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Weaknesses of the Clearing System

by Professor Slavomir Jiranek, Geneva

The international division of labour in socialist countries is characterised by an objective tendency, typical of the whole world economy and connected with the rapid development of the productive forces, as well as by an internationalisation of production, which is greatly affected through subjective elements of exerting influence.

Originally, the exchange among the socialist countries took the form of an exchange of use values, i.e. of compensations. But gradually the exchange relying on money was put through. This exchange, however, involved reciprocal deliveries of use value according to binding quotas, being paid by way of clearing ruble. The contracting parties adhered for a long time to prices which had existed on the world capitalist market at a certain moment, without adjusting them to the contemporary market situation existing at the moment of the delivery. This called into existence a number of partial markets, which hampered multilateral trade and payments relations.

Establishment of the Bank

On October, 1963, an Agreement was signed by representatives of Bulgaria, Hungary, the German Democratic Republic, the Mongolian Republic, Poland, Rumania, the USSR and Czechoslovakia, concerning the multilateral clearing in transferable rubles and the establishment of the International Bank for Economic Co-operation. The Bank opened up its operations January 1st, 1964. At the same time multilateral clearing in transferable rubles was put into existence.

According to the Agreement the clearing among the contracting parties was supposed to be carried out in transferable rubles through the International Bank for Economic Co-operation. The gold content of the transferable ruble was made equal to 0.9874129 gr of pure gold. This constitutes a fundamental provision of the whole Agreement, which implies that the existing bilateral clearing together with the supplementary multilateral clearing are substituted through com-

pulsory multilateral clearing in transferable rubles. The Bank was also obliged to grant loans and to perform other banking operations in accordance with its purpose.

The biggest share in the basic capital is held by the USSR, followed by the GDR, Czechoslovakia, Poland, Hungary, Bulgaria and Rumania, the share of Mongolian Republic being the smallest one. Exercise of memberships rights, however, does not depend on the size of the share. Each of the members of the Bank, who are members of the Council of Mutual Economic Assistance, has identical rights.

Clearing Procedure

As regards the system of payments and loans the following principles are applied: each contracting party has a clearing account in transferable rubles with the Bank. Forwarding documents together with payments documents are sent by the bank of an exporting country to the bank of an importing country, both parties supplying the Bank for Economic Co-operation with data referring to their receipts and payments every day. The account with the International Bank, opened by the bank of a contracting party, has the character of a nostro account. Only the credit balance of this account, which may be created also through a loan made by the International Bank, can be disposed of for payments.

As far as the transferable ruble is concerned, it represents solely a clearing currency. The nature of transferable currency involves as the first prerequisite the existence of a credit balance. This, however, is not the case with the transferable ruble. It was impossible for member-countries of the Bank to build up a credit balance simultaneously, since the credit balance achieved by one country was automatically accompanied by a passive balance of another country. Consequently it was indispensable to introduce loans, in order to facilitate the subscription of basic capital.

Moreover, it is asserted, that the nature of the Bank's clearing system resembles rather the European Payments Union.

Granting of Loans

The granting of loans represents an essential function of every bank, because this is what makes the bank a genuine bank. The bank's own capital plus deposits, both items constituting a source for meeting the credit needs of the participants, are the necessary prerequisites to this function. A certain ceiling for loans is indispensable in any bilateral or multilateral clearing, since it is practically improbable that there is a permanent equilibrium between two or several countries' volume of payments. This is why each clearing centre necessarily operates also as a centre for granting loans, i.e. as an institution, which, although abstaining from loans, nevertheless records loans resulting from the mechanism of clearing. As soon as one country is exporting more goods and another country less, the size of the loan results from the difference between the value of each country's exports. As a rule, this "masse de manoeuvre" is expressed as a certain percentage of mutual turnover of commodities between two countries. If a number of countries are involved and if a multilateral clearing is used this "masse de manoeuvre" is expressed as a percentage of the particular country's turnover with all other countries. A certain ceiling must be introduced in order to prevent imports on credit from causing a situation difficult to handle. Should this ceiling be exceeded by any debtor country, efficient measures must be applied, which would compel the debtor to restore the limit as soon as possible. On the other hand, the creditor should benefit sufficiently from being a creditor. Should the clearing system be effective and elastic, these measures would have to operate automatically and without delay. As the history of the European Payments Union reveals, the debtor was immediately obliged to pay in cash the balance by which the limit has been exceeded, i.e. this deficit has to be settled in gold or in convertible currency on behalf of the European Payments Union, the creditor being paid by this institution.

Missing Automatic Loan Mechanism

These are three main weak-points in the clearing and credit mechanism of the international Bank for Economic Co-operation. In the first place, the "masse de manoeuvre" is not conceived in its original concept as absolutely automatic. Although there exists a clearing loan, the countries are obliged to apply for this loan to

the Bank. The Bank decides on these applications in accordance with its credit plan which sets corresponding maturities. These terms applied by the Bank remind one of certain credit features typical of former days of rigorous centralised planning, which adhered to the principle of confining credits to specific purposes as well as to the principle of the recovery of credits.

In the second place, under the system applied by the Bank, members are obliged to pay interest on the balance, by which the "masse de manoeuvre" had been exceeded. Although the interest rate was fixed very low at 2 p.c., it fails to bring about an adequate effect, which would restore the balance of payments equilibrium. The size of the interest rate is not efficient enough. As a result, the debtor countries proceed with their debts and the creditor countries with their claims. Because of this current short-term loans turn into long-term loans.

As a result, the whole system of the Bank fails to promote the productive forces of the member countries, and although representing a certain form of multilateral payments, it is far from being perfect, bringing about a stagnation and a conservation of the obsolete structure of production and of low technical level.

The contemporary situation offers no proof that bilateral relations have already been abandoned and multilateral ones opened up. The participants still adhere to their reciprocal trade and payments relations, which are in accordance with general practice and which have their roots in the system of planning. Individual socialist countries keep struggling towards a bilateral equilibrium, being cautious of "hard" and "soft" commodities in their mutual exchange.

Tendency to Promote Central Planning

And in the third place, the opportunity to work out joint plans of countries taking part in the International Bank and to co-ordinate mutually long-term plans displays a negative feature in the tendency to promote central planning on an international scale, i.e. by way of fixing binding deliveries and at reciprocally contracted fixed prices. In this way the quality of exchanged merchandise, supply and demand as well as the commodity-money relations in general retreat to the background. Provided that the commodity-money relations are not expanded over internal economy of individual socialist countries and provided that plans are not worked out in realistic and objective value indices, there cannot exist a realistic and effective opportunity for mutual co-ordination of the socialist countries' plans.

The transition towards multilateral trade relations among the socialist countries can only be achieved if a number of subsequent measures in external relations are linked with a consistent application of commodity-money relations within the internal economy. These measures involve, for example, free flow of specific types of merchandise among socialist countries free of binding quotas and of fixed prices, promising a subsequent expansion of this pattern of merchandise. Long-term contracts ensuring an uninterrupted production, concluded between enterprises of

different socialist countries, have also to be taken for granted.

From a perspective point of view the multilateral clearing system calls for a convertible currency among the CMEA countries, this being feasible only under the assumption that commodity-money relations between the socialist countries are introduced. It also should be borne in mind that it is gold which may be and must be used in co-operation with countries of different economic systems.

Aspects of American Marketing

by Professor Karel Holbik, Boston *

An important reason for analyzing the marketing procedures used by U.S. firms in COMECON as compared with the ones used in the EEC is the vastly different economic traditions and philosophies that are encountered. Adjustments are needed in attitudes and approaches to governments, customers as well as competitors.

Location of Supply

There are two basic considerations regarding the location of supply for a market:

- Should an American firm supply European markets from the U.S. or from within the EEC?
- Should there be "national" plants or centralized production?

In answering the first question, there are several reasons for expecting an increase in U.S. production within the EEC, such as elimination of tariffs on goods produced in a member country and sold in another (whereas exports from the U.S. face the common external tariff), and rising European incomes and demand, which suggests that local production can now be large-scale and profitable.

The main point to consider in answering the second question is distribution and competitive costs. Also, marketing considerations could require adaptation to a national market rather than to an EEC-wide basis. For example, U.S. phar-

maceutical firms have found national regulations strong and diverse enough to warrant only local production plants.

In the case of COMECON, American firms exporting from the U.S. realize that they face substantial disadvantages compared to European-based producers. Not only does the requirement to obtain an export license act as a disincentive to the exporter, but efforts by Eastern European countries to achieve a degree of bilateral balance in their trade with individual countries limit U.S. export sales to COMECON. A large part of the exports of COMECON to the West consists of foodstuffs and raw materials that find a more ready market in Western Europe than in the U.S.

An American firm considering location of supply strictly on existing COMECON trade patterns would choose either an EEC or EFTA member country in the proximity of Poland and Czechoslovakia. But complicating this conclusion is the fact that the President of the U.S. is restrained by law from granting the most-favored-nation (MFN) treatment to imports from any of the East European countries except Poland and Yugoslavia.

Product Development

There are three developments that U.S. firms anticipate when considering product development for European markets:

- The new interest and investment especially in the EEC should lead to products adapted to

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