provide for a limited convertibility between two particular currencies. Further examples are the arrangements made between the Soviet Union and Bulgaria, and between Czechoslovakia and Bulgaria.

At the Prague CMEA Congress, express remarks were again made on the sidelines to the effect that the opportunities for exchange between two national currencies created by these agreements were to be used exclusively for payments arising out of direct

relationships between enterprises in the countries concerned, or in other words that they were strictly bilateral in nature. The exchange rate agreed between Czechoslovakia and the Soviet Union was Kčs 10.40 to the rouble. Bulgaria and the USSR are said to have settled for a 1:1 exchange rate. One would therefore expect the exchange rate between the koruna and the lev to also be in the order of 10:1.

Old Problems Still Unsolved

This system under which convertibility is agreed bilaterally in each case leaves the "old" problems of properly establishing prices and exchange rates basically unsolved. Although the CMEA Commission on Currency and Financial Matters has long been endeavouring to achieve realistic exchange rates within the organization, it is still unable today to offer much help to those countries interested in establishing bilateral accounting mechanisms. Although the governmental agreements do establish bilateral exchange rates, the extent to which decisions made by enterprises on the strength of such rates really are beneficial to the national economy is an open question. This is also one reason why such agreements were only intended from the outset to allow a very limited flow of exchange between any two currencies.²⁵ By mid-1988 approximately Kčs 10 million had been converted for direct payments from Czechoslovakia to enterprises in the Soviet Union. Even if the total for the year as a whole reaches three or four times that amount, it will remain negligible in proportion to the overall volume of Soviet-Czechoslovakian trade (Kčs 110 billion in 1986).

Just how inconvenient the lack of convertibility or of any economically grounded exchange rate for the rouble is felt to be when it comes to making rational export or import decisions is shown by recent remarks economists at the IMEMO in Moscow have made:²⁶ as a first stage on the way to full convertibility, they recommend the introduction of "domestic convertibility" for the rouble, probably basing their ideas on the experience gained in Poland where such a scheme has been operating for more than a year.²⁷ The intention would be to allow enterprises to buy and sell foreign currency for roubles on an internal exchange. The exchange rates which then freely established themselves would provide some indication of which export or import transactions were worthwhile. Apart from that, such exchange rates would do away with the need for the thousands of "valuta" coefficients currently used which are no more than exchange rates which have been laid down rather arbitrarily for specific branches for enterprises.

²³ Cf. V. Válek, op. cit., pp. 52 ff.; and, among other reports, *Hospodářské noviny*, No. 7, 19th February 1988.

²⁴ Cf. *Hospodářské noviny*, No. 10, 11th March 1988.

²⁵ Cf. *Hospodářské noviny*, No. 13, 1st April 1988; *Nachrichten für Außenhandel*, No. 134, 15th July 1988.

²⁶ Cf. *Nachrichten für Außenhandel*, No. 164, 26th August 1988.

²⁷ Cf. A. Polkowski: Polen – zu einem Devisenmarkt ist es noch ein langer Weg, in: *Industrie- und Handelsrevue, Das Deutsche Ostmagazin*, No. 3, 1988, pp. 37 ff.