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The Soviet Bloc as an International Economic  
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Edward Ames

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Contents

	<u>pages</u>
Summary	1
The concept of a Soviet bloc international system	1
The Council for Mutual Economic Assistance	3
Antecedents of the Council	4
Early formulations of the Council's functions	5
The Mikoyan restatement of November 1949	7
Satellite allocations, planning and foreign trade since 1949	7
The impact of allocations plans on bloc trading methods	12
Limitations on the effectiveness of the allocations system	13

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The Soviet Bloc as an International Economic System

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Summary

Since early 1949, the Soviet bloc has gradually established the elements of an international economic system which does not depend on the operations of market forces. It is based, instead, on a system of allocations of materials within individual countries on the basis of technological relationships between inputs of materials and outputs of finished goods. The system is administered through wholesale distribution agencies which have gradually been established since about 1950; allocation authorities have been set up in the individual countries. While very little is known about the Council for Mutual Economic Assistance, the over-all bloc agency for economic coordination and control, it is possible that it administers the central allocations schemes, in which import and export surpluses are determined. The main practical problems which the bloc encounters in attempting to coordinate trade with internal economic activity appear to be the difficulty in obtaining adequate data to permit establishment of coefficients relating output to materials requirements; and a persistent tendency toward inflation in the satellites.

The concept of a Soviet bloc international system

The following analysis suggests that since the establishment of the Council for Economic Mutual Assistance in January 1949 the various countries of the Soviet bloc have set up systems for planning and controlling the movement of goods in international as well as internal transactions. While the system--judging from reports published within the bloc--operates with considerable inefficiency, it nevertheless appears to operate on the basis of an economic principle in which market forces play no obvious role. This principle is based upon a relationship mainly technological in nature, which is asserted to exist between the output of a given enterprise and its requirements for materials. In other words, given the level of final products planned for each economy--consumer goods, armaments, capital construction--the flow of goods into and out of each country can in theory at least be planned and carried out on the basis of technological considerations. The volume and direction of trade in each commodity (and hence for all commodities) can be planned without reference to price considerations, either internal or external, and the question of how levels of trade under bilateral trading agreements are fixed can in principle be answered.

Economic analysis is ordinarily based upon the concept of a system in which, given certain institutional, psychological and technological conditions, the prices of goods and the movements of goods are simultaneously determined. In the Soviet bloc, internal and international prices may be fixed independently of each other and need not have any relation to the movement of goods in progress or contemplated. It follows that the concept of an "economic system" must be reformulated to take into account this fact, as well as the fact that demand and supply for each commodity are based on input-output relations and on a fixed list of end-products planned by the authorities.

In economic terms, the existence of an international economic system does not depend upon the existence of an international planning agency. For example, in pre-1914 Europe it was possible to speak of an international system, even though only very limited national or supra-national regulatory and planning powers were exercised. The basis for an international economic system is presumably the existence of some degree of integration between internal and international transactions of the members of the system. The existence of a formal planning apparatus is not in itself sufficient proof of the existence of such integration. Thus, it would be theoretically possible for the USSR to exercise complete political domination over the satellites, including even the determination of national economic plans; but if these plans called for complete national autarky, so that no foreign trade took place at all, the Soviet Bloc would not be an international economic system.

There are three principal aspects of integration, applied to Soviet bloc conditions. The first relates to the development of specialization and economic interdependence among members of the Soviet bloc, which might be measured by the importance of intra-bloc trade in comparison with total output. East-West trade, however, must be regarded as a negative factor in internal bloc integration, since it reduces the interdependence of the bloc members.

The second aspect is the degree to which satellite economies respond to the wishes of Soviet planners. If it is assumed that these wishes are embodied in the Soviet-approved plans for development, output and trade throughout the bloc, then satellite responses could be measured by an index of plan fulfillment. One objection to this would be that some planned increases in output or productivity have been more ambitious and unrealistic than others, which invalidates fulfillment comparisons. Another would be that some types of output or productivity may have higher priority than others, and some types of plan fulfillment may be more important. Moscow's purpose may have been to maximize an economic growth more or less in line with planned resource allocation rather than to attain precise targets. On this assumption the percentage increases in output and efficiency would be a suitable measure of integration, provided that no glaring divergences from plans were to be found. Some weighting system might be devised corresponding to the relative importance of different types of products in the Soviet view; this could be appropriately used for either plan fulfillment or output indices.

A third aspect of integration is the extent to which an economic system fulfills desired ends (carries out plans) with a minimum of internal maladjustment. Even in a Soviet-type economy, the production of goods for export is both a demand upon available resources and a source of purchasing power; and the supply of imports is both a source of resources and an outlet for purchasing power. This is so, even though the movement of each particular commodity may be independent of internal and international prices. The aggregate effect of a trade program is therefore not independent of prices, since changes in price affect the income and expenditures of enterprises, individuals and the government. This direct effect may be reinforced or offset by fiscal and monetary measures

which may be undertaken as part of the financing of external trade imbalances. Thus, although foreign trade may not be influenced by price changes, internal conditions will be influenced by changes in trade volume, or internal prices, or international (clearing ruble) prices. Unless a Soviet bloc country is able to adjust its internal affairs to its trade program, it cannot be considered as integrated into an international economic system.

These three aspects of integration are measured in different ways, and may lead to diverse conclusions as to the degree of integration in the Soviet bloc. They are nevertheless functionally related. A highly integrated Soviet bloc economy would be one which was highly specialized, fulfilled plans, increased output and maintained internal stability; each of these qualities reinforcing the others. If plan fulfillment in one year is accompanied by financial disturbances, future output may be jeopardized. Maximum increases in output will only be obtained when specialization and trade are fully developed. Erratic increases in output which differ from plans can result in a lowering of future output based on a carefully balanced development program, and can cause internal disequilibrium. This paper is therefore in part a discussion of a historical process, and in part an inquiry into what "integration" can mean when applied to a set of countries which do not form or contain "markets" in the ordinary sense of the word.

#### The Council for Mutual Economic Assistance

The Soviet bloc countries conduct their foreign trade on the basis of plans. The existence of a plan presupposes the existence of a planning agency, and the existence of planned foreign trade would seem to presuppose the existence of a single agency planning at least trade, and perhaps all economic activity for the entire bloc. It is possible, however, to trace the relationship between foreign trade and economic activity only in the planning processes of the individual countries. It is not possible to speak with any certainty of the agency responsible for over-all coordination of the foreign trade plans.

For simplicity, therefore, it will be assumed that whatever over-all economic planning may exist in the bloc is performed by the Council for Economic Mutual Assistance (CEMA). This agency was established in January 1949, and now includes all members of the Soviet bloc except Communist China and Outer Mongolia. The Council is regularly mentioned in Soviet bloc publications, but no clear official statement as to its nature or functions can there be obtained. However, one non-bloc report, 1/ which does not conflict with available information as to bloc trade and planning, but which has not been confirmed by any bloc source, asserts that the Council has these functions:

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1/ New York Times, June 4, 1949. The small size of the fund involved (\$19 million at official exchange rates) suggests that it would be used to cover the operating expenses of the Secretariat rather than to carry out economic operations.

- "1. The Council will operate for a period of 20 years. It will serve to coordinate (the) Eastern European economy, standardize industrial production of member nations, provide mutual aid through trade, exchange of experience, loans and investments.
- "2. The Council is to establish a permanent Secretariat with headquarters in Moscow.
- "3. The Council is entitled to detailed and full information from members. It is authorized to send both observers and advisors to member states. Such states are 'obligated to accept and follow their advice'.
- "4. The Council is to develop 'a general plan' for economic coordination of member countries . . .
- "5. A fund of 100,000,000 rubles will be made available to the Secretariat. Fifty million is contributed by the Soviet Government, and 10,000,000 each by Poland, Czechoslovakia, Hungary, Bulgaria and Rumania. This must be deposited either in gold or free currency.
- "6. Mixed companies shall be set up as between member states to facilitate the objectives of the Council."

On the basis of the available information concerning the planning process within individual countries, it does not appear improbable that some sort of "general plan", particularly for foreign trade and certain types of industrial output, may exist for the bloc as a whole. The planning processes of individual countries, the foreign trade aspects of which will be discussed below, are consistent with the existence of an over-all bloc agency coordinating the plans. Whether this coordination is actually effected by CEMA, or by the Soviet planning authorities, or whether CEMA itself is merely the "front office" of the Soviet planning authorities is not clear. The particular institution concerned with the coordination process, however, need not be identified with great precision and detail for the purposes of this paper. It will be sufficient here to point out how foreign trade is related to internal planning and economic activity of the individual countries.

#### Antecedents of the Council

The economic integration of the satellites may be said to begin with the conclusion of long-term trading agreements between the Soviet Union, on the one hand, and the individual satellites. The first of these agreements was that with Czechoslovakia, concluded in December 1947, and was followed in January 1948, by a similar agreement with Poland. These agreements provided for the negotiation of annual protocols for the delivery of goods in each direction; but the annual protocols were to function within long-term objectives concerning the level of trade to be attained at the end of the five-year period covered in the agreement. A Soviet commentator, in discussing the announcements that such a treaty would be concluded, said:

"Having been made possible, thanks to the advantages of the planned economy, this agreement will in turn assist the successful fulfillment of the five-year economic plan of the USSR and the corresponding plans of the Czechoslovak republic." 1/

The key to this sentence, which is characteristic of Soviet commentary on Soviet-satellite trade during this period, is the expression "assist in the fulfillment" of economic plans. The expression implies that the agreements do not form a constituent part of economic plans, but are superimposed upon them.

This situation would appear to have existed because long-run plans were not introduced in the satellites until 1949, 2/ and because the plans which did exist were not, in the Soviet sense, plans, but rather forecasts. The satellite administrative apparatus was at this time inadequate to provide the compulsion necessary to ensure plan fulfillments, and the satellite government, like capitalist governments, could license trade, but could not guarantee the execution of trade agreements. For instance, a Czech publication 3/ urged plants to give priority to deliveries under trade agreements, which would not have been necessary if effective planning and allocation schemes of the Soviet type existed. Not until effective control over the distribution system had been attained could the incorporation of the trade agreements into the general planning and control apparatus be completed.

#### Early formulations of the Council's functions

The announcement of the formation of CEMA 4/ speaks of "mutual assistance in regard to raw materials, foodstuffs, machinery, and equipment". 5/ This emphasis, which appeared in the explanations of CEMA functions in early 1949, seems to relate to trade among member countries, rather than to proposals for a planned increase in output, or integration of individual output plans. Thus one Soviet writer used this formulation:

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- 1/ Pravda, July 16, 1947. Cited in Margaret Dewar, Soviet Trade with Eastern Europe, 1945-1949, London, 1951, page 25. Virtually the same phrasing appears in Szabad Nep, January 27, 1949, in comments on the relations of CEMA to the Hungarian economic plan.
  - 2/ Short-term economic plans of various kinds existed from the establishment of post-war regimes. Thus, Poland had a three-year plan covering the period 1946-1948, and Czechoslovakia had a two-year plan for 1947-1948. These plans were primarily designed to coordinate the recovery of the various economies, and took place in an atmosphere of transition from Nazi and post-liberation institutions to Communist institutions. The Yugoslav five-year plan took effect in 1947, but the Soviet-Yugoslav conflict in 1948 intervened, and the Yugoslav exception is thus, for present purposes, irrelevant.
  - 3/ Prumyslovy Vestnik, April 14, 1949.
  - 4/ Published through the bloc on January 25, 1949.
  - 5/ All of these types of goods are loosely termed "materials" in Soviet bloc economic literature. The main qualification of a "material" appears to be a homogeneity sufficient for statistical purposes.

"The economic conference of representatives of Bulgaria, Hungary, Poland, Rumania, the USSR and Czechoslovakia which took place in January of this year noted the considerable success in developing economic relations among these countries, as expressed primarily in the large growth of trade turnover." 1/

The Soviet formulations of 1949 and 1950 concerning the forms of economic collaboration between the USSR and the satellites listed technical aid, exchange of technical experience, formation of joint corporations, and the organization of trade exhibits, 2/ but no Soviet statement of a relation between trade and economic planning has been found prior to the end of 1949.

In the satellites, reactions to the formation of CEMA varied somewhat. The Hungarian discussion 3/ was concerned with the need for integration of trade programs, and the other activities listed above, but was silent on the subject of any planning functions. Polish comment too, is noted by an absence of discussion of the relation between trade and planning. A Polish "Government spokesman" 4/ said only that "by adopting the principle of multilateral trade the time-consuming negotiations of bilateral pacts will be avoided and a broader basis for trade established". This theme has found little response either in theory or practice.

In contrast to these reactions, Czech literature contains several fairly specific statements relating trade to planning. In early 1949, for example, it was stated that "the people's democracies must base their economy on the Soviet Union and on mutual economic collaboration". Long-term trade agreements were a prerequisite for satellite development, and output plans to be "set upon the basis of economic complementarity, so that the compensatory agreements can be included in the long-run economic plans". 5/ Another writer said early in 1949 that:

"Czechoslovakia is the first state with a planned economy for which foreign trade, both on the import and export sides, has key importance in economic development. There has therefore risen the problem of how to plan foreign trade, which in its nature is different from a plan for output, investment or consumption, as an equal component of the over-all long-term economic plan." 6/

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- 1/ Korolenko, Ekonomicheskoe sotrudnichestvo SSSR i stran narodnoi demokratii, Vneshnyaya Torgovlya, No. 4, 1949. Italics added.
  - 2/ ibid. See also Korolenko, Ukreplenie ekonomicheskikh otnoshenii mezhdu SSSR i stranami narodnoi demokratii, Vneshnyaya Torgovlya, No. 5, 1950.
  - 3/ Szabad Nep, January 27, 1949.
  - 4/ Cited in the New York Times, January 27, 1949.
  - 5/ Pitra, Zdenek, Generalni linie lidove demokratiskych zemi, Planovane Hospodarstvi, No. 1, 1949.
  - 6/ Stefan, Zahranicni obchod v ceskoslovenskom hospodarstvi, Planovane Hospodarstvi, No. 2, 1949.

The Mikoyan restatement of November 1949

Whether as a result of Czech persuasion or because of the nature of the problem of controlling the economic activities of the satellites, the Soviet Government at the end of 1949 appears to have recognized the usefulness of the existing system of trade relations as a means of economic control. A change in Soviet trade policy was recognized by Mikoyan, who stated in a speech late in 1949 that as a result of increased Soviet trade,

" . . . there has been a change in the function of the foreign trade monopoly in its dealings with the people's democracies. It does not have the function of defending the Soviet economy, but is a means for a planned binding together of the Soviet economy, with the economies of the people's democracies." 1/

A Czech article, published at the same time as Mikoyan's speech also moves the subject of over-all Bloc planning from the "should be" to the "will be" stage.

"Economic cooperation of the (CEMA) members . . . is not limited to the exchange of goods . . . These countries will offer far-reaching technical aid in all branches of the economy, will coordinate their economic plans, establish a joint investment program, begin joint output programs, coordinate industrial output, all from the point of view of setting up a division of productive forces according to the requirements of the country and its natural and historical conditions." 2/

Satellite allocations, planning and foreign trade since 1949

The trend toward coordination of foreign trade and economic planning within the Soviet bloc has been closely connected with the reorganization of the wholesale distribution system of the individual bloc countries. The accompanying table summarizes the data most readily available on the development of the wholesaling system of the three most important satellites, Czechoslovakia, East Germany and Poland. The other satellites seem to have followed a similar course of development, although documentation is more difficult.

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- 1/ Mikoyan, Veliki zodchi kommunizma, in Vneshnyaya Torgovlya, No. 12, 1949. "Binding together" is a translation of the Russian "uvyazka". The same information as given here has recurred continuously in Soviet literature since that time. (For example, N. Ivanov, Vneshnyaya Torgovlya evropeiskikh stran Narodnoi demokratii, Vneshnyaya Torgovlya, No. 10, 1952, page 18.)
- 2/ Pitra. Hospodarska spoluprace, Planovane Hospodarstvi, No. 6, 1949. Italics added.

The general trend in this field has been as follows: 1) wholesale trade was nationalized by the end of 1949; 2) at first, there was a variety of types of wholesaling organizations, with a tendency for individual wholesaling enterprises to be engaged in the distribution of large numbers of commodities; 3) beginning in about 1950, allocations plans (in Soviet bloc terminology "materials balances") began to be prepared; 4) eventually wholesaling functions were taken away from the earlier wholesale organizations, and given to special administrations of the production Ministries, giving each control over its own supply and distribution system; and 5) special planning units for the control over the distribution systems of the Ministries were established in 1951-1952.

In this way, the satellite wholesale distribution system came to duplicate that of the Soviet Union. This system involves the use of a flow chart for each commodity planned, which indicates each source and each user of the commodity, so that it is possible to determine from which sources each user will obtain his supply. From 1948 until March 1953, these balances were approved in the USSR at the cabinet level, by the State Committee on Material and Technical Supply (Gossnab), which was established from the individual units formerly included in the State Planning Commission. After Stalin's death, Gossnab was once more returned to the State Planning Commission. The preparation of such a flow chart involves a means for determining the amount of materials which a given plant "should" obtain, and a means of enforcing the decision reached. Under Soviet practice, there is a widespread use of co-efficients relating output of particular plants to inputs of particular materials, and the system is, in this sense, an "input-output approach" to allocations. 1/

The enforcement of the balances prepared in this fashion is achieved through a system of wholesale trading organization, one of which makes purchases, and another sales on behalf of the plants of a particular ministry. These wholesalers sometimes act as brokers, instructing plants where to make deliveries, but sometimes they simply review the plants' orders to make sure that the allocation plan is being observed. 2/

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1/ The Soviet input-output analysis differs from that used in the U.S. (e.g., W. W. Leontief's Structure of the American economy, Cambridge, Mass., 1939) in two respects. First, it is based upon engineering data designed for optimum conditions in a given plant, rather than upon average performance data on an industry-wide basis. Second, it does not necessarily suppose that there is a price equilibrium for the economy as a whole, whereas the Leontief system was designed to indicate a unique relationship between prices and the quantities produced in a market economy.

2/ This system is not to be confused with the wholesale operations conducted by the Ministry of Trade, which purchases consumer goods directly from plants producing them, or from the wholesale organizations of the respective ministries, and resells them to the retail network.

Trends in the Sovietization of the Wholesale Trading System in Three Soviet Satellites since 1945 1/

	<u>Czechoslovakia</u>	<u>East Germany</u>	<u>Poland</u>
Date of nationalization of wholesale trade, or establishment of first nationalized wholesalers a)	August 1948 b)	1946 c)	1947 d)
Per cent of trade conducted by private wholesalers in late 1948 late 1949 a)	n. a. 0	negligible c) negligible c)	30 e) 2 e)
Types of nationalized wholesalers in early phase of nationalization	1) Supply and sales outlets of nationalized enterprises 2) Wholesaling subsidiaries of General Directorates 3) Wholesaling administrations of industrial industries f)	1) Corporations with 51 per cent of stock owned by the Lands (before 1949) 2) Administrations of the zonal Ministry of Trade and Supply 3) Administrations of the land Ministries of Trade (after 1949) g)	1) Administrations of the Ministry of Trade h)
First reported use of materials balance plans	Plan for 1950 i)	Supplemental plan for III Quarter of 1950 j)	Plan for 1950 k)
Date of transfer of all wholesale functions to industrial ministries	Late 1951, in connection with the abolition of General Directorates f)	December 1951 g)	April 22, 1949 h)
Establishment of Materials Planning units	Late 1952 l)	Early 1951 m)	June 1952 n)

1/ This table refers only to wholesale trade in capital goods and materials, and to the disposition of output of consumer goods factories. In all these countries, the Ministry of Internal Trade has wholesale functions, which consist of the purchase of goods from consumer goods industries plants, and reselling them to retail stores.

(For footnotes a to n see page 10)

Footnotes to Table

- a) Note also that Hungarian wholesale trade was nationalized in March 1948 (Decree XXV - 1948), and that Prime Minister Rakosi declared on August 17, 1949 that only 6 per cent of wholesale trade was still in private hands.
- b) Decree No. 118 - 1949, Sbirka Zakon.
- c) Deutschland—Jahrbuch 1949, Mehnert and Schulte, editors, Essen, 1949, page 203; Nieschlag, Die Organization des Handels in der sowjetischen Besatzungszone, in *Wirtschaftsprobleme der Besatzungszone*, Deutsches Institut für Wirtschaftsforschung, Berlin, 1948, pages 368 - 277. In each Land two wholesalers were established in 1946, one dealing in raw materials and the other in finished goods; 51 per cent of the stock belonged to the Länder, and 49 per cent to private wholesalers (as compensation). These were completely nationalized in 1949.
- d) Nowe Drogi, No. 9, 1948.
- e) Speeches by Hilary Minc, Chairman of Planning Commission, December 30, 1949; and Dietrich, Minister of Domestic Trade on January 24, 1950.
- f) Based on these articles in *Planovane Hospodarstvi*: Maloch, Hmotne Zasobovani, No. 7, 1949; Dolansky, Prohlubenim planovaci metodiky k zajistení zvyšených ukolu 5LP, No. 2, 1951; Balaban, O nove metodice sestavovani planu materialne technickeho zasobovani na rok 1953, and the decree reorganizing economic planning, in No. 4, 1952.
- g) *Chronik der wirtschaftlichen und sozialen Gesetzgebung in der sowjetischen Besatzungszone*, Deutsches Institut für Wirtschaftsforschung (will be referred to as *Ostchronik*), No. 10, supplement; No. 5, H - 22.
- h) *Rzeczpospolita*, April 23, 1949; and an article by Bugajski on the development of the supply system in *Zycie Gospodarcze*, No. 17, 1949.
- i) Maloch, op. cit.
- j) *Ostchronik*, No. 4, D - 4.
- k) This conclusion is indicated by the description of the functions of the reorganized wholesale system given by Bugajski, op. cit.
- l) Dolansky, op. cit., indicates that this function was to be performed within the State Planning Commission.
- m) In 1950, this planning was evidently carried out in the Ministry of Trade and Supply (*Ostchronik*, No. 4, D - 4), but in early 1951 it was transferred to a special cabinet Secretariat for Materials Supply (*Ostchronik*, No. 5, H - 2, D - 15).
- n) Speech by President Bierut at the July 14 - 15, 1952 meeting of the Central Committee of the Polish Workers' Party.

This system of allocations has implications for international trade within the bloc. If it is assumed that there is an unambiguous, proportional relation between the output of any producer and his materials requirements, a country's requirements for any particular material can be determined as soon as an over-all output program has been determined. By comparing over-all output with the output plans for individual materials, it is possible to determine whether the country will import, or export the various materials. The relation between international trade and the allocations system is stressed in a number of statements by satellite officials. 1/ These statements are typically critical of the way in which allocations in fact have been administered. A rather typical statement is that of the Chairman of the Czech State Planning Commission:

"Progress has been achieved in combining the investment plan with the output plan. In material stocks, however, the stage of administering the so-called contingents (import and export quotas—E.A.) has not been reached. Materials requirements, however, must become part of the combined output plan." 2/

The basic reason for the difficulty in controlling allocations lies in the problem of estimating normal requirements in relation to output. A long and tedious literature in the satellites repeatedly stresses that plant managements overestimate their requirements in order to be sure of getting sufficient supplies, and that it is necessary to obtain reliable input-output coefficients based upon an economical use of re-

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1/ "We know that our economic development plan is worked out on the basis of the export and import plans of the individual people's democracies. In practice this means that, say, Czechoslovak machines or mechanical equipment budgeted in the Soviet import plan are counted on in the building of (Soviet) projects . . . in the same way in which we reckon with Soviet deliveries when we draw up our plans for new enterprises . . ." (Czech Deputy Minister of Foreign Trade, Kocour, speech of February 28, 1953) "At the present stage of (our) development . . . the problem of supply for industry become one of the most important problems . . . As is known, we do not produce a number of materials or produce them in insufficient amounts . . . The development of industry requires a great quantity of machinery and equipment, the output and imports of which are not always sufficient . . ." (Polish President Bierut, speech of May 16, 1953). "The past year (1951) has shown that a much higher total output and labor productivity could be achieved if there were not so many bottlenecks in materials supply. Industry has said that stocks did not meet assortment and size requirements . . . Obviously the correct kinds of rolled steel were not produced or imported . . . Imports and output of these materials . . . proceed in accordance with orders from industry . . . The first need is for the development of consumption standards for materials in all factories." (East German Deputy Premier Rau, speech of March 19, 1952 to People's Chamber.)

2/ Dolansky, op. cit.

sources. Such coefficients must be computed on a plant-by-plant basis, because of technological differences in the plants. Moreover, great care must be taken to prevent undesired substitutions of one material for others and to avoid undesired inventory changes. It is clear, therefore, that although the basis for planning the movement of goods in international trade exists in the materials supply system, in practice a number of important technical obstacles to the smooth operation of the system continue to operate.

By the end of 1950, however, the introduction of materials balance planning was sufficiently advanced for Soviet economists to speak of intrabloc economic relations in a new tone, asserting that a "division of labor" existed among the Soviet bloc countries 1/ and that the internal plans of the various countries took into account not merely domestic requirements, but also the needs of foreign countries. 2/

### The impact of allocations plans on bloc trading methods

During the early period after the consolidation of communist power in the satellites, these countries imitated the USSR in vesting monopoly powers over foreign transactions in a Ministry of Foreign Trade, and in creating specialized corporations, the stock of which was entirely owned by the Ministry, for the purpose of trading in particular commodities or with particular areas.

This system of trade was useful in trading outside of the Soviet bloc, since these corporations could operate abroad as legal entities, and could appear in foreign legal proceedings without violating the laws relating to suits against governments. However, the use of such corporations in trade between Soviet bloc countries seems to be unduly cumbersome, particularly when a system of international allocations has been set up. If corporations conduct intrabloc trade, then goods in this trade must pass through the hands of 1) the producer in the exporting country; 2) the wholesaler in the exporting country; 3) the foreign trade corporation of the exporting country; 4) the foreign trade corporation of the importing country; 5) the wholesaler of the importing country; and 6) the final purchaser in the importing country. Given an effective system of trade and payments, the third and fourth steps in this chain would not appear necessary.

Several steps have been taken in the past year or two which would facilitate the abolition of foreign trade corporations in intrabloc trade, and a number of Soviet statements are sufficiently ambiguous as to suggest that trade may actually be to some extent conducted directly among wholesalers. One step has been the establishment of payments procedures for goods moving in international trade which does not differ in any important respect from that used in domestic payments. This means that the "exporter"

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- 1/ Paromov, *Formy i metody ekonomicheskogo sotrudnichestvo SSSR i stran narodnoi demokratii*, *Voprosy Ekonomiki*, No. 12, 1950.  
2/ Dudinski, *Novy tip mezhdunarodnykh ekonomicheskikh otnoshenii*, *Bolshevik*, No. 22, 1951.

(who could equally well be a foreign trade corporation, a wholesaler, or a producing enterprise) draws a draft on the "importer" (who could also be a foreign trade corporation, wholesaler, or producing enterprise) and deposits it in his bank, receiving an advance against it just as if he were dealing with a domestic enterprise. 1/

In addition, agreements have been reached on standard shipping rates on all trade within the bloc, 2/ and on standard terms for contracts in international trade. 3/ Finally, there is evidence of standardization of prices used in the bilateral agreements, so that a single price would be used by exporters, regardless of the importing country. 4/ This last provision would make it possible for exporters to make out drafts directly, in clearing rubles, without the foreign trade corporation having to participate.

There is a certain amount of oblique evidence as to the possibility that the role of foreign trade corporations is declining. The list of Polish foreign trade corporations, for example, suggests that in many of the commodities called "materials" in Soviet bloc usage, the trading corporation is actually the same as the domestic wholesaler. Finally, a Soviet book reviewer 5/ has pointed out that a monopoly over foreign trade (which is an article of faith in Marxist dogma) does not necessarily require that all transactions be carried out through the Ministry of Foreign Trade. It is sufficient that foreign trade be subordinated to the central planning apparatus.

#### Limitations on the effectiveness of the allocations system

It has been indicated that the satellite governments have not been satisfied with the practical workings of the allocations system, despite the fact that the organization of the domestic and distribution system have been largely converted to the Soviet pattern. In late 1952 and early 1953, a number of satellites have experienced delays in making

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- 1/ M. Polyakov and V. Trubenkov, Gosbank i mezhdunarodnye denezhnye raschety SSSR, Finansy i Kredit SSSR, No. 2, 1952; P. I. Petkov, Mezhdunarodnite Plashchaniya, Finansy i Kredit (Sofiya), No. 3 - 4, 1951.
  - 2/ Klochek and Viryasov, Ekonomicheskoe sotrudnichestvo stran lagerya sotsializma, Vneshnyaya Torgovlya, No. 2, 1952. The agreement was concluded in November 1951. Petkov (op. cit.) says that rates are quoted in rubles, suggesting that payments for freight are automatically included in the bilateral clearing accounts.
  - 3/ Cheklin and Korolenko, Torgovo-ekonomicheskie dogovory i soglasheniya SSSR s narodno-demokraticeskimi stranami, Vneshnyaya Torgovlya, No. 11, 1951.
  - 4/ Dudinski, Ukreplenie i razvitie mirovogo demokraticeskogo rynka, Voprosy Ekonomiki, No. 6, 1953.
  - 5/ Review of Kaluzhnaya, Pravovye formy monopolii vneshnei torgovli SSSR v ikh istoricheskom razvitii, Vneshnyaya Torgovlya, No. 3, 1952.

planned export deliveries. 1/ These difficulties do not appear to be the result of actual production declines or a lack of a formal allocations mechanism, but are to be explained by the operations of the financial system.

The allocations system can take care of the receipt of materials by a plant, or of the distribution of the output of a plant. It cannot, however, take care of the flow of materials within the plant. In particular, the allocations authorities do not have the opportunity to control materials once they have reached the plant and been partly processed, or before they have been completely processed so as to become "finished goods". In fact, therefore, allocations cannot control the important part of a plant's inventory consisting of "goods in process". A plant which wishes to circumvent the allocations program can manipulate the composition of its inventories, so as to keep both finished goods and materials inventories small relative to unfinished goods inventories. Since an increase in inventories resulting from increases in goods in process is considered as a part of the gross output of the plant, such a policy does not interfere with the completion of the output plan, although it will of course tend to hold deliveries below planned levels.

The plant may have an incentive to carry out such a manipulation for various reasons. If the plant anticipates a shortage of a particular material, it can hoard it as "unfinished output", while maintaining purchases at as high a rate as the allocations authorities will permit, so as to provide a maximum of slack in the event of unforeseen shortages in deliveries. Similarly, the plant may maintain large inventories of almost finished goods so that if pressure is placed upon them to increase output, they can do so within a short period by finishing these goods, rather than by actual new production. The "unfinished goods" inventory is thus, from the viewpoint of factory administrations, a form of insurance against unexpected shortages and demands by the authorities.

The instrument for preventing such practices is not the allocations system but the central bank. If the bank considers that a plant has excessive inventories, it can refuse to extend credit, and the plant, in order to meet current payment demands will be forced to reduce its inventories. In the USSR such credit restriction has been greatly expanded and enforced since mid-1948, by means of a campaign to reduce the ratio of inventories to current output. 2/ Such a program aids in the success of the allocations program by making it difficult for enterprises to finance inventories of unfinished goods.

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1/ "While the USSR discharges her obligations with accuracy, many (Czech) supplies of machines, equipment and other products for the USSR lag behind schedule." (Kocour, speech of February 28, 1953, cited above.) Hungarian delays in exports were criticized in Magyar Nemzet, December 27, 1952. Rumanian Authorities criticized "breakdowns in the supply of materials and raw materials", a phenomenon of the same sort, with domestic users rather than foreign users bearing the brunt of the difficulties. (Speeches by Constantinescu, Scanteia, November 6, 1952, and by Stoica, Scanteia, November 25, 1952.) East German exporters are criticized by Rau in a number of the speeches cited above.

2/ The standard term used in communist literature is "to increase the speed of turnover of working capital", i.e. to increase the ratio of output to inventories.

The banking system of a Soviet-type economy, besides presenting technical problems to administrators of allocations schemes, has a general impact which may affect international economic relations within the bloc. This is true because banking operations affect inventories and the money supply of individual countries, and these in turn may affect their ability to carry out trade programs.

Increases in bank credit makes it possible for enterprises to hold more inventories than they otherwise could; it also gives them greater liquidity, and hence greater purchasing power than they would otherwise have. As output and income of enterprises rise, there will be an increase in the amount of inventories and cash which they need to carry on current transactions. If, however, enterprises have too much cash, they will tend to hoard inventories rather than release them for sale; shortages will then appear throughout the economy, since output cannot rise enough (being normally close to capacity) to counteract the effects of additional inventory hoarding. These shortages will affect foreign trade, as exporting agencies will find it difficult to obtain the goods necessary for export programs, and as enterprises using imported goods will tend to over-order for inventory purposes. In these circumstances, an increase in bank credit will tend to create a deficit in foreign trade transactions, even though the trade plans call for bilateral balancing of accounts.

In view of the more or less continuous inflation of credit and money in most of the satellites, it is not surprising that many of these have had difficulties in completing their export programs. In fact, it would appear that the obstacles to the establishment of a working international economic system within the Soviet bloc are not so much a failure to complete output plans or to increase output; or even a failure to establish a substitute for a market mechanism, for both of these problems are apparently being dealt with within the limits of bloc administrative efficiency. Rather, the chief obstacle is an absence of internal controls over the operations of the monetary system, which has led to steady inflation, and the disruption of international allocations systems which might otherwise have led to a workable substitute for a market system.

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