Chapter 7

The Effects of the Demise of the CMEA and the USSR on Output in Hungary

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The need to reform intra-CMEA trade and the underlining pricing and settlements mechanisms were discussed quite early in Hungarian academic circles. Naturally, the dissolution of this international institution was an issue never touched upon during the discussions, but several possible options for a new mechanism were analyzed in the late 1980s (see, for example, Richter, 1988; Szamuely, 1989). One of these possible mechanisms of cooperation was the abolishment of state trading and the use of convertible currency payments instead of transferable ruble settlements, with the natural implication of the eventual application of world market prices in transactions. When evaluating the costs and benefits of the different options for new pricing and settlements (payments) mechanisms, several institutional questions remain unanswered. For instance, Who would make the decisions and sign contracts for transactions in the new system, especially for the still highly centralized socialist economies? What procedures could be used to enforce contracts? In 1989 and 1990 several calculations on the expected impact of a new settlement mechanism were carried out and official and semiofficial

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debates were organized in Hungary and in the Soviet Union about the different reform scenarios.[1] These debates helped to reinforce the commitment of Hungary's government and Communist party to initiate some changes within the framework of the CMEA. It would be difficult to trace the role of these deliberating activities on the process that led to the decision of the CMEA representatives in Sofia in early 1990 to change the system of pricing and settlements within the CMEA starting in January 1991.

However, it is important to note that the Hungarian administration (and the academic community) was not exposed to the changes of 1991 completely unprepared. Many administrators and academics were convinced that the replacement of the existing system would provide long-term benefits. Nevertheless, the calculations that were carried out in 1989 and 1990 could not take various factors into account. First of all, the collapse of the Soviet Union (Hungary's most important trading partner) and the ensuing deterioration of its economic situation were not considered. These events involved the unexpected decline of production and demand in the Soviet Union and later in the successor republics, on the one hand, and the increased chaos and uncertainty affecting trade, on the other. A further uncalculated factor was the simultaneous decline of economic activity in each of the trading partners within the CMEA due to, eventually, their transition to a market economy. The final demise of the CMEA was also not foreseen.

In fact, these previously unexpected factors must be the reason that we see very few *ex post* calculations on the effects of the change in the CMEA mechanism; but we have observed several *ex ante* calculations (see *ex ante* calculations for Hungary by Gács, 1989; Kenen, 1990; and Oblath and Tarr, 1992). Many analysts have realized that contrary to earlier expectations, it was much less the shift itself (namely, the replacement of transferable ruble settlements by convertible currency payments and the use of world market prices starting in early 1991) that subsequently influenced production and trade, and much more the demise of the CMEA, as well as the disintegration and collapse of the Soviet economy. Scholars and policy makers are more concerned with the consequences of the loss of markets in the former CMEA region and the hardships of securing payments for the remaining contracted exports that go to the successor republics of the Soviet Union than with the income losses stemming from the introduction of world market prices for trade with former CMEA economies, including the Soviet Union.

In this chapter some aspects of this complex topic are analyzed. After describing the background of output decline and trade in Hungary, the direct and the indirect impacts of the market loss in the CMEA region is examined for the period between 1988 and 1992. The following sections are devoted