Hungarian Views of CMEA Integration

By Roger E. Kanet

TIBOR KISS. International Division of Labour in Open Economies with Special Regard to the CMEA. Budapest, Akademiai Kiado, 1971.

IN THE YEARS immediately following the invasion of Czechoslovakia in August 1968, the Soviet Union initiated a major effort to increase economic integration among the members of the Council for Mutual Economic Assistance (CMEA). In April 1969 a special session of CMEA (its 23rd) adopted a 25-point protocol on cooperation, and two years later the 25th session of the Council adopted a “Complex Program” which outlined in more detail procedures for future cooperation and coordination of the member states’ economies. Although the goal of an integrated socialist economy embracing the seven European members of CMEA remains far from realization, significant progress has been made in tying the economies of the member countries more closely to one another—primarily through bilateral agreements on production cooperation.

The most important aspect of the developing cooperation among the CMEA economies has been the conclusion of intergovernmental agreements on production specialization. While sharing the Soviet commitment to expanded cooperation within the CMEA framework, however, some East Europeans have differed with Moscow over the kind of integration to be sought and the means to achieve it.

In particular, Hungarian economists and officials began, soon after introduction of domestic economic reforms in 1968, to call for a major reform of the entire structure of trade within CMEA with a view to introducing market relations financed by convertible currencies. This, they argued, would improve the operations of the organization and reduce the obstacles to expanded economic cooperation and trade.

One gets a good view of the Hungarian proposals in the three volumes reviewed here—all part of a series of English-language works on economics published by the Hungarian Academy of Sciences (Akademiai Kiado). As the third of the books attests, such views did not find widespread support among the other members of CMEA when first presented, nor were they reflected in the Complex Program of 1971 or the numerous cooperation agreements since signed. Nevertheless, the Hungarian recommendations represent an important alternative to the path to integration currently being followed in Eastern Europe.

The bold and serious way in which the Hungarians have addressed some of the persistent obstacles to genuine economic integration in Eastern Europe and the fact that some, if not most, of these obstacles remain unsurmounted today make their proposals of enduring interest.

The first of these volumes is by the late Sandor Ausch, who...
served as Hungary’s representative at CMEA headquarters in Moscow in 1949 and again in 1962-64. His book, which appeared originally in Hungarian in 1968, is an attempt “to find out what is possible in the field of . . . cooperation” (p. 9). From an examination of the large integrated markets (with common currencies) that existed in Eastern and Central Europe at the turn of the 20th century and of their impact on the economic growth of Poland and Hungary, Ausch concludes that such markets may be more conducive than economic independence to economic growth (p. 23). Based on this premise, Ausch presents a careful, reasoned argument in favor of the creation of a truly multilateral, integrated market within CMEA. He sees this and the resultant expansion of trade as a virtual precondition for the continued economic growth of the member countries, especially the smaller ones, for whom a low level of exports results in a “relatively slow level of growth and in a relatively low efficiency of the national economy as a whole” (p. 59).

Ausch discerns a number of major hindrances to the development of multilateral trade within CMEA. He attributes particular importance to the irrationality of the pricing system utilized in intra-CMEA trade, under which, he notes, prices for machinery were more than 25 percent higher, for raw materials 15 percent higher, and for agricultural products 1.7 percent higher than prevailing world-market prices. This, Ausch argues, tended to reduce rather than to encourage trade among CMEA states (p. 85). In addition, he contends that the major differential in pricing between manufactures and raw materials/food-stuffs tended to foster bilateralism in CMEA trade relations and hence also discouraged trade expansion (pp. 111-15). Ausch argues for the establishment of exchange rates that directly correlate internal and external prices and for a convertible currency within CMEA, whose existing clearing system “has satisfied the requirements of multilateralism only in a formal sense” (p. 168).

In addition to urging more rational pricing, Ausch stresses the need for economic units to have freedom of choice in matters directly related to sales and purchases—meaning, in effect, the elimination of central government control over foreign trade (pp. 169-70). In other words, he calls for the creation of “regulated and planned socialist market economies” in the other CMEA countries along the lines then being introduced in Hungary. In his concluding statement, he emphasizes that failure to bring this transformation about will have severe consequences:

\[\ldots \text{the concrete form of our production relations (the system of direct plan instruction) is hindering, to an ever-increasing extent, the unfolding of a more efficient intra-regional cooperation, giving birth to protectionist and autarkic tendencies, [which] induce men and countries to advocate opinions and take decisions opposed to the ideal requirements of the CMEA community.} \] (p. 226)

2 It might be noted that it was almost seven years later, in January 1975, that a major revision of CMEA prices was finally undertaken. By then, the prices charged for industrial goods in intra-CMEA trade had moved to a level about 50 percent higher than world-market prices. (It is still early to judge how the 1975 reform affected these discrepancies.)

Although Tibor Kiss’s study of the importance of trade to “open economies” is a more broadly conceived work than Ausch’s, his analysis leads him to many similar conclusions concerning intra-CMEA economic cooperation. Kiss defines open economies as those of small countries where economic growth is closely related to the international division of labor and for which “the volume and economic efficiency of exports have an almost decisive influence . . .” (p. 9). While he examines growth patterns and the role of foreign trade in the growth of open economies of both socialist and capitalist types, his emphasis is on the former, in particular those of the East European states belonging to CMEA.

Kiss enumerates some of the salient “contradictions” hindering intra-CMEA economic cooperation: (1) contradictions between the interests of individual countries and those of the socialist world economy as a whole; (2) conflicts between economically advanced and less developed countries; (3) differences in the level of productive forces and of raw material endowment; and (4) divergences between the specific economic systems operative in the various CMEA countries (p. 167). While Kiss proposes expansion of coordinated planning among CMEA member states, he also calls for development of a socialist market, a CMEA customs union, realistic currency exchange rates and currency convertibility, and direct contacts between economic enterprises engaged in intra-CMEA trade.

In their open-minded search for experience relevant to the future of the economies of Eastern Europe and cooperation between them, both Ausch and Kiss draw
on the economic experience of the socialist and nonsocialist worlds alike. For one accustomed to reading the works of Soviet authors—written within an ideological strait-jacket—the absence of regular citation of the Marxist-Leninist "masters" in these two books is welcome indeed.

THE ARGUMENTS of Ausch and Kiss for restructuring CMEA and for broadly reforming the respective member states' economies in order to facilitate trade and cooperation are characteristic of the position taken by Hungary in the late 1960's and early 1970's—a stand supported in part by Poland. However, it was a minority stand within CMEA, as indicated in the third of the reviewed volumes. With Kiss serving as editor, The Market of Socialist Economic Integration assembles papers presented by East European and Soviet economists at a conference on "The Nature and Problems of the CMEA Market," held in Budapest in November 1970.

Differences of opinion on how to achieve the goal of expanded trade and the more distant objectives of economic cooperation and integration are manifest throughout this volume. The Romanians, for example, while admitting that trade is important for economic growth, tend to downplay its importance in the case of Romania, where—they claim—growth has been "based on the internal factors of development" (pp. 123-29). Also evident is a sharp divergence of views over the need for a convertible currency. N. Sheyn, a Soviet economist, argues in a paper summarized for the volume by the editor that the existing "transferable ruble" can "meet all the functions of a socialist international currency"—a contention countered not only by the Hungarians and Poles, but even by O. Bogomolov, the dean of Soviet specialists on CMEA integration (pp. 25-26).

At a more fundamental level, both the Soviet and East German participants disagree with the Hungarians' call for development of a "socialist market" among the CMEA countries. Bogomolov and his colleague, I. O. Tarnovskiy, both argue that the most effective method to expand economic integration within CMEA is to coordinate state economic plans (pp. 32, 46). Tarnovskiy warns that "commercialization of economic relations" would bring into play market factors which would result in uncontrollable effects that would be incompatible with the tasks of socialist economic integration—a position strongly seconded by G. Gräbig, an economist from the GDR (p. 202).

As noted at the outset, it is this Soviet approach which has dominated the efforts of recent years to rejuvenate and expand economic cooperation within CMEA. The Hungarian arguments for market relations, termed by East German economists "an attack against the determining advantages of economic cooperation of the socialist countries," have not been heeded. Rather than focusing on efforts to develop a genuine socialist market with a convertible currency and expansion of direct contacts among economic producers operating in an atmosphere of reduced central governmental control, the CMEA has emphasized coordination of economic planning through a multitude of agreements reached at the governmental level.

Whether this approach and such measures as the 1975 revision of CMEA pricing are capable of generating the expansion of trade and economic cooperation needed for the growth of the member states' economies remains to be seen. If the Soviet-sponsored approach fails to achieve this objective, there is a good possibility that there will be renewed interest in the Hungarian proposals rejected at the turn of this decade.
Insights into the Soviet Military

By Harriet Fast Scott

In the spring of 1976, the first volume of the new encyclopedia finally appeared, published in an edition of 105,000 copies. It had been sent to the typesetter in September 1974, and "polishing" on it had been completed 14 months later, in November 1975, after which it had been dispatched to the printer.

The importance which the Soviet leadership attaches to this undertaking may be gauged by the character of the reviews of the first volume that have appeared in Soviet periodicals and newspapers. In a review published in Kommunist vooruzhennykh sil, General of the Army Ye. Ye. Mal’tsev, head of the Lenin Military-Political Academy, stated that with the intensification of the ideological struggle between two opposed social systems, there was great need for a work of a military encyclopedia-dictionary type. He was especially concerned with the "military theoretical sphere" and asserted that "one of the important aims of the Soviet Military Encyclopedia is to give a well-reasoned repulse to the underhand plottings of [our] ideological enemies, and to defend genuinely scientific understanding of problems of military theory and practice."  

Writing in Voyenno-istoricheskiy zhurnal, Professor and General of the Army P. A. Kurochkin, commandant of the Frunze Military Academy from 1954 to 1968, stressed that each military term and definition had been given a Marxist-Leninist explanation. "It is the first Marxist-Leninist military encyclopedia," he asserted. He also held that in "analyzing the first volume, it is clear that the land of the Soviets has convincingly proved the historical superiority of the socialist military organization over the capitalist."  

General Colonel M. M. Kozlov, First Deputy Chief of the General Staff, offered an equally glowing tribute in Pravda. He pointed out that the first volume of the 1911 Voyennaya entsiklopediya had devoted only one article to aviation, the 1932 Voyennaya entsiklopediya had increased the number to 40, but the present work contained more than 140 articles on the subject. (Perhaps later re-