# Towards Transideological Monetary Co-operation*

In contrast to many other aspects of socialism, for a long time in the past little attention was given in Western studies to money in the Socialist planned economies [1] and their monetary relations with the capitalist world.[2] This is not surprising, considering that the monetary factor was conspicuously neglected even in Socialist economic thought and practice, no Socialist currency was of any international consequence and neither the Socialist nor capitalist nations were particularly interested in mutual monetary co-operation.

But several developments in the Socialist as well in the capitalist countries after the mid-1960s, and particularly the upheavals in the

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* This study is based on the author's forthcoming book, *Comparative Monetary Economics: Capitalist and Socialist Monetary Systems and Their Interrelations in the Changing International Scene* (to be published by Macmillan, London, and Westview Press, Boulder).

1 The Socialist bloc in this study includes the 14 countries ruled by Communist Parties under the mono-party system of government, viz. Albania, Bulgaria, People's Republic of China, Cuba, Czechoslovakia, the [East] German Democratic Republic, Hungary, the Democratic People's Republic of [North] Korea, Mongolia, Poland, Romania, the USSR, the Socialist Republic of Vietnam and Yugoslavia (the SR of Vietnam was formally declared only in July 1976, as a unified country embodying the former Democratic Republic of [North] Vietnam and the Republic of [South] Vietnam). In accordance with the Marxist terminology, all the 14 countries are still in the " lower phase " of communism known as "socialism ", transitional to the " higher phase " called " full communism " or simply " communism ". Consequently, they describe themselves as " Socialist " (not " Communist "), and this designation is consistently adhered to in this study. The capitalist world includes the rest of the world, i.e. other than the 14 Socialist countries. A distinction is made between " developed capitalist countries " and " less-developed countries ". The former, also described as the " West ", includes Western Europe (i.e. countries other than the nine European Socialist countries), North America, Japan, Australia, New Zealand and South Africa.

2 Amongst the studies warranting mention here are: G. Garvy, *Money, Banking and Credit in Eastern Europe*, New York, Federal Reserve Bank of New York, 1966; G. Grossman (ed.), *Money and Plan: Financial Aspects of East European Economic Reforms*, Berkeley, U. of California P., 1968; A. Zwass, *Monetary Cooperation between East and West*, White Plains, N.Y., International Arts and Sciences P., 1975.

international monetary scene and the spectacular expansion of East-West financial relations since the early 1970s, have placed the question of monetary co-operation between the two otherwise rival social systems in a new light. In this study we shall examine the ideological monetary background of capitalism and socialism, monetary conflicts between the two camps in the past, the forms of monetary co-operation in recent years and we shall conclude with throwing some ideas for further improvement in this co-operation in the future. The spotlight in this article is focused on the Socialist side.

## I. The Capitalist and Socialist Monetary Background

One of the features traditionally distinguishing capitalist market economies and the Socialist centrally planned economies is the different approach to money. As is well known, the peak of the development and influence of money is reached under capitalism, in the context of private enterprise, the market mechanism and the commercialization of production and exchange relations. Money appears in varied forms and it commands universal convertibility, at least domestically, into consumer goods, means of production and services. Money confers a good deal of power on its owners, and this is so beyond the economic sphere, too. The importance attached to money is indicated by the preoccupation of the capitalist countries with monetary measures as cures for economic ills and with the operation of the international monetary system.

Under socialism, money is relegated to a subordinate position. Money is not a passport to the control over resources, as its purchasing capacity in the context of the social ownership of the means of production and central planning is narrowly limited. Furthermore, the Socialist countries have always suffered from excess of demand over the available supply at the existing (administered) prices, not to mention rationing which may exist in one form or another. Under such conditions, money loses its conventional role even in the consumer goods market.

In the traditional Marxist view, money is the ultimate source of social evil, particularly under capitalism where it enables the "exploitation hat trick" and leads to social stratification, class war and colonialism. But even under socialism the money curse is not



absent altogether. A Polish economist pointed out that "money often arouses greed contrary to social interest",[3] and a Belgian Marxist writer warned against "the corrupt influence of money in all spheres of social life".[4]

In fact soon after the Bolshevik Revolution, attempts were made by the Soviet regime to abolish money in favour of the "naturalization of economic processes", in accordance with Marx's vision of the ideal communist society. The economic and social significance of money was also undermined by several co-incidental as well as deliberately induced developments. In all the Socialist countries, the Communist takeover was followed by inflation and in some of them even by hyperinflation (especially in the USSR, 1921-24 and Hungary, 1945-46). The cancellation of currency and the issue of new money were intended *inter alia* to strike at the upper and middle classes with large monetary holdings. The system of cashless settlements of enterprise accounts by the State Bank and, at one stage, the automatic financing of enterprises were also meant as steps towards the "euthanasia of money".[5]

Theoretically, a money-less economy is possible under a completely centralized, directive system where the allocation of inputs and the distribution of output and income would take place in physical terms, or at least in cashless settlements. However, after the initial euphoria and confusion, Communist leaders found it expedient to "remonetize" the economy and stabilize the currency in the interest of financial discipline, and the monetary system became gradually adapted to the needs of Socialist economic planning.

The importance attached to money under capitalism is reflected in the vast Western literature on monetary economics and in the contributions to the theory of money in particular. In fact, monetary theory has become about the most colourful and controversial field of economics. The views put forward differ widely, in many cases influenced by political and social attitudes ranging from extreme conservative and reactionary to left-wing radical postulates. Socialist writings on money have been less extensive and more directly related to ideology. Much of the monetary discussions have, in fact,

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[3] B. Minc, *Ekonomia polityczna socjalizmu* (Political Economy of Socialism), Warsaw, PWN, 1961, p. 249.

[4] E. Mandel, *Marxist Economic Theory*, London, Merlin Press, 1968, vol. II, p. 655.

[5] N.N. Shabanova, *Beznalichniye raschety v SSSR* (Cashless Settlements in the USSR), Moscow, Gosfinizdat, 1950, p. 85.

been directed to the apologetic justification of official policies, whilst the ideas of independent and dissident writers cannot be easily articulated. On the whole, Socialist thinkers have been preoccupied with the distribution rather than the production aspect of the role of money, and this was particularly the case before the early 1960s.

The author's study of the Western and Socialist literature in the field has left him with the conviction that, in general, Western contributions have been more varied and scholarly and advanced to greater depths, although Ya. A. Kronrod of the USSR, who has come to be regarded as about the most distinctive authority on Socialist monetary economics, expressed a different comparative appreciation.[6]

## II. Monetary Conflicts between Capitalist and Socialist Countries

Monetary relations between capitalist and the Socialist countries in the past were often marked by hostile attitudes and policies, fundamentally conditioned by ideological differences, and further nourished by naive or unscrupulous extremists on both sides. Prejudice on the capitalist side stems basically from the Communist commitment to comprehensive state control and the socialization of banking, the ultimate abolition of money and the overthrow of capitalism on the world scale. After the establishment of the first Socialist state in 1917, Western banks took action against the Communist regime in the USSR by banning purchases of Soviet gold and the extension of credits. After the Second World War, a ban on long-term credits to the Socialist countries was one of the facets of the Cold War and the Western strategic embargo.

The suspicion of capitalist countries was strengthened by several acts by the Communist regimes, which were quickly interpreted as sinister moves designed to cripple the capitalist monetary and financial system. During 1928-32, when the capitalist world was in the throes of the most acute speculation and depression, the Soviets tried

6 " Only the Marxist-Leninist political economy has created a truly scientific monetary theory and has made a thorough analysis of the specific characteristics of money in different historical stages of social development. ... On the other hand, bourgeois economics treats the nature of money in a pseudo-scientific manner and represents its role in a distorted fashion ", Y.A. Kronrod, *Dengi v sotsialisticheskom obshchestve* (Money in the Socialist Society), Moscow, Gosfinizdat, 2nd ed., 1960, p. 192.



to flood the leading financial centres with counterfeit dollars and pounds sterling.[7] It was also believed that the Soviets would one day glut the capitalist markets with gold, the production of which was stepped up under Stalin at a fraction of true costs (using forced labour), in order to destroy the very basis of the capitalist monetary system. The secrecy surrounding the Soviet gold production and reserves after 1936 and a remark in a Soviet book published in 1939,[8] that the USSR had the largest gold reserves in the world, added to the Western anxieties.[9] The expropriation of Western investors by the Communist regimes and disputes over war debts were also sources of grievances.[10]

The Socialist prejudice against the capitalist monetary and financial system goes much deeper. In Marxist view, the " financial oligarchy," allying itself with the state apparatus, in the richest and most powerful capitalist countries inevitably and inexorably strives to dominate the international monetary scene and exploit weaker and less developed countries. The Socialist countries have never accepted the International Monetary Fund as a genuine and uncommitted international body, but have regarded it as a " rich nations'

7 At least in such cities as Berlin, Bucharest, Chicago, Geneva, Mexico City, Shanghai and Warsaw. According to some reports, in China alone Soviet agents circulated $2,500m. in forged dollars and pounds. It appears that Stalin's main aims were to finance Soviet espionage and imports of machinery and equipment from the West, rather than to undermine the Western monetary system. For details, see A. Krammer, " Russian Counterfeit Dollars: A Case of Early Soviet Espionage ", *Slavic Review*, Seattle, Dec. 1971, pp. 762-73. All values in this article are expressed in current US dollars.

8 See its English translation, S.S. Balzak *et al.* (eds), *Economic Geography of the USSR*, New York, Macmillan, 1949, p. 267. According to the official figures, the Soviet gold reserves rose from 4 tons in 1922 to 750 tons by 1936. Since that time no official statistics have been published. As estimated by this writer, the Soviet gold holdings in 1976 stood at about 2,000 tons ($5,400m. if valued at the free market price in mid-1976), or the sixth largest in the world - after USA (8,300 tons), the FR of Germany (3,400 tons), France (3,000 tons), Switzerland (2,500 tons) and Italy (2,500 tons).

9 Whether the Soviet leaders ever treated such designs seriously, is doubtful. In fact, during the decade of 1956-65, when the capitalist world suffered from the shortage of international liquidity (as gold output fell far short of the needs of trade), the USSR was regularly selling substantial quantities of gold (averaging $256m. worth a year). The purpose of these sales was to finance the massive Soviet imports of wheat from hard-currency areas (especially Australia, Canada and the USA).

10 E.g. the unsettled American claims as reported to the US Congress in 1964 were: Bulgaria ($3m.), China ($170m.), Cuba ($169m.), Czechoslovakia ($265m.), Hungary ($13m.), Poland ($487m.), Romania ($108m.), the USSR ($1,463m.) (US Senate, *East-West Trade*, Hearings before the Committee on Foreign Relations, Washington, GPO, 1964, Part I, pp. 29, 192, 212). Other capitalist countries with substantial claims were Austria, Belgium, Canada, France, Italy, Sweden and the United Kingdom.

club", or a "supranational organ for the benefit of the large imperial power" or a "puppet manipulated by monopolies."[11]

It is worth noting here that Czechoslovakia, Poland, the USSR and Yugoslavia were active participants in the preparation of the Bretton Woods Agreement during 1944-45 to set up the IMF (and the International Bank for Reconstruction and Development). At the Bretton Woods Conference two main proposals were submitted for the new international monetary system — the Keynes Plan (for the "International Clearing Union"), sponsored by Britain, and the White Plan (for the "International Stabilization Fund"), put forward by the USA clearly intended to ensure American dominance. It may be mentioned here that the USSR, in a sense ironically, rejected the Keynes Plan, as in the Soviet view it represented the interests of big business and she supported the White Plan instead, and the latter was adopted in its essence. But it is interesting to note that several elements of the Keynes Plan were later (in 1963) adopted by the Comecon countries and embodied in the Charter of the International Bank for Economic Co-operation, an institution parallel to the IMF — especially the proposals relating to the clearing of balances, bridging credits and the abstract international currency (the "bancor" served as a model for the transferable rouble).

In the original Bretton Woods Agreement, of the total quota of \$8,800m. the USSR was allocated \$1,200m., Czechoslovakia and Poland \$125m. each and Yugoslavia \$60. The Soviet quota was the third largest — after the USA's (\$2,700m.) and the UK's (\$1,300m.).[12] The USSR, even with the support of the other three Socialist countries, could command less than 17 per cent of the voting power, whilst the USA alone had 28 per cent of the votes and an effective power of veto. In the end, the USSR never ratified the Agreement, whilst Poland withdrew from the Fund in March 1950 and Czechoslovakia in December 1954; Cuba (which joined the IMF as a capitalist country in 1946) did likewise in April 1964.

The USSR gave no official reasons for her non-accession to the IMF. But her objections can be inferred from her representatives' demands and criticism during 1944-45: (i) the USSR was obviously

11 See, e.g., V. P. Komissarov and M. Shelkov, "Multinational Settlements and Credits Extended by the International Bank for Economic Co-operation", *Dengi i kredit* (Money and Credit), Moscow, no. 1, 1975, p. 69; Y.A. Kronrod, op. cit., p. 204.

12 J. Gold, *Membership and Nonmembership in the International Monetary Fund*, Washington, IMF, 1974, pp. 15-16.



disturbed by the undoubted domination of the Fund by the USA, and thus did not want to be a party to the Agreement where she could be easily outvoted and be unable to exercise influence commensurate with her size and status as a world power; (ii) the Soviets wanted sufficient voting power to be able to veto a uniform change in the par values of the member countries' currencies (i.e a change in the price of gold); (iii) they further demanded the exclusion of newly mined gold from having to be used for repurchases of the members' currencies from the Fund. They also pressed for a reduction in the gold subscription in the case of the countries which had been occupied by the enemy during the Second World War (i.e. practically all the Socialist countries); (iv) the USSR also insisted on a special provision to give her a complete freedom to change her exchange rate (arguing that the Soviet currency was of no international consequence); (v) another Soviet objection was directed against the obligation to supply economic information to the Fund that might be utilized by other member countries. Most of these objections were also articulated later by Cuba, Czechoslovakia and Poland upon their withdrawal from the Fund.[13]

In general, the Socialist complaints against the IMF stressed the onesidedness of the Articles of the Agreement — that they had been fashioned to suit the convenience of capitalist market economies, to the virtual disregard of Socialist central economic planning. However, there is little doubt that at the time the Socialist boycott was more a matter of Cold War politics than of the incompatibility of the two systems. As a result, the currencies of the Socialist countries, with the exception of the Yugoslav dinar, became excluded from the international monetary scene. Instead, some years later (in 1963) the Socialist countries associated in Comecon established a parallel institution of their own — the International Bank for Economic Co-operation (and in 1970 the International Investment Bank, corresponding to the IBRD).

The Socialist countries also became contemptuous of the lack of monetary discipline and responsibility amongst the leading Western nations, in domestic as well as international monetary policies, It has been argued that the excessive issues of currency and credit, the USA's large balance-of-payments deficits to remedy the internationl liquidity problem and to finance the American investment abroad, and finally

13 *Ibid.*, pp. 133-34, 342-44, 360-72.

the demonetization of gold, all have produced uncontrollable inflation — and that the capitalist monetary system has in fact collapsed.[14] Another phenomenon in the capitalist monetary scene which has become a target for Socialist attack is the Eurocurrency market, which has been described as a " degenerate royal preserve of *haute finance* " and " a cancerous growth on the international monetary system... which should be completely liquidated. " [15]

## III. Forms of Transideological Monetary Co-operation

Although in the past capitalist and Socialist monetary establishments were noted for sharp differences and antagonistic relations, in the last two decades there have been several convergent and conciliatory developments, amounting to reversals of previous attitudes, policies and practices. These developments which tended to make capitalist and Socialist monetary systems evolve similar characteristics and which have led to a remarkable growth of co-operative ties at the micro as well as macro levels can be described as " transideological monetary co-operation ".

The trend towards co-operation in the monetary sphere has been facilitated by favourable background political and economic developments. The relations between capitalist and the Socialist countries since the Korean War have been noted for increasing political *détente* and economic collaboration, in spite of occasional setbacks. There has been some decline of ideological fervour on each side (" disideologization "), as the acceptance of the policy of peaceful coexistence (after 1956) and the virtual cessation of the Cold War (after 1963) attest to it. Many grievances have proved to be more imagined than substantive. Thus the Soviet counterfeit dollars circulated during the Great Depression were not intended to, and did not, cripple the capitalist monetary system, nor have the Soviets ever attempted to use their gold hoard for the purpose. Virtually all East-West compensation claims have been settled, or at least a basis for their settlement has

14 See, e.g., E. Grebennikova, " On the Ruins of the Bretton Woods System ", *International Affairs*, Moscow, no. 10, 1974, pp. 62-69; Z. Malecki, (" Controversial International Monetary Problems "), *Gospodarka planowa* (Planned Economy), Warsaw, no. 4, 1976, pp. 229-35.

15 K. Studentowicz, (" Unsolved Problems of the World Monetary Reform "), *Handel zagraniczny* (Foreign Trade), Warsaw, no. 2, 1974, p. 93.



been agreed upon. Aided by the disintegrating Iron and Financial Curtains, trade between capitalist and the Socialist countries has been expanding most remarkably, in fact faster than either intra-capitalist or intra-Socialist foreign trade.

In several respects, both capitalist market economies and the Socialist centrally planned economies have been shedding their previous bi-polar extremist characteristics and becoming increasingly similar to each other. Owing to state intervention (including economic planning), nationalization, social welfare programmes and the growing power of the working class (as exemplified by trade unions and labour parties) capitalism has departed far and wide from the original image depicted by Marx. At the same time, the Stalinist model of centralized, directive planning and management has been considerably moderated by liberal economic reforms. In most Socialist countries several elements peculiar to capitalism have been reactivated, such as profit, financial incentives and disincentives, decentralization, some extension of the market mechanism and some rehabilitation of private enterprise.

Although Marx in his vision of the ideal society postulated the disappearance of money, no Socialist country has abolished it, and even the names of the national currencies established under capitalist regimes have been retained or restored.[16] Monetary planning and control have been embraced by central planners as valuable instruments of economic planning for promoting and enforcing the flow of resources and output in socially desired directions.

The role of money has been further enhanced in the European Socialist countries since the economic reforms of the 1960s (in Yugoslavia after 1950). These reforms have been directed towards increasing the efficiency of the Socialist economy and have included the official adoption of profit as the main criterion of enterprise performance, the strengthening of material incentives to labour and the reactivation of such monetary instruments as interest, credit, depreciation allowances and flexible prices. There are many economists advo-

16 In the USSR the Soviet regime set out after Revolution to replace the rouble, physically and in name, by *sovznak* (" Soviet token ") and chervonets (" Tenner "); but they were abolished by the monetary reform of 1924 and the (new) rouble was firmly reestablished. In Mongolia there had been no national currency before the Communist takeover (in 1924) and it is only the Communist regime that has introduced a national currency, *tugrik*. In China an alternative name has been introduced, *renminbi* (" People's Currency "), but the old name, *yuan*, is still commonly used.

cating a further extension of the role of money in the interest of convenience, the optimum utilization of resources and maximum feasible rates of economic growth.

In fact, in view of the increasing complexity of economic relations and the need for strict economic accounting to ensure continued growth of productivity, there are now many Socialist economists who question the wisdom of the Marxian postulate of the abandonment of money in the future. A Polish monetary expert, Z. Grabowski, concluded a few years ago: " ...who knows if, in the light of recent developments, the theoretical assumption of the disappearance of money with the transition to Full Communism is tenable. Perhaps not all roads leading to Communism must deviate from money." [17]

The developments making capitalism and socialism increasingly similar have convinced a number of thinkers, following the idea first put forward by Jan Tinbergen,[18] that these processes will continue in the future, so that the two originally antagonistic systems will " converge " into one conglomerate. The " convergence thesis " has attracted many supporters and critics, both in the West and in the East.[19] Whether it is valid or not, is immaterial for our purposes. Even if the two systems are not converging, co-operation in the monetary sphere is possible and it is likely to continue in the near future at least. Transideological monetary co-operation is feasible even if basic ideological differences persist.

17 Z. GRABOWSKI, (" Money Today "), *Zycie gospodarcze* (Economic Life), Warsaw, 4 December, 1968, p. 2.

18 J. TINBERGEN, " Do Communist and Free Economies Show a Converging Pattern? ", *Soviet Studies*, April 1961, pp. 333-41 and his " Concrete Concepts of Co-existence ", *Co-existence*, Jan. 1964, pp. 15-20.

19 L. GOURÉ *et al.*, *Convergence of Communism and Capitalism: The Soviet View*, Washington, U. of Miami, 1973. H. LINNEMANN, J.P. PRONK and J. TINBERGEN, " Convergence of Economic Systems in East and West ", in M. Bornstein and D.R. Fusfeld (eds), *The Soviet Economy*, Homewood, Irwin, 3rd ed., 1970, pp. 441-57. J.R. MILLAR, " On the Theory and Measurement of Economic Convergence ", *Quart. Rev. of Economics and Business*, Spring 1972, pp. 87-97. R. MISHRA, " Convergence Theory and Social Change: The Development of Welfare in Britain and the Soviet Union ", *Comparative Studies in Society and History*, Jan. 1976, pp. 28-56. S. PRYBYLA, " The Convergence of Western and Communist Economic Systems: A Critical Estimate ", in M. Bornstein (ed.), *Comparative Economic Systems*, Homewood, Irwin, 2nd ed., 1969, pp. 442-52. A. SCHICK, " Convergence of Centrally Managed and Market Economies ", *Annals of Public and Co-operative Economy*, April-June 1973, pp. 141-50. N. SPULBER, " Socialism, Industrialization and ' Convergence ' ", *Jahrbuch der Wirtschaft Osteuropas / Yearbook of East-European Economics*, vol. 2, 1971, pp. 397-424. R.C. STUART and P.R. GREGORY, " The Convergence of Economic Systems: An Analysis of Structural and Institutional Characteristics ", ibid., pp. 425-41. J. WILCZYNSKI, " East-West Trade. A Gateway to Convergence? ", *Economics of Planning*, vol. 8, no. 2, 1968, pp. 232-51.



The most obvious evidence of financial co-operation is that involving capitalist and Socialist banks. It has assumed varied forms and has been expanding most remarkably, especially since the early 1970s. Most of the largest Western banks have established correspondent relations with virtually all Socialist banks and have been extending large credits on favourable terms. Although at first it seemed paradoxical, the most active proponents of this collaboration are the largest multinational banks, usually identified with big business and *haute finance*. At least 34 well-known capitalist banks have opened 43 branches or representative offices in the East, of course with the blessing of the host Communist Parties.[20]

At the same time, some 30 Socialist banks have established about 90 representative offices, branches and partly and wholly owned subsidiaries in more than 30 financial centres of the capitalist world.[21] What may be even more surprising is the fact that Socialist banks have entered into at least 14 partnerships with capitalist banks, viz. (the year of foundation and country ownership are given in brackets): Anglo-Romanian Bank, London (1973; UK, USA, Romania); Bank Russo-Iran, Teheran (1923; Iran, USSR); Banque Franco-Roumaine, Paris (1971; France, Romania); Banque Franco-Yougoslave, Paris (1976; France, Yugoslavia); Centro Internationale Handelsbank, Vienna (1974; Austria, France, Italy, Japan, Spain, UK, Poland); East-West Leasing, London (1973; UK, USSR); Egyptian-Romanian

20 E.g. Banca Commerciale Italiana, in East Berlin, Moscow and Warsaw; Bangkok Bank, in Moscow; Bank Melli Iran, in Moscow; Bank of America, in Moscow; Bank of Tokyo, in Moscow; Banque Nationale de Paris, in Moscow and Warsaw; Creditanstalt-Bankverein (Austria), in Budapest; Deutsche Bank, in Moscow; Hong Kong & Shanghai Banking Corporation, in Shanghai; National Westminster Bank, in Moscow; Schweizerische Kreditanstalt, in Moscow; Svenska Handelsbanken, in Moscow; and Union Bank of Finland, in Moscow.

21 Examples of such branches or representative offices are: Bank of China, in Hong Kong, London and Singapore; Bulgarian Foreign Trade Bank, in London; Commercial Bank in Warsaw (*Bank Handlowy w Warszawie*), in London and New York; Hungarian National Bank, in Beirut, Frankfurt/M, Paris, Rome, San Francisco and Zurich; Jugobanka (of Yugoslavia), in Amsterdam, Berlin, Chicago, Düsseldorf, Frankfurt/M, Hanover, London, Mannheim, Milan, New York, Nuremberg, Stuttgart, Teheran, Toronto, Tripoli (Libya) and Vienna; National Bank of Cuba, in Tokyo and Zurich; Romanian Bank for Foreign Trade, in Rome, Vienna and Zurich; and Zivnostenska Banka (of Czechoslovakia), in London. The best known Socialist owned independent banks in the West are: Banque Commerciale pour l'Europe du Nord (USSR), in Paris; Banque Unie Est-Ouest (USSR), in Luxemburg; Central Wechsel und Credit Bank (Hungary), in Vienna; Donau Bank (USSR), in Vienna; Havana International Bank (Cuba), in London; Hungarian International Bank, in London; Moscow Narodny Bank (USSR), in London (with two wholly-owned subsidiaries in Beirut and Singapore); Ost-West Handelsbank (USSR), in Frankfurt/M; and Wozchod Handelsbank (USSR), in Zurich.

Bank, Cairo (1975; Egypt, Romania); Frankfurt-Bukarest Bank, Frankfurt/M (1977; FR of Germany, Romania); Handlowy Bank for the Middle East, Beirut (1974; Lebanon, Poland); International Investment Corporation for Yugoslavia, London-Zagreb (1969; Austria, France, FR of Germany, Italy, Japan, Kuwait, Luxemburg, Netherlands, Switzerland, UK, USA, Yugoslavia); LHB International Handelsbank, Frankfurt/M (1975; FR of Germany, Yugoslavia); Mitteleuropäische Handelsbank, Frankfurt/M (1973; FR of Germany, Poland); Promolease, Paris (1973; France, USSR); Soviet-Arab Bank, (location unknown at the time of writing) (1976; Egypt, Iraq, Syria, USSR).

There has been a spectacular expansion of credits. The estimated gross amount of credits outstanding owing to capitalist lenders by the Socialist countries rose from $500m. in 1960 to $4,000m. in 1970 and the figure stood at about $50,000m. in 1977. The main Socialist debtors are: the USSR ($18,000 m. in 1977), Poland ($8,000m.), Yugoslavia ($7,000m.), the German DR ($5,000m.), Romania ($3,000m.) and Hungary ($2,000m.). The Euromoney and Eurobond markets have become favourite rendez-vous meeting places for capitalist-Socialist financial deals. At the same time the Socialist countries have been extending credits to capitalist nations, too, mostly to the less-developed countries. The *total* amount of the Socialist credit *commitments so far* has reached an impressive figure, equivalent to $20,000m. It may also be mentioned that the Socialist countries hold about $8,000m. in hard currency deposits in banks located in the capitalist world. Capitalist and Socialist banks have been eagerly co-operating in jointly extending credits to third parties all over the world. By virtue of their remarkable involvement in world money and capital markets in recent years as borrowers as well as lenders, the Socialist countries are becoming a force to reckon with in the world financial scene, and their role is likely to continue increasing in the future.

The twin Comecon banking institutions, the International Bank for Economic Co-operation and the International Investment Bank, have been very active in the Eurocurrency markets in raising finance. The IBEC also accepts deposits from capitalist banks and both the IBEC and the IIB hold their reserves partly in capitalist convertible currencies. In 1974 the IBEC was granted an observer status in the General Assembly of the United Nations and the IIB in the United Nations Conference on Trade and Development. Both of these banks have been extending credits to capitalist countries in transferable roubles as well as in capitalist hard currencies.



It is worth pointing out here that the IBEC is not an exclusive organization. Its originally suggested name, the " International Bank of the Socialist Countries ", was rejected in favour of the " International Bank for Economic Co-operation ", and under Article 43 of its Charter capitalist countries can in fact be admitted as members.[22] Some specialists in the field believe that the integration of the Socialist countries into the world monetary system is more feasible *en bloc* (especially through Comecon), rather than individually; the Comecon " Standing Commission for Currency and Finance " and the IBEC are seen as suitable organs to represent the member countries at international monetary talks and perhaps later as permanent links with the world monetary union.[23] The transferable rouble may very well become a bridge linking the Comecon and Western monetary areas, and it is likely to be instrumental in facilitating the convertibility of the Comecon national currencies into capitalist hard currencies.

In 1967 I. Vajda, of Hungary, proposed the creation of an " East-West Clearing Union " (similar to the former European Payments Union), and in the same year another Hungarian economist, J. Bognar, advocated the formation of an " East-West Bank " which would eventually enable the Socialist countries to join the IMF.[24] More recently, a proposal was made in the forum of the Economic Commission for Europe (of which all East and West European countries, together with the USA, are members) to establish a " European Development Bank ", to assist East-West industrial co-operation by providing finance, guarantees and insurance.[25] At a conference in Vienna in May 1976, the President of the Bank for International Settlements, J. Zijlstra, said that the convertibility of the Socialist currencies would be the first step towards a world monetary system embracing capitalist as well as the Socialist countries.[26]

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22 It may be mentioned that Finland, Iraq and Mexico have been admitted to an associate membership of Comecon (in 1973, 1975 and 1975 respectively) and some other capitalist countries (such as Argentina and Colombia) have also been exploring the possibility of becoming members.

23 A. Zwass, *Monetary Cooperation between East and West*, White Plains, N.Y., IASP, 1975, p. 251.

24 *East Europe*, Dec., 1967, p. 49 and June 1968, p. 18.

25 Gerda Zellentin, " Institutions for Détente and Co-operation ", *The World Today*, Jan. 1973, pp. 8-15; K. Zabielski, (" Problems of Financial Co-operation "), *Rynki zagraniczne* (Foreign Markets), Warsaw, 9 Oct. 1976, p. 3.

26 Reported in *Rynki zagraniczne*, 15 May, 1976, p. 2.

Capitalist and Socialist countries have participated in the work of a number of international organizations concerned with monetary and financial co-operation. Romania, the SR of Vietnam and Yugoslavia are members of the International Monetary Fund, and it is likely that more Socialist countries will join it (or its reformed successor) in the future. Most Socialist objections to it have either disappeared (the Cold War tactics) or removed (such as the extreme domination by the USA and the dollar).

Even if the present Articles of the IMF are not modified, Socialist membership is quite workable. Article IV, Section 5, provides sufficient tolerance to changes in exchange rates to suit the needs of economic planning. Similarly Article XIV, Section 2 allows an indefinite continuation of exchange control. In fact, the membership of most capitalist countries is justified under this Article. Of the 125 capitalist member countries in 1976, 81 had the Article XIV status (inconvertible currencies) and only 44 conformed to Article VIII (convertibility of currencies).[27] The three Socialist countries (Romania, the SR of Vietnam and Yugoslavia) have the Article XIV status. It is known that at least China, Hungary and the USSR have put out feelers about a possible membership, and other Socialist countries have also shown a good deal of interest in international monetary developments in recent years. The membership of the IMF would enable the Socialist countries to obtain cheap credits in hard currencies and allocations of SDRs.[28]

Other related international organizations which include Socialist and capitalist countries are: (i) International Bank for Reconstruction and Development, Washington - Romania, the SR of Vietnam and Yugoslavia, together with some 120 capitalist countries; its three off-shoots, the International Development Association, the International Finance Corporation and the International Centre for Settlement of Investment Disputes include Yugoslavia in their membership; (ii) Bank for International Settlements, Basel - Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia and 23 capitalist countries; (iii) International Credit Insurance Association, Zurich - Czechoslovakia, Poland and 19 capitalist countries; (iv) International Union of Aviation Insurers, London - Czechoslovakia, Hungary, Poland, Romania, Yugoslavia and 28 capitalist countries; (v) International Union of Marine Insurance, Zurich - Bulgaria, Czechoslovakia, Hungary, Poland, the USSR, Yugoslavia and 27 capitalist countries.

27 *Twenty-Seventh Annual Report on Exchange Restrictions 1976*, Washington IMF, 1976, pp. 516-20.

28 If the Socialist countries were allocated a total quota of 20 per cent (as they roughly should) and if they were treated as other members of the IMF (as of September 1976), they would be entitled to $2,100m. in credits and to $3,300 m. in SDRs (compared with their total international liquidity reserves of about $25,000m.).



## IV. Need for a New World Monetary Order

The international monetary system established under the Bretton Woods Agreement proved of considerable benefit to capitalist countries, as it worked reasonably smoothly for more than two decades and it contributed effectively to the growth of international trade and economic development in general. However, as time went on the system revealed a number of weaknesses when confronted with major problems which could not have been foreseen by its original founders. The Agreement had been largely conditioned by the memories of the monetary instability, deflation, competitive currency devaluation and suicidal bilateralism of the 1930s. The system, based essentially on the US dollar and its convertibility into gold, was wedded to a long-term stability of exchange rates and was unprepared to deal with discrepancies arising in the rates of productivity growth and inflation. It had no viable mechanism for coping with large short-term capital movements and persistent balance-of-payments disequilibria and for the creation of international liquidity.

In addition to these general shortcomings, the IMF has not really been a truly world monetary institution. The USA has always had the dominant voting power as she has been the only country with an effective power of veto in the case of the most important decisions (the so-called " special majorities " requiring 80-85 per cent of total votes).[29] The US dollar was institutionalized as a key currency at par with gold. These facts alone from the start constituted an in-built source of alienation. But more fundamentally, the system was designed primarily for developed capitalist economies, characterized by the operation of the market mechanism, the private profit pursuit,

29 The USA's original voting power was 28.03 per cent but it has been reduced several times since and it stood at 20.82 per cent on 21 May 1973. In July 1969 the European Economic Community (The Six at the time) was accorded an effective power of veto, in the 16 per cent of the votes at that time, when the " special majority " for the Special Drawing Account was raised to 85 per cent. The voting power is based on the following formula (as defined in Article XII, Section 5): 250 votes plus 1 vote for each portion of the country's quota equivalent to 100,000 US dollars of the weight and fineness in effect on 1 July 1944. See J. Gold, op. cit., pp. 146, 149.

single equilibrium exchange rates, convertibility, multilateralism and the absence of exchange restrictions as normal matters of course.

Although some attempts were made to enable the membership of the Socialist countries, in general it was on rather patronizing and humiliating conditions to them and there was no real understanding of the peculiar problems of centrally planned economies. Yet such features as multiple exchange rates (reflecting the two-tier price system), financial and commodity inconvertibility (deriving from the planned allocation and utilization of resources), bilateralism (facilitating the planned conduct of foreign trade) and exchange control (insulating domestic from foreign markets) are all logical and legitimate constituents of the economic set-up in force. All this, further instigated by the Cold War, led to the virtual exclusion of one-third of the world [30] from the international monetary system, which had after all been meant to serve all the member countries of the United Nations.

As is well known, the system as originally conceived at Bretton Woods has ceased to exist, following the currency upheavals of 1967-75.[31] But it must be pointed out that its breakdown was precipitated not by its failure to accommodate the Socialist centrally planned economies, but by its incapacity to cope with the problems that emerged in capitalist market economies themselves. Which shows how anachronistic it had been rendered by the developments since the Second World War and the modern facts of life which have come to stay.

Since 1967 efforts have been made to reform the original system and a number of important changes have been made in the organization and operation of the IMF. A new source of international liquidity, independent of gold and key currencies, has been introduced

30 The 14 Socialist countries represent the following percentage shares of the world totals (as of 1977): foreign trade - 11%, area - 26%, national income - about 30%, population - 32%, and industrial output - about 38%.

31 The most crucial events constituting departures from the original agreement were: Sept. 1967, approval of the proposal to establish Special Drawing Rights (" paper gold ") as a new source of international liquidity; March 1968, a two-tier price basis (official and private) for gold introduced, following the collapse of the Gold Pool; Jan. 1970, first issue of SDRs, their value defined in gold, but inconvertible into gold; Aug. 1971, abandonment of the convertibility of the US dollar into gold; Dec. 1971, first devaluation of the US dollar in terms of gold; Feb. 1973, second devaluation of the US dollar in terms of gold, and departure from fixed exchange rates; Nov. 1973, abandonment of the official price of gold; July 1974, separation of the value of SDRs from gold, their value being based on 16 leading currencies instead; Aug. 1975, abandonment of the obligations of using gold in IMF transactions; the IMF to sell one-sixth of its gold holdings at market prices and return the rest to the member countries.



in the form of SDRs and the prominence of the US dollar as well as of the USA have been substantially reduced. At the same time, several concessions have been made in favour of less-developed countries. The policy-making committee of the IMF, which over the period 1961-72 consisted of the Finance Ministers of the 10 richest Western countries (the " Group of Ten ") [32] has been enlarged since by the addition of 10 other, mostly less-developed, countries [33] (the " Group of Twenty "). The proportion of the total quota commanded by the Third World rose from the original 10 per cent to 37 per cent in 1976,[34] and their voting power has increased even more.

However, in the reforms so far there have been hardly any efforts to make adaptations to answer the special needs of the Socialist centrally planned economies and to enlist their active participation. It appears that time is opportune now to develop a genuine world-wide monetary order whilst the existing system is still in the melting pot. The task can be easier at this stage than it would have been before 1968, when the original system had worked reasonably well, or at a later time when the present establishment solidifies. The international monetary developments have been closely studied in the Socialist countries with interest, concern and anticipation.

The arguments which can be put forward for the reform of the present international monetary system with a view to accommodating the Socialist centrally planned economies are as follows. First, Socialist economic planning has been firmly established in one-third of the world and there is little doubt it is there to stay. Second, most Socialist countries have embarked on economic reforms, in which monetary categories — especially credit, interest rates and financial incentives — have come to play a greater role, similar to that in capitalist economies. They are also committed to the development of realistic exchange rates, convertibility and multilateralism. Third, with the greater operation of the market since the economic reforms and rapidly developing commercial and financial relations with the capitalist world, these countries have a greater need for international liquidity

32 Belgium, Canada, France, the FR of Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States.

33 Argentina, Australia, Brazil, PR of Congo, Ethiopia, India, Indonesia, Iraq, Mexico and Morocco. It may be mentioned that less-developed countries have also formed their own monetary group — the " Group of Twenty Four ", consisting of eight representatives from each of Africa, Asia and Latin America.

34 *IMF Survey*, 19 Jan., 1976, p. 26; *Press Bulletin*, Moscow Narodny Bank, London, 10 March 1976, p. 10.

of the sort which an institution like the IMF can provide most economically in the form of low-cost credits and SDRs. Fourth, the Socialist countries are increasingly interested in international monetary co-operation owing to their rapidly expanding economic ties with capitalist nations. Their trade with the capitalist world has been expanding faster than intra-Socialist foreign trade,[35] they have radically stepped up their borrowing from the West and they have also been extending credits to the Third World. The remarkable growth of production and marketing co-operation and joint ventures are other spheres necessitating closer financial links. Fifth, most Socialist countries are members of the United Nations, and thus they have every right to participate in the formation and work of a vital institution operating under such auspices.[36]

Finally, the Socialist countries have suffered from capitalist inflation, which at least partly has been caused by dangerous policies of some of the leading members of the IMF, especially various discriminatory practices and the large expansion of international liquidity. As long as the Socialist countries are outsiders, they are in no position to prevent repetitions of similar practices. As a Hungarian monetary expert, J. Fekete, observed, " the socialist countries are interested in the reorganization of the Western monetary system also because they would like to avoid the unlashing of trade wars and protectionism on a world scale; such events could occur if we did not quickly and effectively succeed in preventing a renewal of the monetary crisis. We are for the development of East-West relations, for a foreign trade free from discrimination and for joining in the international division of labour on an even wider front. This is why we gladly accept and support every initiative and effort which takes realities better into account than heretofore ".[37]

35 The share of capitalist nations in Socialist foreign trade rose from 20 per cent in 1953 to 49 per cent by 1976. Based on *Yearbook of International Trade Statistics 1963*, New York, United Nations, 1965, pp. 20-29; United Nations *Monthly Bulletin of Statistics*, June 1976, pp. XVIII-XXI.

36 Of the 12 Socialist countries which are members of the United Nations, five are " original " members, viz. Cuba, Czechoslovakia, Poland, the USSR and Yugoslavia — all having joined on 24 Oct. 1945. Albania, Bulgaria, Hungary and Romania joined on 14 Dec. 1955, Mongolia on 27 Oct. 1961, China on 25 Dec. 1971 and the German DR on 18 Sept. 1973. Only three Socialist countries are members of the IMF: Yugoslavia (having joined it in December 1945 as an " original " member), Romania (December 1972) and the SR of Vietnam (September 1976).

37 J. Fekete, " Some Connections between the International Monetary System and East-West Economic Relations ", *Acta oeconomica* (Economic Papers), Budapest, vol. 9, no. 2, 1972, p. 160. In a recent article, significantly entitled " The IMF Must not Be a Royal Preserve of the Richest Capitalist Countries ", another Socialist monetary specialist, Z. Królak of Poland, pointed out: " No effective international monetary system can be evolved without the Socialist countries. This better be realized by all those who are serious about a truly world monetary system. ... It is futile to talk about East-West economic co-operation without first putting the international monetary set-up in order " (*Handel zagraniczny*, No. 3, 1973, pp. 109-10).



From the institutional point of view, the reforms could proceed along any of the following three lines to evolve a viable system for capitalist-Socialist co-operation based on mutual respect.

(a) *The Adaptation of the Present International Monetary Fund.* The existing system could be retained in name, but some of its Articles should be modified and some new provisions added to fully acknowledge the special features and needs of the Socialist centrally planned economies.

(b) *The Creation of a New Integrated World Monetary Institution.* The present IMF could be replaced with a new set-up more radically adapted to the requirements of the Socialist centrally planned economies, so that participation by the Socialist and capitalist countries is based on an equal footing.

(c) *The Formation of a Loose World Monetary Union Co-ordinating Bloc or Regional Monetary Institutions.* Under this set-up there could be a dual system: one for the capitalist and another for the Socialist countries. The present IMF (under a different name, of course) could represent the interests of the former, and the IBEC those of the Comecon countries at least. Each institution could be of an open nature so that some countries might belong to both.[38] Alternatively, the activities of the successor to the IMF could be limited to the West, whilst the Third World might establish a separate institution more suited to its needs. The non-Comecon Socialist countries (Albania, China, DPR of Korea and the SR of Vietnam) could join either the Comecon set-up, or that of the Third World or perhaps, for the sake of symmetry, establish one of their own. A variant of this parallelism would be a coexistence of monetary institutions representing regional monetary areas, each with a collective or dominant key currency. The responsibility for the co-ordination of the policies of the specialized bloc or regional institutions would rest with a " world monetary union ", which would concentrate on problems

38 At present Romania and Yugoslavia are in a similar position. Romania is a full member of the IBEC and she also belongs to the IMF (by a special arrangement), whilst Yugoslavia is a full member of the IMF but she also has an associate status with the IBEC.

of a broader nature and reconcile the conflicting interests of the heterogeneous membership.

It is obvious that if any progress is to be made, both capitalist and the Socialist countries will have to compromise by making reasonable concessions. In order not to be burdened with the legacy of the past, it would be advisable to give a different name to the new institution. It might be, for example, the "World Monetary Fund" or the "World Monetary Union", to indicate that it encompasses the whole world. Similarly, the name of the IBRD might be formally changed to "World Bank"). It might be further advisable to locate the headquarters of the new institution not in Washington, but closer to the Socialist bloc such as Vienna or Belgrade.

In the light of the past experience of the IMF and in particular the criticism levelled against it in the Socialist, less-developed as well as in some Western countries, the future world monetary system should bear the following characteristics.

(a) *The Absence of Domination.* The system should not be dominated by the most powerful countries, whether capitalist or Socialist. The world monetary institution should not be allowed to become a battleground for chauvinistic power politics.

(b) *The World Currency.* No national currency should be used as the world currency, but a distinct unit, the creation and value of which should be controlled by the world monetary institution, and not by individual national governments. Its value should be stable and not exposed to fluctuations in national currencies (the IMF Special Drawing Rights perform this function satisfactorily, except in respect of the stability of value).

(c) *Quotas and Voting Power.* Although contributory quotas ought to be based on the member countries' economic and financial size, their voting power should be more democratic, with a greater weight accorded to poorer and smaller nations than was the case in the IMF in the past.[39]

[39] A recognition of this need is represented by the six (slight and piecemeal) redistributions of quotas, and the consequential voting power, over the period of 1974-76 in favour of less-developed countries. However, even in mid-1976 the 10 richest Western countries (Australia, Belgium, Canada, France, the FR of Germany, Italy, Japan, the Netherlands, the UK and the USA), out of the total membership of 128, enjoyed more than one-half of the total voting power (57 per cent of the total quota); the ratio of the largest (USA) to the smallest (Grenada) quota was 21.53 : 0.01. In the case of the IBEC, on the other hand, whilst quotas are differentiated in the ratio of 116 (USSR) : 3 (Mongolia), the voting power is uniform, i.e. each member country having one vote.



(d) *International Liquidity.* This should not be critically dependent on one or a few national key currencies or gold production. On the whole, the SDRs of the IMF provide a satisfactory source.[40] However, to satisfy the Socialist views on the subject, the creation of SDRs might be linked to gold (in the interest of confidence and anti-inflationary discipline), or the volume of world trade and their distribution should be more equitable to less-developed countries. In the past, the distribution of SDRs was based on the size of the quotas which worked to the advantage of rich countries at the expense of the most needy nations.[41]

(e) *The Provision of Information.* The world monetary institution should treat the Socialist countries' laws on state secrets with greater understanding and be less demanding with regard to the furnishing of information.[42]

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[40] As of August 1976, SDRs amounted to $10,780m., or 4.4 per cent of the total international liquidity reserves held by the IMF countries. See *International Financial Statistics,* November, 1976, pp. 18-20.

[41] As has been pointed out in a Socialist source, the *per capita* allocation of SDRs in 1970 was: UK 4.8, USA 4.1, France 3.4, Japan 1.4, Brazil 0.7, Nigeria 0.3, India 0.08. E. DRABOWSKI, ("Problem of the Distribution of Income from the Creation of International Liquidity"), *Ekonomista* (The Economist), Warsaw, no. 3, 1975, p. 619. Arguments for combining the distribution of SDR with economic aid have been advanced by a number of economists in capitalist countries, too; see, e.g., G.K. HELLEINER, "The Less Developed Countries and the International Monetary System", *Journal of Development Studies,* April-July 1974, pp. 347-73; T.S. PARK, "The Link between Special Drawing Rights and Development Finance", *Essays in International Finance,* No. 100, Princeton University, 1973; see also R. TRIFFIN, "The Use of SDR Finance for Collectively Agreed Purposes", and for an opposite view G. HABERLER, « The Case Against the Link » both in this *Review,* March 1971.

[42] Under Article VIII, Section 5 of the IMF Agreement, each member country is obliged to supply information on a regular basis on the holdings of gold and foreign exchange, the production, export and import of gold, the export and import of merchandise by value, destination and origin, the balance of payments (including invisible items and the capital account), foreign indebtedness, national income, price indexes (wholesale and retail, export and import), exchange rates (buying and selling rates) and the details of current exchange controls. However, although Yugoslavia has been supplying all the required information, Romania has not as she has been granted a special status (and the SR of Vietnam appears to be in the same category as Romania).