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THEORETICAL DISCUSSIONS ON THE DEVELOPMENT OF THE MONETARY SYSTEM WITHIN COMECON (1949–1991)

The study of the past economic and financial experience of communication between geopolitical and geo-economic blocks has become useful and important today when we are witnessing a growing fragmentation of the global economy, the emergence of new economic blocs based on different ideological and conceptual models of economy and society. Our interest in the Comecon (The Council for Mutual Economic Assistance, also CMEA) is inspired by the particular organization of the monetary system and its clearing mechanism. The purpose of this paper is to present and discuss some of the major ideas and views on the development of the collective currency and the monetary mechanisms within the Comecon, which lasted from 1949 to 1991. We also present the evolution of the socialist integration, which emerged as an alternative to capitalist integration as a direct result of the WWII. In the first part, we present the basic principles of socialist integration and the role of international socialist currency. In the second part, we focus on the main stages in the evolution of the collective currency and monetary relations, and some theoretical and practical limits of the transferable rouble. We are interested in finding out why the socialist integration and the monetary system developed within Comecon failed. The leaders of the socialist countries attempted various conceptual models. They encountered the constraints of political and ideological factors. They failed to find a mechanism by which to leapfrog the trapdoor of bilateralism and national planning, despite advances in specialization. The socialist countries were more and more attracted by countries with market and capitalist mechanisms of coordination. We argue that the diversity of experience and ideas could be mobilized in order to find solutions to the challenges in the context of the deepening global political and economic fragmentation.

Keywords: *socialist integration, Comecon, transferable ruble, Soviet Union, commodity-money relations, multilateral clearing.*

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ТЕОРЕТИЧНІ ДИСКУСІЇ ПРО РОЗВИТОК ГРОШОВОЇ СИСТЕМИ В МЕЖАХ РЕВ (1949–1991 рр.)

Вивчення минулого економічного та фінансового досвіду взаємодії між геополітичними та геоекономічними блоками є корисним і важливим сьогодні, коли ми спостерігаємо зростаючу фрагментацію світової економіки, появу нових економічних блоків, заснованих на різних ідеологічних і концептуальних моделях економіки та суспільства. Наш інтерес до РЕВ (Рада економічної взаємодопомоги) викликаний особливою організацією грошової системи та її кліринговим механізмом. Метою цієї *статті є представлення та обговорення деяких ідей і поглядів щодо розвитку колективної валюти та монетарних механізмів у рамках РЕВ, яка діяла протягом 1949–1991 рр. Охарактеризовано еволюцію соціалістичної інтеграції, яка виникла як альтернатива капіталістичній інтеграції і стала прямим наслідком Другої світової війни. У першій частині представлено основні принципи соціалістичної інтеграції та роль міжнародної соціалістичної валюти. У другій частині увага зосереджена на основних етапах еволюції колективної валюти і грошових відносин, деяких теоретичних і практичних аспектах перевідного рубля. Нам цікаво з'ясувати, чому соціалістична інтеграція та монетарна система, розроблені в рамках РЕВ, зазнали невдачі. Лідери соціалістичних країн, пробуючи різні концептуальні моделі, стикалися з обмеженнями політичних та ідеологічних факторів. Їм не вдалося знайти механізм, за допомогою якого можна було б перескочити через люк двосторонніх відносин і національного планування, незважаючи на прогрес у спеціалізації. Соціалістичні країни все більше приваблювали країни з ринковими і капіталістичними механізмами координації. Ми стверджуємо, що різноманіття досвіду та ідей можна мобілізувати для пошуку рішень у контексті поглиблення глобальної політичної та економічної фрагментації.*

Ключові слова: *соціалістична інтеграція, РЕВ, перевідний рубль, Радянський Союз, товарно-грошові відносини, багатосторонній кліринг.*

Introduction. A few decades ago, the world was divided into two ideological and military blocs, split into «two world economies and markets» – capitalist and socialist. The study of the past economic and financial experience of communication between geopolitical and geo-economic blocs, has become useful and important today when we are witnessing a growing fragmentation of the global economy, the emergence of new economic blocs based on different ideological and conceptual models of economy and society.

Our interest in the Comecon (Council for Mutual Economic Assistance, also CMEA) is inspired by the particular organization of the monetary system and its clearing mechanism. The purpose of this paper is to present and discuss some the major ideas and views on

the development of the collective currency and the monetary mechanisms within the Comecon, which lasted from 1949 to 1991.

Much has been written on the subject of monetary and exchange rate relations within the Comecon. This literature is now forgotten or neglected [1; 2; 3; 4; 5; 6; 7]. However, today the diversity of experience and ideas could be mobilized in order to deal with the growing global economic fragmentation.

In the first part we present the basic principles of socialist integration and the place of international socialist money. In the second part we discuss the evolution of the socialist monetary system within Comecon, the original concept of «dual currency» as well as the major theoretical issues of the monetary relations.

1. A brief overview of the evolution and the principles of the socialist integration and the place of money

The issue of integration between socialist economies came to the fore at a later stage after the Second World War, in the early 1960s, and with some difficulty. In spite of the principles proclaimed by the founders of Marxism-Leninism (about the international character of the new society, i.e., Lenin's «world cooperative» – a kind of communist globalization), the economic logic of the newly emerging socialist countries after WWII was profoundly autarchic. These countries, despite being small and open economies by nature, followed the experience of the Soviet Union and Lenin's and Stalin's principles of «socialism in one country». The underlying model comprised of the practice of full nationalisation of the means of production, the state monopoly of foreign trade, foreign exchange monopoly, and above all directive planning. Planning was national and it manifested itself through the construction of the material, i.e., natural, balances of the national economy. Money/currency had a passive accounting and controlling role. Market and monetary mechanisms of demand and supply were replaced by physical and planned adjustment mechanisms. It was claimed that in the new system, nationally and internationally, in force was the objective «Law of planned and proportional development», replacing the «Law of value», the basic law for the capitalist market economy («Law of value» and «Labour theory of value» formulated by Marx) [1; 8; 9; 10; 11].

In practice, the import was a function of the national plan and export was a function of the planned import. Thus, foreign trade was residual and was included in the national plan. This was because of the drive towards homogeneous, «harmonious» industrial national structures, the core of which was industrialization (according to «Lenin's law» the rate of the production of the means of production (Department I) should outpace that of the consumer goods (Department II). This created a constant hunger for investment, and hence for imports of raw materials and machinery[1]. The need for imports had to be paid with corresponding exports.

It should be noted that the sought-after uniformity of the economic structures of the socialist countries, in the first years after the WWII, was dictated not only by the experience of the Soviet Union (of building an «isolated socialist economy») but also by the Marxist view of the necessity of equalizing the economic levels of the countries before they could participate «equally» in foreign trade. Unequal levels of development were not tolerated from the standpoint of the Marxist political economy. The argument was that unequal development, any disequilibrium in the balance of payments (a deficit, for example) led to a transfer of surplus value, exploitation and income outwards. That is, there was «non-equivalent exchange», i.e., for example, the transfer of surplus value from agrarian countries to industrial countries, from debtors to creditors, etc.

As a consequence, bilateral disequilibria in the balance of payments (the core element of a multilateralism) were not seen with a good eye. It was therefore necessary to reach a relatively similar level of development before moving towards an active international socialist division of labour (ISDL), multilateralism and integration which in turn requires accelerated development of the industrial sector. According to one of the Soviet theorists of socialist integration, Yuri Shiryaev[2]: «[...] The basic motive of foreign

[1] At the first stage mostly from the USSR, and partly from Czechoslovakia.

[2] Shiryaev Y. (1932-1987) – a distinguished scholar in socialist integration, and a corresponding member of the USSR Academy of Sciences worked at the Research Institute of the USSR State Planning Committee, the Secretariat of the Soviet Union, and Deputy Director of the Economic Institute of the World Socialist System. Since 1977 he was Director of the International Institute for Economic Problems of the World Socialist System. He taught at the

economic activity under socialism is different. In order to maximize the national income, and therefore those funds to which it is allocated, it is necessary (apart from the importation of lacked goods) to replace with stable imports from other countries the absolutely or relatively inefficient productions of these or those goods and services. [...] Import policy takes priority over export policy. Export maximization has at its base the sense that it increases the volume of resources that a given national economic complex is in a position to spend on the practical realization of a long-term import strategy. Exports preserve their relative independence only as a means of forming foreign exchange reserves that ensure the uninterrupted implementation of the reproductive process [...] The drive for «import expansion» explains the specificity of the deepening of the international division of labour, the development of the trend towards economic integration under socialism» [2, p. 46–48].

As well as according to J. Wilczynski, a western economist of polish origin[3]: «In the Socialist centrally planned economies, the focus of attention is directed rather to the import side, while exports are essentially viewed as a sacrifice of domestic production to secure the required imports. Their developmental programmes are aimed at high rates of economic growth, leading to tight planning and overcommitment of resources. There is also tradition of autarkic ambitions, and continuous full employment is maintained by direct economic planning. The prevalent domestic sellers' markets reduce the need for, and inclination to, export and instead there is a constant pressure to import. The socialist countries are not interested in achieving a «favourable» balance of trade, nor are anxious to accumulate large international reserves or to export capital». In socialist interpretation, both types of countries deserve

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[3] Wilczynski J. (1922–1984) – Australian economist of Polish origin, author of the highly erudite book Wilczynski, J. (1978). Wilczynski was born in Augustow, Poland, in 1922. He served in the Polish Underground Army and in the Polish Army under British Command during World War II. He arrived in Australia in 1951. Wilczynski completed a PhD degree in Economics in London in 1968 and then in Science in Sydney in 1975. From 1962 until 1969 he was a lecturer at the Duntroon Military College in Canberra and from 1970 Associate Professor of Economics.

condemnation on social and economic grounds. In the case of the surplus countries, the surplus is attributed to the exploitation of the less-developed and weaker nations by the rich and industrialized countries, whilst the deficit countries are attacked for insufficient development and social welfare programs [6, p. 144, 148].

Due to national planning the economic logic outlined above led to structural foreign trade and payment bilateralism between countries in the system [12; 13; 14; 15; 16; 17; 18]. National planning implied equilibrium, which was contrary to the principles of multilateralism, where equilibrium takes place within the whole group of trading partners. Both Russian and Western economists recognised that the logic of the system, led to volumes of foreign trade that were limited by imports, itself from the national plan, and were many times smaller than they would be under normal market relations [2; 7].

For the first ten years after the WWII, and after the creation of the CMEA in 1949, it was difficult to speak about integration between the socialist countries [1; 3; 4; 19; 20; 21; 22; 23; 24; 25; 26; 27][4]. Rather, it was a matter of unilateral material and financial assistance from the Soviet Union. This also fitted in with Stalin's general strategic approach of control, preferring each country to have relations only with the USSR, thus placing the USSR at the centre, and the other countries interacting with each other «passing through» the USSR [25; 26; 28; 30]. Notwithstanding this strategy, Stalin formulated in 1952 a conception of the two coexisting and competing world economies and markets – capitalist and socialist. This can be seen as having important theoretical and practical consequences [29].

After Stalin's death, Khrushchev made attempts in the direction of moving toward supra-national planning and the development of country specialisation. Khrushchev started insisting on the international social division of labour (ISDL) as the first step towards integration based on planning, as opposed to capitalist integration based on market mechanisms. However, these attempts were met

[4] The stages and phases, as well as the theoretical foundations of socialist cooperation, are presented in a number of publications (covering different periods), e.g. in the classic book by [1; 3; 4; 7; 18; 19; 20; 21; 22; 23; 24; 25; 26; 27].

with determined resistance from the other Comecon members (Romania was particularly adamant [31; 32]). Despite the resistance, coordination and prior agreement of national plans by quinquennium began (a process started in 1954 but gained importance after 1956). Bilateral trade based on bilateral agreements and treaties prevailed despite attempts at multilateralism and the creation in 1964 of the International Bank for Economic Cooperation (IBEC) and the transferable ruble (TR).

As we have pointed out, economic interaction between socialist countries had no clear theoretical basis. The main task was to find a fundamental theoretical model on which to build the ISDL, and which would allow the formulation of the «objective laws» of socialist integration. It was believed that these laws should reflect the Marxian postulate of the development of productive forces and the correspondence of relations of production. According to Marx, the ISDL was secondary, derivative in relation to the national division of labour, and governed by the «law of value» and the «law of surplus value». On the other hand, under the ISDL, the guiding mechanisms were plannedness and proportionality and their manifestation planning. The two types of international coordination, one through the market and capital and the other through planning, were the manifestation, according to Marxism, of two radically different socio-economic formations.

The problem for Eastern economists was that while for capitalism Marx defined the basic laws (true or false), for socialism there were none. Even after Stalin's definitions and the publication of the first textbook on political economy in 1952, the theoretical formulations of socialism remained general and vague. The basic law of socialism was formulated as «the ever fuller satisfaction of the growing cultural and material needs of society on the basis of the continuous growth of production and its improvement on the basis of superior technique», as well as the law of «planned and proportional development» [33].

The «law of spontaneous and uneven development of countries» was defined for international capitalism, and Ricardo's theory of comparative advantage was criticized because it was thought to be based on a flawed labour theory of value. Ricardo did not take into account the dual nature of labour (concrete and abstract, private and public, etc.) which was the basis of Marxism.

Since there was no clear theoretical methodology (socialism was national as a model), international socialism remained to be realized by «practical tipping», i.e. to be based on different forms of planning [1; 34] (some form of planning spontaneity)[5].

The use of «the Law of comparative advantage» began to be discussed [3]. Unlike capitalist integration, which is based on market mechanisms according to which goods and the factors of production freely move between countries and regions following the decisions taken at the micro-level (i.e., producers and consumers), socialism was about integration in the sphere of production, implemented through planning and at the macro level. While the countervailing effects of capitalist integration took place through the market and prices, in socialist integration it was through the coordination and adaptation of national plans [3; 18]. The international socialist division of labour and planning generally follow «the Labour theory of value», i.e., everything was directed towards cost analysis, and demand was almost fully ignored.

It was not until 1971, at the 25th Comecon session in Bucharest, with the adoption of the «Comprehensive Programme for Socialist Integration» (Comprehensive Program) with a time horizon of 15–20 years that the ambitions for integration, based on specialisation and the ISDL[6] were finally stated [1; 2; 3]. In the terms of the political economy of socialism (PES), it was about the formation of a «common international socialist reproduction complex», «common enlarged reproduction and the formation of common economic proportions» [1; 3; 35]. The Comprehensive Program was supposed to reinforce multilateral coordination of plans, i.e. the development of elements of multilateralism and supranationalism through the use of commodity-money relations (CMR) (transferable ruble and more active use of price mechanisms). It was assumed that common investments and

[5] In a highly abstract form, the ISDL principles were adopted in 1962. They were first presented in the collective monograph *Socialist International Division of Labour* [34], which involved leading Soviet economists from the specially established *Institute of the World Socialist System* at the USSR Academy of Sciences (1960–1990).

[6] The basic principles of the ISDL were adopted in 1962, but their placement at the centre of priorities took place in 1971. On problems of specialization, see [1; 2; 3].

investment projects would be accelerated and financed by the newly created common investment bank – the International Investment Bank (IIB).

In the late 1970s and early 1980s, most countries experienced stagnation and several imbalances and crises (the debt crisis in Poland, for example). This led to an intensification of bilateralism [36; 37]. After 1985, and the beginning of Gorbachev's Perestroika, attempts were made to form a common market and convertibility of the TR, to establish direct links between enterprises, etc [38; 39]. For example, in 1985, the technological and competitive backwardness forced the countries to adopt a program to accelerate by 2000 the technological dimensions of integration [4]. In 1988 in Prague, the 44th Comecon Session adopted the «Collective Concept of the International Socialist Division of Labour» for the period 1991–2005, which implied an acceleration of science and technology and a number of market mechanisms. All these measures never became reality, the collapse of the system occurred in the late 1980s. The Comecon was formally dissolved in Budapest in June 1991, ending its «institutional life cycle» [40].

To sum up, the main features of socialist economic interaction were characterised by national directive planning, state monopoly of foreign trade and foreign exchange monopoly (i.e., full control over the balance of payments). This was supplemented by partial coordination of national plans and some attempts at supranational planning. This has been combined with elements of the market and monetary mechanisms, as well as an amplification of micro-level (enterprise and consumer) choices. However, market and monetary mechanisms conflicted with the underlying rigid principles of the system. While the Soviet economy was weakly open and largely self-sufficient, the other countries depended heavily on foreign trade. Thus a fundamental asymmetry existed between the USSR and the other countries. Centrifugal forces began to dominate centripetal ones [41].

2. The evolution of the international socialist monetary system, the struggle against bilateralism

The history of the international socialist monetary system can be seen as a history of various institutional decisions to combat bilateralism and attempts to impose some form of multilateral payments to enhance foreign trade between member countries. We know, bilateralism restricts trade flows to the trade possibilities of the most closed countries, due to the requirement of equilibrium trade flows at a bilateral level. Multilateralism, on the other hand, implies the existence of bilateral disequilibria (i.e., both deficit and positive balances of payments), subject to general equilibrium, and general compensation within the group of trade participants. The multilateralism leads to an increase in trade flows and hence in the incomes of all participants. It allows specialization and efficient use of resources and expands the choice of economic agents. Economic theory as well as historical experiences show that developed multilateralism implies mostly market and monetary mechanisms, including the existence of a transferable or convertible currency. The experience of the Comecon, demonstrates in practice, the limited possibilities of achieving multilateralism when using the mechanisms of coordination of national planning, and only superficially and partially – price and monetary mechanisms.

The challenges of dual currency

In principle, socialist planned economies were moneyless, money was a means of accounting as well as of controlling the implementation of the plan. In particular, following the generally accepted approach (the definitions of the Polish economist W. Brus), the monetary system of the socialist economy was dual, i.e. consisting of two sectors. In the leading sector, the productive sector – that of the nationalized enterprises, money was passive, and in the sector of consumer goods and services, where the main subjects were households – it was active [42; 43; 44; 45; 46; 47; 48]. In the first sector, cash flows were cashless; they were a means of accounting and measurement. Through its extensive branch network, the Monobank[7] opened the special accounts of enterprises and controled the implementation of the plan (prices and wages were definitely fixed, etc.).

The domestic duality of money was carried over into the international sphere of socialist countries. Money was passive, a means of calculation and control in the sphere of trade flows and supplies planned by national authorities. In this sector, trade

[7] Gosbank (the State Bank of the USSR) was the Soviet Union's monobank.

schemes passed chronologically through (i) various non-cash forms of payment – bilateral, trilateral and multilateral clearings, and (ii) later, after 1964, payments in the collective settlement currency, the transferable ruble. Money was relatively more active in the non-commercial payments sector (tourism, diplomacy, etc.). The importance of non-commercial payments, despite small volumes, was growing over time. In general terms, the external monetary circuit was detached from the domestic one [49] .

In the early years after the WWII, socialist countries continued the familiar practice of barter and clearing that had begun after the Great Depression [11; 49]. This form of payment was the only one that suited the tasks of rebuilding production and paying debts as well as the lack of gold and convertible currencies, etc. [11; 50; 51; 52]. Despite the technical universality of clearing, Eastern economists claimed that under socialism it took on a new content.

According to the distinguished Bulgarian scholar and expert of the system in Bulgaria, Nesho Tsarevsky: «Clearing was used by socialist countries as a means of regulating international payments in a planned manner and maintaining the balance of payments in equilibrium without the transfer of convertible currency. The clearing agreements concluded between socialist countries are based on the principles of full equality and mutual benefit» [53]. Following the Marxist theory of money, Eastern bloc economists believed that in the system of clearing money was not real money, but a means of calculation and measurement – it was ideal: «The multilateral or bilateral equilibrium of commodity supplies means ultimately the settlement of all mutual claims and obligations by means of non-cash reckoning. Under these conditions, the settlement currency functions as ideal settlement money» [11].

Clearing under socialism was «planned» and had a physical expression. Bilateral agreements determined the total volume of commodity turnover, the contingents of the main commodities, the obligations of the parties in their implementation, the conclusion of contracts between foreign trade organizations, as well as joint inspection and control. It was assumed that bilateral value parity of the supply of goods and services within the year was observed. Annually, commodity contingents were specified and protocols were signed on the details of deliveries, as well as interbank agreements on cashless payments. Social clearing was conducted by bilateral parallel opening and maintenance of non-interest bearing accounts by the two authorised banks for the entire period of the clearing agreement.

In the first few years, 1947–1949, national currencies were used as clearing currencies, and also foreign currencies, including the dollar, the British pound and the ruble[8]. Institutional diversity continued until 1949, and even until 1952, when the Soviet ruble (given a gold basis in March 1950) was introduced as the main clearing currency. After 1952, a «bilateral clearing-type» was defined where the ruble was the settlement currency and payments were made in the national currencies of the respective countries [54]. Clearing covered all types of flows and transactions (commercial and non-commercial payments, transport, reparations, debts, etc.). The main actors were the central banks of the participating countries, or banking institutions authorised by them (mostly foreign trade banks), which maintained the clearing balances. In the event of a negative balance, the partner bank automatically granted technical credit until the deficit was covered by goods under contract. These were interest-free credits, but 2% interest per annum was paid if the limits were exceeded. The balances were only covered with goods and services, cash or gold. This gave grounds for calling socialist clearing «pure clearing», i.e. commodity clearing without money, in addition to «plan clearing» [11].

The first logical step to overcome bilateralism was the attempt of trilateral clearing, where balances were transferred within three countries. A number of trilateral clearings involved a capitalist country (Finland most notably). The idea of multilateral clearing dated back to the very establishment of the CMEA, in January 1949 [11; 25]. Among the main difficulties of the transition to multilateralism were pointed out the unequal level of economic development of the countries, as well as the dangers of non-equivalent exchange. Difficulties were created by structurally scarce commodities defined by the objectives of industrialization (mainly raw materials and materials, and machinery), and the existence of «soft and hard commodities». Added to this were the changing terms of

[8] CSA, Session in July 1949 /to item 3. In the socialist literature, the clearing currency was often referred to as the «closed currency».

trade (as the contractual prices of the CMEA followed the prices of world markets).

Despite these obstacles, a decision was taken in June 1957 to develop multilateralism and to balance balances of payments multilaterally. The clearing between Albania, Bulgaria, Hungary, the DDR, Poland, Romania, the USSR and Czechoslovakia, which lasted from 1957 to 1963, was also launched, where goods could be sold without observing the calendar-year equality of bilateral supplies. Parity was sought between each country's total exports and imports with all others [55][9]. They opened special accounts for each other in the settlement currency – called the «clearing ruble». The interesting thing here, was that the clearing ruble had the gold content of the ruble (allegedly – for technical convenience).

A significant monetary innovation in the model was the creation of a second level of clearing – the Razshetnaya Palata/Clearing House (a multilateral clearing centre between the authorised banks of the CMEA countries). The Clearing House functioned initially within the Soviet Gosbank, and was moved to Vneshtorgbank in 1963. The Clearing House and the authorised national banks opened special accounts for each other. On a daily basis, the national banks derived bilateral passive or active balances resulting from standardised payment methods (mainly immediate collection) and sent them to the Clearing House. In turn, the Chamber aggregated the balances by bank (i.e. by country) and settled them monthly by multilateral netting. According to Mazanov: «The participating countries shall settle the balances of monthly receipts and payments not directly with each other but through the clearing house. Therefore, each party appears in the multilateral clearing process as debtor or creditor of the other party and simultaneously as debtor or creditor of the multilateral clearing house. However, amidst the completion of these clearings by the clearing house, each party ceases to be a debtor or creditor of the counterparty and becomes a debtor or creditor of the clearing house. In this way, the settlement relations between the banks are transformed into the settlement relations of the given bank with the Clearing House, as a result of which each participant country has the possibility to automatically

[9] The principles of multilateral clearing were defined as early as 1949 (CSA, July 1949 Session).

use the credit of the Clearing House for the settlement of accounts with the participant countries regardless of which of them the goods have been received» [11, p. 48–49].

The Clearing House, lacked equity and resources, which limited its lending activities. As a result, multilateral clearing was developed, with estimates that it covered no more than 1–1.5% of total trade. Bilateral trading and clearing continued to dominate. New institutional solutions were being sought. In fact, in this period many Eastern economists (mostly Hungarian and Polish [18; 56; 57; 58] identified the structural limits of multilateralism. The official position noted that multilateralism was objectively necessary for the new phase in the bloc, that of integration.

The illusion of common currency

The idea of a common unit of account to serve multilateralism in the CMEA, and to accelerate integration, dates back to 1961–1962. An expert working group was established in early 1963, and a special standing committee on monetary and financial matters was set up then [55][10]. The Multilateral Agreement was signed on 22th October 1963 and the system formally began to operate on 1st January 1964. To a large extent, the attempts to build a monetary system in the CMEA were inspired by the practice of the EPU (1950–1958).

The following four components can be analytically distinguished in the framework of the multilateral system: (i) a common monetary unit called the transferable ruble (TR) issued by (ii) the newly established IBEC bank, as well as the existence of (iii) a settlement mechanism and (iv) a credit mechanism.

In creating the TR, the official authorities of the CMEA emphasized that the new currency was distinct from the reserve currency dollar, the latter serving the interests of the U.S. economy and bringing unearned income [52].

In the famous monograph «The International Monetary System of the CMEA Member States» Konstantinov[11] noted that unlike

[10] CSA, Speeches by participants at the 17th session of the CMEA, Moscow.

[11] Konstantinov Y.A. (1932-2016) was a distinguished Russian professor of finance. At the international level, he worked in the Secretariat of the CMEA and for more than 20 years headed the Monetary and Financial Department,

clearing, which was moneyless, this was an exchange mediated by real money. TR was credit money whose issue and volume had to accurately reflect the movement of commodity flows (planned and contracted contingents. It allowed the carry-over of positive balances. The TR and the compensation mechanism guaranteed the equivalence of exchange (we have seen the Yugoslav critique of non-equivalent exchange)[12].

Konstantinov, the eminent specialist on the monetary problems of the Soviet Union, following the principles of Marxism on the commodification of money, noted: «Socialist integration partners are interested not in money per se, but in specific commodities as use values necessary for the satisfaction of productive and personal needs [...] TR is «tied» to the commodity. Its commodification is overwhelmingly envisaged at the stage of coordination of national economic plans, in the preparation and signing of five-year trade agreements and annual commodity protocols. In this way, the correspondence of the mutual monetary turnover to the actual movement of commodity-material values between the parties is secured in advance» [54, p. 104–105].

Technically, the TR was issued by the IBEC, in which three types of accounts – current, credit and deposit were opened by the member banks authorised by the member countries. The balance sheet of the IBEC was accessible only to the authorised banks, which accumulated the bilateral balances resulting from payments between foreign trade enterprises. Payments were made in national currencies and mainly by «collection with subsequent acceptance», i.e. collection with immediate payment.

There were two sources of TR creation – current credits and term credits. Particularly important were the settlement credits, which the IBEC provided on the basis of positive balances in the system of the compensation mechanism. Under the heading of term credits were the joint investment facilities, which were provided by the new International Investment Bank established in 1971. Despite the

the working body of the CMEA Standing Committee on Monetary and Financial Affairs.

[12] While in clearing, it can be argued with certainty that exports were a function of imports, in the multilateral system of TR, the possibility arises that imports were a function of exports, i.e., export motives became dominant.

difficulties, the loans were managed through the IBEC's annual credit plan mechanism.

When loans were granted, the cash stock of the TR grows, when loans were repaid, it shrank. This was an example of «planned managed issuance», and no excess money was allowed to be issued. The demand for remittances equaled the supply of remittances.

The major problem in CMEA was pricing. Taking into consideration that prices in capitalist markets were volatile, and conceptually in the CMEA prices should be stable, various adjustment mechanisms were applied. Initially, the so-called «stop prices» were adopted, i.e. the 1949/1950 price level was used until 1956. Then, for 1957, the average prices of those in 1956 were used. From 1958, the «Bucharest formula» (the 9th session of the CMEA was held in Bucharest) was imposed, according to which prices on capitalist markets were averaged and smoothed on a quinquennial basis, as well as adjusted for «other distortions». For example, prices in the 1966–1970 quinquennium were based on the 1960–1964 average, for the 1971–1975 quinquennium on the 1965–1969 average, and so on. In 1976, the adjustment formula was modernized to apply a «rolling one-year five-year basis» of averaging [60].

The mirages of decentralised socialist integration

In 1971, the strategic document «Comprehensive Programme» was adopted, which represented an ambition for a strong push for socialist integration. The theoretical concept of integration was based mainly on long-term interstate planning of production and investment. This was combined with declarations of the exemption of exchange (of non-commercial payments), a more active use of the law of value[13] and of the TR, etc. In this context, a second banking institution, the International Investment Bank, was created, whose main task is to lend to joint investment projects extending the perimeter of the remittance ruble[14]. This model of integration can be

[13] A form of «simple commodity economy», i.e. non-capitalist market economy (i.e. labour power was not a commodity).
[14] Very quickly, the exact opposite happened - lending was done more and more in dollars.

called «planning» and integration can be called «planning and investment integration».

The trade and financial ties of the socialist countries with the West began to deepen. The West implemented a «strategy of differentiation of the CMEA countries», strengthening its ties with some of them. Poland became indebted to Western banks, hence the emergence of a debt and economic crisis in the country, and the introduction of martial law in 1981.

As a whole, after 1984, instead of shrinking, bilateralism in the CMEA, and more specifically centred on the USSR, expanded. The deterioration in the terms of trade after the oil shocks led to a strong dependence on the USSR, which began to offer lower than international prices (see charts 1–3). This led to subsidization by the USSR, but also reinforced political dependence on the USSR [61; 62].

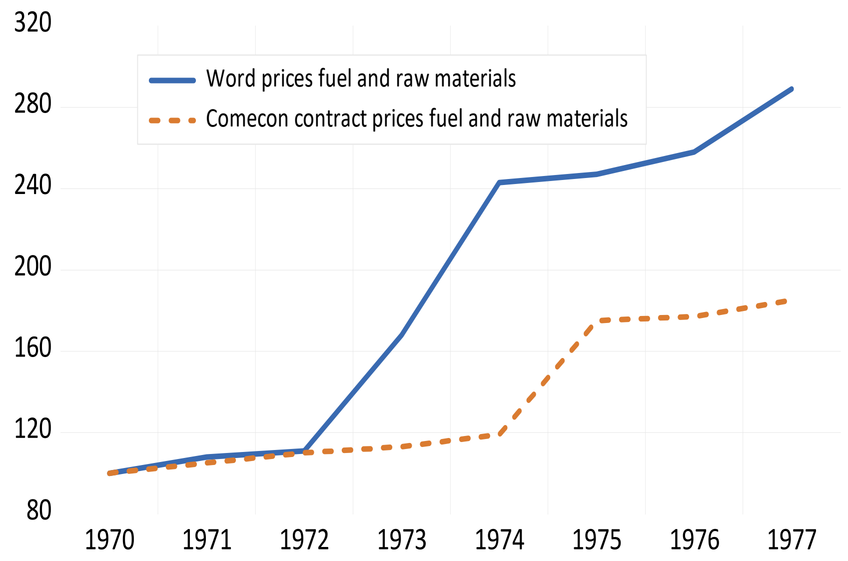

Chart 1. World and CMEA prices on fuel and raw materials
Source: Bogomolov, 1980.

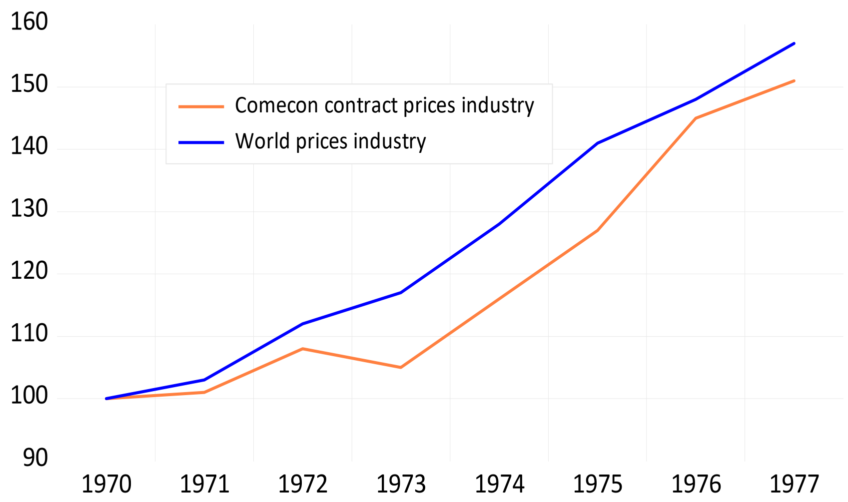

Chart 2. World and CMEA prices on industry
Source: Bogomolov, 1980.

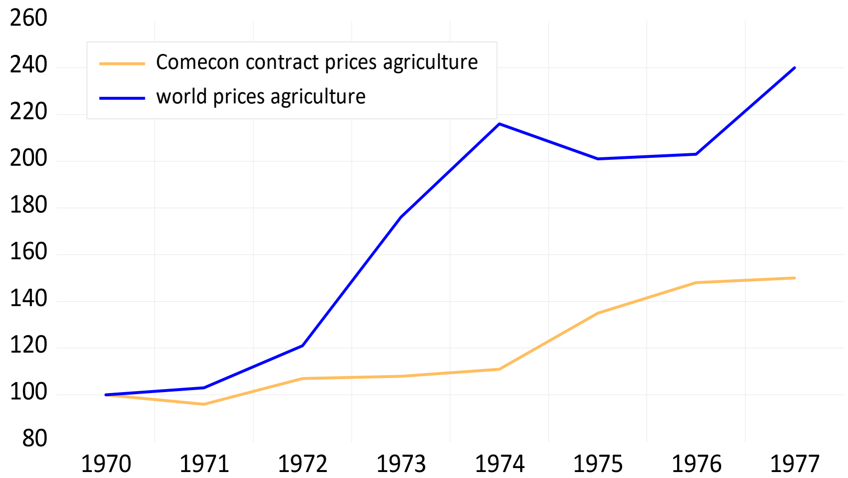

Chart 3. World and CMEA prices on agriculture
Source: Bogomolov, 1980.

Despite the adoption of a new Programme for the Acceleration of Scientific and Technological Progress in 1984/1985, integration stalled. In general, centrifugal forces began to overwhelm centripetal forces [36].

After 1985, i.e. with the beginning of «Perestroika and New Thinking», efforts focused on reforming the economic models of individual countries. The reforms were in the direction of de-bureaucratisation and the introduction of economic autonomy of enterprises. At the same time, there was nothing concrete on CMEA in Gorbachev's speeches except the general phrases of «greater creativity and equality and mutually beneficial fraternal cooperation» [63]. A reconstruction of the model of socialist integration seemed imperative, but there was little idea of where it was going.

Subsequently, some new conceptual points emerged, which led in the direction of decentralisation and opportunities for more choice for the economic actors of the member states. There were projects of direct links between member state enterprises, of convertibility of their currencies and the TR, and generally of the formation of a common «socialist» market. Decisions were taken to establish joint unions and enterprises, i.e., micro integration in the sphere of production. However, planning, and more precisely the coordination of plans, remained an important shortcoming despite calls for greater use of the «law of value».

The debate on currency convertibility, and in particular on the TR, was interesting, as it echoed the post-WWII convertibility problems in Western Europe with great delay, and in a fluctuating ideological form [64][15]. Fundamentally, it was not clear exactly how the matching between plan and market was to take place. Different approaches dominated in different countries, from moderation towards the market (USSR, Bulgaria, Romania, Czechoslovakia), – to extreme liberalisation (Hungary and Poland). By the emerging contours of the new model, we could call it a «decentralized and anti-bureaucratic» model of integration.

The decentralised model quickly led to the logical moves towards market reforms and the use of convertible currency in payments. Confirmation of this, became one of the last demands of

[15] The literature here is numerous, with one pioneering book in many respects being that of the Bulgarian economist [65].

the Soviet delegation at the 1990 CMEA session in Sofia for payments in dollars. «I remember the last historic session of the CMEA in 1990 in Sofia. The Soviet delegation was headed by Nikolai Ryzhkov. He calmly stated that trade for transferable rubles between the CEE countries would cease. The dollar should serve as the currency and the price for any commodity should not be lower than the world price. People in the hall were confused. The stunned Czech delegation said, «But in that case we will have to leave the CMEA?!» and Ryzhkov replied, «Well, get out. Please!» A few years after the collapse of the Eastern European bloc, Bulgaria lay in ruins» [65, p. 2013].

And so the socialist countries, having begun to pay each other in dollars, ended up paying each other in dollars. The cycle closed.

The rest of the story is known. The closure of the CMEA followed in June 1991 in Budapest. Socialist globalisation ended with the exhaustion of the socialist state planning model as such in individual countries, and with the political collapse of the Soviet Union.

Concluding reflexions. In this paper we have presented the evolution of the socialist integration, which emerged as an alternative to capitalist integration as a direct result of the WWII. Moreover, we discussed the main theoretical and practical approaches proposed by Eastern European economists to build an alternative coordination mechanism to the market, that of planning, and at the national level.

While Western economists analyzed the problems with the familiar theoretical tools of neoclassical economics and macroeconomics, Eastern economists were put through the formidable task of finding a theoretical model of integration within *the political economy of socialism*. The political economy of socialism as a whole was a scholastic collection of postulates and provided no serious guidance for practical solutions. Monetary-financial theory in the socialist countries, which was one level more concrete than political economy, also did not make much progress (if we abstract from the dual currency approach – active and passive).

Western scholars, who argued in the early days that even if economic interaction between socialist countries were theoretically possible[16], it would be inefficient and extremely limited, were right. It would be dominated by political and geopolitical motives [24; 30; 66; 67; 68]. The leaders of the socialist countries, attempted various conceptual models. They encountered the constraints of political and ideological factors. They failed to find a mechanism by which to leapfrog the trapdoor of bilateralism and national planning, despite advances in specialization. The socialist countries were more and more attracted by countries with market and capitalist mechanisms of coordination.

Western and Eastern European scholars had almost no points of contact in the debate on the CMEA. They operated in completely different conceptual paradigms. This is evidenced by the publications in Eastern Europe devoted to the critique of Western theories of CMEA. These publications represented critiques that were incomprehensible to the modern and unfamiliar with the political economy of socialism, Western readers. As an aside, in the years of socialism, Western theories were largely incomprehensible and meaningless to the average Eastern or Soviet economist.

As a result, both socialist integration and the socialist theories of integration born out of the WWII – proved to be a road without a way out. Socialist integration and economic science did not develop, but they did teach a lesson that is unfortunately forgotten today. It is that, if international market coordination has certain limits, this applies with greater force to the coordination of countries through planning and non-monetary exchange.

[16] The old «debate on the theoretical and practical impossibility of socialism».

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