

# The Transferable Rouble and ‘Socialist Integration’ – What Kind of Relationship?

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*Abstract: The paper analyses the influence of the introduction of the transferable rouble in 1963 on the integration processes inside CMEA. It places it as a stage in the series of attempts of creating an effective exchange rate mechanism for centrally planned economies. The supposed new international money was still accompanied by general separation of foreign trade from internal markets in the centrally planned economies. Thus it did not perform most of the functions of money and was still merely a unit of account for clearing settlements, not an efficient tool for further integration of Soviet bloc. Quite contrarily, it contributed significantly to its final disintegration, being a part of incoherent institutional status quo.*

*Keywords: Comecon, CMEA, transferable rouble, international financial integration, Cold War*

## 1. The Council for Mutual Economic Assistance

Bipolar division of the world after World War II expanded the area under the system of central planning, which was before 1945 reserved only for the territory of the Soviet Union. It was then imposed on the Central European states and became also rooted in the Far East. The beginnings of the Cold War systematically deepened the separation processes in the East-West relations and favoured shaping of distinct economic institutions.

A fundamental organization on the Soviet Bloc's side was the Council for Mutual Economic Assistance (CMEA, Comecon), established by the representatives of the six states (Soviet Union, Poland, Czechoslovakia, Hungary, Bulgaria and Romania) on the meeting in Moscow on January 1949. Initially its tasks were limited to the exchange of experiences, mutual granting of technical assistance, as also cooperation in the spheres of raw materials, food, machines and industrial equipment.<sup>1</sup> The founding members were successively joined by Albania (1949) and German Democratic Republic (1950), Mongolia (1962), Cuba (1972) and Vietnam (1978). An institutionalized cooperation with the CMEA was later undertaken by Yugoslavia, Finland, Iraq, Mexico, Ethiopia, Yemen, Angola and Afghanistan. A joint declaration about the establishment of official relations between the CMEA and the European Economic Community was signed in 1988.

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1 *Press release of the Polish Press Agency announcing the establishment of CMEA, 25<sup>th</sup> Jan. 1949 in: Dokumenty i materiały do historii stosunków polsko-radzieckich, vol. 9, Warszawa: Książka i Wiedza, 1974, p. 441.*

The activity of Comecon in 1949-1953 was very limited mostly because of the Joseph Stalin's attitude. He exercised the control of the Eastern Bloc countries by the individual bilateral meetings with their leaders, as also by sending them numerous military and economic advisors. The functioning of the Council was based on the organization of the multilateral sessions, pronouncing the need of the development of bilateral relations, especially with the Soviet Union.<sup>2</sup> From 1954 onwards, the attempts of coordination of economic plans of the member countries were occurring. A few branch commissions, as also lists of products which manufacturing was allocated to specified countries, were created to serve that purpose.<sup>3</sup>

The charter of the organization was enacted as late as in 1959, on the 12<sup>th</sup> Session of the CMEA in Sofia.

At the beginning of 1960's, the works over creation of "international socialist division of labour" were started. They focused on exchanging of competition between different member countries by the complementary economic structures, allowing for savings on investment processes. Coordination of economic planning (especially of 5-year plans and long-term prospective plans) was supposed to be the main instrument of ensuring the division of labour. It was not enacted without disagreements. Romania was the main source of resistance to the attempts of creating single planning agency for all member states, as also was obstructing the establishment of a few common economic organizations. Ideological concerns were the reason behind resigning from the participation in the Comecon activities by Albania in 1961.

Main forms of collaboration in the Comecon were the permanent council committees for cooperation in planning and scientific and technical cooperation, as also agreements concerning mutual supplies of goods. However, institutions reflecting break of the national barriers appeared. They included Central Dispatch Administration for the Combined Power Systems (sometimes translated as Central Dispatching Board), allowing for cross-border transmission of energy between USSR, Poland, GDR, Czechoslovakia, Hungary, Bulgaria and Romania. The other institutions of that type in industry included among others: the Organization for Co-operation in Ferrous Metallurgy 'Intermetall' (1964), the Organization for Co-operation in the Bearing Industry (1964), International Branch Organization for Cooperation in Small-Tonnage Chemical Products "Interkhim" (1969), International Organization for Economic and Scientific-Technical Cooperation in the Electrical Engineering Industry, "Interelektro". The leading examples of such cooperation in the transport sector were Common Freight Cars Pool (1963)

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2 Andrzej Korbonski, "Comecon", *International Conciliation*, 549/1964, p. 7.

3 A significant role was played by the commission for military industry. See: I.V. Bystrova, "VPK SSSR i sozdanye sistemy voenno-ekonomicheskoi integracii stran Vostochnoi Evropy" in: E. Sheinin (ed.), *K 60-letiu Soveta Ekonomicheskoi Vzaimopomoshchi*, Moskva: Rossijska Akademia Nauk, 2009, p. 101.

focusing of more efficient use of railroad cars, and Council on the Joint Use of Containers in International Communication. Since the end of 1960's, the term "international socialist division of labour" was exchanged by "socialist integration". The new catchy phrase was understood as coordination of planning and forecasting of economic development, with the main focus on gradual convergence of development levels of national economies of the member countries. The beginning of the 1970's was marked with the preparation of "The Comprehensive Program for the Further Extension and Improvement of Cooperation and the Further Development of Socialist Economic Integration by Comecon Member Countries". It included basic goals, principles and methods, as also specified undertakings, of economic as well as scientific and technological cooperation for time horizon of 15-20 years. Its main fault was multiplicity of goals and lack of clear vision, masked by bureaucratic jargon, striking even in the title of the whole document.

According to "Comprehensive Program", complemented by "The Agreed Plan of Multilateral Integration Measures", multilateral cooperation was developed in primary commodities. Hence decision about the common construction of cellulose, asbestos and iron ore enrichment plants in the USSR. Member countries were also engaged in many projects in energy sector – construction of Khmelnytsky nuclear power plant in Ukraine, construction of power trunk lines to Poland and Hungary, exploitation of Soviet gas deposits, combined with the construction of necessary pipelines.

The crisis of 1980's was accompanied by return to bilateral relations. Member countries were fighting thus numerous shortages and imbalances. It was also reaction to the growing problems with cooperation with the Western countries, resulting from the intensification of the Cold War.<sup>4</sup>

Gorbachev's *perestroika* brought the last attempts to revive CMEA. The cooperation between enterprises was included in the CMEA activities in 1988, mostly due to arising economic crisis. Document called "Collective Concept of International Socialist Division of Labour" was accepted in 1988. In response to worldwide trends it assumed deep structural changes in order to narrow the technological gap between Comecon members and the developed countries, especially in terms of energy efficiency of manufacturing.<sup>5</sup>

The breakdown of communist system in the European satellite countries and political changes in the Soviet Union caused fall of the Comecon. Official

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4 Andrzej Skrzypek, „Etapy rozwoju Rady Wzajemnej Pomocy Gospodarczej” in: Romuald Chwieduk, Andrzej Krawczewski (eds.), *40 lat RWPG. Ewolucja instytucji i struktur socjalistycznej integracji gospodarczej*, Warszawa: Polska Akademia Nauk 1988, p. 18 and further.

5 Henryk Różański, *Spojrzenie na RWPG. Wspomnienia-dokumenty-refleksje 1949-1988*, Warszawa: Państwowe Wydawnictwo Naukowe, 1990, p. 276.

disbandment of the organization, despite the attempts of its reconstruction, was enacted in Budapest in June 1991.

## 2. *Systems of trade settlements between the members of Comecon*

The restoration of foreign trade by Central and Eastern European countries in 1944-1945 was based on the pre-war principles. They included exchange, export and import controls, system of settlements and bilateral clearing agreements, special exchange rate mechanism. Commonly used compensation agreements were strictly defining class and quantity of goods subject to exchange on both sides. It was leading to the adjustment of trade volume to the potential of the weaker partner in order to meet the demands of payments equilibrium. Multilateral agreements, softening the requirements of bilateralism, were rarely used.<sup>6</sup>

The beginning of 1950's, together with the deepening isolation of the Soviet bloc, brought abandonment of direct ties between the structures of domestic and world prices based on the exchange rate mechanism. The system of inconvertible and internally circulating currency was created, allowing for autonomous price system on the domestic market. Foreign trade settlements between bank and special foreign trade enterprise were made on the basis of fixed exchange rates of foreign currency for the trade using foreign prices. Settlements between foreign trade enterprise and its domestic customer or recipient of goods were based on domestic prices.<sup>7</sup> In fact, the exchange rates affected neither the activities of suppliers of exportable goods nor the recipients of imports. Hence the exchange volume was influenced neither by structural and cyclical changes of world prices, nor by changes of domestic prices.<sup>8</sup>

Because of introduction of new monetary and financial systems (with artificial gold parities of the currencies used for calculation of exchange rates) in countries of the Soviet bloc, the basis for international settlements in the countries of Central and Eastern Europe became the clearing rouble, with the overvalued exchange rate of 4 clearing roubles per dollar. Overvaluation was also a feature of the exchange rates of currencies of Comecon countries against currencies of Western countries.<sup>9</sup>

The whole system had to constantly deal with the recurring issue of the level and structure of prices in the trade between the Comecon member countries.

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6 A. Korbonski, „Comecon”, p. 37; Stanisław Rączkowski, *Międzynarodowe stosunki finansowe*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1984, p. 373.

7 „Uchwała Rady Ministrów z dnia 17 kwietnia 1950 r. w sprawie zasad organizacji finansowej i systemu finansowego przedsiębiorstw państwowych, objętych budżetem centralnym”, *Monitor Polski*, 55/1950, pos. 630.

8 Jerzy Wesolowski, *Bilans płatniczy w gospodarce Polski*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1984, p. 119.

9 Jan Głuchowski, *Prawnomiędzynarodowe stosunki finansowe państw socjalistycznych*, Warszawa, Poznań, Toruń: Państwowe Wydawnictwo Naukowe, 1984, p. 28.

Initially, the principle, used in the trade relations inside the Soviet Bloc since the end of World War II, was maintained. It included fixing contract prices on the basis of market prices from leading world exchanges from the period of a few months preceding the contract. The price of the good was increased by the half of transport costs which would be paid in the case of its import from a capitalist country. Together with the centralization of command of the economy and turn towards multiannual agreements in the foreign trade, as also in order to become independent from the cyclicity of the world economy, the so-called fixed contract prices ("stop prices") were accepted as a basis. The prices fixed on the base of 1949-1950 period, were binding for first half of 1950's. However, they protected the economies of the Soviet bloc from the effects of fast price growth during the Korean War, but they lead also to big differences between prices of world markets and those of Comecon economies. As a result, every year brought corrections to the prices of exported and imported goods, which meant annual stability of prices in mutual trade flows.

The 9<sup>th</sup> Session of the Comecon, held in June 1958 in Bucharest, brought the application of the average world prices from a few years preceding conclusion of long-term trading agreements.<sup>10</sup> New principles eliminated short-term fluctuations of world prices and simultaneously were allowed for following main trends.

Until 1963, settlements between the members of the Soviet bloc (also between Comecon members) were using bilateral clearing, with the clearing rouble as unit of account. It led to balancing of bilateral flows in the yearly periods. Potential positive balances in bilateral settlements could not be used for payments to the third parties. The whole framework enabled trading without gold and convertible currencies, which was with no doubt favourable to weak economies of the socialist countries, reconstructing from the wartime havoc. That state of affairs had some important flaws, above all the necessity of adjusting the volume of trade to the potential of the weaker partner.<sup>11</sup>

The principal breakthrough in the settlements system was supposed to happen in the form of multilateral clearing, a system which was already abandoned five years before by Western European countries in favour of full convertibility. It is worth noticing that Poland reacted to rising obsolescence of bilateral clearing with the proposals of at least partial convertibility of national currencies, allowing for the use of surpluses from the intra-Comecon trade for payments to third parties from

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10 Paweł Bożyk, Bronisław Wojciechowski, *Handel zagraniczny Polski 1945-1969*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1971, pp. 195, 203.

11 Eugeniusz Drabowski, *System rubla transferowego (Problem związków rubla transferowego ze złotem)*, Warszawa: Instytut Finansów, 1972, p. 39 and further; Friedrich Levčik, *Transferable Rouble and Convertibility*, Wien: Wiener Institut für Internationale Wirtschaftsvergleiche, 1978, p. 65; I. Rzendowski, „Wprowadzenie rozliczeń wielostronnych między państwami RWPG”, *Życie Gospodarcze*, 9/1964, p. 11.

outside the organization. The initial concepts of Polish side included also far reaching reorganization of the Comecon, increasing the role of smaller states, as also the competences of the whole organization. Multilateralization of settlements was thus from the very beginning a conservative compromise, not a radical reform.<sup>12</sup>

Mid-July 1963 witnessed the acceptance of agreements about the switch to multilateral settlements in the trade among the Comecon countries and creation of the common bank. It was the result of the Moscow meeting of the representatives of leaderships of communist parties and governments of 8 member countries (Bulgaria, Czechoslovakia, GDR, Hungary, Mongolia, Poland, Romania and USSR). "Agreement Concerning Multilateral Settlements in Transferable Roubles and the Establishment of an International Bank for Economic Co-operation" was signed during the 9<sup>th</sup> Session of the Executive Committee of the Comecon on 22<sup>nd</sup> October 1963.

The agreement stated, concerning the common bank: "The functions of the Bank shall be: (a) To effect multilateral settlements in transferable roubles; (b) To provide credit for foreign trade and other operations between the Contracting Parties; (c) To encourage the deposit of free funds in transferable roubles and to act as depository of such funds; (d) To encourage countries members of the Bank and other countries to place gold and freely convertible and other currencies into accounts and deposits with the Bank and to conduct operations with such funds up to the limit of the sums in question (...); (e) To conduct other banking operations in keeping with the aims and functions of the Bank under its Charter".<sup>13</sup>

Capital of the bank, which was joined also later by Cuba (1974) and Vietnam (1977), was set at the level of 300 million roubles and shares of every member depended from the scale of exports in the mutual contacts. Hence Polish share was calculated at 9% of the whole capital. Creation of the capital was gradual, beginning from 20% in the first year, and the payments could be made also in gold or convertible currencies.<sup>14</sup> In 1964 capital amounted to 60 million transferable roubles (including 30 million in convertible currencies), in 1978 to 121.5 million.<sup>15</sup>

The IBEC had the function of a clearing house, and the settlements were made via the accounts opened in the Bank and the accounts of authorized banks from the member

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12 Cecylia Leszczyńska, „Socjalistyczny neomerkantylizm. System rozliczeń obrotów płatniczych między krajami socjalistycznymi w latach 1945-1970” in: Piotr Jachowicz (ed.) *W poszukiwaniu modelu gospodarki centralnie kierowanej*, Warszawa, Oficyna Wydawnicza SGH, 2013, p. 119; Andrzej Skrzypek, *Mechanizmy autonomii. Stosunki polsko-radzieckie w latach 1956-1965*, Pułtusk, Warszawa: Wyższa Szkoła Humanistyczna w Pułtusku, 2005, p. 253.

13 "Agreement Concerning Multilateral Settlements in Transferable Roubles and the Establishment of an International Bank for Economic Co-operation. Signed at Moscow, on 22 October 1963" *United Nations Treaty Series*, vol. 506, 1964, <http://treaties.un.org/doc/publication/unts/volume%20506/volume-506-i-7388-english.pdf>, p. 218.

14 Ibidem, pp. 218, 220.

15 Zbigniew M. Klepacki, *Organizacje międzynarodowe państw socjalistycznych*, Warszawa, Państwowe Wydawnictwo Naukowe: 1981, p. 199.

countries. Documents were addressed to the authorized banks, which were informing the IBEC on the daily basis about the sums of receivables and payments. Basic form of settlements was collection with subsequent acceptance (immediate payment).<sup>16</sup>

Bilateral balance did not have to amount to zero but the general balance was to be achieved between separate states and the rest of the countries participating in the system. Financing of deficits was enabled by the use of IBEC credits. Until 1970 they were of short-term (annual) character, and their interest was between 1.5-2.5% per annum. The following years brought extension of credit durations and rate increases, reaching 5% p.a. for 3-year credit. The system was supposed to foster efficiency and discipline of settlements and maintain the equilibria. In the second half of the 1970's the IBEC was conducting settlements of 60% of volume of intra-Comecon trade. In 1977 settlements in the transferable roubles amounted to 142 billion transferable roubles, settlements in convertible currencies amounted 79 billion transferable roubles. The surplus of granted credits exceeded 1 billion transferable roubles.<sup>17</sup> The IBEC participated also in the settlements with the third parties, conducted in gold and convertible currencies.

### 3. *The transferable rouble – rules and practice*

„Agreement Concerning Multilateral Settlements in Transferable Roubles and the Establishment of an International Bank for Economic Co-operation” stated:

#### *“Article I*

Settlements under bilateral and multilateral agreements, or special contracts, for reciprocal deliveries of goods, and under agreements concerning other payments between the Contracting Parties shall, as from 1 January 1964, be effected in transferable roubles.

The gold content of the transferable rouble shall be 0.987412 gramme of fine gold.

Any Contracting Party having funds in transferable-rouble accounts may freely draw on such funds in effecting settlements with other Contracting Parties.

When concluding trade agreements, each Contracting Party shall make provision for the setting off within the calendar year of its total receipts from, and total payments to, all the other Contracting Parties in transferable roubles (...).<sup>18</sup>

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16 Romuald Chwieduk, H. Syroczyńska, „Rozwój struktur organizacyjnych RWPG w świetle dokumentów” in: R. Chwieduk, A. Krawczewski (eds.), *40 lat...*, p. 167 and further.; E. Drabowski, *System...*, p. 45.

17 Z.M. Klepacki, *Organizacje...*, p. 200.

18 “Agreement Concerning Multilateral...” pp. 216, 218. The higher gold parity of the transferable rouble compared to the clearing rouble of 1950's was result of the monetary reform in Soviet Union from April 1961. The internal prices were recounted in the relation 1 new rouble for 10 old roubles. The clearing rouble prices were then recounted in the relation 1:4.44, which implied temporary reduction of the overvaluation against convertible currencies. The transferable rouble acquired its parity just from the new clearing rouble of 1961. Wojciech Morawski, *Zarys powszechnej historii pieniądza i bankowości*, Warszawa: Trio, 2002, pp. 193, 356.

The transferable rouble was created as a unit of account and bank money in the international trade of countries associated in the Comecon, without a link to their national currency system. It was an international currency, created by an international banking institution. The adjective “transferable” indicated distinct character from the rouble, Soviet national currency. But above all, it underlined the possibility of paying for goods and services not only in the country where the receivable was coming from, but also in the other member countries. It was used for clearing settlements, supposedly multilateral, as also for creation of the reserves and accounting the claims. Transferable roubles were achievable either via positive balance of trade with the Comecon countries or via credit from the IBEC or International Investment Bank, which was established in 1970 in order to finance infrastructural and industrial investments of the member countries. There was no possibility of exchanging defined amount of national currency for international currency.

Transferable rouble did not possess main features of international money, because it did not perform the functions of unit of value, means of payment and accumulation. Lack of unit-of-value function was a result of lack of link between the prices of intra-Comecon trade and internal prices in the member countries, as also prices in the world markets. Transferable rouble was only performing the function of conversion rate for world prices denominated in convertible currencies. The means-of-payment function was paralyzed by the limits for purchasing the goods with transferable rouble, resulting from quotas (expressed in terms of quantity or value) included in the long-term trade agreements. Therefore the transferable rouble was not commonly accepted and not exchangeable into goods without limits. Due to quotas, Comecon money could not be a currency reserve, because it did not create the possibility of unplanned purchases. Also the requirement of settling the transactions within a year was preventing the development of the accumulation function of money.<sup>19</sup>

The gold parity was equal to the parity of the clearing rouble and the Soviet rouble, after 1961 monetary reform. It remained stable without any relation to the currency situation of the Comecon countries, inflation level and the business cycle in the capitalist countries. Maintaining the parity was enabled by systemic guarantees to foreign trade and currency monopolies of the state, as also by basing the trade on long-term, planned agreements focusing on compensating the surpluses. The stability of the exchange rate however did not reflect real relations to other currencies.<sup>20</sup> Józef Rutkowski was more radical, assessing that official rate based on unchanged gold parity was a fiction.<sup>21</sup>

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19 Jerzy Wesołowski, *System walutowy krajów RWPG*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1977, p. 103 and further.

20 *Ibidem*, p. 112

21 Irena Rutkowska, Józef Rutkowski, *Problemy współczesnej gospodarki światowej*, Warszawa: Książka i Wiedza, 1983, p. 370.

The practice of fixing the rate on the basis of the structure of settlements of Comecon countries with the West, which was started by the IBEC in 1974, also did not help much in that matter. Exchange rate was fixed on the beginning of each month, the basket included 12 currencies (initially 6), which had the share in total settlements exceeding 1%. It was dominated by the American dollar (40%) and the Deutschmark (13%).<sup>22</sup> According to Wesołowski, the conditions of applying in the Comecon trade average world prices from the long term should have been accompanied by similar solutions concerning the exchange rate. Lack of such mechanism prevented from rational setting of the transferable rouble exchange rate against the world currencies. Similar phenomenon occurred also in relation to the national currencies of Comecon member countries.<sup>23</sup>

Before 20<sup>th</sup> December 1971 the exchange rate against dollar resulting from the relation of gold parities was equal to 1.11 dollar per rouble. Due to devaluation of American currency it appreciated then to 1.20 USD and further to 1.32 USD in February 1973. In 1988 average exchange rate was 1.58 USD; in 1988 it was 1.52 USD. According to calculations of Dariusz Rosati the real exchange rate should be 2.5-3.0 transferable rouble per dollar (0.33-0.40 USD per rouble), which reflected the scale of deviation.<sup>24</sup> Due to arbitrarily defined exchange rate, Poland was obtaining 25% of the value of its exports to the USSR. Undervalued exchange rate meant substantial losses of Polish enterprises in the case of exporting items containing components previously imported from the capitalist countries. This phenomenon occurred especially intensively in the case of exporting ships and construction equipment with significant so-called “convertible currency input”. In the case of imports from the USSR, such exchange rate was very favourable to the partners of the Soviet side. Poland and other Comecon countries for many years were buying oil and petrochemical products much cheaper than would be in the case of using world prices. The situation changed as late as in 1986.<sup>25</sup>

The transferable rouble was used in the international trade transactions of the Comecon countries, in which the domestic prices were exchanged by the mentioned “contract prices”, which were derived from the world prices. In 1965 the

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22 Eugeniusz Drabowski, *Pieniądz międzynarodowy*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1988, p. 160; Imre Vincze, *Międzynarodowy system waluty RWPG*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1981, p. 308; W. Morawski, *Zarys...*, p. 193.

23 J. Wesołowski, *System...*, pp. 114-115.

24 Dariusz Rosati, *Poland. Impact of the replacing CMEA trade regime by a market trade*, Warszawa, Instytut Koniunktur i Cen Handlu Zagranicznego, 1990, p. 9; Józef Rutkowski, „Koncepcja unii walutowej krajów socjalistycznych”, *Sprawy Międzynarodowe*, 12/ 1973, pp. 103-115.

25 D. Rosati, *Poland...*, pp. 9, 45; Leszek. J. Jasiński, *Polskie kontakty gospodarcze z zagranicą w XX wieku*, Warszawa: Warszawska Wyższa Szkoła Ekonomiczna-Polska Akademia Nauk, 2003, p. 193.

contract prices were based on world prices from 1960-1964, while in 1971-1975 the “stop prices” were based on world prices from the period of the previous 5-year plan.<sup>26</sup> Initially, because of the high growth of world prices resulting from the First Oil Shock in 1973, the system of contract prices was favourable for the member countries, importing primary commodities from the USSR. The situation changed in 1975, when, because of inflationary tendencies in the world economy, the principle of yearly corrections of prices in the intra-Comecon trade. The basis of contract prices for every year became the average world prices from 5-year period directly preceding the given year (so called Bucharest formula or moving price basis). It caused strong price growth on the Comecon market, especially in the case of oil and gas imported from the USSR, which prices remained high due to the formula also in the period of price falls on world markets.<sup>27</sup>

Contract prices were set during bilateral negotiations, focused on finding adequate relations of national currency to the transferable rouble. Different adaptations and subjective multipliers were used in the search of profitability. Thus contract prices of the same goods could be different in separate international transactions. As a result, purchasing power of the transferable rouble against given good was varying and the deviations approached 20%.<sup>28</sup>

Differentiated purchasing power of accounts denominated in transferable roubles did not stimulate accumulation of reserves in international money. Quite opposite, it created incentives for taking credits from the International Investment Bank (IIB), which was set up in 1970. Initial capital amounted to 1 billion transferable roubles, and consisted of transferable roubles (70% of the total) and convertible currencies (30%). Polish share was assessed for 13% (130 million transferable roubles). The bank preferred the especially important investments in primary commodities sector, characterized by high level of technical advancement and efficiency. Long-term credit were being granted for 15 years, mid-term ones for 5 years, with the interest varying between 3% and 5% p.a.<sup>29</sup> Until 1981 IIB granted credits of total value 3.5 billion transferable roubles, initially mostly for the development of machine industry and railway transport. From 1970 to 1980 IIB participated in 65 large investment projects. The biggest investment financed by IIB was construction (with the participation of 7 member states) of Orenburg gas pipeline to the western border of the USSR.<sup>30</sup>

26 E. Drabowski, *Rubel...*, p. 54 and further.; P. Bożyk, B. Wojciechowski, *Handel...*, p. 213.

27 Jan Ptaszek, *Polska – Związek Radziecki: współpraca-integracja*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1979, p. 53.

28 E. Drabowski, *Rubel...*, p. 65.

29 Paweł Bożyk (ed.), *Integracja gospodarcza krajów socjalistycznych*, Warszawa: Szkoła Główna Planowania i Statystyki, 1979, pp. 169-170.

30 E. Drabowski, *Rubel...*, pp. 100-101; S. Rączkowski, *Międzynarodowe...*, p. 426; *Rocznik Polityczny i Gospodarczy 1980*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1981, pp. 530-531.

The transferable rouble with the end of 1990 and disbandment of Comecon was exchanged by convertible currencies as the means of settlement of international transactions.<sup>31</sup>

#### 4. Lack of reforms and its sources

The introduction of the transferable rouble brought serious disappointment among the economists and politicians, associated with the failed attempt of switch from bilateral to multilateral settlements. The latter included only 1.5% of payments settled via the IBEC.<sup>32</sup> Main cause of failure was seen in the lack of convertibility of the common currency. Polish side from the very beginning of the transferable rouble's existence demanded partial exchange of surpluses and deficits denominated in transferable roubles into gold or convertible currencies. The Polish proposals from 1966 assumed the initial ratio of convertibility of transferable rouble assets on the level of 10-15% of country's account balance at the IBEC.<sup>33</sup> Polish demands were not positively welcomed in the USSR, as also in the other Comecon members.<sup>34</sup>

The furthest-reaching reform demands were presented to the Soviet highest authorities at the meeting between Polish (first secretary of the Central Committee of Polish United Workers Party Władysław Gomułka, chairman of the Council of State Edward Ochab, prime minister Józef Cyrankiewicz and member of the Political Bureau of PUWP Zenon Kliszko) and Soviet leaders (general secretary of the Central Committee of CPSU Leonid Brezhnev, prime minister Alexei Kosygin, chairman of the Presidium of the Supreme Soviet of the USSR Nikolai Podgorny) in Polish government holiday resort in Łańsk on 14.01.1968. Polish motions, although not much detailed, were underlining need of mutual convertibility of national currencies and introduction of credit and financial relations instead of clearing and administrative management of foreign trade. It implied the change of system of determining the domestic as well as foreign-trade prices and associating them with the level of world-prices. The whole reform was to be introduced with the beginning of new 5-year plan in 1.01.1971. According to Gomułka, the

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31 Kazimiera Wilk, *Integracja wschodnioeuropejska, powstanie, funkcjonowanie i upadek*, Wrocław: Akademia Ekonomiczna, 1994, p. 101.

32 E. Drabowski, *Rubel...*, p. 26.

33 Piotr Jaroszewicz, „Pięciolecie doskonalenia struktury obrotów handlowych i rozwoju współpracy gospodarczej z zagranicą”, *Nowe Drogi*, 10/1966, p. 27; Robert Skobelski, *Polityka PRL wobec państw socjalistycznych w latach 1956-1970. Współpraca – napięcia – konflikty*, Poznań: Wydawnictwo Poznańskie, 2010, pp. 208-209.

34 *Problem stosunków walutowo-finansowych krajów RWPG i możliwości wykorzystania tych stosunków dla dalszego rozwoju współpracy gospodarczej*, [Problem of currency and financial relations of the Comecon countries and possibilities of using these relations for further development of economic cooperation], quoted from: H. Różański, *Spojrzenie...*, p. 253.

need of comparing prices with the Western counterparts, together with the lack of adequate point of reference in Soviet prices, was integrating the socialist countries with the West. The Soviet response expressed general cautiousness and was concerned mostly with the social effects of the domestic price adjustments, without significant references to the efficiency of the socialist integration. Also the Soviet assessments of the state of economic affairs seemed to be more positive than opinions of Gomułka, underlining the threats resulting from fast progress of Western European integration. General lack of interest in Polish proposals was also a result of technical difficulties of such operation, as also small chances for reaching final agreement with all member countries. Czechoslovakia and GDR were representing in that matter the same conservative stance as the USSR.<sup>35</sup>

The agreed attempts of making the transferable rouble an international currency appeared in the mentioned "Comprehensive Programme" of 1971. They were, however much less radical than Polish proposals from Łańsk, as also much more postponed in time. The Section 7 of the Programme was dedicated to the improvement of the financial relations. It contained the promises of future convertibility (de facto after 1980) of transferable rouble into national currencies of the member states, as also the mutual convertibility of the national currencies and creation of single exchange rates of national currencies.<sup>36</sup>

The expert circles of the Comecon were aware that making the transferable rouble a real settlement currency was associated with the necessity of previous introduction of a few reforms. The most important included partial convergence of domestic price structure of the member countries, adjusting the exchange rates to the purchasing power and liberalization of trade flows. It meant principal reforms of centrally planned economy, which were meeting strong resistance in separate member countries. As a result, the passages of the "Comprehensive Program", concerning the convertibility of the transferable rouble for other currencies were not reflected in reality until the end of the Comecon, even in the case of convertibility for the currencies of the member states.<sup>37</sup> The potential internal troubles due to necessary domestic price increases were not the only barrier. There were fears that introduction of convertibility of the socialist countries into the currencies of the capitalist countries would put in motion the mechanism of disintegration of the Comecon due to integration with Western Europe and capitalist economy.<sup>38</sup> Keeping the status quo was thus a result of barriers for further integration

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35 *Tajne dokumenty Biura Politycznego PRL – ZSRR 1956-1970*, London: Aneks, 1998, pp. 519-522; R. Skobelski, *Polityka...*, pp. 209-210, 219-222.

36 William Elliot Butler (ed.), *A Source Book on Socialist International Organizations*, Alphen aan den Rijn: Sijthoff and Nordhoff, 1978, pp. 70-72.

37 H. Róžański, *Spojrzenie...*, p. 296.

38 Antoni Marszałek, *Planowanie i rynek w RWPG. Geneza niepowodzenia.*, Łódź: Wydawnictwo Uniwersytetu Łódzkiego, 1993, p.102

as also dangers of disintegration. Paradoxically, the barrier to further integration in the form of currency inconvertibility turned out to be a barrier to potential disintegration.

It must be also added that the persistence of the status quo was accompanied by the specific shape of the discourse over the financial relations inside Comecon. The critical opinions were allowed, especially in the countries with the loosest censorship regimes, such as Poland and Hungary. The apologetic attitude to the situation was the most present in the works of Soviet researchers, being de facto detailed explanation of the current position of the Soviet authorities and having thus the strongest influence. The examples from the literature circulating on Polish market in 1970's and 1980's include books by Polish economists Stanisław Rączkowski ("The transferable rouble does not meet the basic criterion of correct functioning of the international currency because it does not represent an universal purchasing power, possible to use in every time and every country")<sup>39</sup> and Eugeniusz Drabowski<sup>40</sup>, as also Hungarian researcher, Imre Vincze ("actual measurement of the value was taking and takes place outside the Comecon community, on the world market").<sup>41</sup>

Quite oppositely, the volume of important Soviet articles about the transferable rouble, included following statements: "The authors (...) being directed by the Marxist-Leninist science about world money and using primary sources – analyzing the nature and economic character of the transferable rouble, its functions, unveil the undisputed superiority of that currency in relation to capitalist currencies used in the international settlements"; "...collective currency is able to perform and practically performs all the functions of international socialist currency: unit of value, means of payment and means of accumulation".<sup>42</sup> So the voices of dissent were on the fringes, the mainstream discourse was extremely ideological and not confronting the reality – here is another explanation of the lack of reform, besides internal and international policy problems created by potential changes.

## Conclusions

The transferable rouble was a unit of account of completely different character than currencies of the capitalist countries. It was lacking basic functions of money: unit of value, means of payment and means of accumulation. It was convertible neither

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39 Stanisław Rączkowski, „Pieniądz międzynarodowy krajów socjalistycznych – zasady funkcjonowania”, [in:] Paweł Bożyk (ed.) *Integracja ekonomiczna krajów socjalistycznych*, Warszawa: Książka i Wiedza, 1970, p. 297.

40 E. Drabowski, *Rubel...*, p. 91.

41 Imre Vincze, *Międzynarodowy system waluty RWPG*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1981, pp. 71-73.

42 *Międzynarodowa waluta socjalistycznych krajów RWPG*, Warszawa: Państwowe Wydawnictwo Ekonomiczne, 1974, p. 54.

into gold nor into world currencies and had no reasonably established exchange rate. It was strictly associated with the planned trade agreements, which were basis for all the trade among the Comecon members. Its creation was connected to the register confirming the export of goods or services. It depended not from the bank (in that case the IBEC), but from the parties participating in the exchange. It performed the functions of formal tool of registering and controlling the financial settlements between the Comecon countries. The possession of transferable roubles on an account in the IBEC did not mean the possibility of buying a desired good on the Comecon market because the good had to be previously included in the trade agreements. In the systemic aspect, the transferable rouble did not differ from the domestically circulating currency of centrally planned economies. The latter, besides the market of consumer goods and services, was performing only accounting and aggregating functions.

The switch to multilateral clearing in the Comecon, associated with the introduction of the transferable rouble, ended with failure. It was mostly an effect of maintaining bilateral clearing in trade settlements. Multilateralization would have to be preceded by unification of price structures and adjustments of exchange rates, as also by wider liberalization of foreign trade. Simultaneously, there was a lack of political will to conduct necessary economic reforms and the trade outside the limits of previously negotiated quotas was simply marginal to the whole volume.

The transferable rouble, however, had real impact on the trade relations between the states of the Soviet bloc. Its character led to different pathologies in the mutual exchange, made the integration processes more difficult and contributed to increasing internal and external imbalances of the economies of member countries. It was a part of the system responsible for permanent shortages in the economy, finally leading to structural crisis and collapse of the centrally planned economy in Central and Eastern Europe.

The automatic mechanisms of credit relations and balance-of-payments adjustments could not go in pair with the system based on central planning. Difficulties with management of foreign trade could not lead to the abandonment of planning in that area of economic activity in favour of ensuring some flexibility. The dogma of planning superiority resulted in treating automatic mechanisms as “chaotic” and bringing the danger of creating the bridgehead for capitalism, allowing for the influence of business conditions of world market on the socialist economies. Lack of significant systemic reforms of the Comecon and choosing instead the concept of integration based on the closer cooperation on the enterprise level and construction of common infrastructural projects, was contrasting with the experiences of the EEC, gradually ensuring clear rules for the integration process and creation of the common market. Imperfectness of the settlement system, lack of normal exchange rates and separation of internal markets of Comecon member states were making the type of integration chosen in 1970’s extremely complicated in terms

of bureaucratic efforts necessary for negotiating all the contract conditions and terms of payment. The result of these efforts was also unsatisfactory – the mutual liabilities resulting from the export of construction services, mineral resources or exploitation of common infrastructure were more and more difficult to assess. It is not strange that, for example, the post-Comecon disputes about the state of mutual debts between Poland and Russia were solved with zero-option due to mutual inability of making proper balance.

The deviated, overvalued exchange rate led to the unwillingness of the participants to export to other member countries. It was associated with the incentives towards maximizing cheap imports. It meant permanent shortages also on the level of international exchange of goods, as well as the fact that all the members were subsidizing trading partners via export channel. Possessing comparative advantage in one field thus did not lead to adequate gains. Besides the pursuit for self-sufficiency typical for Soviet-style central planning, it additionally explains the persistence of autarkic economic structures in the member countries and low advancement of industrial specialization inside the organization.

Summing up, it can be stated that the transferable rouble, mostly due to its limitations in performing basic functions of money, was not an efficient tool for further integration of Soviet bloc. Quite contrarily, it contributed significantly to disintegration of the Comecon.

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