Comecon's Progress

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Comecon; Integration Problem of Planned Economics, by Michael Kaser, Oxford University Press 1965 pp, 215 + viii, 25 sh.

MICHAEL Kaser's study is a valuable contribution towards an understanding of intra-regional economic co-operation in an important area. The socialist countries constituting the Comecon (the Eastern European Council for Mutual Economic Assistance) account for some three hundred million people; their combined Industrial output is, as the author suggests, as great as that of the countries in the European Common Market and in the Commonwealth together, comprising over a billion persons; the per capita industrial output is nearly three times higher in the former, and the differeiices in its level among countries within the group much narrower. Despite their economic, significance, very little so far has been known to western scholars about the attempts of these countries, bound by common ties of socialist ideology and operational practice of overall economic planning, to foster mutual economic co-operation among them for their accelerated .development. According to the author, there are only two books on the subject in German, and one in French is soon to appear; his work is the "first study in English" (p 2), The descriptive aspects of his study supplement S Dell's work on "Trade Blocks and Common Markets" (London, 1963).

With seventeen years of specialised studies on the area, Kaser is admirably suited to the task of providing the facts of Comecon's evolution. His competence in the languages of the countries, his wide and frequent travels, twelve years of his work with the ECE. a pioneer in studies of eastern European economies—all these come out clearly in his sound command of the material at hand.

The study is divided into two parts, Part I deals with the history of the formation of the Comecon, and Part II with its achievements and prospects, though a more adequate phrase (as the author puts in his Introduction) would perhaps be "current problems". It also contains nine appendices, including three of Comecon's major documents —extracts from its Charter, from the act of establishing its Secretariat, and from its declaration of principles; it also lists its agencies conferences and major decisions. For those to whom Russian still remains a forbidding language and even for those who may know the language but have limited access to well-equipped libraries, this study should prove a valuable source material.

Part I opens with the Chapter "Circumstances of Birth" in 1948 characterised by Kaser as "a marriage on the rebound", ("alleged rebuff" from the "Marshal Plan" powers) and therefore involving less chances of success. In contrast to the trend of thought in early postwar western Europe, there was a clear emphasis "upon national sovereignty in international co-operation" among the centrally planned economics (p 12). From then on through the next four chapters, the author examines the bases for economic co-operation within the initial framework and traces the details of the relatively, few conferences which were convened strictly on an ad hoc basis from the foundation of the Comecon until 1956. This was followed by a period of rapid strengthening of its activities between 1956 and 1960, The May 1956 session created twelve standing commissions "each allocated to a member country". Every capital was the headquarters of at least one commission, reflecting its major economic activity (p 67), A number of major projects are taken up, such as, the Iron Gates Project in the Danube, multi-lateral clearing arrangements, construction of a network of oil pipelines, and joint investment projects.

The widening of the planning horizon and the lengthening of the time perspective up to 1980 made it increasingly clear that the Comecon needed "commonly agreed guidelines on the international division of labour" in their perspective plans (p 83). Here was the basis for a conflict between emphasis on national sovereignty and need for supranational co-ordination. Kaser has dealt at great length with the reasons for dissensions within the Comecon since 1961. At the back of all these were the Soviet proposals "for a Central Comecon planning organ" which was to decide the most "rational allocation of investment" (p 93).

Part II "Achievements and Prospects" begins with an analysis of the growth of industrial output and trade among the Comecon countries, emphasising that output increased faster than trade. By far the most important chapter for the developing countries is Kaser's treatment of technical co-operation among Comecon countries. To quote at length:

> "The interchange of expertise has unquestionably been one of Comecon's most successful objectives: as just observed, the diminution of trade dependence can be regarded as the consequence of rapid industrialisation as much as of the slower development of trade. Comecon can take credit for the supply of knowledge which generated the new industries. The gratuity of this aid, under its 1949 recommendations, was a practical expression of the injunction of communism: 'from each according to his ability, to each according to his needs'. Comecon members have already done much *to* extend such service to other, poorer economies."

The social system of the countries had obviated trade secrecy; in fact, as the author put it, it made "a positive virtue of the exchange of advanced experience" (p 129).

Next chapter on pricing, perhaps the weakest piece in the study, describes the new thinking which is taking place within the Comecon countries. The final chapter on "Integration" serves as an epilogue which Kaser end with a suggestion to the Comecon countries to pay special attention to the "economics of the 1960s" fa phrase left unexplained) in evolving new techniques for their domestic practice.

The author is at his strongest in description. The weakness *of* this otherwise very valuable study is at the level of generalising from description. Let me pick up a few points as illustrations:

(I) The European Common Market is taken as an advance guard in the field of international economic co-operation; the efforts of the Comecon countries are often shown as a feeble

The views expressed here are the author's own and should not be taken as those of the ECAFE with whom he works.

"riposte" (the word is used too often in the text) by the Comecon. The evolution of actual international co-operation in both eastern and western Europe shows that it is easy to demonstrate the virtues of co-operation (or co-ordination, harmonisation or whatever name is chosen), but its implementation in a society full of independent nation states has remained a hard problem. In the West, the early euphoria is disintegrating in the face of France's insistance on rational sovereignty. In his *press* conference on 9 September, President de Gaulle bluntly said that a crisis in the European Common Market was "sooner or later" inevitable because of "errors and ambiguities" in the original Europeart treaties drawn up "when France was weak". Eastern European countries started at the other end: beginning with the recognition of national sovereignty they came to feel the need for long-term planned co-ordination; but their efforts began to be stymied by Rumania, speaking in an accent not much different from that of France in the west. One can hardly suggest that the experience of the European Common Market has proved a promising patent pill.

(2) Kaser to be irritated by the emphasis on "heavy industry" implanning (pp 16-20. 37-38, 50-51, 35) in the socialist countries. He shows relief with Stalin's death when at times it appeared as if the ghost of heavy industry was laid to rest, though real economic life seems to have given it nearly indestructible powers of survival. It is a pity that the simple fact that nearly everywhere — whether the countries were small or large, capitalist or socialist — heavy industry has expanded during the period of industrial transformation nearly twice as fast as light industry has so far remained beclouded in sterile con-, troversy; that the gap in these growth rates has tended to narrow only when an advanced industrial economy was created: that the pattern of industrial investment in the post-civil War United States (where there was no Stalin) was not altogether different from that in post-1928 Soviet Union; that structures of industry in the advanced western or eastern countries now appear as identical twins: and that the perspective development plans of many a developing countries also reproduce carbon-copies of this historical. experience. But we have now become familiar with frequent quarrels among economists about lables of empty boxes.

(3) The author's thoughts on the pricing mechanism are not always clear. Much in the pricing system in the Comecon countries need a thorough-going revision. But to attribute rationality to the pricing system in the non-socialist countries (pp 1, 140-157, 159-161) would seem to suggest a sublime disregard for all the divergence of real economic life from the theoretical motions; it would seem as if the Great Depression, Cartels, imperfect or monopolistic competition (Robinson and Chamberlain), general and partial equilibrium and immobility of price changes (Keynes), public control of key prices in most western countries choice of techniques and shadow prices (Sen and Chakravarty), underdevelopment, cumulative causation and distortions of the price system (Myrdal), losses (not gains) from trade, terms of trade and UNCTAD and all that (List, Prebisch) were all aberrations of an inverted mind. That the planned economies have yet not satisfactorily resolved this problem is beyond dispute; but to say that the theoretical inheritance of an essentially unplanned political economy has much to contribute to the quest seems like unravelling the mysteries of the galaxies through the microscope, however powerful, rather than a telescope.

(4) Kaser's treatment of trade and autarky also suggests a not altogether dissimilar attitude. There is nothing unusual in the fact that since 1920's trade has expanded slower than industrial output (pp 111-118). Nor is there so much to be said about "gains" from trade between unequal partners; gains at a point of time have in fact turned out to be Josses over a period of time. Insistence by the economists from the developing countries upon "cost comparisons...on a dynamic basis" is all the more necessary in determining not only the gains but also the losses from trade. It may well he that the success of the Comecon countries "in fostering the expansion of production" rather than trade (p 116) was less of a paradox than the author suggests; it was perhaps with minor qualifications an essential instrument.

The observations made above concerning some of Kaser's concepts are not intended to detract from the general merit of study—which is indeed a welcome addition to the growing literature on international economic co-operation.

In Quest of the Risk Premium

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The Theory of Futures Trading by L S Venkataramanan. Asia Publishing House, 1965; pp xi+115, Rs 16.00.

EVER since Keynes presented his 'Theory of Normal Backwardation' in his "Treatise on Money" (Vol II, 1930). many leading economists. both in UK and USA, have been in quest of the risk premium in commodity futures markets. Though their efforts have generally been in vain and largely resulted in discovery of a few more 'empty economic boxes' labelled "hedgers' aversion to price risk", "hedgers" risk premium." "speculators' profits", etc, they set at rest many misconceived traditional theories and concepts regarding hedging, speculation and prices in futures markets, and produced some important and interesting methodological contributions for testing empirically the economic usefulness of futures markets. In this small but interesting book, Venkataramanan has briefly surveyed thess valuable contributions made by such welt-known economists as Keynes, Hicks, Kaldor, Working, Telser, Houthakker and others, over the last three decades to explain the mysterious behaviour of the men who operate in the futures markets.

Although futures markets have been functioning in this country for over half a century, the subject of futures trading has never engaged serious attention of any of our leading economists. The few books that are available on the subject ("Futures Trading and Futures Markets in Cotton with special Reference to India" by H L Dholakia, "Commodity Exchanges" by P G Salvi and "Regulation of Futures Markets" by W R Natu) are entirely descriptive and deal mainly with the organisational and institutional aspects of futures markets. In the last few years, futures markets have come under repeated attacks from both the uninformed public and politicians alike. And yet, there have been practically no important methodological or empirical studies on the merits and the functioning of futures markets—winch are verily the textbook examples of perfectly competitive markets—by) even those individuals and institutions who tirelessly affirm their faith in the economic effi-