The shepherd, the herd and the maverick – recent literature on CMEA

By Kristian Gerner

Kristian Gerner is a Lecturer at the Department of History, University of Lund.
Address: Magle Lilla Kyrkogata 9 A, S-223 51 LUND, Sweden.

Out of obscurity

What is CMEA? Posing this question to a West European or American intellectual in the 1950s or 1960s, one would probably have got the answer "I don't know". The *Council for Mutual Economic Assistance* at that time was known in the West not by its proper name, but by the catchword "Comecon". The organization was perceived as a kind of Communist common market, subservient to Soviet great power interests. It was usually dismissed as just another means of Soviet exploitation of the USSR's Central and East European allies. The mane "Comecon" was part of the Cold War vocabulary in the West.

In the 1970s there was a thaw in East-West relations. The Federal Republic of Germany normalized her relations with the USSR, Poland and the other East European states. The trade between East and West grew significantly, although on a bilateral, country-to-country basis. The interest in the functioning of the socialist economies and not the least of their foreign trade mechanisms grew among Western politicians, businessmen and social scientists. The question "what is CMEA?" now is being posed with the aim of getting substantial answers. And research in the West has been substantial.

The volumes of papers under review here treat the European members of the CMEA, i e, the USSR, Bulgaria, Czechoslovakia, the GDR, Hungary, Poland, and Rumania. The Nove-Hohmann-Seidenstecher collection has chapters on Albania and Yugoslavia as well. Taken together, this and the Marer-Montias volume present a valuable overview of the economic structure and the trade patterns of the European socialist states. They are clearly problem-oriented and attempt to use contemporary Western social science tools of analysis in order to make their findings comparable with what we know about the workings of different mechanisms – investment policy, prices, flows of capital and labour – in capitalist market economies. While the Marer-Montias collection is the most deliberately comparative one, the Nove-Hohmann-Seidenstecher volume is stressing the problems of each East European country with a clear ambition to depict and analyze these problems from within, from the perspective of the decisionmakers and economists of the country in question. The NATO-volume has a narrower scope – the energy question – and is more future-oriented than the other two, besides being interested in the political implications of the development prognosticated. All this is quite natural, given the institutional background of the colloquium in Brussels (April 8–10, 1981), where the papers were first being presented.

CMEA changes

It is evident, not the least from the analyses in the Marer-Montias and Nove-Hohmann-Seidenstecher volumes, that the question "what is CMEA?" has to be answered differently not only with regard to the position, and hence perspective, of the observer, but also with regard to point of time. The CMEA of 1949 is different from that of the 1980s.

When CMEA was originally established in 1949, it was depicted as a means to help the socialist states overcome the drawbacks inflicted on them by the US trade boycott and by the indrances to East–West trade generally at the height of the Cold War. The association remained more or less a paper organization, however. The period up to Khrushchev's destalinization policy and the upheavals in Poland and Hungary in 1956 really was characterized by Soviet economic exploitation of the East European states, especially the GDR. On the basis of careful calculations Marer (in an earlier work) came to the conclusion that the magnitude of the net flow of resources from East Europe to the USSR was of the same order as that from the United States to West Europe under the Marshall plan.[1] It is worth while noting in this context that after the

Polish October in 1956, the Soviet leaders granted Poland a so called "loan forgiveness", i e, cancelled the Polish debts to the USSR and gave her compensation for her underpriced coal export to the USSR.[2]

The convictions of ordinary East European citizens notwithstanding, the interrelationships within CMEA after 1956 have been "much more intricate", as William Zimmerman has observed, adding that most Western economists have agreed with their Soviet colleagues that the USSR, as an exporter primarily of raw materials, in the period after 1956, was being exploited economically by her junior partners. The terms of trade agreed upon within CMEA, worked to the disadvantage of the Soviet Union up to the 1973 OPEC price increases on oil.[3] After that, there was both a sharp rise, although with a time lag, in Soviet oil prices in CMEA and restrictions on the purchases of oil in the CMEA currency, transferable rubles (TR): the East European states had to buy additional oil from the Soviet Union on the spot market and pay in US dollars.[4]

Under Khrushchev, the USSR attempted to upgrade CMEA as an economic community, aiming to introduce economic specialization or "division of labour" within the association. This would have meant a break with the prevalent Stalinist model, which had prescribed a *similar* economic policy and structure in all the East European states, aiming to make them small copies of the USSR, almost autarchic and with concentration on heavy industry and armaments procurement. Romania, however, refused to adhere to the new signals and Khrushchev's initiative petered out.

In the meantime, EEC showed signs of vitality in Western Europe. Its member states, and US-based transnational cooperations, showed interest in increased trade with, and capital export to the CMEA states. The latter ones were slow in recognizing EEC as an actor but were, on the other hand, in some instances eager to strengthen the relations with the Western capitalist states in order to receive modern technology, credits and certain consumer goods. In the late 1960s and the early 1970s several of the CMEA states were struggling with declining growth figures at the same time as the expectations for welfare were still increasing among the population. The latter was eager to cash the *in blanco* checks of prosperity which the communist leaders had emitted so generously to account for the hardships imposed on the subjects under the Stalinist industrialization and collectivization drives. Smoothing out the premature Czechoslovak aberration in 1968 with the help of Warsaw Pact troops, the Soviet leaders anyhow realized that the hour of change had struck. The CMEA states had to set out for so called "intensive" growth to counter economic stagnation and concomitant risks of political instability. It might be detrimental to long-term Soviet security interests to rule the whole bloc with the methods applied in Czechoslovakia. The economic reform in this country was aborted, but the economic price had to be paid also by the Soviet Union.[5] Would it not be wiser to let all the countries pay for themselves, or, better still, make them help the USSR exploit its natural resources, to mutual benefit?

"The Comprehensive Programme" and its effects

It is at this juncture, the problems facing the political leaders in the USSR as well as the economists in all the CMEA states in the early 1970s that both the Marer-Montias and the Nove-Hohmann-Seidenstecher volume take off. In the opening chapter to their volume, Marer and Montias point to the different vieww about the future of CMEA held by the interested parties in the late 1960s, i e, when an economic reform of some kind seemed desireable. While especially Hungarian economists were in favour of greater reliance on market mechanisms to promote integration within CMEA and thus advocated regional specialization and wide national autonomy for each participant state, Soviet economists pleaded for traditional socialist central (national) planning writ large. The outcome of the debate was the 1971 *Comprehensive Programme* for socialist integration. According to Marer and Montias, the Programme was a compromise between the extreme views, with its emphasis, however, on joint planning and joint investment projects. The most important compromise, i e, from the Soviet point of view, was the insertion into the Programme of the "interested party principle", permitting members to take part only in CMEA projects of material interest to themselves.[6]

Taken together, the papers in the Marer-Montias volume make clear that there has not been any real economic integration of the CMEA states. There has been an "extremely low" mobility of labour and capital, i e, of factors of production, between the members. With empirically well founded econometric analyses, most notably Vanous's chapter "An Econometric Model of Intra-CMEA Foreign Trade", it is demonstrated that, although bilateralism is the rule and trade flows, accordingly, are not "integrated"[7], this bilateralism is not balanced, most probably because of the fact that while the trade between each pair of the six smaller European CMEA states is balanced, their trade with the Soviet Union, their great supplier of fuel minerals, is not.[8]

One way for the junior CMEA states to make good for their deficit in the trade with the USSR, is to supply capital, labour and equipment to joint CMEA projects for the extraction and transportation of natural resources, most notably fossil fuels, in the Soviet Union. As Korbonski notes in his chapter on Poland and the CMEA in the Marer-Montias volume, common projects of this kind may be seen as having mainly benefitted the USSR at the cost of the others. An attempt by the Polish government in the early 1970s to divert capital from the other CMEA states for investment in brown coal de-

posits in central Poland, was a failure. Poland turned to the West for credits.[9]

This last observation highlights an important factor in post-1971 CMEA development. In spite of the declarations of the Comprehensive Programme, the leaders of the different CMEA countries, and not least those of the USSR, turned to the capitalist West for capital and new technology. This became an alternative to an economic decentralization, which might have affected political decision-making and jeopardized the position of party *apparatchiki* and bureaucrats – this is valid especially for the Soviet Union. But it was also a means of preserving a certain degree of autonomy in national economic policies – this goes for the smaller East European states with the exception of Czechoslovakia. As Hanson notes in his case study of the impact of the import of Western technology on Soviet mineral fertilizer industry:

> "it is easy to see that Western technology can exercise a strong magnetic effect on Soviet trade, and on the trade of the East European countries, tending to pull the CMEA countries away from intra-CMEA dealings. – – – the acquisition of Western technology has given no obvious stimulus to intra-CMEA transactions."[10]

The Western connection, then, tended to impede the further integration of the CMEA economies.

But this was not all. According to Korbonski, the trade with the capitalist countries actually strengthened centrifugal tendencies within CMEA. Enterprises and individual managers and officials competed with each other on the Western market in both exports and imports, "underbidding each other to gain a foothold for their exports or to obtain better credit terms". It turned out that enterprises in individual CMEA states could do business more easily with capitalist firms than with companies in other CMEA states.[11]

The trade with the West, then, was not only a substitute for economic reforms, as Zwass rightly observes in a comment on Korbonski.[12] It also became a substitute for CMEA integration.

CMEA integration? From its very beginning, the development of CMEA has been hampered by its lop-sided structure, i e, the preponderance of the USSR. The Soviet Union has got roughly two thirds of both the population and the total national product of the European CMEA aggregate, and more than 90 per cent of the crude oil, natural gas and iron ore resources.[13] Good for the USSR. But this very fact makes the junior European CMEA members very sensitive to further inroads into what is left of economic autonomy. They tend to regard every Soviet proposal of supernational planning and coordination of production as a veiled threat of *de facto* incorporation into the Soviet Union. Here one encounters a paradox, or what may look as one at first glance: in order for centrally planned economies to integrate themselves with each other, they must either change themselves into *one* economy or – cease to be centrally planned economies. Without a single, central plan, national plans will not fit. Without a market, regulated by demand and relative scarcity and not by arbitrarily imputed costs of production, i e, without a market operating with real prices, there is no possibility of effective – optimal – use of capital, labour and natural resources in the individual countries.[14] "Integration" would be of no avail, meaningless.

The obstacles to CMEA integration is neither that the Soviet Union is so heavy, compared to the others, nor that the planners do not know their job. The heart of the matter is the lack of a meaningful, comparable price system and of currency convertibility within CMEA. Brainard in a chapter on CMEA financial systems in the Marer-Montias volume shows that the TR-system has been a distinct failure, actually functioning as a "major barrier to CMEA integration" by furthering bilateralism. Brainard concludes that trade with the help of convertible currency, i e, US dollars, West German marks and so on is working much better within CMEA. All three discussants of Brainard's paper agree on these crucial points.[15]

The recurrent remarks about the shortcomings of the price system(s) in CMEA almost amount to a litany in the Nove-Hohmann-Seidenstecher volume. In his chapter on the USSR, Nove stresses the (negative) importance for the workings of the economy of the fact that the prices reflect cost and not demand, scarcity or utility.[16] Melzer, writing on the GDR, depicts "an inadequate system with completely distorted relative prices".[17] Feiwel notes, in his chapter on Bulgaria, that in spite of reform attempts, prices remain arbitrarily set.[18]

Hungary – the maverick

There is an exception to the rule: Hungary. There an economic reform, geared towards decentralization and market mechanisms, was inaugurated in 1968, much along the lines suggested simultaneously in the Czechoslovakia of the "Prague spring". The Hungarian reforms were called the New Economic Mechanism, NEM. In the volumes under review, only one chapter in the Nove-Hohmann-Seidenstecher collection deals with Hungary. Here, hardly surprising but very telling. Vajna mentions that prices are so important in the NEM conception that to some "price policy constitutes the core of the reform". But even here, an insufficiant degree of competition, because of the limited and partly protected domestic market for many products, together with imperfections in actual cost calculations, "disrupted the allocation function of prices". In the early 1980s, however, Vajna remarks, the price conceptions, aiming at integrating the Hungarian prices with those in the capitalist world market, are being realized much more actively than before.[19]

When trying to adapt to world market prices, Hungary was hard hit by the oil

price rises in 1973 and 1979. The "Golden years" 1968–1973 with an annual growth of 7 per cent were followed by almost zero growth in 1979–1981. Due to the increase in oil prices, Hungary's terms of trade deteriorated with 20 per cent between 1973 and 1980. This amounted to a loss of 10 per cent of the national income. Hungary is continuing her price reforms nevertheless. The motivation is, with the words of the head of the Hungarian Materials and Prices Office, Csikós-Nagy, that "monetarization" of the economy is the best way of accelerating the reform programme.[20]

Although Vajna gives a fair and pertinent analysis of the Hungarian reform policy up to the early 1980s, it is not quite clear neither in this volume nor in the other two under review, how outstanding the Hungarian example really is. While the chapters by Nove, Korbonski and Melzer, mentioned above, as well as the chapters by Brus (on Poland), Kosta (on Czechoslovakia), Kaser and Spigler (on Romania) and Singleton (on Yugoslavia), all in the Nove-Hohmann-Seidenstecher volume, and the chapters by Montias (on Romania) and Shabad (on the USSR), both in the Marer-Montias volume, give the by now common, gloomy picture of economies in decay, deliberately depriving themselves of their best economists (this goes especially for Poland and Czechoslovakia), Vajna's chapter on Hungary is different, as any chapter on Hungary must be.

Not that the position of Hungary is not precarious. It is. Vajna's analysis draws up to 1979. His conclusion – forecast – is that Hungary will continue with her socialist market economy, "with more or less success according to the world economic situation".[21] Hungary, while being, of course, still a member of CMEA, is tying herself to the capitalist world economy. This economy now is in a state of deep recession. It is interesting to register the Hungarian reaction in face of these "objective difficulties".

Discussing the necessity – for an economy as dependent on foreign trade as Hungary's – of fitting CMEA into the international monetary and price system, Csikós-Nagy argued en 1982 that "in contrast with earlier ideas, the CMEA countries have to take initiatives separatedly". The Hungarian ones aim at making the forint convertible.[22] It is to be remembered, when discussing the Hungarian way, that the alternatives that the decisionmakers in the CMEA countries faced were either to rationalize and relax the administratively planned economy, or to introduce a socialist market economy. Hungary and Czechoslovakia chose the second way in 1968, but Czechoslovakia was soon forced to leave it. She had to adopt the first alternative, thus joining the remaining CMEA countries. The positive results of this way have been meager indeed, as Hohmann points out.[23] Poland is the best known and most obvious case, of failure but Czechoslovakia and Romania are not far behind on the road to disaster.[24]

Viewing the problem from an all-CMEA perspective, Marer and Montias describe the necessary choice as one between imposing supranational authority over the members and developing comprehensive economic reforms. The latter must consist in economic – not just administrative – decentralization, change of the price mechanism, and making the currency convertible.[25] Only Hungary has chosen the second alternative. The consequences are far-reaching, as noted by Hungarian economists. The director of the Hungarian Institute for World Economy, Bognár, has underlined that Hungary's further adaption to the world economy is necessary for the country's survival. This adaption is not just a matter of the economy but entails "substantial" changes in the social and cultural structure and in the organization of science. The former stability, based on the international isolation of the country, is gone, and the regime must find new ways of integrating society.[26] The stakes are high, as was spelled out in 1982 by another economist working in Bognár's institute, Béla Kádár, in an article with the telling title "Preparing to meet the challenge".

Kádár noted that the decision from 1977 to continue the economic reforms were given new emphasis in a Party resolution in June, 1982. He concluded:

> "The reform policy has to take into account that a switch to a more competition-oriented growth course or social environment clashes with the conditioning of several decades, and in the absence of suitable preparation is likely to produce more, and make more visible successes and failures. Society has to be psychologically prepared, and armed with a new set of values to accept the more conspicious success of a few, and to bear the inevitable failures and conflict situation. That is (,) a broad transformation of social views has to take place. – – – It is increasingly recognized today that the success of the reform, cutting short the phase frought with the most severe ordeals, ultimately depends on the extent to which society is able to shape the non-economic conditions of progress."[27]

As both Korbonski's and Brus's analyses were completed before the Polish August in 1980, there is no discussion in the volumes under review of Solidarity's and KOR's programmes. It should be noted, however, that the leaders of the reformist opposition in Poland in 1980–1981 were well aware of the importance of the broader cultural, social and political implications of deep-going economic reforms, i e, the factors the Hungarian economists have pointed to.[28]

It is a commonplace to note the obvious truth that the Hungarian NEM was a parallel to what the Czechoslovak reformers 1968 tried to accomplish. In a quiet way the Hungarians have done with the Czechoslovaks were forbidden to do. It has been pointed out that the political setting was different and working in Hun-

gary's favour. Imre Nagy had not, in 1956, contaminated the idea of economic reforms, as he did not propose any, and by 1968 Kádár had a firm political control over all groups of the population. The most recent development suggests that the Hungarians now – quietly, again – are doing also what the Poles were forbidden to do in 1981. The combination and concrete actions of the social classes have been different in the two cases, but the substance of cultural, social, and hence political change, seems to be similar.

It is also a commonplace to note that petty – and not so petty – corruption has become almost endemic in the centrally planned economies. Poland and Bulgaria are especially mentioned in the books here under review, but the phenomenon is well documented also regarding the USSR.[29] Economic corruption probably is a structurally determined effect in a centrally planned economy without mass terror.[30] Trying to fight it with exhortations and slogans most probably will not be successful. Again, it is instructive to look at the Hungarian example. Csikós-Nagy frankly admits that the rise of the so called "second economy" was a result of "the traditional organization of the socialist economy", adding that "the new forms of organization may be considered as a method to reduce the second economy; to make a number of previously illegal activities legitimate".[31]

Curse or blessing – or both?

Both the Marer-Montias and the Nove-Hohmann-Seidenstecher volumes contain analyses which give valuable insights into the intimate relationship between economy and politics in the European CMEA countries (and in Yugoslavia and Albania as well). Abonyi and Sylvain (in the Marer-Montias volume) observe that previous research on CME "has suffered from a lack of communication between political scientists and economists". They note that "integration" has been an object of research for political scientists but criticicize both the "ne-funcionalist" and the "transactions-communications" approaches for being Western ethnocentric. They argue that as the countries making up CMEA were "mobilization regimes", theories built upon notions of mutual material benefits (nee-functionalism) or a sense of common identity (transaction-communication approach) are not the appropriate tools of analysis. They opt for *dependence* theories as more useful.[32] The reasons are good, being just the top-heavy, autarchic structure of mobilization regimes but also the relative weight of the USSR, which tend to make relations between the Soviets and the other CMEA members relations of dependency; Caporaso, in a rejoinder to Abonyi and Sylvain, choses the term *interdependence* as a substitute for the mis-nomer "integration".[33] It is strange, however, that none of them refers to the pioneering work of Zimmerman, who has actually tested dependency-approaches in analyses of CMEA – and done so successfully.[34]

Except stating that the trade structure in CMEA is characterized by a flow of fuels and raw materials from the USSR to the other states in exchange for products of the process industry, and that the terms of trade have been deteriorating for the smaller states, which are poor in raw materials and oil, the volumes under review do not give a conclusive answer to the question, whether belonging to the CMEA has been a blessing or a curse for the East European countries. The question is difficult to answer in an unequivocal way, as the answer will depend on which alternatives are suggested. That it is not a case of outright Soviet economic exploitation is clear, but the matter is not settled with this observation. Perhaps the best expression of what might reasonably be said has been made by Vanous, in an article published recently.

Vanous underlines that economic relations are subordinated to political expediency within CMEA. On the one hand, the USSR has subsidized the other states in the bilateral trade, thereby helping them to reach a higher economic level that would have been possible otherwise, given the established economic model. On the other hand, the Soviet subsidies can be viewed as a kind of payment for continued restrictions on national sovereignty. The blessing thus is mixed, to say the least. Vanous argues that an independent Eastern Europe, free to restructure her internal and external economic relations, would be more productive than she is today. The trade subsidies probably do not compensate for the low productivity of the economic system, which has been enforced upon the other European CMEA states by the USSR: "Without necessarily intending to do so, the Soviet Union may have seriously damaged the ability of East European economies to become competitive and thereby have threatened their long-term viability."[35]

The results of the analyses in the Marer-Montias and Nove-Hohmann-Seidenstecher volumes implicitly suggest, and Vanous explicity states that the basic rationale behind CMEA is not economic, but political. It should be viewed, primarily, as part of the USSR's political security system and not as an East European counterpart of the EEC. This interpretation, by the way, makes Hungary's "deviation" explicable. She may turn her back to CMEA, in certain respects, as long as she remains politically loyal to the USSR and a trustworthy member of the Warsaw Pact, as long as economic pluralism is not accompanied by political pluralism.

CMEA 1949 and in the 1980s: full circle

It should be noted regarding the NATO-colloquium volume on CMEA energy prospects that the focus of interest is on the main supplier, the USSR. The uncertainty of the data concerning the Soviet reserves of fossil fuels is stressed. The international political implications of the recent Soviet policy of letting the smaller CMEA countries turn to the world market to satisfy part of their demand, is discussed. Professor Cobb, from the US Military

Academy at West Point, concludes that the Soviet Union now is becoming "a major actor in international energy flows". He is of the opinion that the Soviet leaders will "intertwine" the raw material base of their country with its military power into "a viable security instrument".[36] This should be compared with CIA-analyst Watson who, in his chapter on East Europe, is hypothesizing that the limits being put on Soviet oil export in low prices in CMEA-currencies to the other CMEA countries will hit those hard and probably cause GNP per capita to decline in countries such as Czechoslovakia, Hungary, and Poland.[37] The gist of the arguments from the analysts within the US military and security communities is that the Soviet Union is not inclined to let the interests of the smaller CMEA states hamper it in its attempts to use its fuel and raw material resources as assets in the global competion with the United States.

The three volumes offer valuable reading about CMEA as a totality, the individual European socialist economies, and the energy situation in CMEA, respectively. Perhaps the most important overall conclusion to be drawn from the different analyses is that CMEA shall not be viewed as a counterpart to EEC in any important aspect. It was set up for different reasons. It continues to serve different ends.

Plus ca change, plus c'est la meme chose.

Books reviewed:

East European Integration and East–West Trade. Ed by Paul Marer and John Michael Montias (Bloomington, IND; Indiana University Press, 1980). "This book is based in part on some of the papers and formal discussions originally presented at the Conference on East European Integration and East–West Trade, held at Indiana University in Bloomington between October 28 and 31, 1976, and in part on additional studies commissioned after the conference."

The East European Economies in the 1970s. Ed by Alec Nove, Hans-Hermann Höhmann and Gertraud Seidenstecher (London: Butterworths, 1982). "This book originated in a project sponsored by the Federal Institute for East European and International Studies, Cologne, Federal Republic of Germany."

CMEA: Energy, 1980–1990. Colloquium, 8–10 April 1981, Brussels (Newtonville, Mass; Oriental Research Partners, 1981). "The annual Colloquium, held on 8–10 April 1981 at NATO Headquarters, sponsored by the Economics and Information Directorates, benefited from the participation of noted academics, businessmen and government officials . . . "

Notes:

1 P Marer, "Soviet Economic Policy in Eastern Europe", in *Reorientation and Commercial Relations of the Economies of Eastern Europe,* Joint Economic Committee, Congress of the United States (Washington, D C; Government Printing Office, 1974) p 144.

2 A Korbonski, "Poland and the CMEA: Problems and Prospects", in *East European Integration . . .* , p 379. See also M Lidert, "Bakgrund till Polens säkerhetspolitik". *FOA-rapport* C 10178-M3 (Stockholm, 1981) p 31, and *Sprawy Miedzynarodowe* (Warsaw 1981), No 11, pp 11 ff.

3 W Zimmerman, "Dependency Theory and the Soviet-East European Hierarchical Regional System: Initial Tests", in *The Foreign Policies of East Europe. New Approaches.* Ed by R H Linden (NY, NY: Praeger, 1980), pp 174 ff.

4 B Csikós-Nagy, "Development Problems of the Hungarian Economy", in *The New Hungarian Quarterly* (Budapest 1982), Vol XXIII, No 88, p 76.

5 V Kusin, "Husák's Czechoslovakia and Economic Stagnation", in *Problems of Communism* (Washington, D C, 1982), Vol XXXI, No 3, pp 24 ff.

6 P Marer, J M Montias, "Theory and Measurement of East European Integration", in *East European Integration . . .* , p 23.

7 Cf the conclusion ". . . bilateralism is still the rule inside CMEA" by M Bornstein, "Soviet-East European Economic Relations", in *East-West Relations and the Future of Eastern Europe, Politics and Economics.* Ed by M Bornstein, Z Gitelman, W Zimmerman (London: George Allen & Unwin, 1981), p 118.

8 J Vanous, "An Econometric Model of Intra-CMEA Foreign Trade", in *East European Integration . . .* , pp 189 ff.

9 Korbonski, op cit, p 364. Cf A Zwass, "Discussion", in *East European Integration . . .* , p 384, and W Brus, "Aims, methods and political determinants of the Economic Policy of Poland 1970–1980", in *The East European Economies . . .*, p 105.

10 Ph Hansson, "Impacat of Western Technology: The Soviet Mineral Fertilizer Industry", in *East European Integration..*, p 280.

11 Korbonski, op cit, p 362.

12 Zwass, op cit, p 383.

13 Marer–Montias, op cit, p 28.

14 *Ibid,* p 33.

15 L J Brinard, "CMEA Financial System and Integration", in *East European Integration . . .* , pp 136 f Cf F D Holzman, M Allen, A Zwass, "Discussion in ib, pp 139 ff.

16 A Nove, "USSR: Economic Policy and Methods after 1970", in *The East European Economies . . .* , pp 27, 33.

17 M Melzer, "The GDR – Economic Policy Caught between Pressure for Efficiency and Lack of Ideas", in ib, p 81. See also p 45.

18 G R Feiwel, "Economic Developement and Planning in Bulgaria in the 1970s" in ib, p 239.

19 Th Vajna, "Problems and Trends in the Development of the Hungarian New Economic Mechanism: a Balance Sheet of the 1970s", in ib, pp 182, 208.

20 Csikós–Nagy, op cit, pp 74 f, 83.

21 Vajna, op cit, p 212.

22 Csikós-Nagy, op cit, pp 85 f.

23 Hohmann, op cit, passim.

24 M Kaser, I Spigler, "Economic reform in Romania in the 1970s" and J Kosta,

"Aims and Methods of Economic Policy in Czechoslovakia 1970–1978", both in *The East European Economies . . .* , M Bornstein, "Comparing Romania and Poland: a Summary", in *Easte European Integration . . .* , pp 390 ff, argues that Romania's economic problems are similar to those of many rapidly developing 3rd World countries and, consequently, not as grave as those of Poland. – It should be borne in mind that the situation of many developing countries is not especially hopeful either.

[25] Marer–Montias, op cit, p 33.

[26] J Bognár, "Global Economic Security and Growth", in *The New Hungarian Quarterly*, Vol XXI, No 79 (1980), pp 13 f, 20.

[27] B Kádár, "Preparing to Meet the Challenge", in *The New Hungarian Quarterly*, Vol XXIII, No 88 (1982), pp 98 ff.

[28] For a broad overview and a deep-going analysis of these problems in the Polish case, see *J Staniszkis,* Pologne. La révolution autolimitée (Paris: Presses Universitaires de France, 1982).

[29] See *K Simis*, USSR: Secrets of a Corrupt Society (London: J M Dent & Sons, 1982).

[30] The CPSU tri-weekly *Kommunist* in late 1982, in an article printed after the instalment of Mr Adropov as Party leader, came very close to admitting this when it was praising Stalin's purges and discussed the continued necessity of harsh means to combat corruption in the USSR. See "Peredovaya. V etom nasha sila", in *Kommunist* (Moscow, 1982), No 18, pp 5 ff.

[31] Csikós-Nagy, op cit, p 82.

[32] A Abonyi, I J Sylvain and J A Caporaso, "Political Economy Perspectives on Integration", in *East European Integration . . .* , pp 79 ff.

[33] *Ibid*, pp 81 ff.

[34] See Zimmerman, op cit, and W Zimmerman, "Soviet–East European Relations in the 1980s and the Changing International System" in *East–West Relations . . .* , pp 87–104.

[35] J Vanous, "East European Economic Slowdown", in *Problems of Communism*, Vol XXXI, No 4 (1982) p 8.

[36] T W Cobb, "Energy and East–West Relations", in *CMEA: Energy, 1980–1990*, pp 175–214.

[37] R A Watson, "The Outlook for Energy and Economic Growth in Eastern Europe", in *CMEA: Energy, 1980–1990*, pp 277–300.

The Rio Tinto Company. An economic history of a leading international mining concern, 1873–1954 by Charles Harvey, Alison Hodge, 1981.

The Rio Tinto-Zinc Corporation Ltd (RTZ) is probably one of the largest mining companies in the world. From its headquarters at No 6, St James Square in London it has spread its activities all over the globe. The present company derives from the old Rio Tinto Company, which was formed in 1873 to work the pyrite deposits in southern Spain. The modern multinational – RTZ – was established through a merger with the British company Consolidated Zinc Ltd in 1962, for joint exploitation of Australia's iron ore and bauxite and the huge copper deposits in Papua New Guinea.

Apart from being one of the largest mining companies in the world, RTZ is probably also one of the most anonymous. Very little has in fact been written on the economic history of the company from its birth as the Rio Tinto Company and the development towards a giant multinational mining corporation. The book under review here is therefore most welcome as it fills a gap in our knowledge. In his book, Charles Harvey tells the story of the formation of the original company and its development up to 1954, when it finally pulled out of Spain.

Harvey's book has two major objectives; firstly, to discuss the formulation of corporate strategies and their relation to the organization and management of the enterprise; secondly, to assess the performance of the company according to the major strategies that conditioned its development. The period under study is divided into two parts, 1873–1925 and 1925–1954. The basis for this periodization is a major shift in strategical approach that took place in the mid-20s. As the early activities of the company was based on the extraction of copper and sulphur from the pyrite ores of Spain, a large part of the book is devoted to the interrelationship between the company and the host government during different phases in Spain's economic and political history.

In Chapter 1 the events leading to the formation of the company are presented. Harvey argues against the opinion of some Spanish economic historians, which maintain that the government sold the mining rights too cheap to British interests and thus inflicated major damage to the Spanish economy. His own data, however, demonstrate that, at least up to 1914, the company did not make a very significant contribution to the Spanish economy. Using the returned value concept Harvey demonstrate that the main beneficiaries were the economies of Britain and France rather than Spain. Determined action by the company to suppress wage raise demands, as well as minimizing the share of sales revenue accruing to the government, was very successful and accounted for the low returned value.

Up to 1925 the board of Rio Tinto had been guided by three principles for running the mines:

- Maintain a high share of the international market for copper.
- Maintain prices above long-term production costs.
- Reduce unit costs as much as possible.

Full exploitation of the mines in Spain was the chief objective and systematic diversification was hardly considered. But

after 1925 horizontal as well as vertical diversification received much more priority. According to Harvey the major explanation for the change in strategical approach was the appointment of Sir Auckland Geddes as chairman of the board in 1925. Increased competition in the world copper market was of course another contributing factor. From the end of the 19th century increased merger activity had brought companies like Anaconda, Calmut and Hecla, Phelps Dodge and Kennecott, to very strong market positions and the hegemony of Rio Tinto in the world copper market was seriously threatened.

In political terms Rio Tinto's relationship to Spain was fairly stable and beneficial to the company until the era of Francoism began. After the civil war a nationalist financial and industrial oligarchy emerged and came to exercise a substantial influence on the policy formulation of the regime.

Partly because of the very fragile economic situation in Spain after the civil war, and partly because of the policies vis-a-vis foreign capital adopted by the Franco regime, Rio Tinto began to find it increasingly difficult to run the mine. Already in 1943 the board of Rio Tinto started negotiations with different Spanish banks concerning a sale of 66 per cent of the mine. After several failures a sales agreement was finally signed in 1954 and a Spanish company, *Companhia Espanola de Minas de Rio Tinto SA,* was formed, where Rio Tinto held a 33 per cent interest. Rio Tinto could thus realize valuable assets that could be put to productive use in other parts of the world.

The global expansion

When the profitability of the Spanish assets had begun to decline, the company was more than compensated by the engagement in Rhodesia's copper belt. Originally Rio Tinto had not been involved in the opening up of Rhodesia's copper wealth. But as US capital began to seriously threaten British and South African interests, Ernest Oppenheimer, head of the Anglo-American empire, tried to raise new capital to combat the Americans by inviting Rio Tinto and the Rothschilds. Once the door had opened, Rio Tinto moved quickly, and managed to acquire a dominant position in Rhodesian copper mining in association with Oppenheimer. The Rhokana Corporation, the final result of a series of merger activities bringing together various smaller Rhodesian mining firms, was a joint undertaking between Rio Tinto and Oppenheimer's Rhodesia Anglo American Corporation. Rio Tinto held around 25 per cent of the issued shares in Rhokana, but nevertheless managed to play an important role in directing the activities of Rhokana.

When Mark Turner became chief executive in 1947 a new era of expansion was initiated. Projects were started up in South Africa, Uganda and Portugal. The experiences gained from the post-civil war period in Spain came to influence the formulation of the new strategy. Investments should be made only in politically stable countries; minority shares should be offered to local interests and subsidiary companies should be more independent in their decision making thus, by 1954, the ground had been laid, both strategically and structurally, for the transformation of Rio Tinto into a modern multinational enterprise.

Conclusions

What are the general findings of Harvey's book? According to himself there are primarily four:

- In most business studies too much attention has been given to high level managerial activity. The Rio Tinto case shows how low order activities have been quite influential in shaping the longterm health of the company.
- Dominant minority shareholders can profoundly influence business strategies.
- The British government was quite committed to support the interest of British companies working overseas.
- Public relations activity is essential for the success of several industrial projects.

None of these findings seems particularly interesting. This is not surprising, however, as Harvey's main ambition is to tell the story of Rio Tinto in a straightforward empirical manner. He does not embark on any theoretical adventures, which I think is unfortunate. An attempt to put the study within a theoretical framework, for example within a theory on the internationalization of capital, would probably have enabled him to structure and problematize his study in a much more interesting way. As it stands now Harvey's outlook is from the boardroom. This perspective leads him to concentrate a lot of attention on the activities of leading company executives. The primacy attached to the decision making of the board is, for example, reflected in the periodization of the company's history. The first phase ends in 1925 when Geddes takes over as chairman of the board. A new expansionary phase is entered in 1947 when Mark Turner becomes chief executive and Val Duncan's entry on the stage represents the present phase.

By applying a board room perspective, Harvey quite often tends to regard the action of the leading executive as a major explanatory variable. In my opinion this is a very limited approach for understanding the process whereby an mining company develops into a modern multinational conglomerate.

However, if we judge Harvey's book for what it is – a detailed story of the economic development of Rio Tinto through the eyes of the management, it obviously has several merits. Harvey was given access to previously unutilized and unaccessible source material in the archives of the Rio Tinto-Zinc Corporation. The material is skillfully handled and the story is well told. The study therefore has a substantial informative, but less so analytical, value.

Jerker Carlsson
Department of Economic History
University of Gothenburg
Sweden