

# Comecon

*The Council for Mutual Economic Assistance was given fresh impetus by the challenge of integration in Western Europe. Eastern European cooperation is compared with integration in Western Europe. Finally there is the question of how to reform Comecon to align it with the present movement of economic reform in Eastern Europe.*

## The origins

The Council for Mutual Economic Assistance, known as "CMEA" or, more commonly, "Comecon", was founded in January 1949 by the USSR, Bulgaria, Czechoslovakia, Hungary, Poland and Rumania. Albania joined in April 1949 and East Germany in September 1950. In May 1956 Communist China and Yugoslavia became "observers", North Korea and North Vietnam following them in 1957. Yugoslavia withdrew in 1958 and did not renew its association as an observer until 1964. China, North Korea and North Vietnam gradually withdrew after 1960 when the Sino-Soviet dispute came into the open. Albania, which supported the Chinese in the quarrel, withdrew abruptly in 1961. In 1962 Outer Mongolia was admitted to, and still retains, full membership.

The purpose of Comecon as defined in Article I of the Statutes adopted in 1960 is "by uniting and co-ordinating the efforts of the member countries" to promote the development of the national economy and the acceleration of economic and technical progress in the member states; the acceleration of industrialization in the less developed member states, an increase in the productivity of labour and an improvement in the welfare of the peoples of the member states. The Article goes on to say that "the Council for Mutual Economic Assistance is established on the basis of the sovereign equality of all the member countries of the Council".

## Comparison with the EEC

Although the general aim of promoting economic welfare as set out in the Comecon Statutes is similar to that of the

EEC as set out in the Treaty of Rome (defined in Article 2 of the Treaty as being "to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and close relations between its member states") there is an important difference between the method proposed to achieve the desired end. Whereas the Treaty of Rome provides for the gradual establishment of a Common Market within which common policies will be accepted by the member states and many of the functions of economic management progressively assigned to common institutions, the Statutes of Comecon go no further than to authorize the Council to organize cooperation between the member states and to recommend joint measures in specified fields of activity. This is essentially a difference between integration and co-operation.

It may appear paradoxical that the "authoritarian" states of Eastern Europe should adopt a system so much more "permissive" than that adopted by the six democratic West European States, but the Statutes of Comecon assume that the member states, under the rule of Communist Parties, are already in effect politically integrated and that for this reason they will find no difficulty in voluntary cooperation in economic and technical matters. This assumption is in fact too optimistic; the institutional structure of Comecon is not strong enough to implement proposals for integration or even for cooperation against the will of the member states. The Council, the supreme directing body, is composed of comparatively junior ministers from the member states; when major policy decisions are to be taken special meetings of senior government and party officials, not forming part of the Comecon organization itself, have to be arranged. The Council of Comecon has neither the status nor the powers of the Council of Ministers of the EEC.



## The institutions

The headquarters office of Comecon is in Moscow. The Council<sup>1</sup>, composed of Vice-Premiers, Ministers of Foreign Trade, Chairmen of State Planning Commissions of the member states or persons of comparable rank, is required to meet at least once a year in each of the capitals of the member states in rotation. Since 1962 there has been an Executive Committee to maintain the direction of the organization's work between meetings of the Council. A permanent Secretary, N. Fadeev of the USSR, controls a staff of experts and advisers drawn from the member states. In 1956 permanent Commissions, specializing in particular sectors of the economy, were established in the member states, located in countries where interest in the sector in question is particularly strong (e.g. agriculture in Sofia, chemicals in East Berlin, coal in Warsaw, machine-building in Prague). The Commissions which deal with major questions of common concern—electrical energy, foreign trade, economic problems, uses of atomic energy, co-ordination of research, statistics and foreign exchange—are in Moscow. For so large an area the permanent staff is comparatively small, perhaps no more than a third of the number employed by the EEC in Brussels. The layout of the organization tends to emphasize the presence of the one very large Power in its midst, for while the headquarters of the EEC is in Belgium, one of the smaller of the EEC states, the headquarters of Comecon and an important part of its institutions are in the USSR.

The powers of the central institutions of Comecon over the member states are limited not only by the composition of the Council but also by Article IV of the Statutes which lays down that (a) the recommendations adopted by the member countries of the Council shall be implemented by the governments in accordance with national legislation and (b) the effects of recommendations and decisions shall not extend to countries which have declared their lack of interest in a matter considered by the Council. The weakness of the Council's authority has had contrary effects. In the first place although no single country can exercise a veto in the Council, it can prevent any recommendation from being uniformly applied throughout the area. Secondly, the single most powerful member of the Council cannot "constitutionally" use the Council to impose a decision on another member. Thirdly, it is extremely difficult for those in Eastern Europe who wish to see the area more closely *integrated* (as distinct from more *co-operative*) to use the machinery of the Council for this purpose.

## Development

### 1945-1956

In the period from 1945 to 1949 when the USSR was establishing the regimes in Eastern Europe which gave it effective political and military control of the area there was no plan to integrate their economies on the lines adopted by the EEC. In many ways Eastern Europe was cut off from the rest of the world and developed methods in economic planning and foreign trade which gave it a

<sup>1</sup> See insert.

unique and exclusive character of its own. As a result of this isolation it was natural that the countries of Eastern Europe should trade with each other much more than with the outside world. On the other hand each country tried to reconstruct its economy and to hasten the process of industrialization in accordance with its own national plans, and this led to a high degree of national self-sufficiency or autarky.

In the first period of Comecon's existence, which coincided with the last years of Stalin's life, the organization, smaller and weaker than it is today, could do virtually nothing to influence economic developments in Eastern Europe except to try to co-ordinate the lists of commodities to be exchanged between the member states. Apart from a meeting in Sofia in November 1950 to discuss inter-regional trade no meeting of the Council took place between the end of 1949 and the spring of 1954. Not only was no progress made in regional planning in this period: under pressure from the USSR the economies of the states became even more distorted by the priority given to heavy industry.

With the death of Stalin and the ending of the Korean War in 1953 there was a widespread reaction in Eastern Europe against the hardships endured by the ordinary consumer. A new phase began. Now for the first time consideration could be given to the supply of consumer goods and the rationalization of production in order to reduce costs. The Council of Comecon awoke from its long sleep and began to meet more frequently, discussing the construction of a unified electricity grid, encouraging the member states to conclude long-term trade agreements with each other and beginning to get to grips with the idea, which was to prove very troublesome later on, that there should be specialization in production as between the member states.

### 1956-1962

In 1956, undoubtedly spurred on by the progress of negotiations for economic integration in Western Europe the institutional structure of Comecon was at last strengthened and the first twelve standing commissions were established. Serious discussion of the plan to specialize production by country did not begin until 1957-1958. Here the Council met with disappointment because many of the states were reluctant to agree to specialization as it might involve the discontinuance of industrial activities in a particular member state and their transfer elsewhere. In fact very little was achieved. Dissatisfied with progress the Party leaders of the member states met in Moscow in May 1958 and agreed that the economies of the member states should be reorganized and their national plans co-ordinated. The most important practical effect of the meeting was not so much a fundamental change in organization as a major investment boom which affected all the member states but left relations between them largely unchanged. It did not secure closer integration.

Challenged by the rapid progress of the EEC in its early years the Party leaders of the Comecon states subjected their own system, which was evincing all the signs of stagnation, to a searching analysis in 1962. This time Mr. Krushchev put forward an ill-prepared scheme for a central planning institution for the whole of Comecon which would in effect have imposed the long-sought-for specialization among the member states by authoritarian direction. To achieve such a centralized system it would have been necessary to alter the Statutes and give the organization an entirely new status. In fact discussion did not reach that stage for the Rumanians, fearing with considerable justice

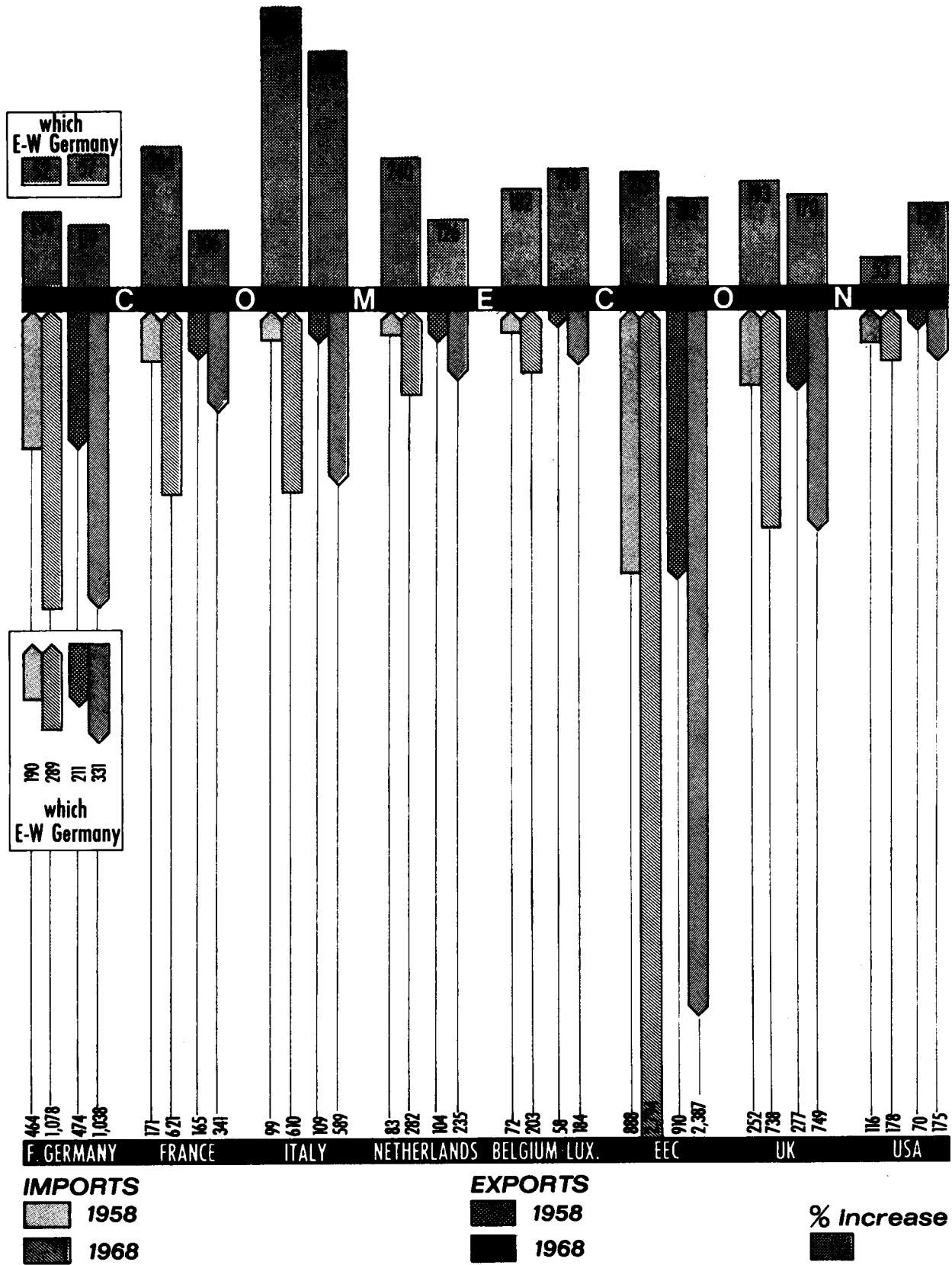


# COMECON TRADE WITH EEC, UK AND USA\*

## COMECON TOTAL

IMPORTS 1958: 10,172  
1968: 23,921  
%Increase 135

EXPORTS 1958: 10,315  
1968: 25,153  
%Increase 145



\* in \$ m



that the scheme would halt their own industrialization and condemn them to supplying food and raw materials, went into opposition and have ever since been implacable opponents of central planning and even of closer integration in the organization. Though less outspoken than the Rumanians other Comecon states dislike the idea of central planning for the whole area, chiefly on the grounds that its supranational character would imperil such national independence as they have been able to preserve within the "socialist commonwealth". There are still some Russian theorists and officials who advocate a comprehensive plan in the longer term but the Soviet Government has been very cautious in its official pronouncements on the issue since 1962 and has hesitated to give a strong lead.

### Economic reform in Eastern Europe

Opinions on the subject of integration have become more complex and diverse since the movement for reform of the management of the national economies began to take shape in Eastern Europe in the early sixties. Beginning in East Germany in 1963, extending through Poland and the USSR in 1965, launched in Czechoslovakia in 1966, cautiously applied in Rumania in 1967 and culminating in its most advanced exemplar in Hungary in 1968 the movement seeks to resolve the difficulties of central planning in what are now industrial societies by a limited decentralization of economic decision-making. While all the states retain the concept of the central national plan they all now devolve, in varying degrees, some of the responsibility for decision-making to industrial associations and enterprises and all accept, in varying degrees, the management of the economy by such means as the control of credit as a partial substitute for the detailed direction of the economy by means of strict quantitative prescription from the central planning authorities. In most cases, and in varying degrees, cautious experiments are being made with the use of prices and differentials in earnings as a means of adjusting supply to demand and stimulating initiative.

Comecon as such plays no part in the reforms which, although they share a good deal of common ground throughout the area, are being implemented in strikingly different ways as between one country and another according to national requirements. Although restrained by the fate of Czechoslovakia, where economic reform was associated with a political ferment crushed in August 1968 by the USSR as an intolerable deviation from the norm, the Comecon states have developed systems of management which have heightened diversity rather than uniformity within the organization. The problem of integration has become correspondingly more complex.

### Trade

The member states do a large part of their foreign trade with each other<sup>1</sup>. The levels of trade are planned by the national states (with some intervention from the central Comecon institutions) and incorporated in bilateral trade agreements. Together with participation in joint projects such as the electricity grid, some joint production arrangements between enterprises and the exchange of technical information these agreements are the principal instruments for the integration—such as it is—of the area. It is a laborious and unsatisfactory method, widely criticized in Eastern Europe for its failure to promote the free flow of

<sup>1</sup> See table, page 4.

commodities, capital and labour, its failure to promote the grouping of enterprises to obtain the advantages of large scale production and therefore the progress of industrial efficiency and its failure to secure a rational system of prices upon which calculations can be made. The monetary system, based on artificial exchange rates and a method of accounting in inconvertible roubles carried out through the International Bank for Economic Cooperation hampers not only the development of trade within the area but also its relations with the rest of the world economy<sup>2</sup>. Given this legacy from the past and the institutional weakness of Comecon, the diversity in levels of economic development, the differences in methods of economic management, the universal tendency towards greater decentralization in the national economies and the general desire of the non-Russian members to safeguard a degree of national independence, it is small wonder that a consensus as to the replacement of the present Comecon system by a new and more closely integrated one is hard to find.

### Comecon future

Most members of Comecon accept the necessity for reform. They see the advantages of scale and technical progress which might flow from a better system of regional integration. But how are they to be obtained? To conceive of the area as a single planned economy is to go back on the principles of the contemporary reforms and to invite political trouble. To conceive of it, as some East European thinkers do, as a potential single market is to go beyond the scope of the national reforms as at present operating and, by inviting still more radical changes in the system of economic management, challenge the basis of socialist planning in the member states themselves. The search for a way of escape from this dilemma is giving rise to intense discussion. The member states tend, on grounds of general principle and of national interest, to proffer divergent solutions which at one extreme favour the idea of a common market and at the other either the status quo or a more closely integrated technological community. The problem is so inherently difficult that the last "summit" meeting of party and government leaders in April 1969 produced almost no result. The debate will be protracted; decisions as and when they are reached will be of major importance not only for the future of Comecon but also for the relationships between its member states and the rest of the world.

### Further reading

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<sup>2</sup> See insert and compare with table.





Table 1

## Comecon's trade 1958 and 1968

	Imports				Exports			
	1958 \$m	%	1968 \$m	%	1958 \$m	%	1968 \$m	%
<i>USSR</i>								
Total	4,350	100	9,410	100	4,298	100	10,634	100
From/to								
EEC	222	5.1	908	9.6	271	6.3	758	7.1
UK	73	1.7	273	3.0	146	3.4	367	3.4
Other Comecon <sup>a</sup>	2,206	50.7	5,697	60.0	2,320	54.0	5,830	53.0
<i>East Germany</i>								
Total	1,680	100	3,387	100	1,890	100	3,783	100
From/to								
EEC	250	14.9	396	11.7	252	13.3	465	12.3
(Of which:								
W. Germany)	190	11.3	289	8.6	211	11.2	331	8.8
UK	33	2.0	38	1.1	12	0.6	31	0.8
Other Comecon <sup>a</sup>	1,055	62.8	2,426	71.5	1,229	65.0	2,708	71.4
<i>Poland</i>								
Total	1,227	100	2,853	100	1,059	100	2,858	100
From/to								
EEC	138	11.2	363	12.7	120	11.3	293	10.3
UK	83	6.8	175	6.1	69	6.5	147	5.1
Other Comecon <sup>a</sup>	651	53.0	1,749	61.1	508	47.9	1,760	61.4
<i>Czechoslovakia</i>								
Total	1,357	100	3,077	100	1,513	100	3,005	100
From/to								
EEC	122	9.0	289	9.4	110	7.3	290	9.6
UK	32	2.4	80	2.6	29	1.9	80	2.7
Other Comecon <sup>a</sup>	844	62.2	2,083	67.5	910	60.2	1,944	64.4
<i>Hungary</i>								
Total	631	100	1,803	100	684	100	1,789	100
From/to								
EEC	73	11.6	220	12.2	75	11.0	200	11.2
UK	20	3.2	52	2.9	12	1.8	42	2.3
Other Comecon <sup>a</sup>	399	63.3	1,189	65.9	388	56.8	1,214	67.5
<i>Roumania</i>								
Total	482	100	1,609	100	468	100	1,469	100
From/to								
EEC	51	10.6	423	26.3	56	11.9	255	17.4
UK	7	1.5	101	6.3	7	1.5	56	3.8
Other Comecon <sup>a</sup>	361	74.8	741	46.0	322	68.8	767	52.1
<i>Bulgaria</i>								
Total	367	100	1,782	100	373	100	1,615	100
From/to								
EEC	30	8.1	196	11.0	25	6.7	126	7.8
UK	3	0.8	21	1.2	3	0.8	27	1.7
Other Comecon <sup>a</sup>	302	82.2	1,301	72.9	306	81.8	1,211	74.9
<i>Comecon</i>								
Total	10,172	100	23,921	100	10,315	100	25,153	100
From/to								
EEC	888	8.8	2,794	11.7	910	8.8	2,387	9.5
UK	252	2.5	739	3.1	277	2.7	749	3.0
Other Comecon <sup>a</sup>	5,891	57.9	15,187	63.5	6,060	57.7	15,433	60.5

<sup>a</sup> Not including Albania, Mongolia.

