

RADIO FREE EUROPE *Research*

RAD Background Report/234
(Hungary)
6 October 1980

HUNGARIAN DISSATISFACTION WITH THE COMECON SYSTEM OF PAYMENTS

By Laszlo Ribanszky

Summary: Since the introduction on January 1 of new producer prices for about 60 per cent of Hungarian enterprises, the discrepancy between the internal and the Comecon system of payments and accounting has come sharply into focus. Dissatisfaction with Comecon's artificial "multilateralism," and particularly the role of the so-called transferable ruble has been simmering since the late 1960s when, in the wake of the New Economic Mechanism, Hungary submitted to its partners a comprehensive plan for the gradual implementation of a system of convertible payments among the member states. It was rejected at the time but the idea has never been abandoned by Hungarian reformists.

In recent months the Hungarian media have picked up the subject again with a series of critical articles from the pen of influential officials and high-ranking functionaries. Whether or not this is an indication of behind-the-scenes initiatives is difficult to judge, but one thing is certain: the position of the authors guarantees that the articles reflect current official thinking.

Recently a prominent economist, Dr. Mihaly Patai, summed up the objections of his trade to the functioning of the transferable ruble, "one of the main elements in the CMEA's cooperation mechanism."

+ + +

It was the establishment of the Moscow-based International Bank for Economic Cooperation on 1 January 1964 that gave birth to the concept of the elusive transferable ruble, the fictitious currency in which the accounts of the individual Comecon members are kept in Moscow. These rubles are not convertible, not even automatically transferable, since trade agreements between member states remain bilateral. Should an individual account show a surplus at the end of the year, it can only be used to purchase goods from a third party if all parties agree. In practice, this has come to mean that countries are reluctant to part with so-called "hard commodities" in return for transferable rubles. Similarly, deficits can only be cleared by transferable rubles if the partner is willing to accept them.

In view of this situation, it is something of an understatement when Janos Fekete, Deputy President of the Hungarian National Bank, asserts that "with the introduction of the transferable ruble we have created a stable, socialist unit of accounting . . . one that should perform all the functions of the key currency within the socialist bloc. In trade within the framework of the barter agreements -- to the extent of the obligatory quotas and of the bilaterally balanced turnover -- the transferable ruble does perform certain functions of a key currency. (1)

Dr. Mihaly Patai, a prominent Hungarian economist, is far more explicit; he does not bother to go through the motions of ascribing at least some merit to this "stable, socialist unit of accounting." (2) He makes a passing reference to the continuing examination of the role of the transferable ruble in Comecon accounting and sets out to sum up the views held by Hungarian economists on the subject. The fact that Dr. Patai pointedly acts as a spokesman for not only his colleagues but also for the state-run Financial Research Institute lends a not inconsiderable weight to his arguments.

He points out the obvious contradiction between the theoretical multilateralism of accounting and the actual bilateralism of Comecon trade. This bilateral practice "virtually excludes purchases over and above the previously agreed upon plan. The transferable ruble is a phenomenon of a closed accounting system; it has no relationship whatsoever with other currencies, neither without, nor within this very system." But this is not the only justified criticism of this institutionalized figment of financial imagination. Dr. Patai states very bluntly that the transferable ruble

does not entirely perform the functions of money as such. Trade among the CMEA members is conducted in the transferable ruble, prices are fixed in this collective currency. But

-
- (1) Janos Fekete, "The Impact of the Monetary Crisis of Capitalism on the Hungarian Economy," Tarsadalmi Szemle No. 2, February 1980. Emphasis added.
 - (2) See his article, "The Transferable Ruble," Magyar Nemzet, 18 September 1980.

unrealistic relative prices and exchange rates make it impossible for the transferable ruble to act as a measure of value, or as a measure of prices. In different relationships different prices exist for identical products. . . .

Additional objections to the transferable ruble include the fact that it is not a reserve currency, not even a functional means of payment.

Dr. Patai's well-argued case against the Comecon system of accounting is a further indication of Hungary's dissatisfaction with the operational procedures of the organization as a whole. He himself acknowledges that "the question of the transferable ruble is but one of the many difficulties in CMEA cooperation. Its solution depends on decisions concerning socialist integration as a whole."

But Hungarian ideas about reforming the Comecon system of payments and accounting point far beyond the rejection of the transferable ruble as it functions -- or fails to function -- today. There have been numerous hints recently, dropped by influential officials, about the plans to make the Hungarian national currency, the forint, convertible. Janos Fekete told Reuter last November that the Hungarian National Bank "aims at an externally limited convertibility, which would set the forint free for current accounts transactions, but leave it inconvertible /sic/ for movements of capital." (3) The first step in this direction would be the creation of a uniform exchange rate from the present commercial and tourist forint rates.

The inherent difficulty in making the forint the first socialist convertible currency is clearly understood by those in charge of Hungarian finances. Bela Berci, department head at the government's Price Control Office, put it this way: "Full convertibility implies a free flow of commodities and liberalized trade policies, but this is not possible given Hungary's membership of Comecon." (4) It should be added that roughly half of Hungary's trade is conducted with Comecon countries on the basis of one- and five-year plans.

Yet making the forint convertible may not prove to be just another abortive attempt to square the circle. After all, who could have predicted six months ago the establishment of free, self-governing labor unions in a socialist country?

- end -

(3) Reuter from Vienna, 26 November 1979.

(4) Ibid.