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## The Connection between External and Home Market Prices in CMEA Countries

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### 1. Economic Mechanisms and Trade Management

The development of foreign trade management in the European CMEA countries had already begun in the 60's as part of the general development of national economic mechanisms. The objective background lies in the fact that production gradually began to exceed the limits of national markets, and also in the fact that member countries wanted to accelerate their economic growth by involving foreign trade as an additional active growth factor. It was decided first of all to take advantage of production specialization and economy of scale. In the 70's the crucial changes in the world market on the one hand, and the efforts to develop socialist economic integration (the Comprehensive Program of CMEA integration) on the other, directed the attention of member countries to external conditions of economic performance. In most countries the growth rate, technical progress, and the standard of living were more dependent on external conditions than in the previous decade. This dependency became obvious for them mainly in a negative sense: growth rates decelerated, investments diminished, and improvement in the standard of living came to halt.

Due to those circumstances the efficiency of foreign economic relations, the increase of exports as a necessary means of paying for imports needed to run the economy (materials, fuels and energy), and the rationalization of imports, became more important. Therefore one could have rightfully expected that considerable changes would have to take place in the management system of foreign trade.

What actually happened?

It is true, especially on the formal side, that in the 70's the "traditional" isolation of foreign trade from production began to soften, and that new organizational and accounting forms<sup>1</sup> were introduced. It is also true that some of the economic regulators (parameters) hitherto used only in foreign trade began to extend to the sphere of production (e. g. export deliveries are expressed in foreign currency figures as indicators for industrial enterprises too). Or on the central level, when product balances and plan indicators are being formed, the deliveries to and from other partner countries are taken into consideration not as a residual but as a component of economic policy making. Regular plan coordination between CMEA countries enables the planning organs to harmonize national economic development targets while working out national plans. There is a close connection between foreign and home prices; many countries introduced exchange rates (or special multipliers) in trade accounts, and the latest adjustments of home prices are influenced primarily by external price changes.

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1 Foreign trade enterprises or offices were attached to industrial units (e. g. in the GDR and Bulgaria). Between those foreign trade enterprises remaining independent and the industrial units the commission, or pool, was created as a new accounting form (in Hungary and Czechoslovakia, for example).

Nevertheless, to determine the real meaning of these changes, one has to do at least two things : first, to examine the sequence of these movements and to determine in what way the home economy reacts to external changes, and second, to see how these new elements work.

Now, we shall try to answer the first question.

The CMEA countries have two main groups of countries (CMEA and non-CMEA countries) as trade partners, but these two are not treated differently in national economic plans. The main difference is the special trading and accounting system between CMEA countries that generally results in a more balanced turnover, while the balance of trade with capitalist countries is more susceptible to sudden changes in conjuncture or in politics. But the first keeps the management system centralized, because plan coordination and the balancing of international deliveries with other CMEA countries are conducted on the central level, and the second has the same effect because the direct and uncontrolled impact of sudden world market changes on the home economy (and the direct reaction of the home enterprises) would jeopardize the fulfillment of the previously determined national plans and socialist deliveries. On a purely theoretical basis this reasoning might not sound fully correct. One might argue, for instance, that the character of capitalist trade would require a greater degree of adaptability, and that hence a closer connection between external impulses and home production, which must be realized in the greater independence of the enterprises and in more elastic national-level planning, is rather well justified. This line, in fact, is to be found in the practical steps that were taken in order to improve the management system. For instance, in Czechoslovakia around the mid 60's, later in Poland, and after 1980 in Bulgaria and Hungary, in addition to the greater independence of enterprises and direct access to foreign markets, so-called "open planning" was introduced in the second half of the 70's. This meant that in the national five year plan targets were fixed for the first years only, the space afterwards being left open. Targets for the later years had to be determined in the middle of the period in response to developments on the world market, and consequently, resources and reserves for operation in the open space were left undistributed. In the smaller CMEA countries, in general, as a result of accelerated world market changes, the five year plans have become less detailed so that one could doubt whether the system of five year planning, in the traditional sense of the past ten years, still exists.

Still, in Hungary too, when enterprises can choose between capitalist and socialist markets their behavior has two sides : they prefer capitalist imports because they are of better quality but in exports the socialist market is preferred because of better conditions and lower requirements. For similiar reasons, the right to import is granted to enterprises in a considerably narrower field (mainly to enterprises that have a distribution function) than is that to export, and as a result, home production enterprises enjoy a safe position on the home market (but if they were to export this would not be true of their position on the world market). Thus it seems there is also resistance on the side of the enterprises to being faced directly (in exports) with capitalist markets.

The virtual problem is how to open a small economy which, considering its structural pattern and free resources, is a "late comer." This means briefly that though the industrial pattern has already been formed industry is for the most part not competitive on the world market. There are two problems with this. First, if such an economy were opened to direct external impacts, would it soon run into bankruptcy ? If so, the maneuver of opening

must proceed gradually. Second, nowadays because of modern technical advancements the mastering of production on a competitive level is possible only on a large scale with readily available resources. The latter problem is especially critical for small countries where large-scale production is unavoidably connected with selling on foreign markets and where home resources are limited. Since bigger countries have in this respect much more favorable conditions, the small countries, in general, must recognize their real possibilities : owing to limited resources (manpower, capital, home market, and reserves) they cannot change the main developments on the world market. Rather, it is essential for them to find out what the tendencies are in world trade and technical progress and to decide on the proper reaction as early as possible. In order to take advantage of the economies of scale, a small country cannot develop more than a limited number of branches or enterprises, and has to concentrate its resources on them. These circumstances imply that the home market will have a more or less monopolistic or oligopolistic character while on the world market the same firms must face great competition. The necessary quick adaptability to world market developments on the one hand, and the quick and concentrated mobilization of resources on the other, require more centralized management in smaller countries than in larger countries. Thus it is not by chance that in the developed capitalist world efforts towards central planning and management have advanced mainly in Scandinavian countries and the Netherlands, while in the larger countries competition on the home market plays a more important role.<sup>2</sup> In the socialist world we find a contrary picture, because the Soviet Union, though very large, has a more centralized management system than Hungary or even the GDR or Bulgaria.<sup>3</sup> By referring to the practice of small capitalist countries, of course, we do not mean to state that centralization would be advisable for us. While recently some Western economists searching for better organizational principles and methods for their economies have disapproved of market competition, they have also often criticized the socialist countries for moving towards activating market elements. But in fact one must strictly distinguish between categories and the contents they cover ; planning in Scandinavian countries or the Netherlands is not the same as what we have in Hungary or in other CMEA countries, just as a state enterprise in the West is much more market-oriented and -influenced than a state enterprise in a socialist country. What we need now in a small economy is : to open our economy gradually to world market impulses, to give more independence and also responsibility to enterprises producing for export, and to preserve central planning and management in order to help carry out the necessary structural adjustments. Only a very few lines of development should be centrally chosen and initiated ; in the overwhelmingly larger remainder of the economy (provided it consists mostly of competitive sectors) the initiative should be taken by the producing firms while central guidance helps by mobilizing resources for them. Thus, the impact of the world market should be perceived directly by the enterprises, transmitted through foreign trade prices and direct business contact. The

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2 Kádár, B.: *Kis országok a világgazdaságban* [*Small Countries in the World Economy*], (Budapest : KJK, 1971).

3 In the latter countries, for instance, foreign trade companies have been attached to production units (kombinats) and have been granted free access to foreign markets ; in addition, they use special multipliers for accounting. This is not done in the Soviet Union.

enterprises themselves should determine the strategy by which they adjust their activities, while central guidance help them. This would be the basis of an economic policy formulation inclined toward adjusting the home economy to world market changes.

Current practice in CMEA countries, however, bears little resemblance to these premises. Generally, central organs like the Ministry of Foreign Trade and the Planning Commission feel themselves to be completely responsible for external economic relations. This is so first of all because central organs want to organize production instead of letting the enterprises do so. This is strengthened by the character of economic policy making which sets the targets of home development (including those aimed at adjusting the economy to world market changes) in an autonomous way, and centralizes and distributes the resources for them.<sup>4</sup> Because of this every direct reaction of enterprises to changes in foreign markets makes the economy deviate from the centrally set targets and in effect jeopardizes the equilibrium of the home market. Self-initiated actions by the enterprises are tolerated within a very limited space that is set aside in economic policy or national economic plans. In this system at present reaction to external changes runs as follows: since it is the task of central organs to follow the development of the country's external balance, their reaction depends on the balance of trade (balance of payments). Therefore, 1) world market changes affect the balance of trade; 2) central organs become aware of external changes, and; 3) they adjust the economic policy (allocation of resources, planning, and the management system including the economic regulators<sup>5</sup> and administrative regulations); 4) enterprises adjust themselves to new plan targets and economic regulators; 5) through the new development of the balance of trade central organs prove the correctness of their measures. This is the general rule that applies directly to trade with capitalist countries. With socialist countries, in addition, the decision-making of central organs is influenced by the results of plan coordination and the bilateral trade balances with other CMEA countries.

There are, of course, positive elements, too; for example, the representatives of the enterprises concerned are involved in the plan coordination talks, and enterprises may suggest development projects to central organs.<sup>6</sup> As a whole, in this system foreign trade and foreign trade mechanisms are one-sidedly subordinated to centrally determined economic policy and to the general economic mechanism.<sup>7</sup> Therefore, the role of the foreign trade management system is fundamentally passive in transmitting external influences and in

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- 4 Even in the Hungarian reform the centralized system of investment allocation could not be substantially changed. To overcome this deficiency, one of the most important issues of further reform is to introduce a capital market and a more effective (two-level) banking system.
  - 5 Or: parameters. These include price, exchange rates (special coefficients), the subsidy system, etc.
  - 6 These latter are, however, motivated mostly by a desire for more investments or preferential treatment.
  - 7 In Hungary too, though the licencing system lacks plan indicators it has been preserved in both exports and imports. It enables central authorities to take effective operative measures quite independently of economic regulators if this is required by balance disturbances. Recent discussions suggest replacing it with a "market-supervision organ" that would prepare for economic intervention (e. g. buying necessary goods from abroad,

making the enterprises react to them. The main deficiency of this system is that external changes become obvious to central organs with a time lag (after the developments have been registered in the balance) and more time elapses before the necessary measures to adjust production and trade can be carried out. Clearly enough, this long and rigid reaction-process is inadequate for the rapid external changes of today.

Before proceeding to answer the second question—namely, how the new elements work—we must stress that the term “reaction-mechanism” has a broader sense than foreign trade management. The reaction-mechanism also includes economic policymaking, planning, price formation, capital allocation, the credit system, organization, structure, etc., while the foreign trade management system covers foreign trade policy, foreign trade planning, foreign trade organization, the connection between external and home prices, and the financing of foreign trade. Next, we will examine one of the most important of these questions: the connection between external and home prices.

## 2. The Connection between External and Home Market Prices

Theoretically, the ideal way of connecting home prices with external ones would be the conversion of external prices by a certain equilibrium exchange rate in exports as well as in imports. Then the home prices of tradeables would sooner or later be the external, or foreign trade, prices. But in fact this is not the case in any of the countries because, generally speaking, the economy of every country forms a relatively autonomous entity with its economic, natural and historical specifications. In general, the intensity of the connection between external and home market prices depends on the degree of openness of the given country and on its economic policy.

In the European CMEA countries before the 60s the total difference between external and home market prices was compensated by the state budget. This meant that industrial enterprises traded with foreign trade enterprises at home market prices in exports as well as in imports. Later in some countries (the GDR, Czechoslovakia, and Hungary) the state budget only partly made up the difference between external and home prices, the remainder having a direct influence on the profitability of the industrial enterprises. Finally, the third variant was applied in Hungary from 1968, when budget compensation was abolished; instead industrial enterprises received the actual external prices converted by the uniform exchange rate into forints for their exports, and similarly had to pay the same price for imports. The effective and converted external prices were then modified by customs, equalization taxes, subsidies, etc.

There are two essential conditions for the existence of a real connection between external and home prices. First, the system of home market prices must be elastic, providing enough scope for absorbing the effects of external prices (the sphere of free prices should be broad enough), and second, enterprises should be granted enough freedom by the central organs to react to changes in prices (plan indicators should be less detailed and obligatory indicators should be abolished). At present, home market prices are almost

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forming reserves) but would not take administrative action. Foreign equilibrium, then, would be the result of direct external impacts on enterprises, the exchange rate policy, and the capital market, while at the same time influencing these impacts.

totally fixed in Bulgaria, the GDR, Poland, Czechoslovakia and the Soviet Union; only in Hungary do free prices<sup>8</sup> have a greater share. The obligatory plan indicators are still detailed<sup>9</sup> in Bulgaria, in the GDR, in the Soviet Union and Czechoslovakia; they are less detailed in Poland and abolished in Hungary.

According to these two conditions there are two fundamental ways of connecting external and home prices:

a) If home prices are totally or for the most part fixed, then external price changes influence home prices when periodical price adjustments are carried out (in the past, generally every five years), provided that home price formation takes this into consideration. In the period between two such periodical price adjustments the total or partial difference between external and home prices is compensated by the budget. This method has the advantage of a review and strict control of external price influences. Its disadvantage is, however, that external price changes are transmitted into home prices with a considerable delay. Such a delayed adoption of external price changes is becoming less suitable at present, when sudden changes occur in external prices and home production must flexibly adapt to them.

b) If the home price system provides considerable scope for free prices, or of prices can move freely between fixed limits, then external price changes influence home prices directly. Still, in this system (e. g. in Hungary) prices for imported fuels and basic materials continue to be fixed. Such fixed prices must be judged from a different angle from that in (a). In this system the fixing of the prices for inputs (energy, fuels) is intended to ensure a relatively stable cost calculation for the processing industries.

What kind of prices are actually those external which the enterprises should feel? In trade with capitalist countries the actual current prices on the national or international markets prevail. Socialist countries trade among themselves at prices derived from the capitalist market prices by the so-called five years gliding average. This means that in a given year tradeables are accounted at the average of capitalist prices over the preceding five years. These are artificial prices which are neither real capitalist prices nor the socialist countries' own prices. These artificial prices can make trade for products in which the real effectiveness of production is low seem advantageous and thus contribute to increasing losses on the one hand, and can hide real advantages on the other. Since the mid 70s opinions have divided as to what prices to apply in intra-CMEA trade. Several opinions urge a further actualization of the gliding average, that is, application of the average of capitalist prices over a shorter period (1–3 years). In fact, this suggestion is unrealistic because capitalist prices and price ratios are obviously artificial for countries which trade almost entirely among themselves and the overwhelming part of whose tradeables cannot be sold on capitalist markets (mainly because they lack competitiveness). We must add, however, that in practice socialist countries deviate from capitalist prices when fixing concretely prices for trade (because of technical parameters, the importance of certain

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8 Free prices amount to 50–60 percent of total prices.

9 Quantity indicators (production in kind) for each and every product as well as separate indicators for home, socialist and non-socialist markets (in the case of value indicators) are understood.

goods, etc.), which is indeed an expression that the value views of the socialist countries are different from those of the capitalist ones. Other opinions would revitalize the dead idea of the independent price base of the early sixties.<sup>10</sup> This would also lead to a wrong path not only because of insoluble technical problems in the calculation but also because the independent price base would result, although on other considerations, in similarly and hence artificial prices. In order to feel comparative advantages and disadvantages through prices it is important that the enterprises be subject to the national prices which prevail effectively on their home markets. It is necessary, then, to ensure that socialist national prices can be converted and the costs of production compared. This would be inevitable even if countries would like to increase the efficiency of their cooperation at the present degree of centralization. Another question is whether to give preference to trade within a group of countries, or integration. In international practice this is realized by measures which modify comparable national prices; that is, the comparison of national prices remains fundamental. In spite of this, in the CMEA countries prices other than modified national prices are applied originally in trade. A situation in which socialist enterprises could feel mutually their home market prices and the capitalist prices while the preference of CMEA integration was ensured by a common external customs system or a similar duty system would be desirable. This would provide a suitable base for agreement between the CMEA and other integration groups (first of all the Common Market), as well as between the developed CMEA countries and less developed countries within or outside of the CMEA.

Therefore, in order to make enterprises feel and profit from comparative advantages, the use of artificial prices in itself should be condemned. But as long as this practice continues these prices should be felt by the enterprises because they really are applied in trade. If, however, demand and prices are not correlated, then trade decisions will be made without regard to price criteria.

Next we examine the impact of external prices: first in the case of fixed prices, and then in the case of free home prices.

### 2.1 Influences of External Prices on Fixed Home Prices

In the countries under review probably except for Hungary, until the early 70s the basis of home price formation was the cost of home production. In some countries the price of competitive imported goods was fixed at a level higher than the home price for the corresponding home-made product in order to help anti-import production (e. g. in the GDR). In other countries, as in the Polish price adjustments of 1971, prices for imports were fixed at the average level of actual foreign prices of the preceding two years.

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10 Iu. V. Iakovetz, in 1974 the actual president of the Board of Prices of the Soviet Union, has written: "In the long term the gap will obviously deepen between continuously increasing world market prices and the relatively stable prices of most CMEA countries. This will make ever more necessary the isolation of the national economies of the socialist countries from the inflation of the capitalist world. By developing the economic integration of the CMEA countries we will obviously weaken the impact of capitalist world market prices on the contract prices of socialist trade and cause them to feel more keenly the impact of their own costs and prices." Iu. V. Iakovets, *Tseny v planovom khoziaistve [Prices in the Planned Economy]*, (Moscow: Ekonomika, 1974), p. 125



In spite of substantial external price changes beginning in 1973, socialist countries left their home prices essentially unchanged until 1975. Then the CMEA contract price average was modified, causing home prices to follow the import price changes. This was the case, for instance, in Bulgaria, where from January 1, 1976 the home prices for imported raw and basic materials, and for home-produced fuels and energy carriers, were fixed based on actual and possible import prices, and these changes were taken into consideration in the prices for the ready-made products of processing branches.<sup>11</sup> In Poland also, from January 1, 1976 new prices were fixed for raw and basic materials and energy carriers, whose wholesale prices increased by 27 percent. In Czechoslovakia prices for energy carriers and raw and basic materials were fixed in 1982 at a level that was on the average 10 percent higher. In the GDR the prices for energy carriers and industrial products of home origin increased gradually from 1976 to 1980 (for oil by 214 percent, and for other products by 30–40 percent).

As it was stated earlier, the changes in the home prices were caused by the new CMEA contract prices. Higher home prices for fuels and energy carriers were aimed at decreasing and economizing their use in order to decrease imports. In countries with centralized management this task was not left to prices alone but was supported by minimizing the quantitative obligatory normatives of fuels and energy to be consumed by the enterprises. This was the case, for example, in the GDR and Czechoslovakia. In addition, in Czechoslovakia the two methods were combined: although enterprises get normatives of consumable quantities for raw materials and energy, they can overconsume by simultaneously paying a several-times higher price for the quantity over the limit (normative). This system was applied until 1982 to electricity, heating energy and heating gas only. In 1982 it was extended to include heating oil and petroleum (the price for the quantity consumed over the limit is five times the gross trade price), as well as gasoline and gas oil (overconsumed quantities are priced three times higher than the official price).<sup>12</sup>

It is a more difficult task to determine how the actual export prices influenced fixed home prices. In price formation based on home production costs this problem generally does not arise because the possible differences between these costs and the actual export prices (in both directions) are compensated by the state budget. The Hungarian “competitive price system” could be an example of the reflection of export prices in home ones, because here the development of the rate of profit in actual export prices determines the rate of profit that can be included in home prices (anyway, these prices are not fixed and so they are excluded from our present category “fixed prices”). To this category belongs the practice followed in the GDR: the prices for home-made machinery are fixed in proportion to external prices with help of technical parameters.

In the system of fixed prices at present the following main ways of connecting external prices with home prices are to be found in the European CMEA countries:

a) The difference between the two prices is wholly compensated by the budget. This is the

11 The main aim was to admit external price changes; there was no serious effort to counter-balance negative influences by forcing industrial branches to increase their efficiency.

12 M. Fiser, I. Kubec; “Racionalizace spotreby paliv a energie v CSSR,” [Rationalization of Fuel and Energy Consumption in Czechoslovakia] *Plánované hospodárství* No. 3 (1984), p.51

case in the Soviet Union where although industrial enterprises get a so-called "export surcharge" in addition to the home wholesale price for their exports, it is in fact a special subsidy covering the additional costs of export production (special quality and certain other requirements).

b) The difference between external and home prices is partly compensated, which can be done in two main ways: in the form of price surcharges and discounts, or in the form of the normative volume of compensation. The latter means that the amount of compensation is fixed as a total for product groups. Such a system is applied in Czechoslovakia and Bulgaria.

c) The earnings from exports are attached to earnings from the home market. In this case the industrial enterprise gets for exports or pays for imports the actual external price converted by the special multiplier<sup>13</sup> and this sum is treated in the same way as earnings from the home market. This means that it is a source of revolving funds for the enterprise, whereas in cases (a) and (b) the compensation normative affects the premium only. Another difference is that here the compensation is effected at the level of the producing enterprise, so it has, in principle, more impact on the production pattern. Since in this case home prices are also fixed, the difference between external and home prices must also be compensated. Therefore, industrial enterprises get subsidies or pay equalization taxes fixed as a total sum (or percentage) for given product groups. At present, this system is used in Bulgaria, in the GDR and it is again under consideration in Czechoslovakia.

The positive side of this system is the intention to make enterprises more interested in exports. It would, it seems, involve the possibility that enterprises could choose between home and external markets. Yet there is no such possibility, because the centrally fixed plan indicators prescribe selling to the home market and exports separately. The financial system is also consistent with this separation because income from abroad is adjusted separately by financial bridges (according to the difference between fixed home and external prices) while income from the home market is modified by another system of budgetary compensations. Still, the fact that the compensation system has been shifted to producing enterprises and that compensation is of a rather normative character is a stimulus for enterprises to find more effective methods and a better product mixture for export production.

## 2.2 The System Without Price Compensation

This system consists of two main parts: the multiplier and the financial bridges. It is the multiplier by which the actual foreign trade prices are converted into home currency, and the financial bridges which modify this converted price according to the home price policy. This system was introduced in Hungary.

By definition the multiplier is the cost, expressed in home currency, of obtaining one unit of foreign currency through exports. The multiplier has three magnitudes. It is called average when obtaining a further unit of foreign currency is possible at average cost, marginal when an additional unit requires more than average cost, and finally, the multiplier is submarginal if the cost of that unit of foreign currency is less than average. Because the submarginal multiplier encourages imports none of the countries intended

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13 A special exchange rate applied only in trade.

that it be submarginal when the multiplier was introduced.

In practice, however, things turned out otherwise. Countries introducing multipliers (Bulgaria, Hungary, the GDR, Poland, and Czechoslovakia) declared that they were on the average level. To determine the multiplier the export earnings of a given year or years expressed in foreign currency were divided by the home market prices of the same exportables. After having been introduced, however, multipliers in general seemed to be "overvalued" because actual "earning costs" exceeded the declared nominal level. This was the case, for instance, in Poland and Hungary.<sup>14</sup> Up to the 80s the nominal level was still considered to be correct for the long run, if not for current periods.<sup>15</sup> Thus, the declared average-level multiplier was in fact submarginal. The argument for maintaining it was that it would stimulate export producers to cut their costs and to obtain potentially high prices on external markets. Only one important fact was overlooked: at present the socialist economy is a shortage economy and hence enterprises are inclined to import rather than to export. Quite obviously, a submarginal multiplier increases shortages and aggravates the discrepancy between exports and imports. Multipliers were not changed until 1975, although world market price changes started earlier. They were changed between 1976 and 1977, but after that, in general, external price changes did not result in additional multiplier adjustment.<sup>16</sup>

The multipliers within a single country are not uniform for several reasons. The multiplier discussed above is used in trade accounts; in nontrade accounts different multipliers are used. (Only in Hungary are they the same. A few years ago they were united and have since been called "exchange rates."<sup>17</sup>) The level of the trade-multiplier also differs according to whether transactions are made in convertible or socialist currencies because of the different price levels on these two main markets. The same multiplier has different scopes: in exports it can be applied broadly, while in imports it is more limited (because of the aim of stabilizing production input costs).

Financial bridges can be divided into two main groups: those used in exports and those used in imports. In exports, because the actual level of the multiplier exceeds the declared level, financial bridges are generally subsidies: in imports, surplus profits must be leveled off, so here the bridges are excise taxes.<sup>18</sup> Financial bridges are, as a rule, more

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14 U. Płowiec, W. Trzeciakowski; "System i instrumenty kierowania w handlu zagranicznym," *Handel Zagraniczny* Vol. 8 (1972) p.277; Bánfi T.; *Valutaarfolyamelmelet es-politica [Theory and Policy on Exchange Rates]* (Budapest: KJK, 1981), p. 127

15 The nominal level was not adjusted but the financial bridges were used to support the multiplier.

16 Multipliers were changed in Bulgaria, the GDR and Poland because of the changing value of the US dollar; in Czechoslovakia they were changed for this reason and because of wholesale price adjustments, while in Hungary the change came about because of the dollar exchange rate and home price adjustments.

17 This relates to convertible currencies. For socialist currencies, as before, different exchange rates are valid in trade and non-trade accounts.

18 An exception, although one that has the same result, is the price of oil in Hungary. According to home price formation, the home price should be set at the level of the most expensive import

aggregate in exports (relating to product groups, enterprises, or branches), while for imports they are fixed for each item. Customs duties play an important role among import financial bridges. At present Hungary, Poland and the Soviet Union<sup>19</sup> have a customs system employing the internationally adopted Brussels-principle and three columns.

### 3. Conclusion

The countries which introduced multipliers and financial bridges undoubtedly made considerable progress towards taking external price changes into consideration. Nevertheless, one ought to be careful when basing judgments on the existence of these new elements because in reality the same element has different meanings according to circumstances under which it is applied. For instance, multipliers in the GDR or in Bulgaria have a rather formal relevance while in Hungary they have a more direct impact on the enterprise's income.

Summing up the developments in the countries under review, one can observe but little progress and, what is more crucial, since the middle of the 70s very little has happened. There are several reasons for this. After 1975 the first reaction of the small CMEA countries was diminish their dependence on foreign trade (especially trade in energy and fuels). Therefore a trend of decreasing foreign trade growth prevailed in the late 70s and early 80s. At the same time a bigger share of an already reduced capital formation was directed into primary sectors; this did not enable processing enterprises to adjust themselves to external price changes. A further external factor is that in the previous years bilateralism and monocentric character of intra-CMEA trade had become stronger. This was because the Soviet Union's relative share of decelerating intra-CMEA trade had increased, and also because strategic (hard) goods—energy, fuels, basic materials, highly developed technology—had gained more importance and so the polarization of tradeables into hard and soft goods increased. All this has resulted in the conservation of the existing systems. However, since foreign trade management is subordinated, we could say in a wider sense that the system have not changed because of the rigidity of the general mechanisms. In reality, these countries have until now been acting against unfavorable influences; their behavior has been rather defensive. But they must soon take the offensive line, and there are some hints that new economic mechanisms will be developed: vivid discussions in Hungary about the second wave of the reform, implementation of new principles in Poland, and discussions by economists in Czechoslovakia.

Even while focusing our attention on national mechanisms we should not neglect the effect of the bilateral nature of the CMEA mechanism. Here the main problem is that the level of bilateral trade negotiations does not coincide with that of actual performance. Bilateral negotiations are conducted between central organs, while the obligations made on the central level are carried out by lower-level enterprises. The main interest of the negotiating central organs is to balance the total value of trade, considering a variety of barter connections,<sup>20</sup> while the enterprise is interested, if at all, only in the efficiency of a

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source, in this case the oil price prevailing on capitalist markets. Therefore, since the socialist import price is lower than the home price, the difference goes into the state budget.

19 The Soviet customs system is rather formal from the angle of home price formation.

20 Hard goods can be imported to balance export of hard goods, or certain goods can be exported together with other goods.

given item. Therefore, bilateral balancing by nature necessitates neutralization of the financial consequences of trade for the enterprise; otherwise the bilaterally negotiated balance will be jeopardized. Under such circumstances the magnitude of external prices takes on another meaning. It does not make sense to compare possible export prices among different socialist countries in order to determine the most advantageous market, because one product must be exported together with another, or to balance an import. Prices are still of importance, but on the central level, where their effects on the total trade balance can be grasped.

In Hungary, if economic reform becomes more sensitive to the profit interests of enterprises, we must resolve the contradiction between the interests of enterprises and the impact of bilateralism. One way could be to adopt a recent practice of many smaller Western countries in their trade with socialist countries. Special organizations or banks are responsible for "compensation trade" and get 8–10 percent of the price of transmitted contingents. In Hungary, too, a special organ not subordinate to any of the central organs but still interested in the total result of bilateral trade could more efficiently develop trade with CMEA countries and provide more space for the interests of producing enterprises.