Chapter 6

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BILATERALISM AND CONVERTIBILITY IN THE SYSTEM OF THE CMEA FOREIGN EXCHANGE RELATIONS

1. International Settlements of the CMEA — member Countries The Stages of Development

The system of payments in the socialist countries as it developed after World War II was in its first stage of development a domain of bilateral clearing agreements. All intra-bloc trade and payments as well as the trade and payments with the rest of the world (exept the USA and other members of the socalled dollar zone) were arranged on bilateral basis. Similar situation took place in the late fourties in Western Europe as a consequence of currency inconvertibility and dollar shortage. But in 1950 the European Payments Union was formed by West-european Countries as the multilateral clearing arrangement with the Bank of International Settlements in Basle as the clearing agent of the Union and the US dollar as a formal unit of account in which intra-West-European receipts and payments were denominated as claim against the clearing union (EPU).

The nature of socialist countries' bilateral clearing was under the conditions of planned economy quite different from that of bilateral clearing of capitalist countries. Particularly, in mutual relations of socialist countries the bilateral clearing had special features, since the bilateral trade agreements concluded by the governments were something like a continuation of internal economic plans in the sphere of foreign relations. As a part of central foreign trade plans the bilateral agreement was obligatory in the value of deliveries for both partners i.e. governments and foreign trade enterprises as sole export and import agencies of both countries. The flexbility of deliveries during accounting period (one year) was guaranted by the unlimited technical credit on bilateral clearing accounts.

Because of the directive character of the quotas, the bilateral agreements between socialist countries meant in practice the exchange of goods for goods. The setlements resulting from the commercial agreements had in those conditions the secondary importance, though they were necessary for the measurement of the value of transactions and for the

control of their planned fulfilment. At first the deliveries were normally agreed in the yearly agreement and then in the yearly protocols to long--term agreements on deliveries and payments. The equilibrium was normally required in bilateral payment at the end of every accounting period. The settlement currency was the clearing rouble with the formal parity of 0.987412 g of pure gold.

The main difference of bilateral payment arangements between socialist and capitalist countries concerned quotas of deliveries. The quotas asumed in these arrangements created only certain frameworks for the transactions which might be realized according to commercial calculations of exporters and importers. In that situation equilibria were rather seldom achieved. The technical credit (swing) was always limited to the certain value of turnover and the disequilibria had to be covered with converible currencies. Even in the cases of international payments in convertible currencies, the considerable part of settlement between socialist and capitalist countries was carried out within the frames of various barters and joint sales.

In the late fifties the strict bilateral clearing was recognized as an important obstacle for mutual turnover within the socialist community. The period 1957—1963 can be called the transitive stage towards new international settlements order within the CMEA. In that period some efforts were made to break the strict bilateralism and to establish a new payments arrangement on multilateral basis. The general rules of commodity turnover were agreed and issued as the CMEA official document creating common legal frameworks for mutual trade. Stop prices, had been formally obligatory for the CMEA countries in their mutual trade since 1951, based on average world market prices of 1949—1950, they were revised and corrected in 1957. The establishment of revised and corrected prices in the mutual turnover of the CMEA countries permitted them to carry out the multilateral settlements of balances which resulted from additional deliveries of commodities beyond the limits agreed on bilateral basis. Those additional balances were multilaterally settled through the system of special accounts opened by the Clearing Chamber founded at the Gosbank of the USSR. The range of multilaterally settled turnover was rather narrow, it covered no more than 1.5 per cent of mutual trade. However, that mechanism of multilateral compensation was recognized as considerable step towards a new payments arrangement.

In the same period the socialist countries introduced a wider system of multilateral compesation of the so called „frozen" bilateral clearing balances. That system started in the summer of 1957 under the auspices of the Economic Commission for Europe, opening an opportunity for multilateral compensation of bilateral balances which arise in the East--West trade. Unfortunately, that solution lost its importance with the restoration of currency convertibility in most West-European countries, which took place in 1958—1960. Since that time the foreign exchange payments have been gradually extending as the dominat form of settlements in the East-West and East-South trade as well.

In 1964 the member countries of the CMEA introduced the transferable rouble (TR), to facilitate intra-CMEA foreign payments and economic integration. The transferable rouble — a collective socialist currency is an abstract currency which can be created only by exports of

goods and services to other member (or co-operating) countries or by the extension of credits granted by the two CMEA banks — the International Bank for Economic Cooperation (IBEC) or the International Investment Bank (IIB). This rouble is called „transferable", because a credit or trade surplus expressed in it can be transferred for the settlement of debits or deficits in other member countries, provided that the parties concerned agree. Although originally defined at par value with the Soviet rouble, the TR is completely different from the former one and in several respects its value is higher than that of the rouble in internal circulation in the USSR.

There has been a progressive extension of the role of the TR since 1964. In addition to the original eight signatories of the agreement two new members acceed to the CMEA. The TR rouble is now used in virtually all spheres of economic relations among the member countries — in trade, invisibles, lending and in its own special ways it performs the functions of international currency. The annual value of settlements in the collective currency rose about five times from 1964 to 1984.

The IBEC, which carries out the settlements in transferable roubles and extends short and medium-term credits for balance of payments' purposes is an open organization. Under Article 43 of its Charter, capitalist countries can also become its members. In 1974 the IBEC was granted a consultative status with the General Assembly of the United Nations. In 1972, the IBEC adopted the „Basic Principles for Settlements in Transferable Roubles with Non-Member Countries" and in 1976 steps were taken to create conditions for such settlements. According to IBEC official documents capitalist countries can use the TR for: a) paying for the imports of goods from the CMEA countries, b) settling debts on invisible accounts, c) the repayment of credits to the CMEA. The payment can involve either individual deals or the entire trade turnover with individual CMEA countries and with all members of the IBEC. In response, in 1977, Italy concluded the first agreement and then several other countries, banks and financial organizations did so. In 1973, the CMEA countries created a „Special Fund for Financing Economic and Technical Aid to Developing Countries". It is operated by the IIB and scheduled to reach 1000 m. TR, out of which 5 per cent in convertible currencies.

However, the main goal of the introduction of the TR i.e. substitution of multilateralism for bilateralism has not been fully realized until now. The socialist international settlements system operated by the IBEC in TR is something more than bilateralism but still less than multilateralism. Formally, any individual CMEA country that exports to another member state builds up a credit balance in TR with IBEC; when it imports from that member or any other, its rouble account in IBEC is debited. Countries with an end-of the-year overall deficits can receive short-term loans at relatively low interest rates. Medium-term loans up to three years are also available. The extension of credit by IBEC to cover shorter term imbalances should make it easier for, say, a creditor member to shop around the CMEA for goods on which it wants to spend its credit balances. The potential selling country can, of course, be different from the country wth whom the creditor earned the export surplus. Thus, in the technical sence, IBEC provides a straightforward procedure for multilateral clearing. However, this procedure is limited even in the

technical sense. During the accounting period the bilateral balances are practically controlled by the national clearing agencies — the IBEC's corresponding banks. At the end of every accounting period bilateral balances are practically „frozen" irrespective of the IBEC credit procedure. They are not interchangeable. As a results all imbalances should be bilaterally covered at the beginning of the next period. Accordingly, not any single TR practically exists but there are several such currencies corresponding to bilateral agreements' procedures and bilateral imbalances irrespective of the common name and formal gold parity and the same exchange rate defined in the US dollars or other convertible currencies.

2. Bilateralism and Multilateralism

Two disadvantages of bilateralism being essentially related to the main problem of any international monetary system should be emphasized here:

a) the process of adjustment to the external balance normally involves costs (reallocation of resources, changes in incomes, prices etc.) which generally are difficult to measure. However, it seems to be quite realistic that the adjustment costs are relatively higher if the overall balance is divided into several balances coresponding to the different categories of payments. In other words, not any single balance of payments exists in the CMEA member countries which apply different payments' systems i.e. foreign exchange and clearing where in addition clearing payments are divided according to bilateral trade agreements. Consequently, no general but rather selected measures and means have to be applied and taken to solve the problems of external imbalances.

b) The second disadvantage is strictly connected with bilateral imbalances eventually involving the above mentioned „frozen" claims of a creditor against a debtor — country. This situation, if unsolved by adopting specific measures like convertible currency payment, financial or commodity switch or multilateral compensation of bilateral clearing balances, can ultimately lead to the decline in mutual commodity turnover. This is so because the creditor country, having „frozen" claims is to be forced to decrease its exports while imports, being in short, as a result of relatively lower demand, can ultimately remain at the hitherto existing level [1]. Thus the total bilateral level of commodity turnover is ultimately adjusted to the production and export capacities of the weaker part of bilateral agreement. As a result of such unsound situation prices of exported goods are often artificially set on a higher or lower than normal level. Moreover, exported goods often artifically fall into categories of „better" or „worse", „hard" or „soft" depending on the real possibilities of being sold to different payment areas or different clearing partners. By the way. the problem of „hard" and „soft" commodities in foreign trade of socialist countries is sometimes taken up by the western economists [2]. According to their point of view „hard" commodities are those that are essentially underpriced in world market terms

[1] For more detailed explanation see: E. Drabowski, Rubel transferowy — międzynarodowa waluta krajów RWPG, PWN, W-wa 1974, pp. 16—19..

[2] R.I. McKinnon, Money in International Exchange. The Convertible Currency System, Oxford University Press, Oxford 1979, pp. 56—57.

and thus in short supply within the CMEA, whereas there is an incipient surplus of soft commodities in the CMEA, i.e. those that are relatively overpriced. So there is natural tendency to exchange the „hard" for „hard" and „the soft" for „soft", in a bilaterally balanced fashion. This point of view is not quite sound if it is assumed that „hard" („better") currency can be only obtained in exports of „hard" („better") commodities so that trading partners stand ready to accept „soft" currency in exports of „soft" commodities. In fact, the external balance position seems to be more important here. Some of the CMEA countries, having fallen into debt to the West, lost a lot of their bargaining power. So in their export decisions they are forced to take into account real export opportunities as well as their liabilities.

Thus the above considered disadvantages of bilateralism are strictly related to the adjustment and international liquidity problems familiar to any international monetary arrangement.

The potential advantages of multilateralism to the CMEA countries have been long and widely recognized. Possible benefits are usually emphasized as follows [3]:

— a simplification of he mechanism for payment settlements and the flows of international liquidity,
— the automatic extension of credit to the community at no cost, which, thereby reduces the need for borrowing from hard currency areas,
— better conditions for competition,
— fuller exploitation of the advantages of international specialization,
— closer integration with the world economy.

There are two pure organizational forms of multilateralism either in theory or in practice i.e. multilateral clearing and currency convertibility. The main rule and benefit is the same in both cases: in the simplest triangular model any bilateral deficit in the trade with one partner can be automatically covered by the surplus in trade with the second partner. The multilateral clearing is relatively a more institutionalized form with the special international institution established as a clearing agent of the whole community.There is common currency as a unit of account (means of payments), standard of value (common denominator) and a means of accumulation. The latter function means that eventual claims against the clearing agent (in practice being claims gainst the rest of the clearing area) are regarded as international reserves in th econvertible currency system. Note that the clearing agent is always able to provide credit because the total amount of deficits always equals the total amount of surpluses.

Under the currency convertibility there is no special need for international clearing agency. Instead, there is a foreign exchange market usually strictly connected to commodity, capital and money markets. However, the need for international coordination of adjustment processes and smooth financing of imbalances can force an international community to establish the international monetary agency being a kind of lender of last resort and international commodity or fiat currency fulfiling the functions of storage of value, common denominator and currency of invoicing. Generally speaking, currency convertibility is relatively more

[3] I. Vincze, Międzynarodowy system walutowy RWPG, PWN, W-wa 1981, pp. 273—280; J. Wesołowski, System walutowy krajów RWPG, PWE, W-wa 1977, pp. 38—42.

market oriented solution, although there are different degrees of convertibility and in practice it can be organized less in a market but more bureaucratically oriented form.

Multilateral clearing and currency convertibility are not considered as competitive forms of multilateralism but the former solution is rather taken as a transitive stage towards the latter one.

Although potential benefits of multilateralism to the CMEA are well recognized, several obstacles make its adoption difficult in practice. The actual formation and structure of prices in almost every socialist country are not a product of one comprehensive and consistent model, but a consequence of historical development and partial reform carried out at different times and influenced by social and economic considerations. The most characteristic is the lack of correspondence between producers' prices and retail prices (there exists two tier system of prices) on the one hand and between the domestic and world level and structure of prices on the other hand. These dichotomies have been criticized by many economists, especially in recent years. It is advocated that the turnover tax rate should be made resonably uniform and their level should be reduced. Instead, deductions from enterprises' profits should become the major source of state revenue. On the other hand, the domestic prices should be more flexible and their level more sensitive to the world market prices. If this were done, prices would provide a reliable guidance for both producers, consumers, exporters and importers. Consequently, exchange rates cannot normally relate domestic to foreign prices and indicate the purchasing power of national currency in terms of foreign currencies. They do not directly determine the profitability of foreign trade and influence the size and direction of trade. All the CMEA countries in one way or another administer multiple exchange rates. Thus no monetary and fiscal policy but rather direct control has to be adopted as a practical way of ensuring the balance of payments equilibrium.

Although the dichotomy of prices and multiple exchange rates still prevail in most socialist countries, there has been a growing tendency to link domestic with foreign prices and to establish one realistic exchange rate. This has been schieved to a considerable extent especially in Hungary.

As a result of the absence of realistic exchange rates and price structure, even in their mutual trade the CMEA countries have found it necessary to use capitalist prices. In practice the CMEA countries adopt the average prices prevailing during the selected periods and make various adjustments for transport costs and other conditions peculiar to the community.

Nevertheless, in the late sixties and seventies, the CMEA countries tried to adopt several moves towards the gradual achievement of multilateralism in the sphere of their foreign exchange relations. For instance, the proposal to make a part of credit balances carned in the CMEA convertible into gold or hard currencies (1966), the similar proposal and resolution in 1972, the announcement that the aid to less-developed countries received from the especially established fund could be spent in any CMEA country and the 1976 annoucement that the foreign banks could receive credits in TR which could be spent even in non-CMEA countries under IBEC agreement. But in practice those proposals have remained unworkable as not supported by the appropriate domestic adjustment moves.

3. Currency Convertibility

Currency convertibility is usually defined in several different ways. One of the most interesting is a complex concept assuminng the following main definitions and taking into consideration the historical experience, monetary and substantive meanings and the balance of payments' structure:

a) The possibility of unconditional exchanging paper money without loss into full-bodied gold or silver coins, bullion, hard currency or goods and services.

b) The possibility of unconditional exchanging the currency at the official parity rate into gold or silver bullion, hard currency or goods and services.

c) As under (b), provided the holder of the currency is a non-resident.

d) The possibility of exchanging the currency into bard currency at the official or other legal rate or goods and services and the freedom of taking them out of the country concerned — irrespective of the holder (domestic or foreign) and the type of transactions (whether on the current or capital account of the balance of payments).

e) As under (d), provided that the holder of the currency is an external resident.

f) As under (e), provided that the currency was obtained from transaction on the current account, i.e. export of goods and services to the country in question (not capital transfers).

g) As under (f), provided that the holder of the currency has no freedom of purchasing goods and services and taking them out of the country in question.

h) As under (d), provided that the holder of the currency resides outside the monetary area (embracing more than one country).

i) As under (h), provided that the payment involves transactions on the current account of the balance of payments.

j) As under (i), provided that the holder of the currency has no freedom of purchasing goods or services and taking them out of the country in question.

k) Freedom for the domestic and/or external residents of spending the currency in the country in question and taking such purchases out of the country, but no freedom of exchanging the currency into other currencies.

l) The possibility of exchanging the currency at the official or other legal rate for another currency only within the same monetary area, provided that the currency's country agrees to the transferability of the credit balances (to be spent in another member country).

m) As under (l), provided that both countries involed agree (i.e. the currency's country and the country in which the credit balance is to be spent).

n) No freedom of exchanging the currency into other currencies at the official or other legal rate, or of spending the currency in the country or monetary area in question and taking such purchases out of the country or area; but there exists freedom for foreigners to purchase goods or services in the retail market personally in the country or area in question (i.e. there is no rationing, or, if there is, it is not applied for foreigners making purchases personally).

It is important to distinguish between monetaray and substantive convertibility. By monetary convertibility we can understand the capacity of the currency to be exchanged through commercial channels without undue loss into another desired form of money (gold coins, bullion, hard currency). Substantive convertibility denotes the ability of the foreign holder of currency to buy goods or services in the country of the currency concerned and take them out of the country, if desired, without undue restrictions (i.e. barring exceptional items or situations). In the cases presented above: definition (a) exemplifies perfect monetary and substantive convertibility, definition (j) — purely monetary convertibility, definition (k) — purely substantive convertibility and definition (h) — the absence of both monetary and substantive convertibility. According to the cases specified above, curency convertibility can be limited or restricted in the sense of: a) geographical area, b) objects of international transactions or the balance of payments, c) subjects of international transactions (i.e. residents or non-residents of the country in question).

Although the dollar and other currencies of capitalist countries have been traditionally regarded as convertible, their convertibility has in fact been more limited than it is commonly thought. For example, the US dollar had been unconditionally convertible (case a) only up to the beginning of 1934! From February 1934 to March 1968 it was conditionally convertible, i.e. into gold bullion, provided that the bolder of dollars was a non-resident (case c). From March 1968 to August 1971 convertibility was further limited: the non-resident holder had to be a central bank, and an approved one at that, and conversion could be allowed only for the approved monetary purposes. These conditions, in effect, barred the socialist countries from being able to convert dollars into gold bullion. Finally, since 15 August 1971 the dollar's convertibility into bullion has been officially abandoned. It must be also emphasized that the inaccessibility of the US market to the specified countries in respect of embargoed items has represented a case of limited substantive convertibility.

National currencies of the CMEA member countries are inconvertible both in the monetary and substantive sense (case n) irrespectively of some minor exceptions. The transferble rouble can be regarded as convertible only to the CMEA member countries and only under severely restricted conditions. A credit in the transferable rouble, derived from the surplus in the country's balance of payments on current account with the rest of the clearing area or from loans granted by the IBEC or the IIB, can be eventually transferred to be spent in another member country, provided that the partners involved agree and, consequently, central planning authorities make appropriate provisions for the transactions in substantive terms (case m). Thus there is a conditional substantive convertibility but not monetary convertibility.

Being convertible in a very narrow sense, the TR cannot practically serve freely the functions of international currency. In the present CMEA currency system, the TR cannot directly measure the national values of goods from the member countries. It measures international values on the CMEA market only in the sense that it provides a link between world prices and the basis of contract prices through its foreign exchange rates with the convertible currencies of the capitalist countries.

Its function as a measure of value (price) is derived from the capitalist currencies and its purchasing power is directly dependent on the fluctuation of those currencies' purchasing power (although with a certain time-lag caused by the price-formation mechanism). Its functions as a means of payments and a means of accumulation are limited too. According to the present mechansm the TR goes into cireulation through the emission function of the IBEC credit. It takes place on the basis of its specifically limited operation as a means of payments whereby it records in the technical banking sense the movement of physical liabilities and claims. Its credit emission is automatic and technical — the credit relations betwen the bank and the member countries are transformations of the „material" credit relations arising in bilateral dealings among member countries. The TR cannot be taken on the same basis as international reserve currency beause its role as a storage of value is severely restricted to bilateral trade agreements.

It is important to emphasize here that any international collective currency can only perform the function of a measure of value indirectly as long as national currencies exist alongside with it.[4] However, this means that national currencies should perform this function in a correct way, i.e. they are convertible or prepared to be convertible (as under multilateral clearing arrangement). Thus the national currency convertibility is an important condition of the TR convertibility. With national currencies being convertible, the TR loses importance as a means of payments (contract payments and currency of invoicing). Instead, its functions as an international reserve currency, the means of payments in the sense of financing imbalances and evetually a common denominator (in a case of adjustable peg system it seems to be rather more appropriate to planned economies) should be gradually arising.

The monetary convertibility of national currencies as well as the TR rouble could be eventually established without any fundamental reforms in the management of price systems. The monetary authorities would have to guarantee the convertibility of currencies into hard currencies to non-residents, but not necessarily their free access to the domestic market (a combination of cases „c" and „j"). However, the guarantee would necessitate sufficiently large international liquidity of reserves and the authorities would have to be prepared to intervene in the foreign exchange markets to protect the stability of their own currencies. Non-resident would be prepared to accept national currencies if they were assured that they could enable them to make purchases in the cheapest market via other hard currencies. The non-residents could also spend their holdings of currencies in the domestic markets of the CMEA, provided they were prepared to go through the established channels and buy only the goods planned and decided to be available for export. So understood monetary convertibility would still be in accordance with the management structure and price formation within the CMEA.

The substantive convertibility would necessitate some fundamental economic reforms designed to enable non-residents to enter the CMEA domestic markets. So that domestic prices would have to be more linked to the world market prices, the exchange rates would have to be not

[4] P. Spacek, Convertibility in the System of CMEA Foreign Exchange Relations, Soviet and Eastern European Foreign Trade No. 1, 1981, p. 71.

multiple but single and more realistic to reasonably reflect the purchasing power of currencies and provide the correct information enabling enterprises to decide on the size and directions of exports and imports.

4. The Possible Approaches to the Currency Convertibility within the CMEA

The solution of the currency convertibility problem within the CMEA can be theoretically discussed in several different ways. However, taking into consideration the different situation — in particular countries in their efforts to reform the management and price structure, it is quite possible that one country will be sooner able to establish convertibility than the other one. But the opinion that in such a situation the intra-CMEA relations could be eventually weakend seems to be rather unjustified. The payment arrangement between Finnlad (convertible currency country) and the Soviet Union is a good example here. This system is organized in the form of clearing with the clearing rouble performing the function of a unit of account. The statement in the Long Term Programme of Mutual Cooperation that the clearing system provided for five-year agreements on trade and payments continues to play a positive role in the development of mutual economic relations is based on the idea that there is no reason for changing the payment system, unless one can be sure that a system with freely convertible currencies will bring about better conditions for the development of mutual trade. [5)]

Indeed, in the trade between Finland and the Soviet Union, the actual payment transaction is not very different from the payment procedure applied in the trade conducted in convertible currencies. When, for example, a Finnish enterprise effects a payment for a product imported from a Soviet company, it buys the clearing roubles needed for payment of the invoice from the Bank of Finland through an authorized bank. The authorized bank transfers the payments in roubles to the account of the Soviet Union kept by the Bank of Finland, while the Bank of Finland informs the Bank of Foreign Trade of the USSR of the payment made. The Bank of Foreign Trade debits Finland's account in the Soviet Union and pays an ammount of Soviet roubles equal to the ammount of clearing roubles to the Soviet foreign trade company. The series of transactions is carried out in reverse whenever a payment is made from the USSR to Finland.

The relationship between the clearing rouble and the Finnmark is determined daily in the Bank of Finland on the basis of the rouble rate for the US dollar quoted by the State Bank of the USSR monthly and of the mark rate for the US dollar quoted daily by the Bank of Finland. The mark rate for the rouble is thus obtained by a simple calculation through the US dollar. In consequence, changes in the value of the rouble against the mark are mainly in the line with the changes in the value of the dollar against the mark. Hence, from the point of view of exchange rate risks, the clearing rouble is comparable with other currencies used in Finland's foreign trade.

[5)] K. Holopainen, The Payment System between Finland and the Soviet Union, Bank of Finland, 16.12.1980 (unpublished paper).

In the case of similar arrangement adopted to payments between the CMEA — member countries with convertible and inconvertible currencies each party should declare its readiness to cover any payment's imbalance with convertible currency. Thus the system could operate smoothyl.

Although the introduction of convertibility is an independent decision of national monetary authority, the international position of convertible currency depends on the degree of its acceptation by foreign economic units and authorities. So that in the case of general currency convertibility within the CMEA, not necessary member country currency but rather any currency could be used to settle the mutual payments. It does not mean, however, that there would be no place for mutual monetary co-operation but rather the need for such a co-operation would be considerably increased. The EEC monetary system offers a lot of intersting experiences in that field of potential co-operation.

Of course, the future CMEA monetary system would not have to be necessarily organized in the form of foreign exchange market mechanism, even taking into account the socialist state ability to eliminate the negative consequences of currency converibility observed under capitalism. Even in the case of CMEA currencies convertible into western currencies, the intra — CMEA monetary system could be organized in a different way, say, as regional clearing union (CU). The CU would declare consistent fixed buying and selling rates for all paying of currencies, so that when, for instance, Hungarian resident wanted to buy Polish zloties, a Hungarian Bank of Foreign Trade would provide the zloty against Hungarian forint, at a fixed rate, drawing the zloties from National Bank of Hungary, which in turn would draw them from the CU. At the end of every day all accounts would be cleared, with the Hungarian account at the CU being debited and Polish account being credited as a result of the above mentioned transaction. Judging by historical experiences, the European Payments Union also operated roughly on this basis, with the important difference that accounts were settled only every 30 days and beyond that period special credits were advanced. The CU in question need not involve such granting of credit, although it might do so. In addition the CU itself might be empowered to act as a lender of last resort to provide credit from common pool of international reserves for intervention purposes in foreign exchange markets.

According to our above expressed opinion, the CU as a form of multilateral clearing should be rather taken as a transitive stage of monetary cooperation. However, some authors believe that it could be a preliminary stage towards the so called exclusively intra — CMEA currency convertibility i.e. without convertibility into currencies outside the community. Such a solution assumes quite separately organized common system of prices. Unfortunately, there has been no evidence of tendencies in that direction. On the other hand, such a proposal of a close system seems to be rather unjustified. The growing potential of the CMEA and its importance and future trade expansion in the world economy requires, after necessary transitive stage, not close but open monetary system. At the same time, the mechanism of monetary cooperation within the CMEA must maximize both the overall and the separate national effects from the intra-comunity division of labour. As far as the foreign exchange sphere is concerned, the currency convertibility seems to be the only appropriate measure in the future.