

# Trade Expansion within the Council for Mutual Economic Assistance after the Polish and Hungarian Crises

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The Council for Mutual Economic Assistance (CMEA/Comecon) was established in 1949, but active cooperation between socialist countries of Eastern Europe began only in the mid-1950s. The CMEA countries sought to expand intra-bloc trade, especially against the backdrop of the success of Western European integration. The purpose of this research is to identify and analyze the non-market trade links within the CMEA in 1956–1959 as factors for expanding integration between socialist countries. The analysis is based on the materials of the Russian State Archive of Modern History, and the Russian State Archive of Economics. In 1956, accelerated industrialization in Eastern Europe led to the emergence of crisis phenomena in most CMEA countries. The relations between states were tense. The Polish and Hungarian crises of 1956 showed the severity of the situation. The Soviet Union harshly suppressed political opponents. At the same time, Moscow tried to support the economies of the CMEA countries. One of these measures was expanding trade with them. The results of the research showed that there was nonmarket expansion of trade in the case of coal supplies to Poland and Czechoslovakia, imports of Polish coal, exports of Bulgarian tobacco. In 1957–1958, there were serious imbalances in intra-bloc trade. Normalization of trade relations was intended to be achieved through the creation of the Multilateral Clearing System. In 1958–1959, this system was ineffective. This suggests that the CMEA countries used trade relations in the period under review mainly as a political tool.

*Keywords:* Council for Mutual Economic Assistance, CMEA, Comecon, Planned economies, Eastern Europe integration, History of Cold war, factors of trade creation.

## Расширение торговли в рамках Совета экономической взаимопомощи после польских и венгерских кризисов

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Совет экономической взаимопомощи (СЭВ) был создан в 1949 г., но активное сотрудничество между социалистическими странами Восточной Европы началось только

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в середине 1950-х годов. Страны СЭВ стремились расширить торговлю внутри блока, особенно на фоне успеха западноевропейской интеграции. Цель данного исследования — выявление и анализ нерыночных торговых связей в СЭВ в 1956–1959 гг. как факторов расширения интеграции между социалистическими странами. Анализ основан на материалах Российского государственного архива современной истории и Российского государственного архива экономики. В 1956 г. ускоренная индустриализация в Восточной Европе привела к возникновению кризисных явлений в большинстве стран СЭВ. Отношения между государствами были напряженными, в том числе из-за дефицита важнейших ресурсов и противоречий в проведении торговой политики. Польские и венгерские кризисы 1956 г. показали глубину кризиса. Советский Союз резко подавил выступления политических оппонентов, но в то же время попытался оказать поддержку экономикам стран СЭВ. Одной из мер этой поддержки было расширение торговли внутри СЭВ. Результаты исследования показали, что в случае поставок угля в Польшу и Чехословакию, импорта польского угля, экспорта болгарского табака расширение торговли не носило рыночного характера. В 1957–1958 гг. серьезные диспропорции в торговле между странами блока сохранялись. Для нормализации торговых отношений в 1958–1959 гг. была создана система многостороннего клиринга, которая оказалась неэффективной. В целом в рассматриваемый период расширение торговли между странами СЭВ часто использовалось в качестве политического инструмента решения экономических проблем.

*Ключевые слова:* Совет экономической взаимопомощи, СЭВ, плановая экономика, восточноевропейская интеграция, XX век, история холодной войны, факторы расширения торговли.

## I. Introduction

In 1956–1959, socialist countries faced a number of economic and political crises. In the context of the shortage of important resources (raw materials and finance) and the first signs of success of Western European integration, deepening cooperation in the socialist camp presented a viable opportunity to solve economic problems. In accordance with the communist ideology, the economic sphere was the basis for the social system, therefore the issues of economic expediency (especially, in heavy industry) were extremely important for the establishment of the countries. A very specific understanding of economic theory and some restrictions in the economic systems of the countries entailed the emergence of a number of phenomena that are difficult to explain from the standpoint of market relations.

Deepening cooperation between socialist countries was not officially called “integration”<sup>1</sup> in the Soviet historiography until the end of the 1960s, but, since the mid-1950s, the attempts to create multilateral interstate allocation mechanisms had been made, Western Sovietologists showed that 1955–1964 was the pre-integration period when important changes began<sup>2</sup>. A lot of initiatives on cooperation within the CMEA were clearly inspired by Western European projects. And the expansion of the intra-bloc CMEA trade was partly due to the desire of the USSR to reduce trade contacts with the EC<sup>3</sup>.

<sup>1</sup> *Shirokov O.N. SĖV v mirovoi ekonomike: sovremennaia otsenka problemy funktsionirovaniia i znachenii. Voprosy istorii, metodologii i istoriografii. Moscow, 2005. P. 41.*

<sup>2</sup> *Pelzman J. Trade Creation and Trade Diversion in the Council for Mutual Economic Assistance (1954–1970) // The American Economic Review. 1977. Vol. 67, N 4. P. 720.*

<sup>3</sup> *Kansikas S. Acknowledging Economic Realities. The CMEA Policy Change vis-à-vis the European Community, 1970-3 // European Review of History. 2014. Vol. 21, N 2. P. 312.*

The influence of market factors on the trade expansion within the CMEA was studied throughout the second half of the 20<sup>th</sup> century on both sides of the Iron Curtain. Western Sovietologists in the 1960s — 1990s did a brilliant analysis of the foundations of the CMEA economy<sup>4</sup>. Trade relations between the CMEA countries were examined from a wide range of tools of economic analysis<sup>5</sup>. The obtained results showed that, in general, the trade between socialist countries was not fundamentally disrupted, and its volume corresponded to world standards and integration schemes<sup>6</sup>.

The main discussion arose with regard to the prices of intra-block trade, which differed greatly from the world ones. In the revolutionary work by Marrese and Vanious<sup>7</sup> the specificity of pricing in the mutual trade of the socialist countries was analyzed. The authors concluded that the Soviet Union actually subsidized the economies of the other CMEA countries due to the understatement of prices of export and overstatement of prices of import. Since the mid-1990s, this interpretation prevailed in the study of relations within the socialist camp<sup>8</sup>. However, this approach seems too simplistic.

In the second half of the 1950s, during the formation of major trade flows pricing depended on a number of economic and political factors. The pricing and the formation of the set of commodities for deliveries had a specific character for each bilateral relationship within the CMEA. The countries oriented at market prices, but rarely used it without noticeable adjustments.

The most common reasons for “adjusting” market prices in the intra-bloc trade for different types of commodities were:

- commodities were an important resource for the domestic market of the exporting country;
- commodities were delivered to capitalist countries at “hard” currency; therefore, much smaller volumes were offered for deliveries inside the block;
- commodities from Western counterparts differed greatly in quality.

An important factor was trade balance between the trading countries. In the period under review, additional supplies at special prices were often used to achieve balance the trade.

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<sup>4</sup> Brada J. C. The Political Economy of Communist Foreign Trade Institutions and Policies // *Journal of Comparative Economics*. 1991. Vol. 15. P.211–238; Brabant J. M. van. Socialist Economic Integration: Aspects of Contemporary Economic Problems in Eastern Europe. Cambridge, 1980; Marer P. Prospects for integration in the Council for Mutual Economic Assistance (CMEA) // *International organization*. 1976. Vol. 30, iss. 4. P.631–648.

<sup>5</sup> Biessen G. Is the Impact of Central Planning on the Level of Foreign Trade Really Negative? // *Journal of Comparative Economics*. 1991. N 15. P.22–44; Brabant J. M. van. The Relationship between World and Socialist Trade Prices — Some Empirical Evidence // *Journal of Comparative Economics*. 1985. N 9. P.233–251; Hewett E. A Gravity Model of CMEA Trade // *Quantitative and Analytical Studies in East-West Economic Relations* / ed. by J. C. Brada. Bloomington, 1976. P.1–15; Pelzman J. Economic Determinants of Soviet Foreign Trade with Eastern Europe // *European Economic Review*. 1980. Vol. 14. P.45–59; Poznanski K. Z. Opportunity cost in Soviet trade with Eastern Europe: Discussion of methodology and new evidence // *Society Studies*. 1988. Vol. 40, N 2. P.290–307.

<sup>6</sup> Brada J. C., Méndez J. A. Economic Integration among Developed, Developing and Centrally Planned Economies: A Comparative Analysis // *The Review of Economics and Statistics*. 1985. Vol. 67, N 4. P.555.

<sup>7</sup> Marrese M., Vanious J. Soviet Subsidization of Trade with Eastern Europe: A Soviet Perspective. Berkeley, 1983.

<sup>8</sup> Stone R. Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade. Princeton, 1996.

In addition to these obvious reasons, pricing for a number of trade flows depended on a variety of non-market factors. Moreover, in a number of cases, trade creation was almost independent from world market prices, even if intra-block prices were similar to the world ones.

The most notable examples of the influence of non-market factors on the CMEA intra-block trade creation are analyzed in this study. This research considers the ways of trade creation between the CMEA countries with regard to two unique resources — coal and tobacco. In the 1946–1959, coal was the most vital resource for the absolute majority of the participants of the association. Tobacco trade was of great importance for Bulgaria, but it was completely unimportant for other members of the bloc. In addition to these extreme cases, other examples from the intra-bloc trade are discussed in the article. Finally, the beginning of the functioning of the multilateral clearing system in the late 1950s revealed very sharp contradictions between the leading CMEA countries in the issues of trade and the expansion of mutual supplies.

## II. CMEA: from creation to crisis (1949–1956)

The Council for Mutual Economic Assistance was established in 1949. During Joseph Stalin's rule, the CMEA existed more on paper<sup>9</sup>. Trade relations were determined by bilateral agreements. In some cases, agreements concluded immediately after the WWII were discriminatory for one of the parties. The most famous example is the agreement of 1945 on the export of the Polish coal to the USSR at a "special" price (ten times lower than the market price)<sup>10</sup>. However, even in this case the situation was complicated. The Soviet Union perceived these deliveries as compensation for the German capital in the newly founded western territories of Poland<sup>11</sup>. For a long time the USSR had been one of the main creditors and suppliers of grain to the Polish People's Republic. Finally, the new Polish communist elite, led by Boleslaw Berut, in military terms clearly depended on the Soviet Union as far as the protection of western borders was concerned.

After Stalin's death, the adjustment of the Soviet domestic and foreign policy began. It led to the general deterioration of the economic situation in the CMEA countries<sup>12</sup>. The plans for the restoration and development of economic systems in the Eastern European countries were aimed at the Soviet experience, and based on economic theory of the Marxist-Leninist scholars. In each of the socialist countries, compulsory industrialization took place. The priority of industrialization was the development of heavy industry: metallurgy, machine building, chemical industry, etc. East European governments tried not to be on the periphery of the socialist labor division. Therefore, countries defended their right to increase the production capacities in heavy industry.

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<sup>9</sup> *Lipkin M. A.* Evropeyskaia integratsiia i Sovetskie ekonomicheskie initsiatiivi (1950-e-pervaia polovina 1970-kh gg.); po novym materialam rossiiskikh i zarubezhnikh arkhivov// *Novaia i noveishaia istoriia*. 2009. N 3. P. 55.

<sup>10</sup> *Dokladnaia zapiska M. Z. Saburova, N. K. Bajbakova, I. G. Kabanova, K. I. Kovalya i A. A. Gromyko po voprosu ehkonomicheskoi pomoshchi SSSR Pol'she ot 29 sentyabrya 1956 g.* // *Prezidium CK KPSS, 1954–1964: Chernovye protokol'nye zapisi zasedanii. Stenogrammy. Postanovleniia. Vol. 2.* Moscow, 2006. P. 424.

<sup>11</sup> *Dokladnaia zapiska M. Z. Saburova...* P. 424–425.

<sup>12</sup> *Balassa B.* Economic Integration in Eastern Europe // *Structural Change and Economic Dynamic*. 1992. Vol. 3, N 1. P. 4.

Unfortunately, not all of the CMEA countries possessed the necessary resources, i.e. energy and coking coal, iron ore, non-ferrous metal ores, etc. Demand for resources grew much faster than production capacity. At the same time, investment in the development of production was limited precisely because of the priority development of the manufacturing industries. In the case of coal, only three countries possessed extensive reserves: the USSR, Poland and Czechoslovakia. These countries provided for their own needs and carried out mutual supply contracts with great difficulty not taking into account the growth of importers' needs. In the Soviet and Polish mines in the mid-1950s there was a lack of equipment and specialists. A significant percentage of the workforce was represented by the forced labor of prisoners of war, prisoners and soldiers<sup>13</sup>.

All these factors imposed restrictions on the trade creation within the CMEA. Being unable to obtain the necessary resources, socialist countries began developing their own deposits. Often this did not have any sense. In Poland and Czechoslovakia unprofitable mining of extremely poor iron ores led only to ineffective spending of limited capitals<sup>14</sup>.

By the end of 1955, most of the CMEA countries did not have opportunities for expanding the resource base of coal and iron ore. There was a real risk of the failure of the Development Plans for all European socialist countries. Under these conditions, the idea of deepening cooperation by means coordinating national economic plans and more rational use of resources became popular.

In January 1956, Walter Ulbricht in his opening speech at the meeting of the leaders of the communist and workers' parties of the European countries of people's democracy, declared that "the superiority of the camp of socialist states can be achieved only if close cooperation is realized, and also to a certain extent due to the division of labor"<sup>15</sup>. Although at first glance Ulbricht's statement was rational, not all those present at the meeting agreed with him. From the subsequent discussion it became clear that the division of labor for poorly industrialized countries was unacceptable. In fact, the proposal of the East German side meant that the more industrially developed GDR, Czechoslovakia and the USSR should produce high-tech goods, while the other countries risked being only resource providers.

After analyzing mutual reproaches about the non-fulfillment of supply contracts, the parties agreed on the need to expand cooperation within the framework of the CMEA. On behalf of the Soviet delegation, Nikita Khrushchev made proposals for an equity participation in the development of the richest Soviet, Polish and Czechoslovak deposits<sup>16</sup>. In fact, it was a proposal to the engaged countries to invest in production, instead of spending money on the development of their own extremely poor deposits.

However, the adopted proposals were very difficult to be implemented. By March, in Poland, a large-scale energy crisis had broken out. It led to the cessation of supplies to other socialist countries, and increased exports to Western Europe. The sudden death

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<sup>13</sup> Bakanov S. A., Popov A. A. Kak shakhteri stali "aristokratami": social'nie efekty razvitiia ugledobichi v SSSR i Pol'she (1945–1970-e gg.) // Vestnik of Tomsk State University. 2017. Vol. 47. P. 89.

<sup>14</sup> Stenogramma Tre't'ego zasedaniia Soveshchaniia rukovoditelei kommunisticheskikh i rabochih partii evropejskikh stran narodnoi demokratii (9.01.1956) // Russian State Archive of Modern History (RGANI). F. 10. Op. 1. D. 3. L. 13.

<sup>15</sup> Stenogramma Vtorogo zasedaniia Soveshchaniia rukovoditelei kommunisticheskikh i rabochih partij evropejskikh stran narodnoi demokratii (7.01.1956) // RGANI. F. 10. Op. 1. D. 2. L. 27.

<sup>16</sup> Stenogramma Tre't'ego zasedaniia Soveshchaniia rukovoditelei kommunisticheskikh i rabochih partii evropejskikh stran narodnoi demokratii (9.01.1956) // RGANI) F. 10. Op. 1. D. 3. L. 46–47.

of Berut aggravated the situation. The crisis embraced the entire political and economic sphere.

In June 1956, at the meeting of the leaders of the communist parties, the new leader of Poland, Edward Ohab, compared the situation of Polish workers to those in the colonial countries and firmly stated that fulfillment of the obligations for the supply of coal was impossible<sup>17</sup>. One of the reasons was that other socialist countries did not fulfill their obligations to supply grain, cotton, wool, non-ferrous metals. Poland was forced to buy these commodities in the markets in the West. This situation indicated how seriously unbalanced trade was within the CMEA. The prospect of losing Polish resources presented serious problems for the leading heavy industry branches of the entire bloc.

Further events developed rapidly and dramatically. At the end of June, the uprising of the Poznan workers began. The severe reaction of the Polish establishment led to a national political crisis. The peak of the crisis occurred in October when the prospects of the Soviet military invasion arose. Because of the negotiations between the Polish and Soviet leaders, the Soviet side agreed to a number of concessions, including the cancellation of an unequal coal supply agreement, with the write-off of a large part of the loans to compensate for the cost of coal<sup>18</sup>. The new agreement was signed in mid-November. The prices of the Soviet-Polish coal equalled the market ones, and the USSR reduced the purchase of the Polish coal three-fold.

As opposed to the Polish events, the crisis in Hungary turned into a tragedy. The entry of the Soviet troops in November led to thousands of victims among the local population. In addition to condemnation in the capitalist countries, these events engendered a new round of tension in the relations between the CMEA member countries.

In the 1957–1959, the Soviet Union in order to show that it could act not only with force increased economic assistance to countries in Eastern Europe and began to actively promote the development of cooperation within the CMEA.

### III. Intra-CMEA trade creation: the case of hard coal

Additional supplies of important commodities (grain, wool and fats) and loans to Poland and Hungary were provided by the Soviet Union to improve the economic situation in these countries. However, it did not solve the long-term problems. From the point of view of the stable development of the CMEA, there were four key problems:

Firstly, the possibilities for expanding resource base were limited by constrained industrialization in the bloc countries.

Secondly, the imbalance of bilateral trade relations existed. Mutual debts grew throughout the period, which increased tensions between countries.

Thirdly, the governments did not want to supply each other with the scarcest resources.

Fourthly, the economic systems of the CMEA countries differed significantly from one other. Some states in the conditions of a general deficit simply had nothing to offer for mutual trade.

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<sup>17</sup> Stenogramma Pervogo zasedaniia Soveshchaniia rukovoditelei kommunisticheskikh i rabochih partii evropeiskikh stran narodnoi demokratii // RGANI. F.10. Op. 1. D. 15. L. 3.

<sup>18</sup> Orekhov A. M. Sovetskii Soiuz i Pol'sha v gody "otpepli": Iz istorii sovetsko-pol'skikh otnoshenii. Moscow, 2005. P. 227.

Throughout the second half of the 1950s, the attempts were made to achieve an expansion of mutual trade in order to stabilize the economic development of European socialist countries. After the events of 1956, the Soviet Union was forced to act as a guarantor of this stability.

In June 1957, at the meeting of the delegations of the State Planning Committee of the USSR and the GDR, the head of the East German delegation, K. Gregor asked for a significant increase in the supply of resources for heavy industry. He noted that, with the exception of the USSR, other countries do not comply with the CMEA recommendations for deliveries. Then, in a private conversation with the interpreter, he noted the low growth rates of rolled steel production in the Soviet Union, and bluntly stated: “The USSR is responsible for all countries of the socialist camp and must provide them with resources”<sup>19</sup>. At the same time, an informal meeting between Nikita Khrushchev and the Polish leader Vladislav Gomulka took place in the Crimea. According to Khrushchev, Gomulka asked to resume purchases of the Polish coal, sharply reduced after switching to market prices<sup>20</sup>. Apparently, it was a question of low-grade power coals. Until the fall of 1957, the GDR, Poland, Czechoslovakia, Hungary and Bulgaria applied to the State Planning Committee or directly to the leaders of the USSR to increase the supply of certain resources.

In 1957, the greatest problems were associated with a lack of resources for the metallurgical industry. There was a shortage of coking coal and coke. The problem of energy deficit in 1956 was partially resolved through the supply of oil, briquettes and brown coal<sup>21</sup>. At the time, there were no alternative types of raw materials except coking coal and iron ore for the metallurgy.

The main coal producers in Eastern Europe tried to refer to their own needs and often ignored the importers. One of the most difficult situations concerned the Polish-Czechoslovak trade relations. The new Polish steel factory in Nowa Huta could not start production at full capacity due to a shortage of coking coal. Czechoslovakia used coking coal in electricity generation because of the shortage of nonbanking coal. Poland did not supply Czechoslovakia with additional volumes of nonbanking coal, since Czechoslovakia did not supply coking coal to Poland. Both sides referred to the debts of trading partners.

The solution to the problem of coking coal shortage became one of the main tasks of the Standing Committee on the CMEA Coal Industry in 1957–1959. Together with the CMEA Standing Committee on Metallurgy, by the end of 1958, it had developed a mid-term set of measures to reduce the severity of the deficit. This plan included the adjustment of mutual supplies, joint scientific and technical developments to use low-grade coals in metallurgical production, and deepening cooperation to improve the efficiency of coal mining through the transfer of project documentation and technical assistance<sup>22</sup>.

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<sup>19</sup> Zapis' besedy t. Kosygina A. N. s zamestitelem predsedatelia Gosplana GDR t. Gregorom (7.07.1957) // Russian State Archive of Economy (RGAE). F. 4372. Op. 76. D. 111. L. 27.

<sup>20</sup> Zapis' besedy N. S. Hrushcheva s chlenom leiboristskoi partii K. Zilliakusom ot 4 sentiabria 1958 g. // Prezidium CK KPSS, 1954–1964: Chernovye protokol'nye zapisi zasedanii. Stenogrammy. Postanovleniia. Vol. 3. Moscow, 2008. P. 828.

<sup>21</sup> Protokol N 5 zasedaniia Postoiannoi Komissii po ehkonomicheskomu i nauchno-tekhnicheskomu sotrudnichestvu v oblasti ugol'noj promyshlennosti, g. Visla, 10–11 iunია 1959 g. // RGAE. F. 561. Op. 23 c. D. 7. L. 5–9.

<sup>22</sup> Protokol N 5... L. 5–9.

In general, the proposed measures were supposed to reduce the severity of the deficit in all CMEA countries in the long term and show the advantages of central planning<sup>23</sup>. The leadership of the CMEA and the elite of the socialist states had high hopes for the advantages of central planning. Thus, according to the CMEA Secretariat Information on the activities of the Economic Commission for Europe (ECE), it was stated: "...In March 1958 at the intergovernmental meeting on energy the Soviet Union convincingly demonstrated that the most important problem — the elimination of the deficit in the energy balance of Europe can be solved by Europe itself"<sup>24</sup>. At this time, the countries of Western Europe depended on the supply of coal from the United States. The CMEA statement meant readiness to compensate for the necessary amounts of coal from Eastern European countries and the USSR. It was a very bold statement taking into account the problems inside the CMEA.

It is important that, at the requests of the Secretary of the ECE, S. Tuomioja, in order to provide data on the development of ferrous metallurgy, on the coordination of the long-term plans for the development or on the multilateral clearing, the CMEA Secretariat sent only official communiqués or the statement that work in this direction had just begun<sup>25</sup>.

However, the most interesting in the history of the crisis in coal trade within the CMEA was the situation with the final organization of the trade flows. The perspective plans did not solve current problems, and changes in mutual deliveries were made with great difficulty. Therefore, in 1958, the USSR began to supply coking coal to Poland. At the same time, the Soviet Union significantly increased the import of the Polish nonbanking coal with the aim of re-exporting them to other countries of the organization (primarily, to the GDR and Czechoslovakia)<sup>26</sup>. It should be noted that the Polish coal was purchased at prices similar to the world market ones.

Is it possible to say that in 1956–1959 the USSR subsidized the economies of the CMEA countries? Not exactly. The described trade maneuver was undertaken in the interests of the CMEA as a unified organization, and the main beneficiaries were importers of raw materials at that.

In this case, the trade creation within the block was dictated by non-price and, in general, non-market factors. Under the shortage of the most important resource and the sharp contradictions between countries, redistribution of commodities through the expansion of bilateral trade on the part of the largest economy of the organization seemed to be the only way of strengthening the CMEA itself.

#### IV. Intra-CMEA trade creation: the case of Bulgarian tobacco

The situation in the coal trade within the CMEA may seem a very specific historical incident. However, similar phenomena concerning trade within the CMEA were quite

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<sup>23</sup> *Holzman F.* COMECON: A „Trade-Destroying” Custom Union? // *Journal of Comparative Economics*. 1985. N 9. P. 422.

<sup>24</sup> *Evropeiskaia ehkonomicheskaiia komissiiia (EEHK). Kratkaiia spravka dlya Sekretariata SEV (16.03.1959) // RGAE. F. 302. Op. 2. D. 39. L. 7.*

<sup>25</sup> *Zapis' besedy Sekretarya SEV F. Hamouza s ispolnitel'nym Sekretarem EEHK S. Tuomioja (5.05.1958) // RGAE. F. 302. Op. 2. D. 26. L. 3.*

<sup>26</sup> *Popov A. A.* „Nash otvet” Evropejskomu ob'edineniju uglja i stali: popytki kooperacii stran SJeV v sfere dobychi uglja i zheleznoj rudy (1950-e gody) // *Novyi istoricheskii vestnik*. 2016. N 3. P. 134.

typical in the period under review. The countries were often not interested in the delivery of the commodities to the CMEA partners if they could sell them to Western companies.

The project of the statement of the Bulgarian side at the IX session of the CMEA contained a direct complaint about this situation: “We buy some commodities manufactured in the CMEA countries through capitalist firms, there are also cases when the Bulgarian commodities bought by capitalist firms were resold to some CMEA countries”<sup>27</sup>. Further, specific cases were cited when Bulgaria was forced to spend “hard” currency on the purchase of chemical products from Poland and Czechoslovakia through Western firms<sup>28</sup>.

In the context of that situation, the problem was that Bulgaria, as an agrarian country with a weak economy, could not offer anything of value to the exchange with other countries of the socialist camp. Nonetheless, Bulgaria was a socialist state, and it was impossible to leave it outside the process of socialist integration.

In 1956–1959, the stable system of relations within the CMEA was being formed. The place and role of each of the countries in the CMEA had not been fully clarified. Therefore, some negotiators still allowed themselves quite broad statements, representing their vision of the emerging system. These opinions give researchers very valuable information.

At a meeting in the fall of 1957, the representative of the GDR, K. Gregor, insisted: “it would be necessary, in preparing the economic questions arising in the CMEA, not to ask the views of the member countries of the Council on these issues, but to inform of the opinion of the Soviet Union through the Council Secretariat, without taking into account the views and even the interest of individual countries”<sup>29</sup>. From the standpoint of the GDR, it was logical that the USSR would, as Gregor put it, “conduct dictatorship” in the interests of the most industrialized country of the bloc, which was also in the midst of European political life. Describing the role of the USSR in the Council for Mutual Economic Assistance, Gregor declared: “...The Soviet Union must actively manage and be responsible for the development of the economies of the CMEA member countries, in particular, the Soviet Union is responsible for providing the raw materials for the CMEA countries”<sup>30</sup>.

In the same speech, Gregor expressed the need to narrow the range of industries and commodity positions, which had to be coordinated in the development of long-term plans of the national economy of countries. By way of example, he insisted on priority of coordinating the raw materials, and that there was no sense in coordinating such a commodity as tobacco. The last part undoubtedly referred to Bulgaria. The Soviet position on this issue was unequivocal: “certain industries and commodity positions should be coordinated even when they are not of full interest to all member countries of the Council, but for a single country they may be vital. The case of this situation can be the proposal of the Bulgarian comrades to agree on tobacco and tobacco products when considering plans, because this was of special interest to Bulgaria. If Bulgaria didn’t take into account the wishes of its counterparts, Bulgaria’s participation in the coordination of plans for the

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<sup>27</sup> Proekty vystupleniya Bolgarskoj storony po voprosam, podlezhashchim obsuzhdeniyu na IX sessii SEV // RGAE. F. 302. Op. 2. D. 12. L. 17.

<sup>28</sup> Proekty vystupleniya Bolgarskoj storony...L. 17–20.

<sup>29</sup> Informaciya o besede zamestitelya Predsedatelya Gosplana SSSR t. Hrunicheva M. V.s Pervym zamestitel'em GDR t. Gregor K. // RGAE. F. 4372. Op. 76. D. 111.

<sup>30</sup> Informaciya o besede zamestitelia Predsedatelya Gosplana... L. 1.

development of the national economy could be reduced to the role of an 'observer', which, of course, would be wrong"<sup>31</sup>. The GDR delegation fully agreed with this argument and changed its position on this issue at the CMEA session.

The fair question to be asked is why the issue of Bulgarian tobacco suddenly was in the center of attention of the leading CMEA economies.

During this period, the Bulgarian economy was experiencing serious difficulties. Industrial production grew more slowly than expected, the unemployment rate, on the contrary, increased significantly. A large part of the population was engaged in the agricultural production. This situation was determined by the economic problems of the CMEA member countries, and by the success of European integration. In 1956–1958, traditional Western European markets for Bulgaria were under threat<sup>32</sup>, and Eastern European countries were not yet ready to increase the volume of imports of Bulgarian vegetables and livestock products.

The only commodity whose output could partly solve the problems of the Bulgarian economy with employment and export earnings was tobacco.

The CPSU delegation at the Conference of Leaders of Communist and Workers' Parties of the socialist countries directly proposed the following: "to support the recommendation of the session of the Council for Mutual Economic Assistance that the relevant organizations of the Soviet Union, the GDR, Czechoslovakia and Poland should consider the increasing of the import of tobacco products from Bulgaria against the quantities provided in the recommendations of the Council of Mutual Economic Assistance, with a view to assisting Bulgaria in involving free labor in production"<sup>33</sup>. Under the shortage of capitals in the GDR, Poland and Czechoslovakia, the implementation of these recommendations was disrupted. As in the case of coal, the USSR absorbed the costs of expanding tobacco trade. In 1958 and 1959, 44 % and 61 % of Bulgarian tobacco was supplied to the Soviet Union.

However, tobacco was a scarce commodity within the USSR, but import prices from Bulgaria were significantly lower than market prices.

Western researchers in the early 1960s, not knowing the context, considered that part of the difference between the prices of world markets and the Soviet-Bulgarian tobacco trade was due to the low quality of the Bulgarian products and the wholesale discount. Although it was already obvious then that only these factors could not completely explain the price deviation<sup>34</sup>.

Thus, the expansion of trade within the CMEA for certain types of commodities was a necessary condition for deepening cooperation between the countries of the organization and guaranteeing their stable economic development. The countries were not always ready for this expansion as it harmed either the domestic market or foreign trade with the capitalist countries. At the same time, the refusal of hard currency of Western countries might bring about serious problems with the balance of payments of almost every country.

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<sup>31</sup> Ibid. L. 3–4.

<sup>32</sup> Informacia o vliianii "Obshchego rynka" na trgovlyu NR Bolgarii s kapitalisticheskimi stranami // RGAE. F.561. Op.17. D.4. L.17.

<sup>33</sup> Proekt direktiv delegacii KPSS na Soveshchaniu rukovodyashchih deyatel'nykh kommunisticheskikh i rabochih partij socialisticheskikh stran (21.06 1956) // Prezidium CK KPSS, 1954–1964. Vol.2. P.345.

<sup>34</sup> *Holzman F.* Soviet Foreign Trade Pricing and the Question of Discrimination // *The Review of Economics and Statistics.* 1962. Vol.44, N 2. P.144–145.

Under these conditions, individual countries (in particular, the USSR) were forced to take on the costs of trade creation within the bloc, guided not in the least by economic motives.

## V. Multilateral clearing as a tool of trade creation

In addition to the scarcity of resources and the need to preserve individual industries, the expansion of trade within the CMEA was to contribute to the elimination of mutual indebtedness in trade settlements. As trade was conducted on the basis of bilateral agreements, there was a need for a rigid balance of trade supplies. The clearing was also carried out within the framework of bilateral relations (in rare cases — in tripartite relations). All this imposed restrictions on the ways of solving the problem of balances.

A logical option for intra-block trading was the transition to multilateral settlements. Since it was impossible to revise the main trade contracts, the idea arose to make at least the clearing multilateral.

The agreement on multilateral clearing was signed by the representatives of the member countries of the Council for Mutual Economic Assistance on June 20, 1957. The agreement accepted that bilateral trade relations were the basis for the trade turnover of the organization, but that besides them, “additional multilateral trade” should be carried out. For settlements on multilateral clearing, Central Banks had to open special accounts for one other. The central institute was the Clearing House, whose functions were entrusted to the State Bank of the USSR. The Commission for Multilateral Clearing from representatives of the Ministries of Foreign Trade of the CMEA also was created.

The agreement was poorly worked out and contained a number of fundamental contradictions. Thus, in Article 2b it was stated: “each country may offer to other member countries of this Agreement any commodities with the expectation of multilateral clearing”. At the same time, in the Annex to the Agreement, a specific list of “commodities that can pay multilateral debt” was given. This list included: coal, synthetic rubber, tires, lumber, diesel fuel, fuel oil, rolled ferrous metals, aluminum, zinc concentrate, potassium salts, grain, sugar, meat, tobacco<sup>35</sup>. All the commodities had “primary economic importance” and, as already shown, were in increased demand in the countries of people’s democracy during the period. The inclusion of the Annex reflected the desire of most countries to receive these commodities, but Article 2b protected them from the need to supply them.

As expected, the countries preferred to save scarce resources. In early April 1958, the reference “on multilateral clearing in settlements between the countries participating in the Council for Mutual Economic Assistance” noted that “for the supply of multilateral clearing [of the country], products predominantly of national economic importance are offered: small types of universal metal cutting machines, welding aggregates, drilling equipment and spare parts for them, small pumps, rare printing equipment, cement, non-deficit chemical products; machines and appliances for household use (sewing machines, electric heating appliances); necessary consumer commodities (bicycles, cameras, leather commodities, pocket watches, furniture, toys); food concentrates, fruit and vegetable canned food, beer, spirits, tobacco, cigarettes, etc.”<sup>36</sup>. The commodities of “primary

<sup>35</sup> Kопiya Soglasheniia o mnogostoronnem kliringe i prilozhenie k Soglasheniuiu // RGAE. F.561. Op.17. D.1. L.6.

<sup>36</sup> Spravka o mnogostoronnem kliringe v raschetah mezhdru stranami-uchastnicami Soveta Ekonomicheskoi Vzaimopomoshchi // RGAE. F.561. Op.17. D.3. L.13.

importance” were left for deliveries under bilateral agreements, including the repayment of debts within the framework of bilateral clearing.

The structure of trade had to determine the volumes of multilateral clearing. By the end of 1957, trade agreements for multilateral clearing were concluded only for the amount of 50 million rubles, and another 100 million were transferred within the trilateral balance offsets.

The Soviet side was among the first to make a proposal to improve the efficiency of the settlement system. At the end of November 1957, the Ministry of External Trade of the USSR proposed transferring to the accounts of multilateral clearing the amounts of arrears from bilateral accounts: from the Soviet-Polish one — 100 million rubles in favor of Poland, from the Soviet-Czechoslovak one — 75 million rubles in favor of the USSR, from the GDR — 60 million in favor of the USSR. However, the Polish side, which clearly wanted to use these funds in bilateral settlements, refused the transfer. As a result, the operation was not carried out<sup>37</sup>.

In early December, the Hungarian officials already made their proposal on improving the system of multilateral clearing. In the letter to Secretary of the Commission for Multilateral Clearing, the Minister of External Trade of the Republic of Hungary was offered to develop a system of bank settlements: “twenty percent of all foreign exchange earnings from the export of commodities from Eastern Europe to Western Europe... separately transferring to the special account in a multi-latitude currency. So this amount could be freely convertible to the currencies of Western European countries affected by this measure”<sup>38</sup>.

The Hungarian proposal extended beyond the multilateral clearing of the CMEA countries. Moreover, it contradicted the idea of expanding intra-block trade, although it solved the problem of mutual indebtedness. At the same time, the Hungarian side emphasized that these proposals were to facilitate the implementation of the proposals made by the United Kingdom at the fifth session of the Committee for the Development of Foreign Trade of the United Nations Economic Commission for Europe<sup>39</sup>.

The attempt of the Chairman of the Commission for Multilateral Clearing, F. Bystrov, in March 1958 to introduce proposals to improve efficiency of the clearing (including the transfer of amounts from bilateral to multilateral accounts) also failed. The initiative was supported only by Czechoslovakia.

The Polish government, negatively reacting to the proposals, refused to transfer supplies from the funds of the domestic market to multilateral clearing in the current year, but was ready to transfer to them at the beginning of the next year. In the context of the situation during the same year, the country’s establishment was ready “to make settlements for multilateral clearing for the supply of commodities not provided by contingents in bilateral agreements and additions to them”<sup>40</sup>.

The letter of reply from the Hungarian side contained detailed information on the republic’s modest success in developing a system of multilateral clearing with the USSR

<sup>37</sup> Spravka o mnogostoronnem kliringe... L. 14.

<sup>38</sup> Pis'mo ministra vneshnei trgovli Vengerskoi Narodnoi Respubliki E. Incze k otvetstvennomu sekretariu Soveta Ekonomicheskoi Vzaimopomoshchi L. Afanasëvu (7.12.1957) // RGAE. Op. 17. D. 2. L. 3.

<sup>39</sup> Pis'mo ministra vneshnei trgovli ...L. 3.

<sup>40</sup> Otvet Predsedateliu Komissii SEV po mnogostoronnemu klirignu F. Bystrovu Predstavitelia Ministerstva vneshnei trgovli Pol'skoi Narodnoi Respubliki v Komissii po Mnogostoronnemu kliringu Z. Badzinskogo (11.06.1958) // RGAE. Op. 17. D. 3. L. 21–22.

and Czechoslovakia, and a rather bold proposal to intensify international settlements. For the first time, the Hungarian Minister of External Trade spelled out this proposal at the talks on intensifying trade with Czechoslovakia. The essence of the new Hungarian proposal was to create a “meeting like an monthly exchange meeting with the personal participation of authorized countries”. It was noted that the practice of exchanging lists of commodities did not contribute to the formation of a significant commodity exchange, while the “exchange” could induce countries to conclude transactions in the framework of multilateral clearing much more actively<sup>41</sup>. However, this proposal was unacceptable for most of the CMEA countries, because poor economies had nothing to offer in exchange.

As a result, commodity deliveries on large indebtedness were determined in 1958 and in 1959 during bilateral negotiations. An effective system of multilateral settlements appeared only after the introduction of the transferable ruble system in 1964, which became the single accounting unit for all trade operations within the CMEA.

## VI. Conclusion

Thus, in the period of 1956–1959, several scenarios can be singled out, when the expansion of trade between the CMEA countries was of a non-market nature.

Firstly, the need to overcome the contradictions between the countries in supplying the most important resources was often realized through an intermediary. The large economies of the bloc, which incurred part of the costs (for example, the USSR in the case of Polish-Czechoslovak coal supplies) performed the role of that intermediary. In some cases, the role of the intermediary was taken by Western capitalist companies, which re-exported commodities from one socialist country to another, allowing the first exporter to sell their goods at a “hard” currency.

Secondly, ideological and political motives required that the CMEA countries should be included in the general trade of commodities which were not valuable for mutual deliveries. For example, such product was Bulgarian tobacco.

Thirdly, bilateral trade based on low liquidity currencies led to imbalances in mutual settlements. The attempts to eliminate these imbalances were reduced to additional commodity deliveries in the framework of bilateral and multilateral clearing transactions. However, the efficiency of the latter in 1958–1959 was extremely low.

In 1956–1959, there were serious changes in the trade relations within the CMEA. The prices of trade operations equalled the market ones, and bilateral contracts were concluded taking into account all opinions and by the will of the parties. Nevertheless, the motives for expanding trade within the organization were politicized, and it hardly depended on price factors, production capacity and consumer demand.

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<sup>41</sup> Otvet Predsedateliu Komissii SEV po mnogostoronnemu klirignu F. Bystrovu Zamestitelia Ministra vneshnei torgovli Vengerskoi Narodnoi Respubliki V. Jeney // RGAE. Op. 17. D. 3. L. 24–25.

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