

PROBLEMS OF INTERNATIONAL ECONOMIC COOPERATION AMONG THE SOCIALIST COUNTRIES

By KAZUO NONOMURA

Professor, The Institute of Economic Research

Foreword

Before World War II only the Soviet Union was regarded as a Socialist country and only the Mongolian People's Republic as a people's democracy, but after the war eleven people's democracies were established in Eastern Europe and Asia and there are now thirteen Socialist countries in all.* After World War II socialism was enlarged to a world-wide system, no longer confined to one country. Now there exists the Socialist world system (Мировая система социализма; das sozialistische Weltsystem) side by side with the Capitalist world system. Among the countries belonging to this Socialist world system there has arisen an international economic relationship different from that among the Capitalist countries. This is called international economic cooperation among the Socialist countries. The direct organization engaged in this work is the Economic Mutual Assistance Council established in 1949.** I have written two or three times on the formation of the Socialist world system, and the development of international economic cooperation among Socialist countries whose center is the above Economic Mutual Assistance Council.¹ There I chiefly discussed on the central organization, the stages of development, and the forms of the economic cooperation. In this paper I have no intention to repeat what I have mentioned before, and will discuss and introduce several practical and theoretical problems which have arisen in connection with the development of international economic cooperation among the Socialist countries and are awaiting solution.

*The names of these countries are well known and will not be listed here. For the names, area, and population of these countries see my book, *The Structure of the Soviet Economy*, Aoki Shoten, 1959, p. 304.

**For further details on the Economic Mutual Assistance Council (EMAC) or the Council for Economic Mutual Assistance; Совет Экономической Взаимопомощи (СЭВ); Der Rat für gegenseitige Wirtschaftshilfe, see my writings, *The Present Stage of International Economic Cooperation, among the Socialist countries* Keizai Kenkyu, July, 1958, pp. 263-264, and *The Structure of the Soviet Economy*, pp. 303-304. Participating countries are listed here for reference: the Soviet Union, Polish, Czechoslovakian, Hungarian, Rumanian, Bulgarian, Albanian, and German Democratic Republics. In addition, for convenience of explanation hereafter, dates and places of plenary meetings of the Council up to now are given here: 1st Meeting, April 26-28, 1949, Moscow; 2nd Meeting, August, 1949, Sofia; 3rd Meeting, unknown; 4th Meeting, March, 1954, Moscow; 5th Meeting, unknown; 6th Meeting, December, 1955, Budapest; 7th Meeting, May, 1956, Berlin; 8th Meeting, June 18-23, 1957, Warsaw; 9th Meeting, June, 1958, Bucharest; 10th Meeting, December, 1958, Prague; 11th Meeting, May 13-16, 1959, Tirana.²

¹ "The Present Stage of International Economic Cooperation among the Socialist countries," Keizai Kenkyu, July 1958. "The Problems of Socialism", World Economic Survey, June 1959.

² См., Н. Силуянов, Братское сотрудничество и взаимопомощь социалистических стран. «Вопросы Экономики», Но. 3, 1959 г.

I. *The Basic Economic Task*

The most important problem of the Socialist world system is that of the so-called "Basic Economic Task". This basic economic task (основная экономическая задача) is the problem of the necessity and the possibility of the Socialist economy to outstrip the Capitalist economy in production. This is the way of thinking (or economic policy) emphasized at first in the Soviet Union, particularly at the 18th Congress of the Communist Party in 1939 by Stalin and Molotov, which meant only the Soviet Union could catch up with and surpass the leading Capitalist countries (about 1939 America, England, Germany, and France; now America) in productivity.

After World War II, its contents and aims to be attained were formulated in a fairly concrete form with due consideration for the postwar conditions by Khrushchev at the extraordinary Supreme Soviet held in November 1957.³ It has now been inherited in the Seven-Year Plan since 1959 as its frame.⁴

Its gist is as follows: 1) Soviet industrial productivity as of 1957 is estimated to be about half of that of America. 2) The rate of annual growth of industry is estimated at 8% in the Soviet Union and 2% in America. 3) Accordingly the Soviet Union will catch up with and surpass America in the total volume of industrial output in 1968, and in per capita output a few years later. 4) In agriculture, the per capita output of milk, meat, and butter is set as a strategic goal and it is estimated that the Soviet Union will catch up with and surpass America by the first half of 1960's.⁵

Such is a brief outline of the contents of the Soviet Union's basic economic task, and as fundamental reason why the task can be solved as mentioned above, all the theorists of the Socialist countries say unanimously that the Socialist system is conclusively superior to the Capitalist system as an economic system.⁶ In that sense the Soviet economic competition with America and the Soviet Union's basic economic task are not problems of the Soviet Union alone but can have significance as general problems for the Socialist system. In fact most of the Socialist countries besides the Soviet Union have taken up the problems, selected provisional competitive countries and published concrete plans since the Soviet Union issued an official statement on the economic competition with America in 1957.*

*The Chinese People's Republic announced the outline of the Second Five-Year Plan at the 8th national meeting of Labor Union held in December 1957, with a government policy that they would increase production to catch up with and surpass England, a leading Capitalist country within 15 years (i.e. by 1972) in such essential products as steel, coal, machine tools, cement, chemical fertilizer, etc. At the Congress of the Bulgarian Communist Party held in June 1958, it was confirmed that the tempo of economic development in the country was faster than in neighboring Greece and Turkey.

³ The speech given before the Supreme Soviet on Nov. 6, 1957 by Nikita Khrushchev in the "Правда" 7го ноя., 1957.

⁴ Cf. The resolution on the Seven-Year Plan at the 21st Extraordinary Meeting of the Communist Party of the Soviet Union.

⁵ Cf. Kazuo Nonomura, "The Soviet-American Economic Competition," Keizai Kenkyu, April 1960.

⁶ См. напр., Научно-исследовательский экономический институт Госплана СССР, «Экономическое соревнование между СССР и США. Критика взглядов американских буржуазных экономистов», Госпланиздат Москва, 1959 г., стр. 75.

At the Congress of the Czechoslovakian Communist Party held in the same month it was certified that they had surpassed Sweden, France, and West Germany in per capita steel output and France and Italy in electric power. At the Congress of the Socialist United Party of the German Democratic Republic, held in July 1958, Ulbricht, first clerk declared that they would catch up with and surpass the West German standard of living within three years.

This 1957 was the year that the Soviet Union pioneered in launching the first sputnik in the world (October 4) and by this demonstrated the ascendancy of Soviet technology. It was also this year that the Soviet Union succeeded in firing an inter-continental ballistic missile (August 27) and perfected a new type hydrogen bomb war-head (October 6). Owing to these facts the Soviet Union's military ascendancy over America was distinctly shown throughout the world. Therefore 1957 should be called a turning point in the history of relations between East and West.

Taking these historic events into consideration, it is high time for the leaders of the Socialist countries to think of a new basic economic task for the whole Socialist world, not confined to each country, where the Socialist world en bloc should catch up with and surpass the economic power of the whole Capitalist world, not that each country separately catches up with and surpasses that of the leading Capitalist countries. I guess the materialization of this task into concrete economic plans or economic policies is now brought forward as an urgent question of economic cooperation among the socialist countries. And the construction of such economic plans becomes a task of the Economic Mutual Assistance Council, the direct and international organization engaged in international cooperation among the countries. The facts that they prearranged to make the First Long Range Economic Plan extending 1961-75, by 1960, at the general meeting of SEV, in 1957, that they regulated mutual cooperation up to 1965, keeping pace with the Soviet Seven-Year Plan operation, and that they had a conference of the party delegates, including the Asian Parties, in Moscow, in May 1958, just before the Bucharest Meeting (the 9th meeting), the next month are all the trends to accomplish the basic economic task and to make a consolidated and concrete economic plan suitable for the whole Socialist world system.

In 1958 the territory of the Socialist countries were one fourth of that of the whole world and the population was approximately one third of that of the world. The industrial production of the Socialist countries formed, according to the Central Statistical Board of the U.S.S.R., less than 3% in 1917, about 10% in 1937, and more than one third in 1958 of that of the world. Thus the Soviet circles say that the Socialist organization has already overtaken the Capitalist organization per capita in industrial production.⁷ It is further calculated that the average rates of annual growth of industrial output of the whole Socialist camp was 11% in five years, 1954-58, while that of the whole Capitalist camp was under 3%.⁸

As is shown in Table 1, however, the essential materials that form more than one third of the entire output of the world in the Socialist countries are only coal and pig iron, while the others, that is petroleum, electric power, steel ingots, trucks, tractors, cement, cotton textiles, woolen textiles, sugar, etc., do not reach one third of the entire output.

⁷ Центральное статистическое управление при Совете Министров СССР, «Народное хозяйство СССР в 1958 году. Статистический ежегодник», Госстатиздат, Москва, 1959 г., стр. 115.

⁸ Там же, стр. 115.

Comparison, furthermore, with underdeveloped countries among the Capitalist countries is meaningless and the task of the development of productivity is still left as a question awaiting solution.

Table 1 *The Proportion of the Output of the Socialist World to the Entire Output of the World*

Unit: percentage

Item \ Year	1929	1937	1950	1955	1957	1958
Coal	2.7	8.6	27.7	36.8	39.5	46.6
Petroleum	6.7	10.2	8.4	11.0	12.8	14.2
Electric Power	2.1	7.8	14.9	16.6	17.7	19.1
Pig Iron	4.1	14.0	18.5	24.6	26.0	33.3
Steel Ingots	4.0	13.1	19.2	23.3	25.2	30.9
Trucks	0.2	13.2	13.6	15.1	17.2	18.8
Tractors (15 h.p. equiv)	1.6	16.8	27.2	23.1	28.6	29.9
Cement	3.1	6.8	15.7	19.7	22.9	25.1
Logging Totals	...	16.9	28.4	30.1	32.0	...
Lumber	...	18.3	29.0	34.4	37.4	...
Cotton Textiles	...	8.8	21.2	28.1	28.4	31.2
Woolen Textiles	21.9	28.0 ¹⁾
Sugar	3.2	8.6	16.3	17.7	19.2	20.0

Materials: Центральное статистическое управление при Совете Министров СССР, «Народное хозяйство СССР в 1958 году. Статистический ежегодник», Госстатиздат, Москва, 1959 г., стр. 116.

Remarks: The figures for 1929 and 1937 are actually equivalent to those for the Soviet Union alone.

Note: 1) the output in 1956

It is not known in how many years the leaders of the Socialist countries or the SEV management set as the goal year, or what average rate of annual growth they predict, or what goal figure and rate of growth they expected for individual item, or to what countries and at what proportion the production of each item is allocated. In other words, it is now impossible to know what contents will be shown as the coordinated economic plan for the Socialist world system in the future. But it is clear that the basic task of SEV hereafter is the establishment of an international division of labor system for the speediest possible development of productivity. It is also clear that the time is gone when the principal substance of international economic cooperation among the Socialist countries was foreign trade and SEV was nothing but an organ for its promotion, even if international trade among the Socialist countries is a medium for the establishment.

II. *The Development of Productivity and International Economic Cooperation*

If one takes a consolidated view of the important problems now present in international cooperation among the Socialist countries from the angle of the speediest possible development of productivity and the intensification of international economic

cooperation contributing toward it, the following problems can be found on the calendar. They are reflection and self-criticism on the adherence to the Soviet way in the policies of productivity development in the Socialist countries, specialization and cooperation of development in the Socialist countries, and the recognition of the specialties of the Soviet Union and of China.

a. A Criticism on the Following of the Other Socialist Countries to the way of the Soviet Union. Vladimir Kaigl, Director of the Czechoslovakian Science Academy Economic Research Institute, says in his article in *the Problems in Philosophy*, Vol. 3, 1959, that in the Soviet Union an extremely uneven progress was projected for the heavy industries, especially for the machine industry because of the rapid progress of productivity, with the result that the chemical industry and agriculture fell behind and brought about a serious unbalance. He further says the rapid technical progress affects the value of installed machinery and facilities, which become unsuitable or even useless; Marx's principle of moral wear of fixed capital has been ignored; many advocates fell immediately into a blind belief in the dominance of Soviet technology and ignored the great technical progress of the Capitalist countries with the very superiority of socialistic production over capitalistic production. He says they had an awful mistake on the estimation of the technical progress of the chemical industry in the Capitalist countries and it resulted in the backward production of plastics and synthetic fibers, which in turn caused a shortage in iron and non-ferrous metals which could have been replaced with plastics and also caused the backward production of clothing. Kaigl goes on to say, that these Soviet style errors were inherited by the other countries and reproduced internationally on an expanded scale.⁹ The backwardness and unbalance of the technical progress caused by these reasons must leave a lasting effect even to the present day. However, they have begun to get over these deficiencies since the 6th meeting of SEV, held in Dec., 1956.

b. Specialization and Cooperation. The specialization and cooperation on the field of SEV means the attempt to decide individual essential product or field, to which the principle of the right locality for the right production is carried out intentionally, and by that to dissolve autarkie small-scale production in each country, and do away with the shortage of essential products and all the economic unbalance caused by it. As for the essential products and fields in question, though a large number of fields and items have been taken up since the 6th Meeting of SEV in December, 1955, we may roughly cite the machine industry, raw materials, fuel (especially coal, petroleum, iron, and non-ferrous metals) in the first place, and electric power and agriculture in the second place. For the various items and fields which include the above items and fields, the standing committees were formed respectively to discuss specialization and cooperation with each country as a unit. I will not get into particulars here, as I mentioned them before.

In connection with these specializing and cooperation, an important problem is awaiting solution. This is how to reply to the concern that if by the division of labor among countries there comes into being two types of countries, that is countries in charge of raw material industries and countries in charge of manufacturing industries, the former may be placed at a disadvantage. In the January, 1959 issue of *the Economic Problems*,

⁹ Владимир Кайгл, Закономерность развития экономических отношений между странами мировой социалистической системы, «Вопросы Философии», Но. 3, 1959 г., стр. 32-34.

N. Siluganov raises the following question: Raw material industries not only require greater capital than the manufacturing industries, but take almost twice as much time as that of the manufacturing industries for their construction. This naturally effects on the tempo of the increase of production in all industries. On the other hand it frequently happens that though the capital investment in the branch of the raw materials is large, the repercussion per unit of the investment on the structure of the national income is often smaller than the case of the other branch.¹¹

c. The Equalization of Productivity. Under capitalism, it is a lawful reality that advanced industrial countries exploit backward agricultural countries and the Imperialist countries exploit and victimize their colonies as well as their unbalanced development of productivity. Things are quite different under socialism, where it is unnecessary for advanced industrial countries to exploit backward agricultural countries nor to fix the backwardness in productivity of the latter. On the contrary, the advanced countries endeavor to raise the productivity of backward countries and to bring it up to a common level. The effort to equalize productivity is one of the goals of international economic cooperation among the Socialist countries.*¹²

*During 1956-57 I twice discussed socialist trade theory with Professor Toichi Nawa of Osaka City University (in articles in the issues for Nov. 3, 1956 and for Jan. 19, 1957 of the *Economist*). I said there trade or economic cooperation among the Socialist countries should result in the raising of productivity in the whole socialist system, and the equalizing of productivity between the advanced and backward countries and the establishment of trade prices should be done from this point of view. Later I repeated the same idea as follows: "The general upraising of the standard of productivity in all the Socialist countries is nothing more than the basic trade principle underlying the "Democratic World Market", and it will be a fundamental goal for the planning of foreign trade. It will be the object of trade policy or trade plan for the Socialist countries en bloc that advanced Socialist countries help to raise the productivity of backward ones to raise the standard of the whole productivity."¹³

Among the people's democracies established in Europe after World War II, Bulgaria, Rumania and Albama were backward countries and the German People's Republic and Czechoslovakia were comparatively advanced countries in industrial productivity (See Table 2). As a result of economic cooperation among the Socialist countries, however, the inequality of productivity of these countries was passably corrected (See Table 3).

The problem of equalizing productivity has become to have greater significance since the basic economic task for the whole Socialist organization came up into question, and the move from socialism to communism became a problem of the whole Socialist world system. Nikita Khrushchew said at the 21st extraordinary Congress of the Soviet Communist Party in January and February, 1959, that all the Socialist countries would reach the highest stage of communism at approximately the same time. This can be understood to imply that in the period preceding the move toward communism it would be fully possible to equalize productivity that is to bring the backward countries up to the level of the advanced countries and it would be necessary to carry on this equalization intentionally and politically. In his article in the issue for March, 1959 of *the Problems*

¹⁰ Kazuo Nonomura, "The Problems of Socialism," Sekai Keizai Soran, June 1959 op. cit., pp. 51-52.

¹¹ Н. Силуянов, Новый этап в развитии международного социалистического разделения труда, «Вопросы экономики», Но. 1, 1959 г., стр. 24

¹² Никита С. Хрущев, О контрольных цифрах развития народного хозяйства СССР на 1959-1965 годы, «Внеочередной XXI съезд КПСС» т. 1, Госполитиздат, Москва, 1959 г., стр. 108.

¹³ "Theory of Socialist Trade", Keizai Hyoron, April 1957, pp. 84-85.

in *Philosophy*, Vladimir Kaigl takes up the equalization of the productivity in each country as one of the objects of international economic cooperation among socialist countries.¹⁴

Table 2 *Per Capita Output by Country in 1956*

A. Actual Figures

Country Item	Soviet Union	China	German Peo. Rep.	Czech.	Poland	Bulgaria
Electric Power (kw. hours)	954	21	1750	1252	693	313
Coal (kg.)	2135	156	3503 ¹⁾	1770	3381	1415
Steel (kg.)	242	4.8	154	368	178	11 ¹⁾
Pig Iron (kg.)	178	6.0	88	248	113 ¹⁾	—
Cement (kg.)	124	7.5	193	237	142	112
Cotton Textiles (meters)	34.1 ²⁾	5.2	12	27.6	20	18.3

B. Indices

Country Item	Soviet Union	China	German Peo. Rep.	Czech.	Poland	Bulgaria
Electric Power	100	2	183	131	73	33
Coal	100	7	164	83	158	66
Steel	100	2	64	152	74	5
Pig Iron	100	3	49	139	63	—
Cement	100	6	156	191	115	90
Cotton Textiles	100	15	35	81	59	54
Average	100	4	123	174	97	39

Materials: И. А. Тихонов, «Основная Экономическая задача СССР», Лениздат, Ленинград, 1959 г., стр. 162.

Remarks: The average in Table B is the simple arithmetical mean of the above five items.

Notes: 1) data in 1955 2) all textiles

Table 3 *Comparison of Per Capita Standard of Productivity
Among the Socialist Countries*

	Bulgaria v. Czechoslov.		Bulgaria v. Germ. Peo. Rep.		Rumania v. Germ. Peo. Rep.		Albania v. Czechoslov.	
	Prewar	1957	Prewar	1957	Prewar	1957	Prewar	1957
Electric Power	1:6.8	1:3.8	1:20.6	1:5.4	1:12	1:6	1:47.5	1:15.4
Coal	1:6.8	1:3.5	1:17.8	1:7.8	1:40	1:31	1:667	1:31
Steel Ingots	—*	—	—*	—	1:4.0	1:3.4	—*	—
Cement	1:2.4	1:2.4	1:2.9	1:1.7	1:3.2	1:1.5	1:10	1:5.8
Cotton Textiles	1:4.8	1:1.4	1:3.2	1:1.4	1:2.2	1:2.2	1:8.7	1:5.4
Sugar	1:11.6	1:3.9	—	—	—	—	—	—

Materials: Г. Герцович, Экономическое развитие мировой системы социализма «Вопросы экономики», Но. 4, 1959 г., стр. 144.

Note: There was no production of steel ingots before the war.

¹⁴ Владимир Кайгл, там же, стр. 36-37.

d. Specialities of the Soviet Union and China. The specialities of the Soviet Union and China mentioned here indicates the fact that SEV allows only the Soviet Union and China co-ordinated economic development, taking their circumstances on their territories, population, and natural resources into consideration. This is the idea chiefly supported by SEV since 1956 and seems to have general consent by each country.¹⁵

III. Trade Problems of the Socialist Countries

The division of labor among the Socialist countries is promoted through foreign trade.* From here such problems as trade price and settlement system come about. Now I will deal with the problem of price at first and the problem of settlement then.

*In his book, *the Construction of Socialist Economy and the Development of Foreign Trade among the People's Democracies of Europe* (1955), Figurnov refers to the relations between them as follows: "The economic relationship among the countries of the Socialist camp takes the form of commodity-currency. Therefore, all the products of labor including the means of production appear on the democratic world market as commodities and obey the operations of the price laws."¹⁶ In his article, *the Problems of International Division of Labor among the Socialist Countries*, Assistant Professor Shigeyasu Suzuki of Yamaguchi University explains the relationship between them as follows: "The Socialist countries exist as independent countries and have mutual relations...National possession is the largest within the scope of Socialistic possession and in principle there is no possession by the whole Socialist camp of a super-national nature...Accordingly in the movement of products, including the means of production, among the Socialist countries there is in principle an accompanying movement of ownership. Hereby appear the laws of value, commodities, prices, currencies, etc. which cover a wider scope than a country, in short various economic categories included in the world market..."¹⁷

a. The problems of Trade Price. The problem that upon what standards trade prices should be fixed for the trade within the Socialist world system will be called, for the time being, the problem of trade price. This problem of trade price has seldom been discussed theoretically but settled practically to carry out trade business.

Then how has this problem been settled? In other words, how has the actual state of trade price hitherto been? As there is no lucid and minute data on this point, I can not but say from inference. According to Nykryn, trade in the socialist world market from 1945 to 1950 was carried out based on U.S. dollar value and value levels at that time were extremely diverse.¹⁸ It seems that ruble had been adapted as the international currency and trade price been settled based on Soviet prices of commodities, since the Soviet reformation of currency in 1950.¹⁹ Subsequently, it seems that the world market price had been accepted as a standard, since the Hungarian-Polish event in 1956 and the export price of Polish coal for the Soviet Union came into question.²⁰ At present the world market price is accepted as a standard, sometimes

¹⁵ См. напр., Н Силуянов, там же, «Вопросы экономики», Но. 1, 1959 г., стр. 17; Г. Герцович, Экономическое развитие мировой системы социализма, «Вопросы экономики», Но. 4, 1959 г., стр. 132.

¹⁶ П. К. Фигурнов, «Строительство социалистической экономики и развитие внешней торговли в европейских народных демократиях», Внешторгиздат, Москва, стр. 105.

¹⁷ "The Problems of International Division of Labor among Socialist States," Shigeyasu Suzuki, Toa Keizai Kenkyu, IV-2, p. 470.

¹⁸ J. Nykryn, *Organization und Technik des Aussenhandels*, 1957, SS. 310-311.

¹⁹ Gunther Kohlmeier, "Der demokratische Weltmarkt," Verlag Die Wirtschaft, 1956, SS. 267.

²⁰ Cf. joint Soviet-Polish declaration of January 18, 1956 («Известия», 20 го ноя., 1956г.).

altered by the addition of various conditions. Horst Mendelshausen of America tries to prove, in a May, 1959 magazine article that the export-import price of the Soviet Union is not always based on the world price.²¹ Apart from the suitability of his positive method, it goes without saying that world market price cannot be used just as it is as a standard.

Perhaps it was from 1956 to 1957 that this problem of trade price came to be discussed among the Socialist countries.* In 1956 Gunther Kohlmey, German economist wrote in his book, *the Democratic World Market* that when trade price is settled in the Socialist market, "there is an increasing tendency to choose Soviet price as a starting point."²² This, together with a discussion on the settlement of trade price, in 1954, by the Hungarian economists, Tibor Liska and Antal Marias seems to play the part "the first swallow of spring", prior to the beginning of earnest discussions on this problem.²³

*Prof. Nawa and I had several disputes concerning this from 1956 to 1957. He contributed an article to the September 22, 1956, issue of *the Economist*, which I opposed in my article in the issue for November 3. He wrote in opposition to my opinion in the issue for December 1, which I opposed again in my article in the issue for December 1, which I opposed again in my article in the issue for January 19, 1957.

This problem was first brought up for a international discussion in a comprehensive form, when a conference on the problem of international division of labor among the Socialist countries was held in December, 1957 at Prague under the auspices of the Czechoslovakian Science Academy Economic Research Institute, with economists invited from other Socialist countries.²⁴ It was Vladimir Kaigl, director of the Institute who brought forward a question on the problem of trade price at that time (his approach will be discussed later), but almost at the same time, that in the period from 1957 to 1958, the problem was discussed over and over again as a theoretical problem in *the Foreign Trade*, a magazine of German Democratic People's Republic.*

*The person who first introduced the details of this debate to the economic society of Japan was, so far as I know, Assistant Professor Etsuji Kinoshita of Osaka City University. About the same time, Professor Shigeyasu Suzuki of Yamaguchi University and Mr. Shoshichi Sugimoto of Kyoto University and others took also up the problem.²⁵ I owe much of my opinion mentioned below to them.

Then what kinds of approach are there to the problem of trade price? For the sake of convenience I will make a summary and classification after the summary of Vladimir Kaigl. According to Kaigl's view, the various theories on the formation of trade price in the Socialist world market are roughly divided into two groups. The first is that price must always be formed according to the actual cost of production in a producing country, that is to say, price must always reflect the domestic value of an export.

²¹ Horst Mendelshausen, "Terms of Trade between the Soviet Union and Smaller Communist Countries, 1955-1957," *The Review of Economics and Statistics*, May 1959.

²² Gunther Kohlmey, a.a. O., S. 267.

²³ Tibor Liska and Antal Máriás, "A gazdaságosság és a nemzetközi munkamegoztás," *Közgazdasági Szemle* No. 1, 1954. (Reprinted in United Nations, *Economic Survey of Europe in 1954*, Geneva, 1955, pp. 131-135).

²⁴ Karl Morgenstern, "Zur Preisbildung auf dem sozialistischen Weltmarkt," *Wirtschaftswissenschaft*, Nr. 3, 1958.

²⁵ Etsuji Kinoshita, "Price Formation in the Socialist World Market," *Kenkyu to Shiryo* (Osaka City University Economic Research Institute), No. 8, May 1959. Shigeyasu Suzuki, "On Profit in Foreign Trade in Socialism," *Toa Keizai Kenkyu* (Yamaguchi University), Vol. III, Re-issue December 1958. "The Problems of Socialistic International Division of Labor", op. cit., IV-2. Shochichi Sugimoto, "On Foreign Trade Earnings in Socialist States," *Keizai Ronso*, 84, No. 2.

The second is that price formation should be based on the international world price as well as the price of the producing country. This second group has two sub-groups. Group A regards socially necessary labor in the Socialist world system as the basis of the formation of price and Group B holds that, regardless of the Capitalist camp or the Socialist camp, the socially necessary production cost of the product in the principal supplying country must be the basis of the formation of price.²⁶

Among the scholars of the socialist countries, there are few who openly maintain the view of the first group.²⁷ Some Hungarian economists, Imre Vajda,²⁸ D. Toscheff,²⁹ and others belong to the second A group. At present the leading opinion of the economists of the Socialist countries seems to be the second Group B. H. Blessing,³⁰ V. Cerniansky,³¹ H. Behr,³² S. Zscherpe,³³ Vladimir Kaigl,³⁴ O. Bogomorov of the Soviet Union,³⁵ and most other scholars hold this opinion. For example, Bogomorov implies in his article in the April, 1959, issue of *the World Economics and International Relations*, that the price of the Capitalist world market shows a regulatory operations upon the world price, мировые цены, which is the standard of the trade among the Socialist countries, for they form only 10% of the international trade.³⁶ So is Kaigl; he states in the March, 1959, issue of *the Problems in Philosophy* that the proportion of production and the weight of trade of both camps to the world production and to the world trade effect the formation of the world price. He goes on "The basis of the world price is the cost price of production in the principal Capitalist country where most of each commodity is exported. The world price, given a certain amount of correction, becomes the basis for deciding the price level which should be used in mutual trade within the Socialist camp."³⁷

As for my own position, I can say in short that I belong to the second A Group, almost the same as that of Morgenstern.* I have no intention to argue here the theoretical opinions and their suitability of A and B factions in the second group. I only wish here to confirm the following points in preparation against the coming debate. That is, the problem is not a simple antagonism of the world market price influenced by capitalism to the international price in the Socialist market. The reason why the proponents of the former are apparently more numerous than those of the latter at present is that labor productivity of the Capitalist world is generally higher than in the Socialist world and accordingly the world market price is generally lower than the socialist market price. The reason they prefer the world market price is because they fear to lose the stimulus to raise productivity by adhering to the price in the Socialist market with its low productivity, even if the trade profits in the Socialist countries which produce export

²⁶ Vgl., Karl Morgenstern, a.a. O., S. 443.

²⁷ Shigeyasu Suzuki, op. cit. p. 493.

²⁸ Imre Vajda, "Ein Bemerkungen über die Preisbasis auf dem sozialistischen Weltmarkt," *Der Aussenhandel*, Heft 22, 1958.

²⁹ D. Toscheff, "Zur Preisbasis auf dem sozialistischen Weltmarkt," *ibid*, Heft 9, 1959.

³⁰ H. Blessing, "Das Wertgesetz in Aussenhandel," *ibid*, Heft 23, 1957.

³¹ V. Cerniansky, "Die Preisbasis auf dem sozialistischen Weltmarkt," *ibid*, Heft 4/5, 1958.

³² H. Behr, "Die Preisbasis auf dem sozialistischen Weltmarkt," *ibid*, Heft 11, 1958.

³³ S. Zscherpe, "Die Bedeutung des Hauptmarktes," *ibid*, Heft 11, 1958.

³⁴ Владимир Кайги, там же, «Вопросы Философии», No. 3, 1959; Vladimir Kaigl, "International Division of Labor in the world socialist system," *Ceskoslovenska Akademie Ved, Czechoslovak economic papers*, Praha, 1959; Vgl., auch Karl Morgenstern, a.a. O., SS. 443-445.

³⁵ О. Богомолов, О международном социалистическом разделении труда, «Мировая экономика и международные отношения», No. 4, 1959г.

³⁶ О. Богомолов, там же, стр. 35.

³⁷ В. Кайги, там же, стр. 30.

commodities are protected for a little while. However, is it always possible to apply the Capitalist world market price to the trade price of the Socialist countries? If, in such a case, the export of a commodity from the Socialist countries becomes unprofitable, will a Socialist country which needs the commodity import it from Capitalist countries? Some commodities are possible to do so, and others impossible. That is to say, when it is absolutely necessary to protect and bring up a certain scale of a branch of production in the Socialist countries, trade is carried on at the high prices of the Socialist market, discarding the cheap price of the Capitalist market, and, through pricing, protection is given to the industries in question. This situation often occurs when productivity in the Socialist countries is lower than that in the leading Capitalist countries. In that case it is an error to state simply that trade price is decided based on the world market price which includes the capitalist market price.

*Assistant Professor Shigeyasu Suzuki says that Karl Morgenstern "seem to have an opinion which is, though passive, close to of the second B Group."³⁸ My opinion is the very opposite of what he says.³⁹ You will find which is right when you read his statement.

What will they do in the opposite case, that is the world market price of a commodity is higher than the Socialist market price? Should the exporting Socialist countries export the commodity to the Capitalist market, given up the export to the Socialist market? In that case, firstly the production of the country concerned will suffer from the business fluctuations in the Capitalist countries. Secondly, through such exports, the demand for the commodity in the Socialist market can not always be met. Therefore, it would be an error to raise the Socialist market price of a commodity which is lower than the Capitalist market price for some reasons to the latter's level without reservation, or on account of this price relation to seek the importing countries of the commodity chiefly in the Capitalist market.

b. Problems of the Multilateral Settlement System. It would be unnecessary to describe in detail about the necessity of the establishment of the multilateral settlement system among the Socialist countries. I wrote before a triangular settlement contract was concluded in place of a bilateral settlement contract when SEV was established.^{40*} Subsequently, at the 8th general meeting of SEV in Warsaw, in June, 1957, a multilateral contract was signed among participating countries.⁴¹ This multilateral settlement was nothing but a complement to the bilateral settlement contract. That is, basic payments are settled through bilateral settlement accounts and the remaining revenue and expenditure are transferred to multilateral settlement system upon deliberation the countries concerned. This does not mean that when the consent of the countries concerned cannot be obtained, they are automatically placed in multilateral settlement accounts. It was decided that the period of the contract covered one year and settlement would be effected through the ruble.⁴² So far as I know, there is little literature on the subsequent

³⁸ Shigeyasu Suzuki, op. cit., p. 496.

³⁹ Vgl., Karl Morgenstern, ebenda.

⁴⁰ Kazuo Nonomura, "Post-war Trade between East and West and among Socialist States," *Keizai Kenkyu*, July 1953, pp. 228-229.

⁴¹ «Ежегодник Большой Советской Энциклопедии 1958», 1958, стр. 374.

⁴² "Chinese Trade Statistics, Prices, Settlement Formulas, and Business Methods," II, February 1959, pp. 12-13. "Report on the World Situation (Sekai Josei Junpo)," No. 365, mid-July, 1958 (World Economics Institute), pp. 11-12.

development of this multilateral settlement contract. Only Bogomorov referred to the question in April, 1959. According to him, there is progress in direction of founding multilateral settlement system within the Socialist camp, but it is not yet developed.⁴³ The perfect development of multilateral settlement systems may be considered a problem for the future.

This means the triple trade agreement concluded on July 29, 1949 in Moscow among the Soviet Union, Poland, and Czechoslovakia, with a period of one year. By this agreement Finland should turn over 100 million rubles' worth of prescribed housing, lumber, boats, and other items to the Soviet Union; the Soviet Union should turn over a total of 100 million rubles' of foodstuffs, 80 million to Poland and 20 million to Czechoslovakia; Poland should turn over 80 million rubles' worth of coal to Finland; Czechoslovakia should turn over 20 million rubles' worth of sugar, machinery, and industrial manufactures to Finland; and through this triple settlement agreement the three countries could completely settle their credits and obligations.

Closing Remarks

Now I will finish my attempt to outline the theoretical and practical problems of international economic cooperation among the Socialist countries at this stage. The literature on this subject is little and in present circumstances it is impossible to carry forward the theoretical development satisfactorily. I am aware of course that it will be necessary to discuss each of these problems again on another occasion, but I believe that the position of these problems and the direction to which the theoreticians and practical men are trying to guide them are made clear in this paper.

⁴³ О. Богомолов, там же, стр. 34-35.