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I. HETÉNYI

SALIENT FEATURES IN THE DEVELOPMENT OF NATIONAL ECONOMIC PLANNING IN HUNGARY

This article – based on a lecture given at a scientific session held at the Karl Marx University of Economics on the occasion of the 30th anniversary of the liberation of Hungary – reviews the development of economic planning in the country.

The author identifies the factors which influence planning as: 1. development and structure of the economy and its developmental strategy, 2. views held on the role of planning in socio-economic progress and 3. the standards achieved of the social sciences.

The thirty years that have passed are divided by the author into three periods: 1947/48–1956, 1957–1967 and 1968 – to the present. For each of these the role of planning, its character, the planning methods and the organization of planning are separately analysed.

A separate section is devoted to the statistical and other scientific foundations of planning, and, in conclusion, future developments are indicated.

During celebrations of the 30th anniversary of the liberation of Hungary the results achieved in the building of socialism are being summarized from many aspects. A survey of the planned economy, more closely, of the progress made by planning has much to offer as well. All that is attempted here is a broad outline, the paper does not pretend to be a definite account. Planning is here used to describe the preparation of national plans. Organizational and computational methods and everything else done by the planning agencies when engaged in national planning are included. The problems of economic regulation and planning on the enterprise level, however, do not belong here. Reference is made to them only to the extent they are related to national planning.

All the same it is impossible properly to discuss every question that belongs to the subject. The approach is that of the central planning agency, without dealing with the most important specific features of particular sections of the economy. Nor could a full-scale description be the aim. Attention will be concentrated mainly on trends which are the most important for the function of planning.

For a survey of the past, the guideposts will be the factors affecting planning, primarily the following:

1. the development level and pattern of the economy, and the developmental strategy of the economy based thereon;

2. the ruling notions on the role of planning in socio-economic development; the policy on the role of planning as a particular social function in the system of planned economic control;

3. the standards of development of the social sciences, economics in the first place and of the other objective bases of planning (e.g. statistics, computer techniques, etc.).

These factors are interdependent. In this paper the first two ones will therefore be treated together, as requirements raised towards planning. Planning is, of course, not merely a passive reflection of the above factors, it develops also by relying on its own experience. It is increasingly better suited to meet the above requirements, thanks largely to the talents and efforts of the planners. Planners should be expected to act on the "external" factors; to contribute to establishing the role of planning in the best possible manner, and to help the development of economic policy, providing impulses for the progress of economics and statistics. Feedback has, of course, its limits, above all in that national planning wishes to provide for basic evolutionary changes in the economy. The preparation of decisions on social change of an economic nature and involving revolutionary changes, reforms (nationalization, collectivization, the reform of economic control and management), is not part of the established system of state planning, although the growing role of the social aspect of planning, to be discussed later, may lead to a situation where the planners may also help when decisions of that type are taken.

A view on the history of planning

Three periods can be distinguished in the history of Hungarian planning looked at from the aspect of relations between economic policy and planning. The first, following a transitory period in 1947–48, when planning was elaborated, lasted from 1949 to the mid-fifties. 1950–1951 was a time of revolutionary changes in planning when, relying on the dominating role of socialist ownership relations and on Soviet experience in planning, the main principles of planning, the organization of socialist planned economy and many of its generally valid methods became established. 1957 was the beginning of a new period which, based on the requirements of a new economic policy and on the planning experience of the preceding period, led to considerable changes in the nature, and in time also in the methods of planning. Finally, essential changes were initiated by the economic reform of 1968.

The years 1949–1956

The system developed in 1950–1951 was characteristic of planning for the whole period. The *role of planning* was to formulate in concrete terms the objectives and tasks defined by economic policy and, beyond that, a definite development

concept for the economy – established outside the planning process – with the aid of tools available to planning, the stress being on the programming of production, allocation and enterprise activities.

The character of planning was established by an economic policy which placed maximum development of key industries and a policy of maximum accumulation right at the centre of planned growth, other details being proportionately adjusted. The orientation of planning towards controlling production and the detailed determination of investments were also related to the above situation.

Familiarity with Soviet planning methods has played a decisive role in the activity of planning agencies and in the methodology of planning. This allowed for a speedy clarification of the principles of planning and of many methodological problems, as well as their solution. E.g. the principle of independent economic accounting (khozrazchot) proved of major importance. Permanent principles of planning such as the complexity and unity of the plan, the role of planning in organizing plan-implementation, the importance of plan-control and the mobilizing role of the plan were laid down.

All these principles were, of course, subordinated to the economic knowledge and economic policy and efforts of the given period. The notions of plan indicator and instruction were not clearly separated, and income, and financial processes, were accorded only a secondary role. An economic policy based on maximum growth and accumulation, and the "scarcity economy" that followed in its wake demanded the planning and regulation of material processes in ever growing detail. The number of material balances and of the production and allocation instructions based on them increased. One can say that, if planning did not in those times cover a given activity with detailed regulations, this was taken to mean that, because of methodological deficiencies, it could *not yet* cover them.

Planning methods tried to serve the above requirements as well as they could. The creation of the uniform system of plan-indicators was an invaluable result. A great part of methodological efforts were concentrated on creating this system. By 1951 the system of balances and normatives was established, inclusive of the synthetic national accounts as well; the uniform system of plan-indicators was created, together with the necessary uniform commodity lists and other auxiliary material, measures were taken in the interest of statistical measurement, etc. A further feature of the methodology was the detailed system of indicators serving production; among them capacity computations should be particularly stressed. For planning based on the maximum growth of key industries the problem was not to determine the direction of development, but to maximize production. Planning had to explore the possibilities and to persuade the plants of their feasibility. As against that, the system of indicators lagged behind in respect of the planning of efficiency

and profitability, as well as of living standards and, above all, of incomes. For instance, the terminology of the first plans equated the notions of living standards and consumption.

The planning methods established a close framework for the planning of industries and enterprises. This methodological framework (e.g. instructions for the planning in enterprises) followed partly from the fact that planning was as novel for the enterprises as on a national level. On the other hand, its system had to be integrated with the system of state control.

The basis of *organizing the work of planning* was the hierarchy of National Planning Office – sectoral ministry – enterprise. It was characterized by the flow of essentially uniform indicators of wide coverage from above and from below. The uni-directional planning processes starting simultaneously from above and below, however, proved impossible to co-ordinate. Therefore, parallel planning became the basis of work-organization. The planning centre and the ministries therefore had to draw up their plans separately and independently. These were then confronted with each other. This confrontation provided little opportunity for a dialogue on the merits of the plan since, owing to irrealistic requirements, the ministries could say little about the main framework and the Planning Office could not survey the many details.

A further feature of the organization of planning was that national planning directly regulated – for some time – planning within enterprises. These instructions reflected the data requirements of central planning and not the internal logic of enterprise plans. A further feature of the organization of work was that, owing to the blurred frontiers between plan and instruction, that is, between the national and the action programmes, the breaking down of the plans to enterprise level was conceived as if these wholly corresponded to each other. Since the plan had the force of law (both in the legal and the economic sense), while real processes necessarily deviated from the plan, a continuous modification of annual plans, right to the last day of the period, became an organic part of planning.

The organization of planning became settled in practice by 1950. It was then that the National Planning Office became the complex central planning agency, after the liquidation of the Economic Council and the National Price Office. Planning departments were created in the ministries and in the enterprises. First plan-commissioners were appointed and then planning sections were created.

What changes took place in the second part of this period? Between 1953 and 1956, under the effect of the needs of economic policy and partly on the basis of experience gained in connection with the formalism related to the extreme centralization, the planning system, while retaining all its basic features discarded some of its extremes and new elements were introduced in the methodology. The

instructions were conceptually delimited from the computations serving as the foundation of the plans. The number of approved plan indicators was reduced, partly in order to increase aggregation, partly to eliminate a part of overlapping indicators, (e.g. employment, average wages, wages fund). The planning of living standards was complemented by income indicators. An essential recognition was the revaluation of the role of prices as criteria of economic efficiency, and also the introduction of the *G-indicator* to improve partial decisions, as well as the application of indicators measuring investment efficiency. These, however, did not become integral parts of planning.

Economists began to reach conclusions based on practical experience, mainly as a critique of the arbitrary economic policy. The fetishization of indicators and exaggerated centralization were criticised by competent economists.

All that prepared the ground for the further improvement of planning but, until the formulation of a new economic policy after the counterrevolution, planning continued to function as a tool of concretization and organizing an already established economic concept.

The years 1957–1967

The year 1957 should be particularly emphasized. It was characterized by a break with earlier economic policies and by the concomitant changes in what was demanded from planning. Under their joint effect planning was gradually developed, by relying on economics, statistics, computer techniques and, last but not least, the experience of planning itself. A qualitative change was induced by a demand by the political leadership that planning should support the changed economic policy: it should more realistically found plan computations, pay greater attention to using the endowments of the country, and to the developmental problems of agriculture, living standards and questions of regional development. In order to be in a position to make a clear break with arbitrariness, politicians demanded creative work from the planning agencies. While they reserved the right of formulating concrete economic policies for themselves, the planning agencies were expected to provide proposals for the constant improvement of economic policy. This was a change in the social atmosphere that should be considered as most important for the work of planning. A wider use of specialists in planning was a direct result.

Owing to these requirements, the *character of planning underwent a gradual change.* One aspect of this was that the proposals serving as a foundation for the drafting of the plan became more diversified and economically founded. Though not affecting main principles of planning, it became the task of the central planning

agency to evaluate and co-ordinate various proposals, while in respect of comprehensive problems it had to work out proposals of political portent independently.

The character of planning also changed in that the planning organs began increasingly engage in "planning" the non-instructional elements of regulation, among them also such which linked interests not to plan fulfilment, but the results of economic development. In general, a closer relationship was established between planning and financial policies. Planning also began to reckon with the fact that, beside the formal delimitation of plan-periods, economic control is built on continuous co-ordination and regulation.

Efforts at a balanced policy allowed a break, on the basis of theoretical and practical considerations, with some "outgrowths" of planning practice, such as the fetishization of detailed plan-indicators. The ministers became authorized to allow certain minor deviations from the central indicators when breaking down the plans to enterprise level. When orders and plan indicators conflicted, production on order was given priority.

The recognition that the plan as national economic programme and as action programme cannot be identified in every detail was important also from the theoretical point of view. It gradually came to be emphasized that the plan also comprises elements of a prognostic nature, as well as uncertainties, which permit the planning in the national economic program of "zones" and "limits", etc.

Conforming to changing requirements and relying on accumulated experience *planning methodology* gradually improved as well. As a phase preceding the working out of the central indicators, a system of studies, and technical and economic concepts for founding the plan became established. As a result, some types of decision were distinguished: decisions on the direction of a certain activity or on the expediency of a given action and the economic decisions to include such in the plan.

Indicators which proved to be superfluous were dropped from the system (the existence of founding studies was reckoned with), and the role of efficiency and profitability computations increased. The aim was to abandon methods which might have helped the harmful independent existence of partial plans (e.g. a separate plan of technological development), and planning was complemented by new fields, and some were given increased emphasis.

The *methods of co-ordination* comprising the whole of the reproduction process attained a qualitatively new level within planning methodology. The most marked feature of this development was the integration into planning of the input-output table. This allowed not only the expansion of the scope of co-ordination, but also underlined the holistic approach (as against the earlier primitive interpretation of the primacy of production, the mutual relations between

production and needs were stressed). The computations of labour etc. contents based on the I/O table permitted a more thorough economic analysis. The I/O table has become an indispensable tool in founding the plan at current prices, and a starting point for several kinds of mathematical-economic models. The experimental use of these models also falls into the period reviewed. In addition, the system of material balances was retained. Efforts were made to create a greater harmony between physical and value processes.

In spite of the progress achieved in balance-like co-ordination, co-ordination became more difficult in other respects, mostly owing to the fact that the economy gradually switched to intensive development. The harmonization of processes could thus not be restricted to establishing the interrelations of sectors and industries, since the dynamics and efficiency of economic processes are determined by several microstructural changes as well. These were explored with the aid of technical and economic concepts but the co-ordination of the proposals contained in them, and formulated in particular terms conforming to the nature of the problem, was difficult to carry out. The control of microstructural changes generally became the duty of economic regulators. There was therefore a growing pressure to co-ordinate plan-indicators and the regulators. It must be confessed that while the central co-ordination of the individual parts of the plan showed considerable progress, co-ordination as outlined above could only be coped with following the reform of 1968 and what is done is not yet satisfactory even today.

The changes in the *organization of planning* were partly reflected in methodology. As a sign of the greater planning autonomy of departmental ministries, the methods of planning of various industries were little regulated from the centre. Planning methodology became expressly that of central planning. It became finally separated from planning in the enterprises. Although following the reorganization of industry in 1962 the large enterprises, organized frequently on a national scale, established direct contacts with the central planning agency, a regulation of the problem was put off to a later date. All these circumstances, – particularly the requirement of intensive development, the existence of large enterprises, the particular nature of the technical and economic conceptions – led to a situation where the earlier parallel planning became impossible. Its place was taken by joint planning, the rational basic idea of which was that the planning agencies do not really work in parallel, but establish a division of labour. Joint work made it possible that the plan of individual industries should be formulated in the final stage of plan co-ordination on the basis of mutual information, where things worked out well: on that of mutual understanding. This, however, diminished the responsibility for planning until the duties of industry-wide planners and of the Planning Office were not clearly identified. From the point of view of the planning process and its

organization a major change was produced by the co-ordination of plans between CMEA member countries. The decisions taken within CMEA clarified the principles of this activity in the early sixties and thus it gradually became possible to carry out plan-co-ordination integrated with the planning process. This period was characterized by centralized methods of international co-ordination. The collations were conducted mainly on the level of the central bodies and affected mutual deliveries. International co-ordination played a greater role in reducing the risk of planning than in increasing the efficiency of the solutions chosen.

From 1968 to the present

The political decision to carry out an economic reform clearly defined the role of the plan in controlling the economy and made further demands on planning. The reform emphasized that planning consists in formulating variants leaving open options. It called attention to planning the co-ordination of the plan targets, the tasks and the tools of implementation, thus integrating into planning the work related to the principles of applying the economic regulators as well. Finally it underlined the importance of strengthening the long-term elements.

The *character of planning* is determined by the intensive nature of economic development and the new requirements following therefrom. The changed circumstances helped much earlier accumulated scientific and planning experience to be applied.

The elaboration of the plan became much more diversified. Beside the comprehensive conceptions and computations and those relating to particular industries, a relatively independent new activity came into being, the drafting of what were termed partial economic policy concepts, covering, in a complex manner, technological progress, structure of production, living standards, regional development, employment, and international co-operation. With these a new, comprehensive tool for collating global national objectives with sectoral programmes has been introduced.

The long-term nature of planning has generally gained strength. It is well known that in the system of medium-term and annual plans, beside the generally formulated primacy of the five-year plan, the dispositive functions of the plan were embodied in the annual plan and there were even years when the annual plan had conceptual tasks to fulfil as well. In addition, at the end of the fifties there was an attempt at working out a long-term economic plan. Nevertheless, it is better to list the establishment of a system of plans of different range among the results of the recent period. The development of planning and of international plan co-ordination

made it possible that development policy for the medium-term plan periods should rest on relatively firm foundations. With the differentiation of decisions incorporated in the five-year plan according to whether they relate to the first or the second half of the period, and with the fact that the annual plan has become emphatically a plan of adaptation to new circumstances and of the related measures, a proper harmony has been established between the two kinds of plan. This is complemented by long-term planning, whose aim and functions have been defined so that it should not be a "multiplication" of the short-term plans, but ensure that decisions related to the immediate future could be taken with greater foresight. This system of plans is a step in the direction of forming planning into a relatively continuous activity, in which it is expedient to extend the period of foresight. Decisions and commitments should be adjusted to the gestation period of economic processes, as well as to the periods under which their effect can be felt and under which they are liable to regulation.

Long-term planning gave a powerful stimulus – partly because of the longer time available and partly owing to the nature of planning itself – to the progress of economics and of planning methodology and, as a consequence, new knowledge and information could be built into planning. In the course of this process forecasting became a relatively independent planning activity, mathematical planning models were built into the co-ordination process together with the integrated application of computer methods. The formulation of alternatives became more general, though this problem has not really been coped with yet. These tendencies also characterize planning in the shorter term.

Finally, I would mention as a characteristic feature of this period that the planning work related to the harmonization of means and ends and to their mutual effects also gathered strength. This work has become an organic part of the planning process, although it cannot be called a mature field as yet, one reason being that we acquire new knowledge about the actual cause-and-effect mechanism of economic regulation only through practical experience.

What has been said about the character of planning in itself provides an outline of the features characterizing the development of *methodology*. I will mention but a few general problems here.

The work related to central co-ordination expanded and attained a qualitatively new level. Instead of the earlier order when the plan was drawn up according to the organizational setup of the economy (ministries), it is now broken down to economic sectors (industries, etc.). The system and role of balances developed into the new system of national accounts: it includes today also the activities of the non-productive sphere (the services) and the complex planning of the income processes as well. Mathematical-economic modelling has also become stronger – particularly in the phase when plan-concepts are drafted, and the various models

have become valuable complementary tools in approaching the main proportions of the plan. The role of the mathematical-economic models in the planning process became clear: they allow for the formulation and analysis of plan-variants by confronting results deriving from the application of different parameters, conditions and objective functions. This permits two basic but up to now separated methods of planning to be synthetized within the limits inherent in the nature of models, that is, the drawing up of accounts and the asserting of efficiency criteria. In addition, the models are also organizers in performing a great mass of computations precisely and in a co-ordinated manner.

The planning of the regulators and their effects involves an expansion of planning. In this context the development of financial and, especially, of price planning should be particularly stressed, together with the assertion of price forecasts and preferences in harmonizing the plan and the regulators. A weak link in this chain is the planning of the interrelations between the aims and the regulators as well as the mutual effect of the regulators on each other. The economic processes still provided little experience.

I have already touched upon the strengthening of the long-term elements. The starting of retrospective analyses with a longer range, as well as the deliberate organization of the working out of forecasts and the establishing of their criteria should be added. It should be mentioned that long-term planning has enriched the social aspects of planning with new features, and there is a hope for achieving a unity of economic planning with the basically non-economic processes which are playing an important role in social policy. This is particularly important for the planning of education and regional development.

Due to the fact that direct central decisions appear separately in the plan, in order to found them the number of problem-oriented concepts has increased (these are rather interdisciplinary and are not strictly related to industries or products), and also the methods for preparing and justifying the technical and economic concepts, priority programs and central decisions to be included in the plan have been laid down.

That the whole work of the fifth five-year plan was organized according to a uniform detailed programme should be considered an essential progress in the methodology of organizing planning work, not to mention the co-ordination methods discussed above. Planning methodology has again become a deliberate organizing tool of planning activities. This has been realized not by working out an all-embracing single methodology, but by formulating a series of planning prescriptions, which regulate a given important planning task from the methodological point of view (e.g. co-ordination of the plan conception, preparation of government decisions, drafting of technical and economic concepts, etc.).

It is a characteristic feature of the organization of planning that in short- and medium-term planning very close working relations became established among the departmental ministries called on to regulate the economy. In long-term planning, work is helped by committees comprising a wider scope of those interested. Relations between the central planning agency and the large enterprises participating in the shaping of the economy-wide plan have become settled. Enterprise planning has again become compulsory on the basis of central guidelines.

An organic relationship has come about between planning and the co-ordination of plans within CMEA, on every level of planning: beside the central planning agencies also the enterprises and ministries obtain a role in working out the co-operation proposals supporting selective development.

An outstanding step was the enactment of Law VII:1972 on national planning which uniformly regulates, by relying on past achievements, the whole system of planning.

Statistical and scientific basis

The progress of planning is determined, beside requirements, also by the statistical and scientific basis of planning, and by the techniques concerned, meaning here above all the state of development of computer technology.

At the initial stage of planned economy a relatively developed, eighty-year-old national statistical service could be relied upon. Though earlier statistics had not been compiled to serve economic control, yet they could provide useful figures and, what was even more important, well qualified statisticians were available. Statistics could be relatively quickly adapted to the requirements of planning. The planning and statistical categories could be on the whole unified and the scope of data collection expanded to the technical, distribution and social fields. In statistics also the processing of primary data, and the exploration of interrelations gained momentum. Statistics has always proved itself keeping up with what the times demanded. This was the case with the national economic accounts and similar efforts are made now in order to better organize social statistics. The active contribution of demographers to planning should be mentioned in this connection.

And yet, the whole period was accompanied by complaints about the absence of statistical and other information. There were subjective causes, a plenty, but in my opinion, what also mattered was that science an planning are not always capable of formulating their demands with sufficient precision. On the other hand, within statistics as well there is a certain "break" between figures grouped around national economic and other comprehensive accounts and the primary statistics of particular

industries, etc. This causes disturbances also in planning, since every planning section uses its "own statistics."

It is more difficult to describe the utilization of the results of economics in planning. In the initial stages of planning, it had not been difficult to exploit the then modest achievements of the discipline. This became more difficult as economics explored more causal interrelations in the operation of the socialist economy. A part of the difficulties is due to the fact that the results are not achieved within the framework of a system, that is, in some respects economics is more advanced than in others. Since planning integrates the relevant knowledge, one could say with some exaggeration that it can organize its activities on the level of the narrowest bottleneck only. On the other hand, many achievements can be made use of only following tiresome and creative adaptation, and they frequently get lost between planners and economists. Owing to the difficulties of adaptation, we are facing particularly great difficulties in using cybernetics and the systems approach in planning.

It must be mentioned that planning experience and requirements fertilized scientific research. Whether one thinks of long-term planning or of modeling, planning provided valuable impulses for the development of economics and it can be stated with satisfaction that the overwhelming majority of researchers do their work with the definite aim of practical use.

A few final remarks about techniques: the use of electronic computers in planning only became theoretically possible in the early sixties and only in recent years has major computer capacity been made available to planners.

The tasts of improvement

In conclusion allow me to briefly touch on a few major tasks regarding improvements in planning. The basis for improvements in planning in the future as well must be bearing in mind the requirements of society and a better use of the knowledge available to planning. What trends require a strengthening? As regards the *scope* of planning, the planning system must better provide for the bases of linking planning with decision taking. The character of decisions and the choice of their proper timing must be more conscientiously studied. A fuller exploration of the nature of decisions might promote their better preparation and increase this specific application. A clear distinction between planning decisions and economic policy decisions and measures, and their adaptation to the system of planning would create a more organic unity.

Given intensive economic development and in view of the magnitude of the social tasks outlined in the programme declaration of the party, planners must play a greater role in selecting the central priorities. Thus, in planning the tasks of harmonization and of formulating points of emphasis should be considered of equal rank. As regards the latter, the agencies called on to make decisions must, of course, reckon with the fact that every decision has both positive and negative consequences. It is, therefore, a justified requirement that planning should present all conditions and consequences of the decisions.

Finally, in the context of improving the *scope of influence* of planning, it should be borne in mind that, while the central decisions comprised in the plan determine the duties of state agencies, the active influence of plans on the behaviour of economic units should also get its appropriate emphasis. Beside information and the regulators, I feel there is a need for closer intellectual contact with the major enterprises, that is, for an organized dialogue.

As regards the *character* of planning, it should merely be emphasized that planning is a state function and, therefore, and this applies to all governmental duties, the logic of planning, its system, and rules of procedure should be established in the clearest possible manner. The problem is to increase the precision of planning, not only in the sense which applies to models in mathematical economics, but also in the sense that planning should be regulated as a unified system, which establishes uniform procedures beginning with data supply, their handling, and transformation, and the preparation of decisions, etc. The determination, on a scientific basis, of the roles to be played by different agencies, distinguishing the experts' phase from that of collating interests, the phase of preparing decisions from decision taking, and so on. The various disciplines of organization science can already provide much help.

In the further development of planning *methods* the special methods used for approaching certain detail problems must be distinguished from the methods of co-ordinating activity and from the methods of organizing planning as well. The methods used in approaching problems of detail are differentiated but, nevertheless, they should not be improvised or superficial on this account. Unfortunately, planning methods that are either immature or not sufficiently consciously devised frequently recur in rather important practical fields.

In the co-ordination of planning duties the main task, no doubt, is to expand the scope of mathematical methods in economics. It seems expedient, also in future, to use not a single model, but a system of models, in which the models are harmonized as far as logic, notions and, if possible, data supply are concerned. The time is also right for planning-model systems to be used not only by single planning agencies, but also for the linking of models worked out and applied in different ones. The working out of a planning and analytical programme system which would be

useful everywhere should be started and, within its framework, the access to information should secured by a national data supply system devised for planning purposes.

There are highly important and complicated detailed duties as well. To quote only: an increased co-ordination of physical and value targets under conditions of relatively quick structural changes; the laying down of principles for the formulation of variants and the prescription of the related minimum requirements in planning methodology. I also believe that we must further improve analyses serving planning. In general, one must reckon that, with changing requirements and opportunities, methodological questions considered as settled also require revision, they must not be considered solved once and for all.

The *organization* of planning work has been mentioned already in the context of the character of planning. I will not speak about the plan organization itself, since this also depends on more comprehensive viewpoints than planning, that is, with the exception of the central planning agency, in other planning agencies planning is a function closely related to their role in the administration and control of the economy. The relation between control and organization must also be carefully considered, planning must not take a back seat in this respect, either. Some relevant questions: is it most expedient if every problem of some field or complexity – beginning with operative questions and ending with long-term problems – is planned by the same agency, or is a division of labour according to planning horizon desirable? Does the widening scope and increasingly scientific nature of the work serving the foundation of planning require a more responsible division of labour between the government agencies and the institutes concerned with planning? What is the cause of the fact that the analysis and planning of cross-section problems, that are not related to particular industries, is an enduringly weak point. The list of questions could be continued but this would exceed the scope of this paper, which has a survey of the history of national planning in Hungary as its objective.

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Only the major features of the development of planning could be touched on here. The space available justified selection even within this framework. Hopefully, there is still something to be learnt for practical planners and a certain stimulus for research economists. There is work for all of us and it is stimulating that in the improvement of planning we need not rely on our own forces alone, we can and must use the experience and achievements of other CMEA countries. Our socio-political objectives are the same and their economic policies have many similar features that provide rich opportunities for a joint solution of the tasks ahead.

ХАРАКТЕРНЫЕ ЧЕРТЫ РАЗВИТИЯ НАРОДНОХОЗЯЙСТВЕННОГО ПЛАНИРОВАНИЯ В ВЕНГРИИ

И. ХЕТЕНИ

Настоящая статья основана на докладе, представленном на научной сессии, организованной 21—22 апреля 1975 года Ученым советом Университета экономических наук имени Карла Маркса и Венгерским экономическим обществом по случаю 30-й годовщины освобождения Венгрии.

Автор дает обзор развития народнохозяйственного планирования в Венгрии, принимая во внимание следующие воздействующие на планирование факторы: 1. уровень развития, структуру экономики и основывающуюся на этом стратегию развития; 2. господствующие взгляды относительно роли планирования в общественно-экономическом развитии; 3. уровень развития общественных и экономических наук, а также других объективных основ планирования.

Автор подразделяет развитие планирования в Венгрии на три этапа. Первый, переходный этап длился от 1947—1948 годов до середины 50-х годов. Внутри этого этапа революционное значение имели 1950—1951 годы, когда на базе социалистической собственности и советского опыта сложились главные принципы и методы планирования.

Второй этап в развитии планирования берет свое начало с 1957 года. Тогда новые требования к экономической политике и опыт предшествующего периода уже привели к существенному изменению характера и методов планирования. Третьим важным этапом является экономическая реформа 1968 года, которая предъявила к планированию новые требования. Постановление о проведении реформы подчеркнуло, что задачей планирования является планирование вариантов развития, включение в него принципов применения экономических регуляторов и повышение роли перспективных элементов плана.

Автор подчеркивает, что развитие планирования определяется его статистической и научной базой, а также арсеналом вычислительной техники.

В заключительной части автор намечает важнейшие задачи дальнейшего развития планирования, касающиеся сферы охвата планирования, его методов и координации плановых заданий с организацией плановой работы.

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M. TARDOS

ENTERPRISE INDEPENDENCE AND CENTRAL CONTROL*

Starting from an analysis of the institutional system of modern economy the author formulates the criteria of enterprise independence and examines, from this point of view, the changes in the performance of national companies in Hungary since the establishment of the socialist economic control system. In his examination the main attention is devoted to the situation developed since the reform of 1968.

Modern production is inconceivable without specialized and separate organizations. The deviating relations of production developing on the grounds of the socialist and the capitalist ownership relations notwithstanding, it is the enterprise form of organizational separation that has remained prevalent. The question to which the present study seeks an answer is, what are the main kinds of enterprise independence in socialism, i.e. in a social system where most of the means of production are state-owned; and what are the main economic and social consequences of the feasible, institutional and organizational systems and inter-company relations. The question investigated here is, to a certain extent, identical with the often treated problem of centralization and decentralization. In establishing the conceptual system of the study – for the sake of easier understanding – concepts also applicable to the capitalist economy will be often used and issues discussed also there will be touched upon but their deeper analysis will not be undertaken now.

The Western economic theory examined the above-mentioned aspects formerly only in a world of theoretical models, taking into consideration generally two particular cases: calling capitalist or market economy the one in which companies have full autonomy, and socialist or planned economy the one in which enterprises carry out only the detailed instructions of the centre, i.e. where they have no autonomy.

The abstractions began to get looser with the description of the behaviour of the organizations. Theoretical clarification was much promoted by the fact that the economic science of the socialist countries found itself faced, in the course of processing practical problems, with the necessity of defining the role of the

* The author expresses his thanks to *József Bognár* and *Tamás Bauer*, and to his colleagues at the Institute of Economic and Market Research *Géza Kozma*, *Mihály Laki*, *Kamilla Lányi* and *Éva Tárnok* for the help in establishing the conceptual system of the study.

enterprise. Parallel with this also the economists of the Western countries have been increasingly engaged in the theoretical and practical description of the two systems, and in their comparison, and from these good ideas have been born, too.

With a view to systematizing and further developing the results we must begin by clarifying a few conceptual issues.*

Interpretation of enterprise independence

If it wishes to survive, every society – and particularly a socialist society which considers its basic task and main economic law to increasingly satisfy social demands – needs institutions and organizations which are able to guarantee the general advance of its members, depending to no small extent on the results of the economy. With a view to meeting these tasks the institutional system of the national economy can, to some extent, influence nature, the requirements of the members of society, and foreign markets, etc., but it must be capable of permanent adjustment to the hardly foreseeable changes of the external world and of adaptation to modifications originating in its own movements. By the institutional system of modern economy basically four institutions are meant: the households, the enterprises engaged in the production as well as in the selling of products and services, the state control institutions, and the organizations for the safeguarding of the workers' interests.

An independent institution is called the element of the institutional system that has comparatively full independence (autonomy), that is not subordinated to any other institution, and that creates and severs relations with the latter voluntarily. [It is not considered an infringement of autonomy – although undoubtedly it restricts independence – if the scope of activity of the institution is determined by state laws and regulations. Thus, e.g. an institution is considered autonomous whose activity is dependent on state licence (e.g. a licence to carry on a trade), or whose partial activity is restricted by state regulations (e.g. export licence), but otherwise it acts autonomously in accordance with the foregoing definition.]

A one-level independent institution is the independent enterprise consisting of a single production unit. Also within the one-level institutions the planning and control units are usually separated from the executive units. A three-level enterprise may be called a multi-level and relatively simple institution. A multi-level institution is e.g. the system of the Italian state enterprises, in which large establishments, multi-level super concerns as the IRI, the ENI and others, which rule multi-level concerns, belong to the government, through the ministry of state enterprises.

* In the clarification of the concepts the works of *L. Hurwicz* [4], *T.C. Koopmans – I.M. Montias* [5], *J. Kornai* [7], *T. Marschak* [12], and *E. Neuberger* [14] have been consulted.

Independently of the kinds of the management and control organizations and units into which the institution is divided, it is a common feature of theirs that they are built up hierarchically or quasi-hierarchically, i.e. with unequivocally or almost unequivocally superordinated and subordinated relations.

It follows from the concepts introduced that every autonomous institution has a right of decision. The question of delegating the right of decision – i.e. of centralization and decentralization – may arise only with an autonomous institution. The reason why these processes are within the institutional system of the socialist economy – except for households – is that, owing to the social or state ownership of the means of production, all economic units outside the households function essentially under government control.* Thus, in a socialist economy the functions of economic control and planning, and those of the production and the selling of products are fulfilled in practice within *one* institution. Let us call this practically autonomous institution, in order that the deviation from the habitual should not be disturbing later on the uniform state institutional system. Within that, with some simplification, we may call sub-institutions those that are operating as functional ministries of economic control (Ministry of Finances, National Planning Office, Ministry of Labour, etc.), and as sectoral ministries directing productive and trade companies. All sub-institutions consist of organs, and the latter consist of units. Within production and distribution the former category includes state-owned enterprises, and the latter includes factory units (plants).

As opposed to the foregoing, the capitalist economy is characterized by a multitude of autonomous institutions. Beside the numerous large concerns quite a few independent small enterprises are functioning. In the modern capitalist economy an increasingly important role is played by the biggest independent institution: the uniform state institutional system, which comprises the whole state-owned economy. The state economy consists of controlling sub-institutions and national public organizations (health, education, public utilities, roads, etc.), as well as nationalized companies. In the economic practice the sub-institutions and organizations subordinated to the institution of the capitalist state economy have usually a relative freedom of decision. The government determines only their functions, and does not prescribe the details of their activities.

* In this study the description of the Yugoslav economy is not dealt with. And in other socialist economies, as has been demonstrated by several authors, the dependence of co-operatives on the government is not less, even though of a different form, than that of state-owned companies. Therefore I did not deem necessary to distinguish such organizations within this study. As for private firms, I left them out of consideration, since they have only a small share in the economic production, and their activity is strongly limited by laws and state regulations.

Channels of economic co-ordination

It is a condition of the functioning and growth of both economic systems that activities be adequately co-ordinated among the institutions and within them, or, that the institutions, organizations and units be appropriately adjusted to each other and to the development of the economic environment.

There are three channels of co-ordination: the first is the one required by the established social customs and technology. The role of the established customs in economic control works relatively undisturbed in the primitive economies* and in the mediaeval guild system. This control is based on the fact that the members of society know and accept the social function resulting from their position and are always acting accordingly. Before analysing the spontaneous positive effect of tradition on economic activity two comments must be made. First, the historically developed qualities in people which now seem spontaneous have not evolved spontaneously but on the grounds of earlier power relations, and many times under very violent social effects; second, traditions often slow down the development of the productive forces and the corresponding social changes, e.g. they keep operating technical means and even activities also in economically unjustified cases. The positive effect of the established customs shows in that the workers and within them the widely different groups of specialists have developed the requirement that they must do their work "well". This attitude to work originating in tradition promotes, among other things, the co-ordination required by the expedient use of working tools.** The most simple instance of this is that the units and organizations do their best to repair or replace the productive equipment broken down, and to acquire the material necessary for continual work, as well as to keep their stocks on a satisfactory level, etc.

Modern technology often determines also the quality of co-ordination between organizations and institutions. Here we think e.g. of the case that the installation of a complicated machine determines not only the work of the handling personnel, but also the operation of the equipments connected to it, as well as the quality of the primary material to be bought by the enterprise, as well as the intervals of purchases and where they should be procured from.

The second main channel of co-ordination, which obtains a decisive role parallel with the development of the *commodity and money relations*, is the control system of the *market*. The commodity and money relations constituting the basis of

* The question is treated by the universal comparative ethnology (or social anthropology). See e.g. the works of *B. Malinowski* [11] and of *K. Polányi* [15].

** In my opinion *J. Kornai* and *B. Martos* [9] use the concept of vegetative or autonomous control in this sense.

the control develop on the grounds of the social division of labour. The results of the activity of the specialized producing units become clear in trade. To the value in exchange, i.e. to the price, irrespective of whether it has been formed by many producing enterprises and a great number of buyers, or under the deliberate influence of certain social institutions (companies having monopolistic or oligopolistic market position, state economic control institutions) – the economic units, led by self-interest, are obliged to adjust themselves to it in their short-term and long-term decisions. This is because the economic institutions, organizations and units are obliged to manage their activity in such a way that apart from transitory exceptions, their incomes should exceed their expenditure, even if they do not aim at maximum profit.

In the appraisal of the market forms the starting point customary in Western economic textbooks – according to which in a market economy the prices are formed generally without any conscious intervention and the price influencing activity of the oligopolistic organizations is only a deviation from the general – must be rejected. In reality it is not only the conscious price policy of the big concerns that asserts itself on the markets of the capitalist economy, but in a modern economy one can see the price influencing activity of the state. Generally the tax system, the customs duties, the setting of exchange rates and the system of issuing money are the most important tools of the price policy of the state, and these have been lately more and more often complemented by direct means of price control (price freezing, price maximization, etc.). Yet the prices influenced by the state may be considered from the point of view of the economic organizations as objective, if the price factors are uniform, the system of their changing is regulated by law, the state regulations influencing the prices are only rarely modified and, finally, if the changing of the factors can be influenced only by the revealed general interests of the economy. Thus *an objective price system* excludes the possibility of changing the centrally determined price factors frequently, differentiated according to companies, and in consideration of the interests of individual companies. The companies must adjust themselves to such an objective price system. On the contrary, in case of an arbitrary price system resulting from frequent state interventions, a certain degree of company adjustment, i.e. market effects, is still to be expected, although their importance is moderate.

Another important question regarding market forms is, whether this co-ordination works only if profit becomes the direct aim of company owners. It is obvious that in the so-called capitalist market economies today an increasing number of persons who have important roles in decision-making are paid employees, whose incomes depend only indirectly, and not even in a considerable measure, on profit. Since the income of the managers depends to some extent on the successful work of the company under their direction also in the socialist countries,

the production co-ordinating and stimulating role of the commodity and money relations is unquestionable also there.

It is a common feature of the above-mentioned two control systems that they assert a co-ordination based on routine rules and of a self-regulating character, i.e., a co-ordination in which spontaneity is dominating. As opposed to this, the third channel of control is the *planning by man on the social level and based on man's conscious decisions.*

A planning decision may be called such a decision which cannot be identified with any simple behaviour corresponding to a routine rule, but is made by the leaders of an autonomous institution, organization or unit not only by reckoning with the exceptable changes of the economic environment, but also wanting to influence it, and whose intention is to clarify also the functions of the subordinated organizations or units.

Accordingly, beside prognosis, two elements of co-ordinations belong to each plan. The common feature of both is that they contain much more perspective and dynamic elements than the channels of co-ordination described in the foregoing.

The first co-ordination element of the plan must make clear the target that the institution, organization or unit wants to achieve in a certain period. This is partly a statement of how it will adjust itself to the activity of institutions independent of it and to the expectable changes of natural conditions, and partly a statement of how it will influence this environment. The other co-ordinating element in the plan is directed at the co-ordination of the activities *within* the institution, organization or unit to subject them to the above-mentioned aim. The simplest form of this co-ordination is *instruction given as an order.* This is done usually only in the case of activities that are very easy to survey. E.g. commands serve for co-ordination even in the army only in certain fields, and relate to a small number of typical activities. It is also a characteristic feature that commands from the centre usually get to the executive organ not in the direct way but through the steps of a hierarchical system. The formulation and issuing of the commands are effected separately at each level, adjusted to the situation.

The most complicated form of co-ordination within an institution is when the top managers confine themselves to a general outlining of the aims of the institutions, in order that the managers of the organizations and units may have the opportunity to interpret the concrete tasks themselves. There are several transitory forms between the two extremes. Such is e.g. the co-ordination within the institution which stimulates the achievement of certain aims, while the organizations belonging to the institutions can decide freely – keeping in view the stimulation – about the alternatives before them.

It must also be clarified, in what case one can talk about national (economy-wide) planning i.e. of planning covering the whole of the economy. It follows from the preceding that the three elements of planning must be distinguished also in the case of economy-wide planning: – making of prognoses – definition of the aims and selection of the means necessary to achieve them, as well as the division of the tasks within the institution in the course of realizing the aims. Thus the statement of *I. V. Stalin* [18] is proven correct that socialist planning should not be identified with plan-prognosis or plan-guessing. The problem is concerned only with the second part of Stalin's statement, i.e. with the question whether economy-wide planning is necessarily identical with plan-instructions.

Today it is obvious that the plan instruction is not the only method of planned economy. Rigid instructions may be replaced by a general definition of tasks and by a free adjustment of the decentralized decision-making places to the economic conditions. And, what is more, in certain fields of the economy, where we are faced with a continuous and hardly traceable changing of conditions, the rigid division of tasks among economic units can be replaced by the autonomy of economic units oriented to needs. Competition on the centrally controlled markets may promote a general increase of economic efficiency and a better adjustment to the continuously changing economic conditions. In this case the condition of economy-wide planning is guaranteed by the planned utilization of centrally held economic key positions.

All this shows that in every form of co-ordination the handling of uncertainty plays an important role. The changes of nature and of foreign markets can be forecast only with uncertainty, and also the behaviour of the organizations and units within the institution is uncertain to some extent, even if they are working under instructions. And the successful functioning of the institution is dependent on how it can cope with these uncertainties by means of internal and external co-ordination.

It is in consideration of these interrelations that we examine – relying on the thirty years' experience of socialist economy – the independence of Hungarian enterprises, and the institutional and co-ordination system in which the enterprises are functioning.

Enterprise independence and centralized decision-making system

The uniform state institutional system developing on the basis of the social ownership of the means of production can issue instructions on the definition of the tasks of sub-institutions, organizations and units. This form holds out the promise that if enterprises follow the instructions and economic conditions do not deviate from the assumed ones, economic activity will be carried on in harmony with the decisions of the centre. There exists such a primitive interpretation of this decision

system that the hierarchical units or organizations have no independence in decision-making at all. Of course, such a situation cannot occur in reality. This is because it would be a precondition of the viability of an economy managed exclusively by instructions that the centre should be immediately informed about the changes in the economic environment and be able *immediately* to evaluate the information obtained in order to take the necessary measures. It is on the basis of this practically unfeasible assumption that the Western economic literature holds the system of central decisions to be highly information-intensive and, therefore, expensive.

Yet in the age of computers, the problem occupies many. Programming methods offer themselves for the processing of information. For the shortening of the period taken by the flow and processing of information the literature of economic models has lately worked out special procedures [8, 10]. These procedures are often related to the decentralization of decisions. Yet it is obvious from the suggestions made that the question is only if the *preparation of decision* can be made with the utilization of the two- or multi-level hierarchical system. The so-called decomposition algorithms bridge over the difficulty that the information needed for the preparation of decision often will not go all at once into the memory of the computer, and, in principle they even allow that the calculations be made with the computers to be found in the various organizations of the hierarchic institution. However, even if the achievements of the modern telecommunication and computer industry as well as up-to-date decomposition algorithms were utilized, the flow and processing of information would still be insufficient for the uniform decision-making system covering also the details of activities to function with appropriate speed and efficiency. Therefore, contradictions between the central instructions worked out with the aid of these means would be inevitable, and it could not be guaranteed that they should sufficiently observe the changes in environment. The contradictions would force the leaders of the organizations and units directed by instructions to rank the instructions independently, or to ignore some of them.

In the practice of economies controlled by central instructions, however, the independence of the leaders of organizations and units originates not only in the contradictions between instructions but also in the fact that compliance with instructions while ignoring certain changes in the external conditions would cause obvious damages. Exactly because of that, in the practice of even the most strongly centralized economies the central organs were forced to leave to local leaders and to co-ordination based on tradition not only the technological activities, but they were allowed to determine the utilization of resources (allocation of supplies) and even the output of the final products or services was determined for them only in terms of main products or aggregates. The production and service not defined but indicated

just as "others", the selection among products not specified in the plan, and the over-fulfilment of the plan figures always left some possibility of decision for the managers of the enterprise. For the utilization of this possibility the control system gave "instruction" usually by stimulation. The stimulation was directed in most cases at the over-fulfilment of the enterprise plan measured in home currency, at the observation of the relative product proportions specified in the detailed production instructions, at economizing with resources and at the reduction of prime costs. Thus the system of the strict plan instructions was disturbed not only by tradition but also by co-ordination based on market forms.

The different channels of co-ordination usually got into conflict with each other. In the period of the so-called "tight" plans the rigidity of the plan instructions and of the allocation of supplies often upset the co-ordination based on tradition and on the functional competence of enterprise managers and specialists. It often happened that hardly surmountable conflicts arose between two companies having relations with each other, even if both acted according to the plan instructions. This was because in matters not settled through plan co-ordination their opposed interests could become evident. A special contradiction of the system was expressed by the fact that the bigger became the role played by the incentive system connected to the forms of commodities and money, the stronger became the disturbances originating in conflicts of interests. It was the sectoral medium-level organizations having no negligible role in the hierarchical structure that tried to smooth the contradictions. They intervened in the economic processes partly by further specifying the central instructions, and partly by amending the untenable ones. However, all that could ease only a little the sharpening of contradictions in the control system.

The relations that appeared in the so-called commodity and money form could not develop into real market relations because they were subordinated to the logic of the economy of plan instructions. This subordination was evident e.g. in the fact that prices were fixed by the authorities and the price-forming factors (taxes, subsidies) determined by the state were often changed, not primarily in order to follow the changes in supply and demand relations, but to counterbalance factors hampering the economy of plan instructions, slowing down the fulfilment of instructions, and disturbing the stability of organizations. The producer prices thus formed must be considered arbitrary not mainly because they deviated from social costs but because the enterprises could not obtain any objective orientation from them. Indeed, they could expect that the prices would disturb them only transitorily in the fulfilment of their targets, because the centre would counterbalance the original effects of the prices by modifying them or by offering subsidies.

Laying stress on market forms, certain Western authors [16] describe the behaviour of the managers of enterprises functioning under such conditions as a maximization of success- (profit-) indicator under constraints. This interpretation does not seem fortunate. It seems more realistic to characterize such an enterprise by saying that it uses its restricted decision-making independence in a contradictory situation determined by instructions and constraints for the fulfilment of its main function defined by the hierarchical institutional system. The fulfilment of the tasks was enabled to no small extent by the fact that the rigid plan instructions and allocations of supplies, as well as the disturbing fixed prices could be modified in the course of negotiations with the authorities, i.e. within the so-called "plan bargain".

The Hungarian literature treating these questions pointed out correctly that quite a considerable portion of the output of enterprises working under the above described conditions was used through channels of forced replacement, in the course of which substantial unsaleable stocks of semi-finished and final products accumulated. A few authors, however, explained – unjustified – the harmful consequences with the fact that leaders made use of the contradictions in the incentive system to their own advantage. Not denying that the pursuit of success may have occurred, it is likely that the cause was to be found not mainly in the leaders forgetting about social interests, but rather in the fact that without sham successes the enterprise could not have fulfilled in most cases even its functional tasks.

From all this the conclusion can be drawn that the contradictions of the economic control system of strict plan instructions were much eased by the co-ordination based on customs. People, who identified themselves with their social tasks and wanted to fulfil them, rendered the economy viable in spite of the contradictions of the control system and of its effects demoralizing work morale. In connection with the successes a particular importance should be attributed to the fact that the positive effect of the historically developed customs and that of the love of creative work were further strengthened by the liquidation of capitalist ownership and exploitation as well as by the emergence of common social property and the prevalence of the ideology of the right of common disposal over it.

Centralization of decisions by reducing the number of instructions

In the economies of the socialist countries it has been generally recognized that if a full centralization of decisions is aimed at, the above-mentioned contradictions cannot be eliminated, and the conclusion has been drawn that enterprises must be given greater freedom. Accordingly, the number of instructions and the allocations of supplies began to be reduced everywhere – among them in Hungary – from the mid-fifties.

Decentralization began first by reducing the number of aggregated production instructions in 1954. Up to that time the National Planning Office had submitted for approval to the Government several thousands of production and sales indicators broken down to products, and only a little smaller number of indicators increased the enterprises' independence. The process was, however, not free from contradictions. Firstly, the reduction was often effected by omitting such indicators as had had only formal roles in the control of the companies even earlier. Secondly, the indicators omitted were included in the plan computation material of the superior organs, and, if the enterprise deviated from them and aroused the dissatisfaction of the utilizing companies, it was condemned by the supervising ministry for neglect of social interest. (See [6].)

The other tendency of changes was a simplification of the hierarchical control system within the institution. This simplification had a twofold aim: one was to reduce the number of controlling levels between the top of the institution and the enterprise – the five-level control system of government, sectoral ministry, industrial directorate, trust and enterprise was reduced to four levels, generally by eliminating the industrial directorate. The other aim was to end parallel production lines between enterprises by "cleaning" special lines and by amalgamating companies. The change concomitant with increased sizes of companies was called decentralization, because it entailed the widening of the scope of decision of the companies. This is because, with a view to simplifying the economy, the settlement of a part of the problems settled earlier through central plan instructions was delegated to the manager of the enlarged company.

These two tendencies of changes were alternating practically until 1968, the year of the reform of the control system. The central prescriptions were reduced in 1954 and in 1957 too.

Some tendencies of centralization were, however, also observable. For a new centralization of the decision-making rights spoke first of all the advantages demonstrated in the course of preparing the plan. In these computations, however, the consequences of the unexpected changes of the economic environment were generally ignored, as well as the fact that actual demand is much more diversified than even the most detailed nomenclature.

The experience also contributed to the tendency of centralization that companies in an advantageous sales position often did not want to satisfy the special requirements of buyers, and in this situation the representatives of consumers hoped to ease the tension by forcing suppliers to satisfy demands by establishing the more detailed plan instructions.

Finally, however, the decision-making independence of enterprises increased after 1954. But the minuteness of detail and the rigour of plan instructions,

allocations of supplies and of other constraints, and the most important features of the economic system did not change, the commodity and money relations between companies did not become a real market. The results of the changes appeared mainly in that the factors disturbing co-ordination based on established customs were reduced.

The enterprise in the new economic control system in Hungary

Let us now make an appraisal of the changes in the economic control system after 1968 from the enterprise point of view. The first point in the description of problems concerned with the independence of companies may be that the Hungarian economists – among them the leading government officials – had come, during the discussions of one and a half decade preceding the reform, to the uniform view that the control of enterprises by means of plan instructions and allocations of supplies must be replaced by more efficient forms. Within this fortunate agreement, however, two different views developed regarding the independence of companies, even though they were not formulated in the period of preparing the reform and correcting the control system. (Not infrequently, uncleared points or hidden compromises between the two viewpoints can be gathered from some of the decisions and other official documents.)

One of the views can be formulated in that it is not sufficient to determine the order of economic and financial regulation after having eliminated the difficulties of economic control as expressed in the plan instructions and in allocated supplies, but the planned and centrally defined functional division of tasks among sectoral ministries (sub-institutions) and within them among enterprises (organizations) must be maintained and further developed. The producing and commercial enterprises must be made responsible for satisfying the needs of a certain sphere of buyers. Instead of plan instructions, the enterprise must be orientated through profit towards fulfilling its function. The granting of investment credits must also be subordinated to future functional tasks corresponding to central plans by means of credit preferences and the credit permission of the sectoral ministry.

The other view sets out from the assumption that the enterprises freed from the shackles of plan instruction would strive after increasing their profit so much that the division of functional tasks and the maintaining of the functional sectoral supervision would remain without consequence and would later cease automatically. Enterprises would compete to satisfy customers and to achieve better results: and the competition influenced by central regulations would give a great impetus to economic growth. And the granting of credits for development purposes might

increasingly be helped by self-regulation, relying on the estimation of the expectable profit.

Owing to various reasons, during the seven years of the new economic control system up to now it has been the opinion of the holders of the first view that has prevailed. The uniform state institutional system has practically survived. Enterprises were obliged to fulfil their functional tasks, although the short-term ways and methods of conforming to these can be devised in most cases by the enterprises themselves. Central organs instruct them only in exceptional cases, in compliance with the relevant rules and also in practice. Beside financial regulators, the centre influences enterprises in general only by making them recognize their social tasks, by means of direct personal discussions between state officials and enterprise executives. The role of these informal relations is, however, constantly growing. Its possibility is directly created by the fact that the result of enterprise economy, i.e. profit, as well as one of the important preconditions of enterprise management: the wages payable are still largely dependent on the central organs.* The latter can, namely, regularly change the position of enterprises by a series of individual or general interventions, by a detailed control of price changes, by repeated revisions of the system of export subsidies, by granting wage preferences, etc.

The will of central organs and, not infrequently, that of sub-institutions representing partial interests increasingly asserts itself *in the development activity.* A series of measures have guaranteed that the utilization of development funds accumulating in enterprises, and of the available credit resources should correspond to the central plan.** In this way the producing and commercial enterprises functioning under the new economic management system have clearly remained the lowest steps in the hierarchically constructed uniform state institutional system. Their independence is considerably bigger than it was before 1968, but they still have to deduce their tasks from the global social interest, and their freedom in interpreting the social interest is limited. Under these conditions it is typical – a few contradictory cases notwithstanding – that the government assumes direct responsibility for all economic actions and for all organizations. The statement can be made, therefore, that the increased independence of enterprises in decision-making still

* The development of the profit motive was further restrained by a special factor not treated here: by the regulation of enterprise income and within it by the complicated rules of wage regulation as well as by the related irrealistic investment burdens. (See [1], [3], [13], [17], [19], [20], [21] on the subject.) The solution of these justly criticized contradictions of the regulations was sought not in the changing of their essential elements but in individual intervention.

** This does not mean that the utilization of the enterprise development resources also corresponds to the detailed development plans. However, the deviation is usually due not to the fact that the central organs are unable to influence the enterprise to fulfil the plan voluntarily, but to the circumstance that the consistency of enterprise development possibilities and needs is not observed in the plan.

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cannot be qualified as autonomy. And owing to the frequency of detailed state interventions and to the arbitrary price system, the financial relations between companies are still not of a market character.*

Thus, the past seven years of development of the Hungarian economy have proved that it is possible to control a socialist economy without specified plan instructions and also that this entails even social advantages. But *the rest of the issues* of the debate going on since the preparation of the reform of the system have not yet been settled by what has happened up to now. It still seems warranted to ask the question whether it would not be justified to develop into autonomy the independence of companies or groups of companies not constituting a functional unit in certain fields of the national economy, first of all *in the production* and sales of agricultural and manufactured products, which is called the "competitive sphere".** Namely, it remains doubtful whether without such a reform of the institutional system a real market co-ordination will be possible. For such a change it could be said that local knowledge covering also the details could be, presumably, better mobilized; the workers of enterprises could be encouraged to fulfil tasks that are easier to understand than general social aims, and they could also measure their own results better. All this would increase the performance of the economy. It is to be presumed that if autonomous and purposeful institutions controlled by laws and regulations were working in certain fields of the economy, a planned and responsible management of the national economy would also become more feasible. The existence of such institutions would not hinder the government in determining by means of the plan the main line of development of the economy by relying on its directly subordinated economic control organizations (functional ministries, etc.), subinstitutions outside the economic sphere of competition and on the budgetary resources. On the contrary: it could be expected that such an institutional framework would render the control of the national economy more efficient and, among other things, it would be possible to accelerate the development of the competitive sphere. In addition, the existence of autonomous economic institutions would free the government from taking responsibility for such development decisions, which contain uncertain elements in all cases. This solution would have the advantage that, if the independent institutions carried out less successful or even completely unsuccessful actions beside the successful ones, they would be obliged to correct them quickly in order to survive. Today, as it is known, if the uniform hierachic state system makes a mistake because of the uncertainties of development or for other

* I cannot undertake to prove the statement by factual data within the scope of this study. This was attempted earlier in a case-study written jointly with *Zsuzsa Hegedüs* [2], [3].

** For a critique of the institutional system of the Hungarian economy and my own suggestions for its reform see [20].

reasons, the government is often compelled by various socio-political considerations to prevent by means of central measures – tax-exemptions, prohibition of imports, government subsidies – the consequences of the wrong decision from coming to the surface. And this means that the economy is transformed according to the wrong decisions at the cost of social sacrifices. It is beyond doubt, however, that it is more advantageous for the society if the economic organs adjust themselves to the requirements of their environment, than if the economic environment is shaped in the interest of the stability of economic organs.

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САМОСТОЯТЕЛЬНОСТЬ ПРЕДПРИЯТИЙ И ЦЕНТРАЛИЗОВАННОЕ УПРАВЛЕНИЕ

М. ТАРДОШ

В первой части статьи автор останавливается на понятии самостоятельности (автономии) предприятий и на каналах координации их деятельности. Автономией он называет такое обособление предприятий, когда в осуществлении собственных целей их ограничивают лишь законы и правила. Совокупность государственных предприятий, управляемых посредством плановых директив или предписания их функций, может рассматриваться как одно учреждение, называемое автором единой системой государственных учреждений.

Координация деятельности предприятий производится параллельно по трем каналам: посредством сложившихся общественных обычаев, отношений товарного рынка и планирования. Автор в дальнейшем характеризует роль этих трех каналов координации в Венгрии в периоды строгого централизованного управления, относительного ограничения плановых директив нового механизма, применяющегося с 1968 года.

За эти три периода самостоятельность предприятий — с некоторыми перерывами — постоянно росла, но не достигла уровня автономии. Метод фиксирования цен и установления определяемых государством факторов цен (налогов, субсидий) сохраняют волюнтаризм и в хозяйственной системе, действующей без плановых директив. Таким образом, дискуссия о роли конкуренции и автономии предприятий в социалистическом плановом хозяйстве остается нерешенной. Однако опыт прошедших лет безоговорочно подтвердил, что социалистическое хозяйство может успешно развиваться и без плановых директив.

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A. INZELT

MEASURING THE CHANGES IN THE EFFICIENCY OF THE NATIONAL ECONOMY

The article is based on a lecture given at the conference on problems of economic efficiency held from 18 to 22 November 1974 in Moscow. The author presents a method of measuring changes in efficiency of the national economy on the example of Hungary's national economy.

Use of the notion of efficiency

Economic efficiency is one of the most synthetic categories of economics expressing the effect of the extremely diverse quantitative and qualitative factors of economic development and all problems of the economy may be related, in a narrower or wider sense, to efficiency. Without intending to give a detailed review of the many-sidedness of the notion, some of its characteristics will be mentioned in order to avoid misinterpretation.

Economic efficiency is a category of the national economy, a notion which can be interpreted at macro-economic level. It is an objective category, and thus does not depend either on economic policy or on economic mechanism. Efficiency may also be interpreted at micro-economic level, its micro-economic problems, however, will not be dealt with here.

Therefore, the category of economic efficiency expresses the relation between the results of and the inputs into production, i.e. the most useful utilization of the complexity of productive resources.

Marx's definition according to which efficiency improves if the same volume of products will be produced with a smaller total labour inputs is correct even today. Marx formulated this as follows: "The increase in the labour productivity consists precisely in that the share of living labour is reduced, while that of the past labour is increased but in such a way that the total quantity of labour incorporated in that commodity declines in such a way, therefore that living labour decreases more than past labour increases." [1]

In the course of the development of Marxist economics efficiency has not always been interpreted in this way, it was often restricted to the examination of one or another factor.

The importance attributed to the individual factors depends on

– the historically developed social relations of production (e.g. in the capitalist mode of production the examination of efficiency is restricted to the question of the profitability of capital expenditure, since it is determined by the property relations),

– the actual economic situation within the given mode of production, e.g. what is the social importance of the individual input elements (employment situation, raw material supply, energy supply, etc.).

All these determine the sphere of observation, the domain where it may be interpreted but do not the notion itself.

Measuring economic efficiency

There are elements of efficiency which are liable to quantification, but also such which are not. The examination of efficiency will be restricted here to the measurable elements while the others – which, in my opinion, are also very important – will not be dealt with.

Efficiency, in general, is the relation between the result (returns) and the input (resource utilization) necessary for its production.

Its general formula is as follows:

$$E = \frac{R}{U}$$

where: E – economic efficiency
R – returns
U – utilized resources.

Such types of indices, since they do not measure the "qualitative elements" of efficiency, are usually called also productivity indices. In the western economic literature "labour factor productivity" corresponds to the contents of these indices. The Hungarian economic literature uses for these indices the expression of efficiency and "total productivity", respectively. It speaks in favour of the application of the term "total productivity" that, when actually measuring, only some elements and components of efficiency can be expressed but the notion itself cannot. The attribute "total" is necessary because in the Hungarian terminology the contents of the word productivity had been narrowed down for a long time and only the productivity of live labour was meant by it. The use of the word efficiency is justified, however, because the quantifiable elements of the notion are actually measured and in our

economic thinking always the same content has been connected with this word, thus no distinctive attribute is needed.

Efficiency may be examined statically and dynamically. In the course of statical examination different types of activities are compared by means of the indices and on this basis we may judge which is more efficient. In the case of dynamic examination the question is how the efficiency of the national economy or of a sector changed during a certain period. In the following this latter problem will be dealt with.

To measure the changes during a long period (10–20 years) one of the most suitable indicators is the returns of the national economy per one person employed.* According to this indicator efficiency improved in Hungary between 1960 and 1974 to a significant extent, it doubled.

When measuring the changes in efficiency during a shorter period (5–10 years) it was not enough to examine the development of returns per one person employed since this can be increased over some years also in such a way that meanwhile even the means serving for the development of the next period are used up.

Naturally, this indicator may be applied during the examination of a shorter period or of individual branches, too. In such cases, however, its economic contents will change (and this must not be forgotten) since it does not express the change in efficiency but only the development of the productivity of live labour. Accordingly, it may be considered as a partial indicator of efficiency.

Similarly, the indicator of the utilization of assets may be interpreted as a partial indicator of efficiency comparing returns with the assets engaged.

If changes in efficiency are observed on the basis of only one or the other partial indicator, these may easily conceal the fact that the efficiency of some resource was improved perhaps in such a way that meanwhile that of others was spoiled, thus wasting social wealth.

The partial indicators of efficiency developed in Hungary between 1960 and 1974 as shown in Figure 1.

The productivity of live labour increased relatively quickly, by a yearly 5.1 per cent, but the utilization of assets improved to a minimum extent: by 0.7 per cent annually. It even occurred that the utilization of materialized labour deteriorated. E.g. in 1965 it was lower than in 1960.

The examination of efficiency is made much easier if such indicator can be applied for measurement which compares the value produced by society to the total

* This indicator should not be mistaken for that of the per capita returns of the national economy, since this latter is not a measure of efficiency but that of economic development level. In the countries with fast population increase these two indicators may develop even inversely.

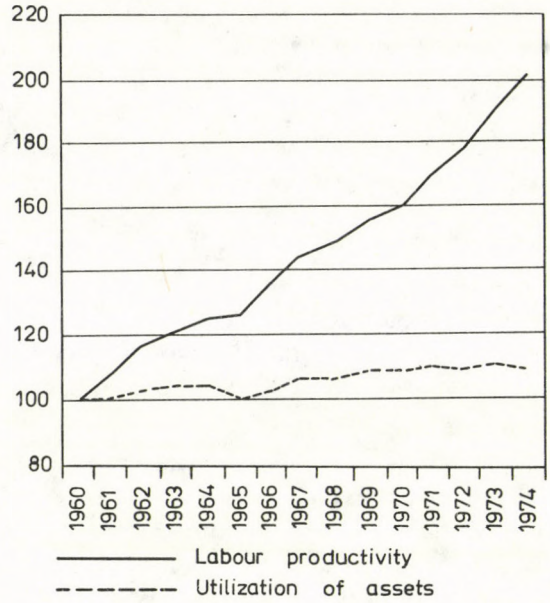

Fig. 1. Changes in the productivity of live labour and the utilization of assets

labour input, i.e. to live and materialized labour inputs combined. Such types of indicators are called, as against the former one, complex indicators of efficiency.

While constructing the indicators it causes some problem how to measure the results and the inputs.

To measure the returns the indicator of national income is most frequently applied. In my opinion, if there is a satisfactory data basis already available, then it is expedient to complement the indicator also with the results of the so-called non-material branches. The present development level of productive forces justifies also the consideration of depreciation.

For the measuring of returns the starting point was the indicator of gross domestic product (GDP). It was corrected for stock fluctuations influencing the changes in the utilization of gross domestic product and indicating short-term equilibrium problems as well as for the value of changes in the stock of unfinished investments. The indicator computed in this way is called corrected gross domestic product. By this correction the actually utilizable gross domestic product of a given year has been determined. It also shows great fluctuations, in accordance with the years of "overheated" and "deep-frozen" investment activity.

From among the input items it is relatively simple to measure the quantity of live labour input and this can be solved by means of various indicators. However, the

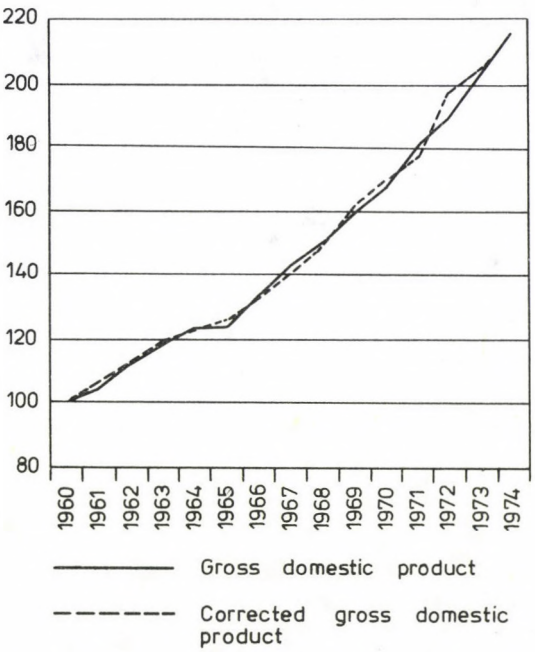

Fig. 2. Changes in the gross domestic product and the corrected gross domestic product

measurement of changes in quality causes some problem. The best method would be to measure this on the basis of the education and training costs of those employed in the individual branches. Unfortunately, this cannot be reliably solved with the recent statistical data. In spite of the statistical difficulties we did not want to leave education and training costs out of consideration, and therefore an approximative method was applied. For lack of a better one, the increase of government expenditure on education was taken into consideration as the factor of qualification.

According to the computations, the labour input of the Hungarian national economy increased by 16 per cent between 1960 and 1974. 7 per cent of this can be attributed to quantitative growth and 9 per cent to the qualitative change of labour force.

As materialized labour input into production some value of the fixed assets as well as circulating assets can be taken into account. A consideration of both is necessary since thet form important parts of the reproduction process. An exact measurement would require us to use the net value of fixed assets, since this expresses the value of actually utilizable stock, if the depreciation rates applied correctly reflect the physical tear and wear and obsolescence as well. During our

work – adapting ourselves to the data basis – a concession was made and as materialized labour input the gross value of fixed assets and the value of stocks were considered.

Changes in efficiency in Hungary between 1960 and 1974

For measuring the changes in efficiency an indicator was computed from the data at disposal showing the total returns of the available resources of the national economy and the changes therein.

The adding up of live with materialized labour inputs was solved by means of coefficients. The coefficients applied expressed the normative requirements "expected" from the individual resources.

The different coefficients were determined by means of various methods. Thus the following were examined:

a) by means of the input-output table the proportion of the live labour inputs to the live labour contents of capital inputs, as well as the proportion of materialized labour inputs to those necessary for the functioning of people as labour force;

b) the average proportion of consumption to accumulation within the GDP (1960–1974);

c) the live labour costs paid by the national economy in the period of 1960–1974 and the interest requirements of capital inputs.

The different approximate calculations gave roughly the same result. On this basis the returns of the national economy were related to the live labour inputs and the input of assets, respectively, in a proportion of 1/3 to 2/3 and the parameters were determined in this way.

Thus an indicator of efficiency was obtained which was of the cost accounting type. With such types of indicators the value of coefficients is a question of agreement to a certain extent and thus involves subjectivity. The formula of the indicator of efficiency determined on the basis of the former considerations is as follows:

$$\frac{\text{Corrected gross domestic product}}{a \times \text{value of assets} + b \times \text{live labour}}$$

where: $a = 0.085$ – parameter of the materialized labour input

$b = 1.4$ – parameter of the live labour input

value of assets = gross value of fixed assets + value of stocks

live labour = number of gainfully occupied population × average wages of 1960 × changes in the qualification factor.

Changes in the indicator of efficiency of the national economy

Year	On the basis of the corrected GDP	Year	On the basis of the corrected GDP
1960	1.00	1968	1.22
1961	1.04	1969	1.29
1962	1.07	1970	1.31
1963	1.08	1971	1.29
1964	1.13	1972	1.44
1965	1.15	1973 (preliminary)	1.50
1966	1.19		
1967	1.21	1974 (estimated data)	1.53

The indicator of efficiency of the national economy shows to what extent the joint returns attributable to the limited resources utilized during the production have changed. According to this, in 1974 the Hungarian national economy produced more than double the gross national product of 1960 with a 16 per cent increase of the gainfully occupied population – taking into consideration also the rise in the "level of qualification" – and an almost twofold growth of the assets engaged. Consequently, the efficiency of the national economy improved. Within the resources the volume of assets engaged increased more quickly than that of the live labour employed. The yearly fluctuations in the rise in the efficiency of the national economy were determined first of all by the changes in returns since the volume of resources increased roughly evenly.

Efficiency increased more slowly than productivity and developed more favourably than the utilization of assets.

The changes in the efficiency of the national economy are influenced by a great many circumstances even on the basis of the limited indicator taken in the former sense. The returns of the national economy may be decreased or increased by a bad or good agricultural harvest, the favourably or unfavourably developing terms of trade, the changes in the economic structure, etc.

While evaluating the changes in the efficiency of the national economy one cannot rest satisfied with the picture outlined by means of the indicator but also the changes between the factors which can or cannot be quantified should be considered.

The indicator of the efficiency of the national economy may serve as a starting point for the analysis only. To qualify the changes which have taken place further investigations are needed. Such an important question is, for example, an examination of the efficiency of the individual branches of the economy and the changes in their position within the economy. The efficiency of the entire economy would have changed most favourably if those branches had increased most intensively whose efficiency was better than the average of the national economy.

Table 1

Proportion of the main branches of the national economy in 1960 and 1974 (on the basis of the gross domestic product, in percentages)

Branches	Proportion of the main branches of the national economy		Growth
	in 1960 (per cent)	in 1974	(1960=100)
Industry	33.5	39.3	252.8
Building industry	7.6	7.7	211.4
Agriculture, forestry, management of water-supplies	26.0	19.5	162.0
Other branches	32.9	33.7	221.0
National economy	100.0	100.0	215.6

The volume of material goods available to the national economy increased more than twofold during the last 14 years. The production of the industry increased most intensively but also the production of agriculture, forestry and the management of water-supplies increased more than one and a halffold, – rather quickly, considering the characterisucs of the branch. The relative proportions of the national economic branches changed in accordance with the growth. From the point of view of the development of the efficiency of the national economy the changes in the efficiency of industry were of decisive importance as this is the most significant and most rapidly developing branch of the economy.

In the following let us review how the efficiency of the individual branches of the national economy changed.

Changes in the efficiency of industry, the building industry and agriculture

When examining the changes in the efficiency of the individual branches, indicators of efficiency were computed similarly to the indicators reviewed in the foregoing. (In agriculture also the value of the cultivated area was taken into consideration.) On the basis of all these the development shown in Fig. 3 can be observed.

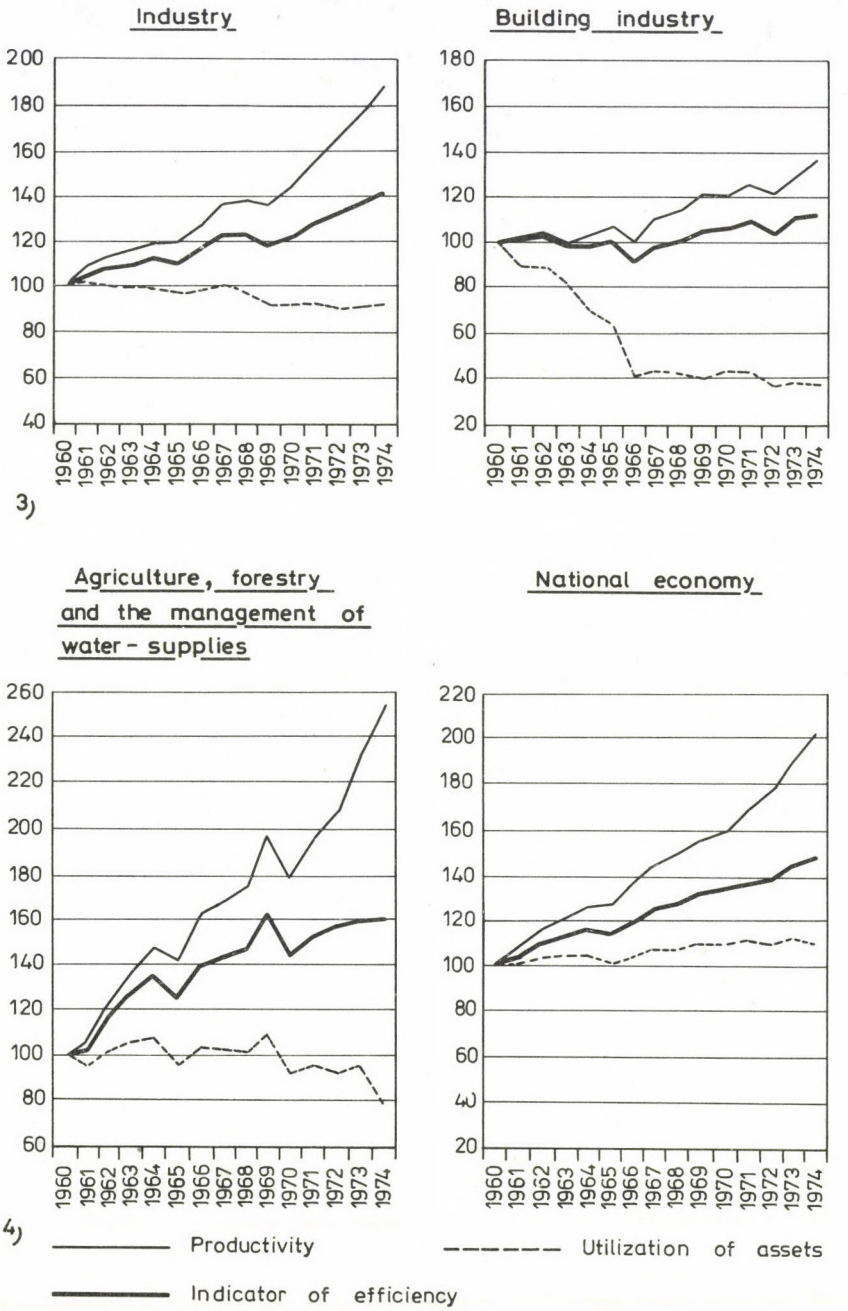

Fig. 3. Development of the efficiency of the national economy and its main branches (Index: 1960 = 100)

Table 2

Development of the economic efficiency in the main branches of the national economy

Year	Industry	Building industry	Agriculture
1960	1,00	1,00	1,00
1961	1,05	1,02	1,02
1962	1,08	1,03	1,16
1963	1,09	0,99	1,27
1964	1,12	0,99	1,34
1965	1,10	1,02	1,26
1966	1,17	0,91	1,40
1967	1,23	0,98	1,44
1968	1,23	1,01	1,46
1969	1,18	1,05	1,62
1970	1,22	1,06	1,44
1971	1,28	1,09	1,53
1972	1,32	1,04	1,56
1973 (preliminary)	1,37	1,10	1,59
1974 (estimated)	1,42	1,12	1,60

At first sight it seems to be surprising perhaps that the agriculture, which does not belong to the dynamically developing branches, achieved greater improvement in efficiency than the industry. This can be explained by the fact that in the agriculture employment significantly decreased with the rise in production and this was of greater extent than the otherwise intensive increase of the assets engaged.

In the period examined the assets engaged in agriculture doubled, and increased to a greater extent than the yields (or even than the income of the peasants). This is unavoidably concomitant with the establishment of large-scale farms and the simultaneous migration of agricultural labour. As a consequence of the rise in capital intensity this was an expected, i.e. justifiable process. In the agriculture the worsening of the capital output ratios was counterbalanced to a small extent by a slight decrease of the cultivated area in the same time. The capital-output ratio computed inclusive of the value of the cultivated area did not change practically during the period examined. (In Fig. 3 the cultivated area is excluded.)

In the industry and the building industry the rapid increase of returns was accompanied by an increase of both employment and the assets engaged. The improvement in the efficiency of industry and the building industry cannot be regarded as satisfactory. A 42 per cent improvement in the efficiency of industry took place simultaneously with a doubling of technological equipment. In the building industry, where new modern building technologies were applied during the

period examined, technological equipment increased threefold but efficiency improved to a rather small extent, namely, by only 12 per cent during the 14 years. Thus the justified requirement towards the productive branches was not met according to which the rise in efficiency should be at least of the same extent as the improvement of technological equipment. This is a significant reserve of development in the forthcoming period.

In the three branches the development of combined efficiency was unfavourably influenced by the change in the utilization of assets. The utilization of the stock of fixed assets was worse at the end of the period than the average utilization of 1960. This means that the accumulation funds could not be fully utilized in the main productive branches. Economic efficiency improved to a lesser extent than could be expected on the basis of the investments made.

The change in productivity favourably influenced the change in efficiency, especially in the second half of the period when the labour reserves allowing and at times stimulating the extensive growth of the national economy were exhausted and this required a more rational manpower economy. The development of this favourable tendency was stimulated by the system of economic control and management. However, there are still significant reserves in the utilization of the "quality" of labour. (For example, many people perform in a part of their working time activities requiring much less special knowledge than their qualification and sphere of activity would justify.)

★

In this study I intended to present a method for measuring the changes in the efficiency of the national economy through the example of the Hungarian economy. The factors influencing efficiency were examined also in another way (e.g. structurally), but this has not been mentioned here.

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ИЗМЕРЕНИЕ ИЗМЕНЕНИЙ НАРОДНОХОЗЯЙСТВЕННОЙ ЭФФЕКТИВНОСТИ

А. ИНЗЕЛЬТ

Статья основана на докладе, представленном на состоявшейся в Москве 18—22 ноября 1974 года конференции по вопросам экономической эффективности. Автор на примере венгерской экономики демонстрирует метод измерения изменений народнохозяйственной эффективности.

Показатель народнохозяйственной эффективности должен дать ответ на вопрос, изменяется ли отдача в расчете на имеющиеся в ограниченной мере и использованные в ходе производства ресурсы. Исходя из этого можно установить, что созданный в 1974 году в Венгрии валовой отечественный продукт удвоился по сравнению с 1960 годом, в то время как численность активного самодеятельного населения возросла на 7%, или — учитывая также рост уровня образования — на 16%, а величина привлеченных фондов увеличилась почти вдвое. Следовательно, в области народнохозяйственной эффективности наблюдается улучшение. Из ресурсов гораздо быстрее рос объем привлеченных фондов, чем затраты рабочей силы. Годовые колебания в росте народнохозяйственной эффективности в течение истекших лет определялись в первую очередь изменением отдачи, поскольку объем ресурсов рос в основном равномерно. Народнохозяйственная эффективность росла медленнее производительности труда, но складывалась более благоприятно, чем использование фондов.

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T. SCITOVSKY

INCOME AND HAPPINESS*

The author introduces a few concepts and classifications that go some way toward explaining the paradoxical relation between income and happiness and also gives some inkling of the general approach necessary to dealing with such issues.

There is something all economists should always remember but many of us often forget. We are so immersed in the problems that surround the measurement, determination and control of the size of the national product that we tend to forget the purpose of it all. The product is there to serve man and not the other way around. All economic activity aims or is supposed to aim, directly or indirectly, now or in the future, at providing human satisfaction. The question is whether it achieves that aim.

To answer that question is not as hopeless as it might seem. In the United States, for example, we have excellent data on the level, and changes in the level, of per-capita real income and real product. We also have statistical data on how satisfied people are with their lives. The American Institute of Public Opinion and the National Opinion Research Center have made at least ten sample surveys over the postwar period in which a stratified sample of the U.S. population were asked to rate themselves as "very happy", "fairly happy" or "not very happy". The size of the samples varied between 1,500 and 3,500; and unfortunately some of the questions asked also varied: "pretty happy" being substituted for "fairly happy" in the NORC polls, and the lowest category was variously called "not too happy" or just "not happy". That was unfortunate but cannot now be helped. One may also wonder how truthful and how reliable people's answers may be to questions of that sort. Such doubts, however, are disspelled, and one's confidence in the data strengthened, by the great stability of the distribution of the answers as between the different surveys. The distributions are not only stable, they are too stable. In each of the surveys, the proportion of "very happy" people is the higher, and that of "not too happy" people is the lower, the higher the income group; at the same time, however, the distribution of the entire sample into the "very happy", "fairly happy" and "not too happy" hardly changed at all from one survey to another between 1947 and 1970, although per-capita income in real terms rose by over 60 per cent over the period. How can one reconcile and explain such seemingly contradictory results?

* Lecture, read on the 26th of June 1975 in Budapest, before the Hungarian Economic Association.

To do that thoroughly and systematically requires an entirely new approach to the whole subject of human satisfaction. I tried to present such an approach in a book now in press. Unfortunately, I cannot even summarize that approach in a short lecture. What I propose to do instead is to introduce a few concepts and classifications that go some way toward explaining the paradoxical relation between income and happiness and will also give you some inkling of the general approach necessary for dealing with such issues.

The simplest and most obvious part of the reason why happiness depends on people's ranking rather than on their absolute income is status as a source of satisfaction. Economists have never known how to deal with the subject: but the work of psychologists has amply shown the importance of status as a source of satisfaction and motivation of behavior in both human and animal societies. Whenever the individual's survival hinges on his belonging to a group and being defended by it, he will engage in behavior calculated to facilitate his acceptance by the group and assert his membership in it. Most parents recognize the great importance for children to be dressed, treated, and accorded the same privileges as other members of their peer group; and, let us face it, the parents' own drive for conformity is not less great even if it takes different forms. A good example of the great store we set by status is the importance we attach to helping the poor and escaping the stigma of being poor. For the poverty norm in modern society has nothing to do with biological survival.

The U.S. poverty norm for example is a large multiple of Ireland's poverty norm, which in its turn is a large multiple of Egypt's poverty norm. As a matter of fact, the relation of these three poverty norms to each other is just about the same as the relation of the three countries' average standards of living. The reason is simple: the poverty norm of a given society indicates the minimum expenditure necessary to buy acceptance by and membership in that particular society at that particular stage of its development and has very little to do with any biological standards of minimal sufficiency. Many of the American poor would be considered comfortably well off in, say, Hong Kong or India; but they are no less miserable for that. Their poverty is painful not in the biological sense in which hunger and cold are painful but in the social sense of finding themselves without status; that is, outside of and unaccepted by the society in which they live. That hurts no less, although the pain is of a different kind.

Another and entirely different source of satisfaction, which also seems to depend on one's rank in the social scale and not on one's absolute income level is *work*. That work is an important source of human satisfaction was as well known to *Karl Marx* as it was to the originators of the protestant ethic of capitalism; and the modern economist's failure to recognize the fact makes it no less true. There is plenty

of evidence that the enjoyment of work varies greatly from person to person; and the same evidence also shows that work satisfaction is positively correlated with people's ranking in the social and income scale.

The most important such evidence is the great differences in the length of different people's working week. Independent farmers, business managers, physicians, surgeons and other professional people generally work 30 to 50 per cent longer hours than do wage and salary earning employees; a Michigan Survey Research Center study shows a positive correlation between income level and the length of the working week; and there is some statistical evidence to show that parallel to the secular shortening of the working week for employees over the past 100 years, there has been a secular lengthening of the working week for professional people, businessmen and higher civil servants.

All such evidence suggests that people's work satisfaction depends on their ranking in the income scale, probably because such ranking determines one's involvement in the work and the discretion, the initiative, the freedom to choose one's own best way and time in which to do one's work; and all of these undoubtedly have much to do with its pleasantness or unpleasantness. Questionnaire surveys have also shown that the percentage of people satisfied with the nature and challenge of their jobs is higher in the better-paid higher echelons.

Status and work therefore are both important sources of satisfaction of the type whose enjoyment depends on a person's ranking rather than on his income; but they are not the only such sources of satisfaction. There are many others as well whose supply is limited, some absolutely, most of them in relation to the size of the population. Already *Robert Malthus* drew attention to the problems raised by a supply limitation; and many people today are concerned with the implications for man's satisfaction of the absolute scarcities imposed by the exhaustible resources of the soil and the subsoil, as well as by the limited ability of the atmosphere and the fresh-water system around us to absorb the pollutants generated by civilized living. Equally important are relative scarcities of which a simple example is time. No amount of economic progress can add to the quantity of time at man's disposal; the paradoxical miseries that can lead to in affluent societies have been analyzed by the Swedish economist *Steffan Burenstam Liner,* in his The Harried Leisure Class. Another and closely related example of a similar scarce resource is domestic and other personal services, which again consist of time: one person's time at another person's disposal.

Sources of satisfaction of this type, whose supply cannot be augmented by any amount of economic progress, are known as positional good and are being analyzed in a forthcoming book by Professor *Fred Hirsch* of the University of Warwick. His examples range from residential real estate to leadership positions in Government.

industry, and any kind of organization. The desirability of real estate depends on its location and geographical proximity; as to leadership positions, people get satisfaction from the sense of importance and power such positions give them, and since the sense of power derives from influence over other people's lives, it is clear that the satisfactions of power available per head of population are also limited.

In short, there is quite a long list of sources of satisfaction whose overall supply cannot and does not increase with the secular rise in the standard of living. Many of these are pretty important as human satisfactions go; and that raises the question what happens to them, and to our access to them, as incomes rise. As economists, we would expect the prices of such goods to rise, so to choke off excess demand and induce the public to spend its additional income exclusively on those goods whose supply can and does rise. On the other hand, it can also happen that instead of the price rising, the quality goes down. That amounts to very much the same thing but is worth illustrating nonetheless in view of its great practical importance.

The example of leadership positions provides a pretty good illustration. With the rise in our standard of living, more and more people aspire to leadership positions; and since education seems the necessary prerequisite, they increase their demand for education. If educational facilities are available, that in turn increases the availability of technically and professionally well-trained people.

At the same time, however, and for reasons already mentioned, there is no increase in the proportion of leadership positions in society; and that conflict between an increase in demand but no increase in supply can be resolved in anyone of a number of ways. One of these is the raising of the required educational qualifications for leadership positions in order to filter out the excess demand. *Kenneth Arrow*'s work on education as a filter deals with this case. Another way to resolve the conflict is to dilute leadership positions by increasing their number but correspondingly reducing their power and influence. The proliferation of titles-without-substance is a worldwide phenomenon.

Another example of quality deterioration with increased affluence is the *congestion of modern cities.* As the number of cars increases, greater rowding and the greater incidence of traffic jams greatly reduce the advantages and attractions of owning and operating a car. A rise in prices and a deterioration in quality are both market forces capable of equating demand and supply; the main difference between them is that rising prices favor the rich and crowd out only the poor; whereas the worsening of quality is more democratic because it spoils everybody's fun.

Whichever is the way in which supply and demand are equated, two things are clear. One is that the total satisfaction derived from positional goods remains more or less unchanged despite the secular rise in real incomes. The other is that the rise in the price of positional goods or the worsening in their quality will force people into

using their additional real income for the purchase of other goods whose per-capita supply can be increased. That raises a new question: why does the additional consumption of these other goods fail to increase people's satisfaction?

To answer that question, I need a classification introduced by the English economist, Sir *Ralph Hawtrey*. He distinguished between defensive products, which eliminate or guard against pain and discomfort or save effort, and creative products, whose satisfaction stems from their providing some form of stimulation. He also recognized that many, perhaps most goods and services are a mixture of these two, since they provide both comfort and stimulation.

The significance of Hawtrey's classification lies in the fact that since defensive products yield merely the negative satisfaction of minimizing or eliminating pain, discomfort, effort, one's need for them is satiable and their ability to give satisfaction is correspondingly limited. Once a pain has been completely eliminated or some activity has become completely effortless, there is no more satisfaction to be had from that quarter. Sometimes, the consumer realizes that fact and his demand declines with the scope for satisfaction. That explains the low and declining income elasticity of demand for necessities, which are always defensive products.

At other times, however, the consumer is ignorant, or acts conventionally or under social pressure; and he seeks stimulation or status that is a joint product and comes in a fixed package with a defensive product. In all such cases, consumers continue to demand a defensive product beyond the point of full satiation, with the inevitable result that their expenditure becomes wasteful because it no longer adds to satisfaction.

There are many different ways of illustrating and ascertaining when and how this happens. For example, the U.S. Census of Housing contains a lot of information on the availability to the population of such defensive products as bathrooms, refrigerators, washing machines, automobiles, etc.; and when you find that over 96 per cent of all households have access to a particular list of such defensive products, it seems reasonable to assume that the need for the comfort which those products provide is satiated or pretty nearly so.

Another and perhaps more scientific approach is the following. Very many of the consumers' goods developed and marketed in the United States aim at reducing the time and effort required for ordinary householding and the simple chores of everyday living. To the extent that they do that, they are defensive products and yield the negative satisfaction of minimizing and ultimately eliminating a discomfort. How far can this be carried and how far do we want to carry it? It is obvious that the time and effort of ordinary living will never be reduced to zero; but neither is that desirable. The day has 24 hours and the majority of people cannot sleep more than 8 hours. That leaves 16 waking hours; and to save an extra hour on householding, on

work, and on the ordinary chores of daily living adds to one's satisfaction only if one can put that hour to a better use. The American economy provides a fair amount of evidence to show that while anxious to save time, we are not very good at passing the time so saved. Econometric studies of people's choice between alternative modes of transportation in commuting between their home and their place of work, as well as in their leisure time and vacations, have shown that the implicit valuation they put on their free time is surprisingly low: a small fraction of their hourly wage rate. The same result is also shown by experiments with subscription television. As you know, television in the United States is free, paid for by advertising; and the average person spends more than 1½ hours per day in front of the TV screen, although many of the programs are dull, repetitious and all of them are constantly interrupted by commercial advertising. The surprising thing is that only a tiny fraction of the population is willing to pay even a very modest fee for subscription TV, which offers better programs and freedom from interruptions. The inescapable conclusion is that the great majority of people place a very low value on their time. Our excessive use of time-saving technology has made our time into a free good: we save more time than we know what to do with.

A little more complex but basically the same is our budgeting of effort. It is obvious that to minimize the muscular and mental effort expended is not the height of human bliss. Partly, it is well known that to keep fit, one must exercise one's limbs, muscles, senses, even one's mind; and most people want to keep their faculties fit and enjoy the exercise necessary to keep them fit. In addition, however, to keeping our various faculties in working order, we must also exert a certain amount of effort for the sake of our general health. In the United States, we are surrounded by labour-saving vehicles, appliances, gadgets and goods, which seem to have an irresistible attraction, and thanks to which we save much more effort than we can use in active sports and other leisure activities. U.S. health statistics contain plenty of evidence that American men spend less than the minimum amount of effort necessary to maintain good health; and they also contain evidence of the consequences for health: low life expectancies, high incidence of and mortality from heart disease, high cholesterol and triglyceride levels in the blood of a very high proportion of the population, etc. etc. There would be nothing wrong, of course with people choosing to live well rather than long; but that is not the case here. Most people are worried about their health and seem willing to live miserably in order to live longer. An estimated 70 million Americans diet on doctor's orders; a large and increasing number do exercises on doctor's orders, and none like it. I am not implying that the consumer is irrational; but he does not fully realize the costs of an unduly effortless life in terms of the danger to his health – especially not when the decision is a complex one. People clearly get satisfaction out of buying an electric

hedge clipper or an electric can opener; what I deny is that it is the saving of effort they make possible which provides the satisfaction. For these appliances are not only defensive but also creative products. In addition to saving effort, they are wonderful toys, marvels of human ingenuity, symbols of man's dominance over nature; and it is these aspects that explain the satisfaction they provide. Unfortunately they are package deals, joint products, which combine these innocent pleasures with the undue saving of effort in fairly rigid proportions; and that may well be the main explanation for our tendency to overdo the saving of time and energy.

That brings me to my last topic, stimulation, or Hawtrey's creative products, as a source of enjoyment. I have no time to go here into the theory that explains what makes for stimulation and what makes stimulation pleasant; suffice it to say that stimulation depends on novelty and that pleasant stimulation requires an intermediate degree of novelty. And since novelty wears off, stimulation is a non-durable good, used up in the act of its enjoyment much as food is used up in the act of eating.

That has an important implication for the stimulus enjoyment of defensive products, which is that it is a rising standard of comfort that is enjoyable, and not a high one. Only comforts not previously experienced provide the enjoyment and stimulation of novelty. Unfortunately, the self-rated happiness surveys do not classify people according to the change in their standard of living; but we do know that the higher income groups are likely to contain a higher proportion of people whose incomes have recently risen. Accordingly, we would expect the higher income groups to contain more people who enjoy the novelty of a rising standard of living; if so, that provides one more explanation for the higher incidence of "very happy" people in the higher income groups.

But if that is an important explanation, then the question arises why does not a reduction in one's standard of living also provide enjoyable change and novelty? There is evidence that quite often it does. Many people enjoy camping and part of their enjoyment stems from their having to put up with, and proving their ability to put up with primitive conditions and the absence of their accustomed comforts. People enjoy roughing it, because it provides change. In a similar way, most young people enjoy getting away from their parents' home to the lesser comforts of their own room or apartment. Greater independence is, of course, part of the fun; but I dare say that the novelty of a simpler and more austere environment also plays a role.

If there are quite so many expamples of enjoyable reductions in one's standard of living, why do they still seem paradoxical and exceptional? One reason, of course, is that a drastic reduction in one's defensive consumption might bring it to below satiation level, so that side-by-side with the enjoyable change, there is also a more-or-less offsetting reduction in comfort and its satisfactions.

Another and probably more important reason, however, has to do with addiction. Everybody knows about drug addiction and most people seem to accept society's right to interfere with the individual's freedom of choice as far as the consumption of addictive drugs is concerned. Not generally known is the fast accumulating evidence which shows that addiction is a much more general psychological phenomenon, with drug addiction merely an extreme example but different only in degree from addiction to many other sources of satisfaction.

Now the reason, I think, why reductions in one's standard of living are painful much more often than they are pleasant lies in our being addicted, not so much to our accustomed comforts as to our accustomed status. All the examples I gave you of enjoyable reductions in one's standard of living were of the type that involved no loss of status. But the moment my status is involved; and I interpret the need to go without something as a loss in my status, the pain of withdrawal symptoms is likely to swamp the pleasantness of the change. That is why sacrificing something can be unpleasant even when the thing we sacrifice made no contribution to our satisfaction.

I am afraid I gave you a very incomplete explanation of the puzzling relation between income and happiness. I stressed the importance of status and other positional goods as sources of satisfaction; I pointed out the satiability of our defensive needs and gave an example of the evidence that shows how very much of our consumption of defensive products goes beyond the point of zero marginal utility. Finally, I discussed two examples of stimulus enjoyment, work satisfaction and the enjoyment of changes in one's level of comfort, both of which have to do with one's ranking in the income scale and are independent of one's absolute level of income.

Missing from my account was any reference to the many other forms of stimulus satisfaction that are deliberately and exclusively aimed at providing enjoyment. Examples are literature, music, the arts, sport, travel, vacations, the relishing of good food and the joys of argument and conversation – all of them things of which the average American gets less than the average Western European and possibly less than the average Hungarian. They are important sources of satisfaction; and that rich Americans enjoy them in lesser quantities than poor Europeans can be documented statistically. The explanation of that paradox must be sought not so much in economic as in cultural and ideological factors, which is why I judged it inappropriate to deal with here. A high income leads to great satisfaction only if it is wisely used. Why we do not use our income more wisely is a subject that will have to be dealt with elsewhere; here I tried to focus on the question why the way in which we do use our income fails to yield more happiness.

ДОХОДЫ И СЧАСТЬЕ

Т. СЦИТОВСКИ

Автор в статье предпринимает попытку объяснения парадоксальной связи между доходами людей и ощущением ими удовлетворенности своим положением. Парадокс состоит в том, что, как показывают опросы общественного мнения в США за послевоенный период, рост реальных доходов отнюдь не сопровождается у людей усилением чувства удовлетворенности своим положением. Это объясняется тем, что степень удовлетворенности зависит не столько от абсолютной величины доходов, сколько от статуса, от места, занимаемого людьми в обществе. Аналогично и влияние потребления или пользования целым рядом благ, предложение которых не зависит от роста реальных доходов (например, места проживания, руководящие посты и т. д.). Такие блага автор называет позиционными.

Почему же растущее потребление других благ не ведет к росту удовлетворенности людей? Следуя классификации **Р. Хоутри,** подавляющее большинство этих благ относится к так называемым защитительным благам — предотвращающим или предохраняющим от страданий, лишений, неудобств, усилий. Лишь небольшая часть благ является стимулом новых потребностей. В заключение автор останавливается на двух главных источниках чувства удовлетворенности людей — на наслаждении, доставляемом творческим трудом, и переменой образа жизни.

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ZS. FERGE

SOCIETAL POLICY AND THE TYPES OF CENTRALIZED REDISTRIBUTION

The paper makes a distinction between societal policy, a comprehensive term referring to conscious social action into the whole system and its basic relations and between social policy which handles centralized redistribution. Under socialist conditions centralized redistribution has some specific features, such as its increasing role in distribution, its broadening coverage, its new legal foundations whereby it becomes a right, and its levelling effect on distribution. The last two characteristics are not fully asserting themselves in social practice as shown by a detailed statistical analysis, mainly because spontaneous social forces are mitigating the original intentions.

Societal policy, economic policy

The meaning of societal policy and its relation to economic policy are being debated in Hungary only in the last few years. Thus, it is not surprising that no consensus has been reached as yet in this respect. In my view societal policy (or, the politics of society) is, under socialist conditions, a well-defined system of principles and actions aimed at the shaping of socialist social relations, especially those emerging in the course of social reproduction. This latter being a full cycle, social relations include the relations of *production*, *distribution* and *allocation, consumption* and *utilization* as well as the relations in the realm of social consciousness generated thereby. Because of the well-known connections between the above spheres, the relations of production have a specific, prominent role in shaping the character of the other relations. Hence the main task of societal policy is to create conditions for the emergence of *relations of production of a socialist type*. Its effect might be direct, if e.g. it reinforces the socialist characteristics of the ownership relations or if it intervenes in the transformation of the social division of labour, including its contents, its conditions or its underlying relations, such as the relations of power, control or knowledge. Social determinism, however, acts in several directions. Thus societal policy possesses also indirect means of intervention, influencing for instance distribution or consumption.

This general conception of societal policy does not render superfluous our dealing separately with the theoretical and practical problems connected with the various partial spheres of social life, such as distribution or consumption, education or the health service. In recent years technical terms denoting various partial fields of societal policy are widely spreading, so that we encounter the expressions of

distribution policy, incomes policy, educational policy etc. with increasing frequency. This manner of speaking is partly explained by the aspiration to have an all-embracing and well devised system of social political action, without serious gaps and "vacuums". Sometimes, however, the manner of speaking carries one over the original intention so that the spokesmen of some field overemphasize the importance of this field at the expense of other interests. It would be, therefore, desirable to stress and accept the view that these different "policies" are in some way subordinated to general societal policy, the relation being similar to that of price, enterprise, investment etc. policies to general economic policy.*

The mutual relation between societal policy and economic policy taken in this general sense is a different question altogether. It is by and large as complicated as are the relations between economy and society. The two policies partly overlap. Without taking into account each other's considerations, societal policy might loose its contact with reality and turn utopian, while economic policy might become self-sufficient, autotelic and technocratic. Their mutual relation does not exclude the possibility of contradictions or conflicts, especially in the short or medium run. In this perspective it might easily happen that something which is economically rational will prove to be socially harmful, or what is socially desirable will be economically meaningless and impossible. I cannot go here into the details of this problem. For my present purpose it is enough to stress that I consider these two policies to be of equal rank. They are interrelated and mutually subordinated (or superordinated), and, at least for the time being, both have a relative autonomy.

It has been already explained why it is important to emphasize the *relativity* of their autonomy. But an equal stress is laid on autonomy, too. If this is not acknowledged, then decisions might be taken – instead of deliberately taking into account the necessities born from reality – as dim compromises in which we do not even realize what concession is made, for whom, in whose interests, or at what price. The difference between the situations before and after 1968 shows that this is not an imaginary occurrence. It was only then, after the revision of the system of economic control and management, that economic policy really took into consideration the inherent laws of the economy, i.e. that it really became a policy of *economics*, and it was at the same time that a more or less autonomous societal policy made its appearance, whose results are testified by the broadening frames of enterprise or regional democracy, by a long series of social policy measures, etc.

Societal policy and economic policy have, mainly, to work out and lay down *principles*. These principles emerge out of the co-operation of everyday practice,

* See in this connection [1].

science, ideology and politics. Their feedback effect on social practice usually begins with, and is based on their inclusion in party or governmental documents. There is no institution or organ that is the sole, exclusive responsible authority in the elaboration of these principles, and more likely than not, nor is there a need for such an organ. But these principles have to permeate the whole system of decision making and action in the fields of economic and societal policies, beginning with complex socio-economic planning down to the various institutions, including those who work out and implement the goals of the "partial policies". There is no doubt that – due to factors which are only partly known and have been but partly analysed – this pattern does not operate in an ideal way in social practice. The lack of clarity leads to various problems. Some of them, occurring mainly in the field of so-called social policy benefits will be treated in this paper in somewhat greater detail.

Social policy and distribution

Speaking about the various "policies" I have refrained up to now from mentioning social policy itself, though the expression crops up with a rapidly growing frequency in our different documents. But the confusion is probably greater here than anywhere else. In Hungarian, like e.g. in German, there are two different expressions for "social policy" and "societal policy" (in German they would be "Sozialpolitik" and "gesellschaftliche Politik"). Their lexical meaning is, obviously, synonymous, but their contents is not necessarily the same. In fact, societal policy is used more and more in the sense I described above, i.e. in an *extended* sense, even if the imputed meaning is not exactly the same in each case. This type of societal policy presupposes that it has become a consciously avowed and endorsed social goal to shape social relations so as to serve well-defined values.

In this sense societal policy is, as a matter of fact, *a socialist category*. By contrast, social policy is the product of an earlier historical period. Its original function was to constrain into a manageable framework the tensions of early capitalism that had threatened with explosion, by pouring "some drops of social oil" into the state machinery, as Bismarck put it. No doubt, its actions were prompted or forced by the claims and fights of the workers' movement, but those claims were always fulfilled only partially, without endangering the *status quo*. The impact of this social policy was always confined to *some limited spheres of distribution*. It avoided in a rather self-conscious way to interfere with the relations of production, especially with ownership relations, and it cautiously guarded its *paternalistic* and *charitable* character. Actually, progressive and radical movements begin to change these characteristics even in a number of capitalist countries, at least as regards the

contents of their demands. But in Hungary, whose pre-war social policy followed very closely the Bismarckian line, the expression has kept its original connotation. This accounts for the slow and reluctant acceptance of the term in social practice, and also for the fact that the term continues to reappear with the original connotation even in the social sciences. Thus in a study written in 1974 we are informed that the main goal of social policy is "to help to implement social *care* on a high level", that would "accompany people from the cradle to the grave, during their whole life", and would contribute, among other things, "to preventing on a societal scale illnesses, to *reducing the days of pain*, to *rendering the joy of life* to the sufferers, to making life longer; .... to assuring for those too aged to work or disabled by work, to those who suffer from physical or mental handicaps a life *freed* from *financial or other problems.*" [2] Some other aims are also mentioned, like the creation of opportunities to work, the improvement of living conditions, the implementation of the principle "equal pay for equal work", etc. Thus, it is a rather heterogeneous set that the author is subsuming under the heading of social care.

The above quotations reveal rather clearly the paternalism of which social policy is getting rid with great difficulties. In fact, the study referred to centers on the care provided by central organs, and it is practically forgotten in it that the realization of the aims does not hinge solely on the goodwill of the leadership but *also* on the activity of those at the "receiving end." Much is said about benefits (implying benefactors), and care provided, but hardly anything about the activity of those interested, or about their claims and rights. The other incongruous element is the almost religious and charitable pathos. The scientific character of a work is hardly compatible with statements that cannot have any validity or reality in the foreseeable future, such as "the care-free life" of the disabled, freed from financial and other problems. A third inherited characteristic is to confine the sphere of activity of social policy to *distribution.* The point is made explicit: "Under socialism, social policy is... *one of the instruments to realize a system of long-term aims and requirements, primarily* by means of a policy of distribution." [3] Whether this social policy needs to be complemented by some kind of "societal policy" more broadly conceived of is not very clear, but, more likely than not, the author is not convinced of that. (The chapter on "Social policy and the economy" uses the two expressions alternatively, without further comment.)

I have already made clear that a system of principles belonging to societal policy and encompassing a field much broader than just distribution is, in my view, a necessary element of socialist development. The question in this perspective is, then, whether a social policy restricted to the sphere of distribution is also necessary or legitimate. I think that this necessity exists if social policy is clearly distinguished from "societal policy" in the above sense, and if its charitable and paternalistic

attributes can be dropped. In this case *it would be entitled to handle a well-defined type of social distribution*, the type which was called by Karl *Polanyi redistribution*,* i.e. *the centralized collection and allocation of a part of the social product, where the logic of allocation is entirely different from that of economic rationality, commodity, profit, or market exchange.* This type of allocation will be termed in what follows *centralized redistribution.* (It is necessary to qualify it as "centralized" because different types of redistribution are taking place in the course of reproduction.) Under socialist conditions, the two main types of distribution are distribution according to work and centralized redistribution. Beside these, the three other forms of economic relations defined by Polanyi have also some, though probably a receding, role. These are the *oikos* (the self-sustaining small-scale economy), the exchange on the "price-regulating" market, and the so-called reciprocity. (The *oikos* form is practically disappearing, while reciprocity operates now mainly in cases like the gift-relation, the exchange of personal services including "pulls", etc.)

Incidentally, it would be useful to analyse the different types and forms of socialist distribution in such comprehensive way, because this study could help us to understand better some aspects of production and distribution. Up to now there has been no such venture, though several economists were and are dealing with the basic forms of distribution.** I would not affirm that Polanyi's analytical construct is perfect. But it is, no doubt, the only analysis of the different types of distribution which has a historical perspective and which is more or less complete. Therefore I consider it as an adequate point of departure with the qualification that, if this framework is applied, the original and historical relation between relations of production (ownership) and distribution has to be re-established.

As far as redistribution is concerned, it might occur in any mode of production, in the case of most varied social structures, but as a dominant form it appears only in some tribal societies and in ancient empires (Egypt, Babylon). Since it might operate under different social conditions, with different relations of production, its operating principles and specific features might widely differ (e.g. the basis of allocation, its amount, etc.). Nonetheless, it always retains one characteristic feature, that of trying to assure *the right to live* of the members of a given community. One of the most important aspects of Polanyi's criticism directed against capitalism is precisely the exposure of its anti-human traits, especially that redistributive practice is destroyed by the market, while the self-regulating market itself is necessarily incompatible with assuring the institutional right to survive for everyone.

* See in more detail [4].
** See e.g. [5] or [6].

Thus, a *general* characteristic of centralized redistribution is the allocation of a part of the social product for the sake of integrating the community and to assure the right to live of its members. It is an economic transaction where the economic relation is not becoming naked and autonomous, but remains embedded in the whole and complex web of social relations. But it also has *specific* characteristics, shaped by the mode of production, by the specific productive and social relations under which it is taking place. It depends on these conditions: how important is the role of redistribution, what is its legal basis, in what ways are the goods collected between the extremes of compulsion and free will, what are the goods collected and how are they allocated. In fact, centralized redistribution does by far not imply equal distribution.

In a first approximation one might single out the following specifics of centralized redistribution under socialist conditions:

– The *role* of centralized redistribution is *certainly greater* than in the society immediately preceding it, i.e. in capitalism, and its importance is continuously growing. This is, firstly, a direct crollary of the receding role of the market. Secondly, it is related to the general historical development tendency of a socialist type, where the "distribution according to needs" is constantly gaining ground beside the distribution according to work which remains the dominant form for a long time. In this sense it is a concomitant of the gradual evolution towards a communist society. Lastly, the most general aspect of this process is that a socialist development gradually reintegrates the different social relations that became sharply fragmented under capitalist conditions. Economic relations, that became denuded and acquired a dominant role under capitalism have to lose these characteristics with an evolution of a socialist type, when various social relations cease to be subordinated to economic ones.

The broadening scope of the centralized redistribution thus means that the considerations underlying it do not operate solely in this limited field (in the realm of "social policy"), but they permeate all types of economic relations, especially the distribution according to work, and price policy. The following analogy is perhaps not too far-fetched: while under capitalist conditions the *logic of the market* pervades non-market, and even non-economic relations, under socialist conditions it is the *redistributive logic* that is diffusing far beyond the frontiers of centralized redistribution. Obviously, it is a separate and very intricate problem, what *should be* the scope left to, or assured to, the redistributive logic on a given level of development in case of *par excellence* economic relations.

– The second specific feature is related to the first, and also, more directly, to the rising level of social and economic development. It means that not only the part of the social output given over to centralized redistribution is growing but also that

the types of goods and services encompassed are expanding. The community endeavours to assure not only the mere survival of its members, but an ever fuller life, and this *independently* of their economic potential. It seems that this development process is far from being at an end. It seems probable for instance that housing might be the next need whose fulfilment will be recognized as a social obligation. As a matter of fact, this was already done on an elementary level in 1945, when the "right to be housed" was acknowledged, and eviction under any title whatsoever was prohibited. Since then, however, the demands not only for housing, but for good housing became very strong, and the fulfilment of this demand is in the interest of the whole community, not only of individuals. In the short run the reform of economic control and management meant some help in this respect by allowing some leeway to market relations in building and buying flats. It is clear, however, that in the long run the market will remain closed to broad layers of the population. This is why one might expect that the right to good housing will be recognized as legitimate and the need covered out of social funds.

– A third important characteristic is that the claim to centralized redistribution might become a *real right* only under socialist conditions. The legal regulations are already worked out under capitalist conditions. The change is not there, but in the social foundations of the law. In fact, it is only then that the social product becomes common property – together with the social ownership of the means of production. In principle, then, it is the community that has to decide on the allocation of the product. And with centralized redistribution, it is the community that is *giving itself goods from its own resources.* That is why a number of expressions used in connection with social policy that have gained acceptance in Hungarian are not too fortunate. It is somewhat awkward to speak about benefits (again, implying the benefactor), social care and aid, and – a recurrent phrase in journalism – about "gifts provided by society" when new social policy institutions are created or results attained. (The gift view was especially characteristic of the period of the "cult of the personality").

It has to be emphasized that it is only under socialist conditions that redistribution might become a real right. If the bulk of the means of production and, consequently, of products, are owned by private producers, then the legal basis of any distribution that runs against the rights and interests of private ownership might always be challenged. Even in capitalist countries with a well-developed system of social policy there are situations when the ruling class challenges and even withdraws some of the results already attained.*

* See e.g. [7] on how unemployment benefits followed the evolution of the power-relations between workers and employers in the United States.

Redistribution becoming a right does not mean that all emerging needs are immediately accepted as socially recognized rights for sharing. The responsibility taken over by the community is limited by its economic potential even if there is no unambiguous, deterministic relation between the two. Here again we encounter the problem that the development tendencies of socialist redistribution are not asserted in an automatic way. In principle, it is indeed the community that makes decisions on the resources of the community. In reality, however, participation in decision making is obviously not direct, nor is the community homogeneous. Therefore, the outcome is influenced by the fact that the various groups of the community do not have identical interests, nor do they have the same opportunities to assert their interests. Those groups, for instance, which are especially favoured by the actual distribution according to work will not always be enthusiastic about furthering the cause of centralized redistribution, even if they recognize and approve of its historical and social necessity. Tensions might be generated thereby because members of the above groups are more likely to take a direct part in decision making than others.

– It is in this context that we have arrived at the last specific feature of socialist redistribution to be mentioned. This is that it really must have a *redistributive* effect reducing some of the social inequalities deriving from the actual system of social and economic determinisms. This does not imply, of course, a "perfect" equalization of differences due to the distribution according to work. Such a claim would deny the rationality of work-related distribution at a time when this still is an absolute social and economic necessity. However, centralized redistribution might and should reduce the original differentiation in several ways.

First, it is through centralized redistribution that resources are assured for those who are still, already or altogether outside the social division of labour. In this case there is a clear-cut *negative correlation* between work-related and redistributive incomes with an obvious levelling impact on the first. The second type of redistributive incomes (benefits*) is, theoretically at least, altogether independent from work performance. They have to cover some needs that might occur with practically everybody and that have to be covered according to identical standards everywhere. If this aim is attained, different groups and strata will get by and large the same amount of this type of redistributive incomes. Thereby the original, work-related differences will be lessened in relative if not in absolute terms. A third redistributive effect occurs because essentially economic phenomena, like wages or

* The traditional vocabulary of social policy is so ingrained that some expressions are hard to replace. Even in this paper I have to retain such expressions as "benefits" if I want to be understood. Obviously it is not the words, but the underlying conceptions that are problematic.

price policy, tend also to be influenced by the logic of redistribution, e.g. when fixing the minimum or maximum level of wages, or deciding on price preferences and dispreferences. In what follows, I am not dealing, however, with this last issue since it would require special, non-existing tools and unavailable data.

It has to be added that some of the redistributive incomes, despite their essential levelling effect, follow by and large the differentiation of work-related incomes, like e.g. pensions or sick-pay. In their case, however, it has not yet been clarified even theoretically whether they belong to incomes distributed according to work or to "benefits". A clarification of this point would be rather important for practical reasons, too.

It has to be analysed now how far the above specific features assert themselves in actual social practice.

As for the *first characteristics* – the increasing role of redistribution – its existence is not hard to prove. Some years ago a UN publication [8] presented the share of social benefits within the total income of the population in nine advanced western capitalist countries and six socialist ones, for the fifties and for the mid-sixties. The per capita national income of the West-European countries was higher already in the first period than that of socialist countries in the second. The ratio of social benefits was between 11 and 22 per cent in 1953, and between 17 and 26 per cent in 1964. For socialist countries only one series was presented, relating to the first half of the sixties. The ratios here varied between 18 and 30 per cent. Thus, the role of redistribution is not a simple function of economic development. In socialist countries the share of the benefits, i.e. the scope of socially accepted responsibilities, is greater even on a lower level of economic development. Incidentally, it seems likely that the relatively rapid growth of benefits in capitalist countries is at least partly due to the mere existence of socialist countries. This fact strengthens internal tensions in the capitalist countries and, thereby, the inclination to grant concessions.

Some other data show that the role of redistribution is not only greater than in capitalist countries but also that it is constantly increasing under socialist conditions. In fact, the ratio of social benefits within the total income of the population was in Hungary 18 per cent in 1960, 22.8 per cent in 1970 and 24.4 per cent in 1972 [9].

As for the *second characteristics*, the *broadening* of the scope of needs recognized as social responsibilities and the improvement in covering the needs already recognized, it has became so evidently a part and parcel of our everyday experiences in the last years that it hardly needs elaborate proofs. I would not affirm that all of the rightful needs are recognized and covered on an acceptably high level, but an improvement is undeniably felt. In the case of long established benefits, like family allowances and pensions, the standards are growing and the right of new

groups is recognized (e.g. of large layers of the agricultural population). More recently acknowledged needs include e.g. the home-child-care of young children,* the day-care of old people either at home or in day centers, etc. Some progress is made also in the field of the allocation of flats, for the time being especially to favour large families.

The situation is less satisfactory with the *third characteristics*, i.e. with the acknowledgement of the objective fact that under socialist conditions redistribution is not a gift, a donation or a concession, but a *right*. The problem is not mainly that there are retrograde manners of speaking. More important is the fact that it is only in the last years that different democratic forums have become established which provide an opportunity to the members of the community to discuss openly what demands and claims occur at all, and which ones should be given priority in redistribution, in accepting them as rights. Also, the various instruments and organs to check continuously on the operation and the effects of redistribution, or to help to come to the fore different, less well recognized interests, are far from being adequate. From another aspect, one might also point out that the different groups of the community do by far not identically know their rights, nor do they have an identical access to this knowledge. The combined effect is that the "donation – concession" conception or attitude continues to survive in a more or less self-conscious way, but with visible effects that should be analysed in greater detail. (Just a few examples: A public announcement could be read on the walls of some universities even in 1974 saying that "applications for study grants may be handed in". Or in case of family allowances, beside handing in the official documents, one also has to write a "petition".)

– The situation is probably the hardest to judge in the case of the *fourth characteristics*, the "redistributive" effect of redistribution. Up to now Hungarian data are available only from an earlier survey that attempted to cover all aspects of income distribution, including that of social benefits. This survey relates to 1967. Nonetheless, some inferences that retain some validity even now might be made also on this basis.

* Under this scheme mothers may stay at home with their children for three years and receive a monthly allowance of Ft. 800 to 1000 and may return to their jobs afterwards, or even earlier, without interrupting employment relations.

The impact of social benefits on the distribution of incomes, or how redistributive is redistribution. Incomes (benefits) in cash

It is somewhat easier to follow up the process and impact of centralized redistribution in the case of benefits in cash than in that of benefits in kind. Although it is true that without pensions and sick-pay benefits income distribution would be much more unequal, it is also clear that these benefits, because their amount is work-related, do not affect the original differentiation. The levelling effect of family allowances – although their standard is known to be unsatisfactory as yet – is more considerable. In fact, the bulk of this allowance is going to families with two or more children, where per capita incomes are lower than elsewhere. It is mainly due to successive increases in family allowances that the income gap between larger and smaller families began to narrow. In the case of families of workers and white-collar employees, for instance, the per capita income of five-member households amounted to 59 per cent of that of two-member households in 1959. The same percentage was 61 per cent in 1962, and 65 per cent in 1967. Since then there has been probably no further improvement, since – despite considerable efforts – the increase in the level of family allowances was less than the wage-increase.

One might expect a positive (equalizing) redistributive effect to occur in connection with the raising of low pensions and with the alteration of the system of so-called "social grants". Some proposals that seem to be well-timed have been already worked out for these reforms. Their twofold aim is to abolish the actual *selective* character of the "social grant" system (which is partly means-tested, and partly granted upon individual considerations), to make it part of the universal grants based on rights, and, at the same time, to *increase* its level up to some socially acceptable budget line. (Actually the number of those living on this social grant is around 50,000. Beside them, there are several hundred thousands of elderly people who did not acquire a right to a pension, but do not qualify for the grant either because they live within families who provide for them. Because this demand is so huge, it is economically impossible to solve the twofold task at once and rapidly, i.e. to make the grant universal *and* to increase its level. But one has to seek for ways and means that will help to approach the above dual goal.)

In case of some social benefits a contrary, "disequalizing" effect may be expected. One grant of this type is the so-called child-care-grant explained in the footnote on p. This grant is used in a higher proportion by women with lower skills and lower wages than by the others, and entails thereby an increase in the number of low-income people. A special complication is that the increase in the dispersion of incomes is not only an overall one, but is social group-specific. (It is clear that lower skills and lower wages of women occur mainly in groups whose social situation is less

favourable.) A similar possibility arises in connection with another new arrangement, the opportunity to get pension and work-related income simultaneously. In this case better qualified people (with originally higher pensions) are more likely to find working possibilities than others. Thereby the dispersion might again grow, not because low incomes are decreasing, but because higher incomes are increasing faster than the average. Both of the above measures are rather popular and socially advantageous from many points of view, only their special side-effects must not be forgotten. However, both were introduced after 1967, so that the available data do not show their full impact.

The overall effect of cash grants on redistribution is, then, hard to check at present. In 1967 the situation was the following: *the dispersion of work-related incomes was greater, their distribution more unequal than that of cash grants or of the total disposable income* (including both items). This might be characterized by the so-called inequality coefficient,* whose value was 2.32 for work-related incomes and 1.92 for the total of disposable incomes [10].

In the case of benefits in cash there was a *positive* (equalizing) redistributive effect *not only on the whole of income distribution, but also as far as the different social groups are concerned*, i.e. groups defined according to their situation within the social division of labour. Relatively more cash grants accrued to the worse, than to the better situated groups – except for the peasantry to whom different regulations applied still in 1967. Because regulations have become more similar, and because of measures like the considerable raising of low pensions, it might be assumed that despite some opposite moves this redistributive effect of cash grants is somewhat more pronounced now than it was in 1967.

With cash benefits the above tendencies hold true not only in relative, but also in absolute terms, at least partly. With lower income groups the percentage ratio as well as the absolute amount of the benefits is higher than with higher income groups. However, this absolute levelling does not work in the case of the social groups which are worse off.

Thus it is by and large true for benefits in cash that they are distributed according to "needs", and that they counteract the work-related differentiation to some extent. Their final impact therefore corresponds to the original intentions, even if one might question whether their social effectivity is sufficient.

* This is the quotient of the arithmetical means of higher than average and lower than average incomes. It was devised by *Ervin Frigyes* and *Ödön Éltető*.

Table 1

Amount and ratio of benefits in cash within the total disposable money income (1967)

Groups formed according to the character of the work done by head of household	Amount per head per month, forints	Ratio within total income, per cent	Groups formed according to the per capita monthly income, forints	Amount per head per month, forints	Ratio within total income, per cent
Leaders, intellectuals	107	6.7	under 600	147	31.8
Medium-level non-manuals	97	7.0	601– 800	150	21.1
Office workers	110	8.7	801–1000	138	15.3
Total non-manuals	102	7.1	1001–1200	126	11.5
Skilled workers	90	7.7	1201–1400	113	8.7
Semi-skilled workers	87	8.3	1401–1600	105	7.0
Unskilled workers	86	8.8	1601–1800	105	6.2
Total manuals outside agriculture	88	8.1	1801–2000	89	4.7
Manuals in agriculture	48	4.2	2001–2400	97	4.5
Retired, pensioner	398	43.2	over 2401	88	3.0
Total	126	11.1	Total	126	11.1

Source: *A lakossági jövedelmek színvonala és szóródása* (The level and dispersion of the incomes of the population), pp. 183 and 188, and computations based on these data. Central Statistical Office, 1972.

Benefits in kind

Benefits in kind affect income distribution in a somewhat different way than do benefits in cash. Also, their impact is rather varied due to a number of factors. The most important ones are the following:

– The various *needs* covered by the benefits in kind *do not occur with the same frequency* in the various social groups. Thus, medical services are required especially often by elderly people. Working clothes and special, prophylactic food (if

one considers these items as social benefits, which might be questioned) are required only under special working conditions that prevail usually with manual workers. The same holds for reduced tariffs in public transportation used by commuters, who are mostly also manual workers.

– There are *needs which – though theoretically universal – do not occur with the same frequency in the different groups and are not claimed with equal strength.* The best known examples are secondary and higher education. In this respect there is a social and cultural handicap owing to which, despite very considerable efforts, children of workers and peasants are still underrepresented. The fact that some needs are not felt with the same urgency might be accounted for by differences in the objective conditions of the various social groups as well as by their interests, values and their life chances differentiated thereby. These factors have an impact not only on higher education but also on more elementary demands like places at holiday resorts or even the use of enterprise canteens.

No doubt, the absence of demands is partly due to financial reasons. In some cases even the reduced, heavily subsidized charges and fees are hard to pay, not to speak of the loss of potential earnings and extra costs in the case of continued studies. The other reason is, no doubt, that because of well-known historical reasons, there are many rights – the right to rest, to be comfortable, to acquire a university degree, etc. – that are far from becoming self-evident as yet.

The same causes act in a less open way in other spheres too, especially in the health service. One's relation to one's own health is conditioned by numerous factors that cannot be dealt with here in detail. (Such factors are e.g. whether it is socially "permitted" at all to be ill, or whether one knows the signs of the various illnesses as well as the possibilities and means of prevention.) Up to now there have been no adequate studies made in this field, only sporadic information is available. It is, for instance, symptomatic that workers use the hospital care relatively frequently while they use out-patient clinics and medicines with a less than average frequency. Hence one might assume that non-manuals (with a higher educational level, etc.) are consulting a doctor at an earlier stage of the illness so that they might sometimes avoid the hospital. It would be even more important to know whether the doctor is consulted at all. The total amount of health benefits is practically the same with both workers and non-manuals. On the face of it this could mean that all the needs are consciously recognized and taken care of. However, this belief is somewhat shaken by some mortality data. In 1972 e.g. the average age at death of male manual workers was 46.4 years, that of male industrial workers 44.5, and that of non-manuals 50.1 years. 11. The rate of infant mortality was 34.1 per mille with workers, 27.3 with non-manuals. 12. One might then conclude that despite a similarity of *manifest* needs and utilization, the *real medical need of workers is*

higher than average, only it remains latent, hidden, inarticulate. I do not want to suggest that the above differences are caused merely by a variation in "the relation to health". Working and housing conditions, a less complete or less balanced diet all contribute to causing the above problems, and they would not be solved even if health services were availed of more amply. But one can hardly doubt that this would be necessary, partly precisely because there are more factors damaging health when objective conditions are worse.

– A third factor which distorts the operation of the redistributive system is the fact that the different *groups are not able to assert their interests* in the same way. Therefore, their shares might differ even if needs are felt equally consciously and strongly. This factor plays a role especially in the case of those institutions that function well, on high standards, but where there is a *shortage in capacity*. "Demands" are, then, greater than the "supply", but the balance cannot be restored by market mechanisms since these are eliminated by subsidized or gratuitous tariffs. These goods or services are then distributed either by following the spontaneous operation of underlying power relations, or on the basis of some rationality, but which might be socially of secondary importance. The two most important benefits of this type are the child-care institutions and housing. From among the child-care institutions, the pressure was the biggest in 1967 on kindergartens, which had the highest standards and which were the most important socially. (At that time 50 per cent of all children between 3 and 6 years of age were in kindergartens, but this proportion was around 80 per cent for children of leaders and professionals, and around 40 per cent for children of unskilled workers.* The difference is considerable even if we take into account regional differences, i.e. that the first group lives mainly in towns that are better equipped.) Seveal studies have dealt in recent years with the social problems and effects of the allocation of dwellings [13, 14].

In these cases the market distribution of scarce goods was replaced by some kind of a "hidden" distribution – with very similar social effects. Hidden distribution is regulated partly by personal contacts, "pulls": better situated groups have better access to the scarce resources because they have more contacts, and also they ask more easily, having the possibility to offer some time reciprocated services. Another part of these goods may be distributed taking into account the social or economic importance of the work done by a given group or individual (e.g. a doctor may get a house in a village relatively easily because the community needs him and he could not settle down otherwise). It is clear that the first factor is socially and morally objectionable and its impact might perhaps be somewhat reduced with stricter

* Approximations based on the 1967 survey.

administrative control. The problem is less easy to judge whether knowledge and skill should be accepted as titles for sharing. In the first case private interests that win are clearly opposed to public interests, while in the second case the private interests are opposed to some public interests, but not to all. Moral judgement is not justified and hardly helpful in this latter case. Beside the increase of capacities, a continuous control is needed which would assure a more balanced meeting of the different private, public (and social) interests even if these interests are less well articulated.

Beside the above problems, there is a further, peculiar benefit which is working against the desired effects, contrariwise to its own originally intended aims. This is the *state subsidy of rents.* In the years following 1945 rents had been fixed on an extremely low level solely *because of social policy (redistributive) considerations.* It was only much later that it became clear that better-off groups live in rented flats in a higher than average proportion, and that the quality of their flats is also better than average. Therefore the effect of an originally redistributive scheme became reversed and the social benefit added to already existing advantages. The yearly sum of this subsidy was, in 1967, around 560 forints in the group of leaders and professionals, and 70 forints in that of unskilled workers. [15]. After having realized the problem, rents of well-equipped flats were quite significantly raised in 1971. This meant some improvement in the disproportional allocation of the subsidy, but the original differences were too big to be eliminated in a single step.

There are two further factors influencing the possibility of asserting one's claims whose impact is, however, hard to assess numerically. The first is related, among other things, to the *level of information* which varies with the social situation. The quality of the services offered is not homogeneous: there are schools, hospitals, holiday homes of higher and of inferior quality. Groups that are better informed, and who are looking deliberately for information tend to obtain access to the higher quality institutions. The second factor is connected with the traditional hierarchical contents of interpersonal relations, meaning that different clients might be treated differently. No doubt, the whole system acts against discriminations or privileges of this type, but the historical inheritance is too strong to be easily eradicated.

The previous factors form different syndromes, yielding different *types* of social benefits with regard to *their effect on redistribution.* The main types are the following:

Type 1

a) the level of manifest (conscious) needs is similar, or at least differences in this respect are rapidly diminishing;
b) the institutional framework of the benefit ("supply") is broad enough;
c) the level of utilization is similar in different social groups.

Hence: the grant has a positive, equalizing redistributive effect, in accordance with the original intentions. (Original income differences are diminished, even if not eliminated.)

Schematically: similar demands + similar utilization → positive redistribution.

Grants that belong to this category, maybe with some reservation, are e.g. health care and primary schooling.

Type 2

a) the level of manifest (conscious) needs is different;

b) the institutional framework of the benefit is broad enough, or at least flexible;

c) the level of utilization by social groups is nonetheless different, because of a).

Hence the grant has a negative redistributive effect, contrary to the original intentions.

Schematically: differentiated demands + differentiated utilization → negative redistribution.

Benefits that belong to this type include grammar schools and technical (vocational) schools within secondary education, the entire higher education, subsidized holidays and meal subsidies in institutions and enterprises.

Type 3

a) the level of manifest (conscious) needs is similar;

b) the institutional framework of the benefits is not broad enough;

c) the possibilities of making prevalent one's interests are different;

d) the level of utilization by social groups is differentiated.

Hence there is a negative redistributive effect, contrary to the original intentions.

Schematically: similar demands + differentiated utilization → negative redistribution

Benefits in this category include child care institutions (kindergartens in the first place, but also nurseries, school day-care centers to a smaller extent), the centralized allocation of flats at least before the revision of the regulations in the last two years, and also the rent subsidies.

Type 4

a) the level of manifest (conscious) needs differs, but the difference is rooted in the objective conditions. Thus the relation between needs and the social situation is of a different character than in types 1–3;

b) the institutional framework of the benefits is broad enough or flexible, although its quality is often unsatisfactory;

c) the level of utilization is differentiated, but in harmony with the demands.

Hence: the effect on redistribution is positive in accordance with the original intentions. Some benefits of this type reduce original differences also in absolute terms.

Schematically: differentiated demands + differentiated utilization → positive redistribution.

Here belong industrial apprenticeship within secondary education, prophylactic foods (and perhaps work-clothes) under special working conditions, commuters' special tariffs, subsidies to workers' hostels, etc.

The regional differences already referred to operate with all the above types, transmitting or reinforcing the impact of social differences. (More urbanized settlements are better equipped also with social institutions, and better-off groups live in a higher proportion in them.)

A further development and correction of the system of centralized redistribution would require a thorough knowledge of the respective weights of the above types, of their real social effect and of the mechanisms that regulate and influence their utilization. These data and informations are or could be made available – theoretically at least – from appropriate statistical, economic or sociological surveys. However, for the time being we are limited to inferences based on the statistical survey made in 1967, where some methods were still experimental and some benefits left out of consideration (type 4 almost entirely, and the effects of the allocation of flats entirely). Still, even these data have some validity. According to them, *social benefits in kind somewhat increased income differences between the social groups, while, despite of that, they reduced slightly the inequality of the overall income distribution.* This apparent contradiction is easy to explain. One of the main items within benefits in kind is education, which is mostly used by families with children, whose income level is usually lower than average. The other important item is the health service, which is by and large proportionally distributed (type 1), but has a specific income-levelling effect because of the higher demand of old people. It has to be aded that, unlike benefits in cash, benefits in kind are affecting the income distribution only in relative terms. The absolute amounts are similar in the different income groups, or even higher in the higher income brackets.

To sum up the previous discussion: social benefits in cash have a positive redistributive, i.e. levelling effect on the original income differentials both with regard to the overall income distribution and to different social groups. The redistributive effect of benefits in kind is more ambiguous. They reduce somewhat the dispersion of incomes, though less effectively than cash benefits. But as far as

Table 2

Amount and percentage ratio of benefits in kind within total (cash and kind) incomes
(Data refer to 1967)

Groups formed according to the character of the work done by head of household	Amount per head per month, forints	Ratio within income, per cent	Groups formed according to the per capita monthly income, forints	Amount per head per month, forints	Ratio within all incomes, per cent
Leaders, intellectuals	260	14.1	under 600	156	25.2
Medium-level non-manuals	221	13.7	601– 800	167	19.1
Office workers	220	14.9	801–1000	171	15.9
Total non-manuals	235	14.1	1001–1200	167	13.2
Skilled workers	163	12.2	1201–1400	161	11.1
Semi-skilled workers	153	12.7	1401–1600	163	9.8
Unskilled workers	149	13.2	1601–1800	163	8.8
Total manuals outside agriculture	157	12.6	1801–2000	157	7.7
Manuals in agriculture	114	9.0	2001–2400	161	6.9
Retired, pensioners	185	16.7	2401 and over	193	6.1
Total	166	12.7	Total	166	12.7

Source: The same as with Table 1, pp.

differences between social groups are concerned, benefits in kind accentuate them, since they are even more unequally distributed than work-related incomes. In short, the social impact of cash benefits corresponds to the intended effect reflecting common socialist interests, but this only partly holds for the benefits in kind.

It does not follow – and the point has to be stressed – that benefits in kind have to be eliminated or turned into money benefits. The reasons are manyfold and should be analysed in a different study in detail. Here only the conclusion can be presented, even if rather curtly. It seems, then, that the key to improvement is to be sought in the sphere of the conditions that distort the utilization of the benefits in kind in a socially undesirable manner. This means, first of all, a broadening of the

framework and an improvement of the standards in all fields. Also, ways and means have to be found to bring closer the level of demands by arousing or making explicit still blurred or latent needs, and to assure greater equality in the realization of the demands.

★

The system of centralized redistribution is an important element of social affairs in a socialist society. If it functions adequately, it might contribute to *the realization of the long-term goals of societal policy*, because it might have a considerable impact on the basic social relations. At the same time, this is the means *to solve, in the short run*, a great number of *acute social problems*. It is of great importance, from both aspects, to render the system socially more effective, and to bring its practical operation closer to its theoretical principles.

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ОБЩЕСТВЕННАЯ ПОЛИТИКА, СОЦИАЛЬНАЯ ПОЛИТИКА И ТИПЫ ЦЕНТРАЛИЗОВАННОГО ПЕРЕРАСПРЕДЕЛЕНИЯ

Ж. ФЕРГЕ

Общественная политика в широком смысле слова означает всякое сознательное вмешательство в данную систему общественных отношений в интересах целей социализма. Социальная политика, которая не является собственно социалистической категорией, также может быть истолкована в рамках социалистических общественных отношений, если относить сюда виды деятельности, связанные в основном с централизованным перераспределением. В новых социалистических условиях социальная политика должна утратить свой прежний благотворительный и попечительский характер; она приобретает новые черты. Так, централизованное перераспределение приобретает все большую и большую роль при социализме, оно распространяется на все большее число благ, превращается в подлинное право граждан и начинает действовать как подлинный перераспределитель, то есть уменьшает неравенство, создаваемое другими видами перераспределения.

В условиях современной Венгрии отчетливо вырисовываются первые две особенности. Процесс превращения централизованного перераспределения в одно из гражданских прав протекает несколько медленнее, ибо очень сильны пережитки прошлого, и недостаточно развиты форумы демократии. Наконец, существуют проблемы и в области влияния перераспределения. Статистические данные показывают, что денежные льготы и пособия распределяются в основном согласно первоначальным целям, тогда как результат льгот и пособий, предоставляемых в натуральной форме, расходится с первоначальной целью. Это объясняется многими причинами, важнейшие из которых следующие: существуют объективные различия между потребностями в таких льготах и пособиях у различных социальных групп (например, потребность престарелых в медицинской помощи превышает средний уровень); существующие в принципе повсеместно потребности по-разному осознаются в разных группах, например, потребность в более высоком образовании значительно ниже во многих группах рабочих и крестьян; потребности, существующие вообще, труднее реализуются в более трудных общественных условиях, ибо отсутствуют определенные условия, необходимые для осуществления данного права (информация, связи и т. д.); доступность информации о льготах и пособиях неодинакова вообще и т. д. На основе всех этих факторов можно различить разные **типы** натуральных льгот и пособий. Эти типы показывают эффект перераспределения в зависимости от совокупного влияния различных потребностей в льготах и пособиях и наличия фондов общественного потребления.

Естественно, что проблемы общественного распределения натуральных льгот и пособий не должны привести к выводу о необходимости их замены денежной формой. Вместо этого необходимо добиться, проводя дальнейшие исследования, применяя соответствующие средства и создавая соответствующие учреждения, чтобы изменилось действие социальных факторов, искажающих эффект натуральных льгот и пособий.

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M. RIESZ

SOME LESSONS OF THE FUNCTIONING OF THE HUNGARIAN FINANCIAL SYSTEM

The financial mediating systems between saving and material accumulation are self-financing, redistribution of money and additional issue of money. The post-1968 period of the Hungarian financial system revealed the limits of the free choice of their combinations. These years also saw the first effective control of the decentralized material accumulation by financial means.

Savings can serve as sources for material accumulation through *three main mediating systems.* These are:

– *self-financing:* the economic unit having saved (accumulated) money realizes material accumulation by investing this money;

– *redistribution of money:* the money accumulated is passed on through different mediating subsystems to economic units willing to invest it into material accumulation;

– *additional issue (creation) of money*, corresponding to the sum of savings accumulated in money form; i.e. the bank, by (money creating) credits for material accumulation, issues an additional amount of money which equals the sum of long-term money savings.

In our argumentation we shall restrict the meaning of money redistribution to *effective* redistribution, to the case when the accumulator of money renounces, temporarily or finally, the right of disposition over his money in favour of *another* economic unit. A typical example is the transfer of state (budgetary) monetary assets to other economic units. The typical active credit-transactions of the National Bank of Hungary involve, in turn, *additional issue of money.* Following the logic of the economy and international practice, when speaking of issuing money, we mean by money the liability of the bank *that may be used at any moment as a direct means of circulation, payment and accumulation by its owner.* Such are banknotes and demand deposits. Liabilities of the bank not fulfilling these criteria are regarded but as money claims of varying liquidity (savings accounts, securities, blocked accounts, etc.)

We shall also mention the most important means of *central control* applicable to the mediating systems mentioned above. The primary objectives of control are

– to secure and improve market equilibrium,

– to assert the economic policy conception of the state in regard to material accumulation.

A typical case of a balanced market is when *material accumulation is equal to money savings*, so that *both material accumulation and the saving of money are voluntary*, thus no (considerable) forced accumulation or saving is involved. A balance between accumulation and saving implies, at the same time, that demand by consumers is covered by an adequate supply. Of course, absolute equilibrium is a rare exception; in practice a state approximating it may be regarded as equilibrium.

In the system of self-financing and money-redistribution the magnitude of savings naturally limits accumulation, thus rendering central control easier. However, in the mediating system of additional money issue, necessarily complementing the two former ones, control is rendered more difficult by the unknown magnitude and the possibility of deviations in either direction. One cannot tell exactly what part of the money in circulation can be regarded as voluntary, long-term saving, as monetary accumulation. If the additional issue of money *exceeds* this not exactly known sum, an excess demand will turn up on the market. Conversely, if the additional issue of money *falls* (considerably) *behind* the sum of savings, then excess supply will emerge, leading to various disturbances in commodity turnover.

In the following I would like to summarize some of the experiences gained since 1968 in combining the different financial mediating systems working between savings and material accumulation.

During the period preceding the economic reform in 1968, the mediating systems had undergone a number of changes. During this period, three combinations had followed each other. The first combination was the system that existed at the time of the nationalization of the banks in 1947. The second combination was formed according to the model provided by the Soviet financial system; the third is the search for financial means of indirect control. At the end of this period, the individual mediating systems were applied in the following fields:

Self-financing became the source of the real accumulation of the state in a stricter sense (investments financed from the budget); in addition, it became the (more or less) exclusive source of the material accumulation of co-operatives, small commodity producers and of the population.

Redistribution of money was realized, in substance, in the form of a final or temporary distribution of savings by the state (central accumulation of money). *Final* redistribution of money became the exclusive source of enterprise real investments (capital expenditures), and partly of the accumulation of the working assets of the enterprises.

Temporary redistribution of money became a supplementary source of the investments of the co-operatives and of the population.

Additional issue of money (*the marginal mediating system* between savings and real accumulation) was one of the sources of the accumulation of the working assets in enterprises and co-operatives.

Systems of financial mediation in the system of indirect control of the economy

The sphere of utilization of the mediating systems and their control

The sphere of the application of financial mediating systems has been considerably modified recently in comparison with the systems in force during former periods.

The system of self-financing now embraces all groups of economic units:

– self-financing is a source of central state accumulation;

– self-financing is one of the sources of the material accumulation of local public bodies;

– self-financing is the main source of the material accumulation of "economic units", that is, of enterprises and co-operatives, for the expansion of both fixed and working assets;

– a part of the material accumulation of the population continues, of course, to be realized by self-financing.

The system of (real) *redistribution of money* has undergone changes in quality in comparison with the preceding period, with regard to both temporary and final redistribution of money.

The sphere of the *final redistribution of money* by the state has narrowed. It has become an exception to resort to the final redistribution of monetary state accumulation for financing development goals of enterprises and co-operatives. This is generally used only when no other resource (mediating system) is available for the realization of developments envisaged in the national economic plan.

The way has been opened for a final redistribution of the accumulated monetary assets of enterprises and co-operatives. Its main forms are: the establishment of associations and the final cession of development funds.

The sphere of application of the *temporary redistribution* of money has widened. Temporary redistribution is one of the main forms of providing money by the state for the realization of enterprises, development projects in the forms of state and development loans. Agricultural co-operatives continue to be eligible for investment loans from state funds.

In order to realize material accumulation goals, economic units are allowed to cede each other, temporarily, the disposable part of their development funds.

The technique of financing the material accumulation of the population has changed; this is no longer financed from state (budgetary) sources but from the temporary redistribution of the savings deposits of the population.

The third system of financial mediation, the *issue of additional money*, has become more intensively applied; it is no more used exclusively as a source of the accumulation of the working assets for the economic units, but also as a source of their investments (capital expenditures, fixed assets) as well. This latter change was introduced by the appointment of the National Bank of Hungary as the provider of loans for the investments decided by the enterprises. Formerly the provision of money from outside sources for the financing of working and fixed assets was arranged by two different banking institutions, and the financing of fixed assets belonged to the scope of the final (real) redistributiot of money. Presently the financing of the accumulation of working assets has entirely, and that of the accumulation of fixed assets partly, been centralized to a single banking institution, which – *by its mere operational system* – performs this task by issuing money.*

From the late 1960s on, additional money has also been issued for the purposes of the state (budget). We shall deal with the relevant circumstances later.

From the aspect of *controlling the mediation systems* a new situation – and, at the same time, a new opportunity – emerged *through the decentralization of monetary accumulation.* The existing list of possible money-owners, embracing the state, co-operatives and the population was complemented: by retaining a part of their incomes, the local public bodies and the enterprises could also save monetary assets.

The financing of the centralized material accumulation of the state continues to be determined, necessarily, by the plan of the national economy and by the budget. Self-financing has been awarded a key role in influencing the material accumulation of the "new" money-owners. In general, the quantitative limit of decentralized decision-making concerning material accumulation is determined by the magnitude of the available own resources of the would-be investor.

In the enterprise sphere the role of self-financing is especially important, as the material accumulation accomplished through the mediation of the systems of real redistribution of money and issue of money is, in the final analysis, limited by the self-financing ability of the enterprise (by the expected future development fund).

* We should note here that the National Savings Bank has also taken the first step toward becoming a money-creating bank. The fact that it keeps the accounts of the *same* economic units (local councils) for which it also provides credits, *technically* creates the opportunity to provide credits by a way other than (real) redistribution of money. Nevertheless, in reality, no additional money is being issued in this way yet.

By placing self-financing into the centre, such a limit could be put to the autonomous decisions of the enterprises on accumulation that is capable of ensuring self-regulation of the latter. This can be interpreted also by stressing the fact that the power of the enterprises to decide on their investments (capital expenditures) autonomously has been increased (or, created) while, simultaneously, that concerning the accumulation of working assets has diminished, as now they can rely no more on such flexible, automatic financing of their autonomous decisions on increasing stocks they could before. We shall treat the problems of this concept of control later.

Regulation of the self-financing of co-operatives is analogous to that of enterprises. The material accumulation of the population realized through self-financing is determined by its incomes.

The volume of the supply of investment goods acts as an additional limit of all material accumulation, and this may become especially critical in relatively short periods.

According to what has been said so far, in the control of redistribution as a mediating system, the main role is played by the self-financing capacity of the economic units, embodied in their development funds.

In the sphere of the *final redistribution of money* the final redistribution of the central (state) financial assets saved is directly related to the plan of the national economy and to the state budget.

The final redistribution of money savings of the enterprises and co-operatives may be motivated by the business interests of the economic units concerned, but this is, necessarily, limited by the magnitude of the freely disposable money savings.

The *temporary* transfer of state monetary assets to economic organizations (in the forms of state loans or development loans) is regulated, in the final analysis, by the national plan. Nevertheless, as these loans are repayable from the development funds of the economic organizations, the distribution of this type of credits for material accumulation purposes is determined by the future self-financing ability of the borrower.

Direct, temporary transfers of the money savings of the economic units (similarly to the direct, final transfers among them) are motivated by business interests and are limited by the volume of development funds.

The redistribution of the savings of the population through the National Savings Bank is, in the final analysis, regulated by the naional plan; its volume is influenced by the volume of savings, while its distribution is a function of the income of the applicant on the one hand, and of the housing aid policy of the state on the other.

The system of regulating *the issue of additional money* has changed considerably against the preceding period.

Earlier, the limit to the volume of additional issue of money was determined by the total amount of working assets acceptable as bankable covers of credits.

Presently, the highest possible volume of money issued on the initiative of the enterprises is composed of two sums. The one is the total value of working assets tied up by the enterprise really only temporarily, acceptable as bankable cover of credits; the other being the total advanceable future development funds. The credit policy guidelines and the development loan quotas determined in the national plan specify how far and for what development purpose can advances be made on future development funds. Future unencumbered development funds (self-financing capacity) as covers of credit are significantly more efficient and concrete regulators of the issue of additional money than earlier measures.

The granting of credits to the state budget is generally based upon the national economic plan and upon the budget; in certain cases individual decisions are made.

Experiences in the application of the above combination of systems since 1968

The period since 1968 has provided notable experiences concerning the application of financial mediating systems. Here we shall group these experiences around the following problem complexes:

- the sphere of application of the individual mediating systems;
- the flexible money supply of the turnover of goods;
- the regulation of material accumulation.

Experiences have shown that *the scope of the application of financial mediating systems can be chosen unrestrictedly* up to the limit of the global, voluntary savings (and certain other limits inherent in this limit). They also pointed out the practical limit, which had been evident theoretically, *a priori.*

As has been mentioned above, the scope of the issue of money on the initiative of the enterprise has gained ground. However, the new measure of judging whether the application for a credit is justified (the magnitude of the development fund accumulating during a definite span of time) proved to be such a powerful limit to the issue of additional money on the initiative of the enterprise that *the turnover turned out to be insufficiently provided with money.* A similar situation was experienced at the beginning of the 1950s when the volume of truly temporary credits to enterprises was not enough for supplying the turnover with money. At that time, the contradiction was solved by continuing to grant permanently tried up (revolving) credits to the enterprises. This time, the economic leadership, lest the strict regulation of the material accumulation of the enterprises and co-operatives with the help of the system of self-financing ability should be impaired, chose not to retain

non-expiring credits as a type available for the enterprises in the future. Thus, the money still needed by turnover had to enter it through another channel.

Starting from the basic relations of the credit money system, we may put further developments in a way that, because of the insufficiency of money issued in connection with the credits provided for the enterprises and co-operatives, the demand for money of turnover forced that the state (the 'budget') should be granted credits out of additionally issued money. In this situation, granting credits to the state as a financial transaction served to harmonize the issue of additional money with voluntary saving. We must remind the reader here that the amount of money permanently tied up in circulation has practically the same effect as savings: it does not raise demand for commodities.

It must be seen unambiguously that the issue of money for the state is not a question of principle but merely one of quantity. As long as it does not exceed voluntary savings, *it does not endanger,* but *positively fosters, economic equilibrium.* This is true even if the credits are spent on public consumption. And if the financial organization of the state plays also a role of a 'financial institution for development', as is the case in the Hungarian economy, then the above situation is merely one in which the state makes the central bank to 'refinance' a part of its 'outlays' on material accumulation. The central bank could also directly supply money for the material accumulation financed in this way; the insertion of the state finances as a 'financial institution' into the process may be justified by control and stimulation reasons (attached to the self-financing of the enterprises).

In connection with bank credit grants for the state it is sometimes stated that, as the state (central budget) has to solve tasks requiring finances beyond its revenues, a mistake must have been made in adjusting the regulators. Nevertheless, the credit money system of a growing economy *requires a part of the economic units to perform tasks demanding financial means exceeding their revenues,* as this is the only way to channel the necessary additional amount of money into circulation. We shall deal with this question later. As much must be stated here that a budgetary deficit and its financing by credits from the central bank does not, in itself, mean a mistake in state administration or a lack of balance in the economy. Yet it may exert a psychological strain at the time of the preparation of decisions for the future because of the widespread persistence of obsolete financial theorems.

Another aspect of the problem treated above is *to secure a flexible money supply of the turnover.* If possible, the regulation of additional issue of money must at any time allow a flexible growth or diminution of the amount of circulating money according to needs of turnover. In the present combination of credit system, credits on working assets, with a maximum expiry of one year ("occasional credits") are assigned to provide this flexibility. Experience shows that the volume of credits that

can be granted under such conditions *is not sufficient for adaptation of the money supply to the needs of turnover.* The volume of money issued in connection with other credits granted to enterprises is determined by the future realization of development funds. Credits granted to the state play only a marginal role in the provision of money for the turnover, but, following from the nature of state finances, they do not possess a mechanism that would make flexible adaptation possible.

The diminished flexibility of the issue of money was, so to say, the price paid for the regulation of decentralized accumulation. In the history of the socialist Hungarian economy, or, perhaps, of the whole of the socialist community, *this has been the first successful attempt at the regulation of decentralized accumulation by means of a financial mediating system.* As tools for the control of centrally financed material accumulation were available before, the whole material accumulation has become well controllable. This is best proved by the rapidity at which the initial – and, because of the transitory situation, well understandable – tensions of the building investment market could be eliminated, and that even excess capacities emerged in certain areas.

Presently the considerable centralization of development decisions, the ("predetermined character") of the credit-lines for development are often cited as negative features of the control system of material accumulation in Hungary. This criticism is one-sided for several reasons. Firstly, it should be noted that centrally decided investments are often initiated by enterprises (as had also happened under the system of direct central control), and now do so on grounds of material interest, with regard to business considerations. Besides, the determination of investment possibilities, if made necessary by the prevailing circumstances for a shorter or longer period, is far from being so alien to the planned economy, applying, among others, indirect means of control, as it is sometimes believed. We can find examples of such a determination also in capitalist economies: for example, the investments of state enterprises in France are endorsed once a year by central decree and the state grants are distributed on this occasion. And the fact that in most West-European countries the issue of securities quoted at the stock exchanges follows a strict yearly schedule is also a way of "predetermining" investment opportunities.

Since, following from the above, the issue of money in connection with credit does not follow flexibly the money needs of turnover, the question may arise whether the system of the issue of money channeled "too much" or "too little" money into circulation in this period. A number of documents submitted by Hungarian economic control organs reflect the opinion that the money supply has been excessive so far.

The issue of money aims at the elimination of the difference between material accumulation and savings. The question of "too much or too little" money can, thus, also be put as whether material accumulation exceeded voluntary savings or not.

No reliable, unambiguous indicator is available for the measurement of monetary harmony or disharmony, and this partly explains the diverse evaluation of the experiences. Three indicators may show the lack of harmony between material accumulation and voluntary savings; these are the price level, the international balance of credits, and the changes in the volume of forced savings.

A rise in prices would prove that an excessive amount of money has been issued if it were beyond doubt that this rise was caused by an artificial boosting of demand by monetary means. Indeed, price rises are, or may be, caused by several other factors as well. For instance, such may be the present Hungarian financing system (this may cause price rises because self-financing of working assets is more expensive than credits, and because the scarce money supply of the enterprise sphere may put a brake on output); the rising prices on the world market; statutory price corrections; and, occasionally, unjustified raising of prices by enterprises in monopolistic position, etc.

The international balance of credits might prove that accumulation has exceeded savings if it indicated that material accumulation could have only been accomplished by borrowing from abroad. Even in this case it should be analyzed whether we have to do merely with boosted demand or with a well devised import of modern technology or with the exploitation of the improved terms of trade on the import markets. The aggregated statistical data of the years 1968–1973 show, however, that this country resorted to a menimal amount of foreign resources for the purposes of accumulation: when we add up the active and passive balances of these years, we find that they almost completely compensated one another. Thus, we cannot establish that material accumulation exceeded savings.

The third indicator showing an accumulation beyond voluntary savings is the forced saving of money. No "official" estimation is available on this. In my opinion there is *no* considerable forced saving in this economy. Of course, we cannot regard as forced savings those amounts accumulated whose individual sums are below the price of the goods intended to be purchased, and we cannot regard as much the specific demand unsatisfied because of *insufficient foreign supply* (e.g. in the case of the inexpensive car Trabant, manufactured in the German Democratic Republic). Finally, the compulsory keeping of monetary reserves by the enterprises ordered by the state *as proprietor* cannot be regarded as forced saving, either.

In the final analysis, it turns out that these indicators are incapable of pointing out the excess of material accumulation over voluntary savings, or, to put it in another way, the excessive issue of money.

Analysts of monetary relations also measure the issue of money by contrasting the amount of money in circulation to an indicator of economic turnover, for example, to the gross national product. Such analyses must, however, take into account the *institutionally (constructionally) justified velocity of circulation.* If the justified velocity of circulation decreases, then, *ceteris paribus,* more money is needed for the same turnover. Yet, in Hungarian economy this justified velocity of circulation continuously decreases, as

– the economic units possessing money have to immobilize a growing share of their money supply on the basis of their contracts with the National Bank of Hungary, or because of different rules on financial management. (The amount of money thus accumulated does not, obviously, take part in transacting the turnover); in addition,

– the technique of crediting also diminishes the velocity of circulation, as the enterprises have to repay a growing share of credits not directly from their sales receipts but from their development funds to be calculated at the end of the financial year. Thus, the money reserves necessary for the repayment of credits continuously grow.

With all these factors taken into account, it can be established that in the period between 1968–1973 (for which detailed balance-sheet data are available) the amount of money *really* transacting the turnover (total amount of money less the amount of institutionally immobilized money) *did not grow faster than the gross national product,* and in certain years (1971, 1972), the rate of growth of the amount of money lagged considerably behind the rate of growth of the gross national product.

In the middle of the 1960s a part of Hungarian economists suggested to solve the regulation of the issue of money in the indirect system of control by establishing a two-level banking system. One of the powerful supporting arguments was that the socialist central bank of the traditional type is incapable of putting a limit to granting credits; this could be solved in a two-level banking system through the business interests of the commercial banks and through the limitation of their refinancing by the central bank. Experiences have shown that the central bank of a single-level banking system is also capable of limiting the granting of credits (issue of money), sometimes even too well. Nevertheless, it should be noted that the regulation of the issue of money through the business interest of the bank has become anachronistic by now. To supply the turnover with money has become, to put it somewhat uncustomarily, a part of the infrastructure and may not be a subject of business undertaking.

The operation of the mediating systems has, of course, another condition. Only *those parts of the demand should be made effective* by way of mobilizing

money through redistribution or by way of money issue *that can be satisfied.* When redistributed or newly issued money appears on a market where supply is insufficient, its effect may be similar to that of money issued in excess. The two phenomena are not identical, though. Excessive demand may arise also when the total amount of money invested and mediated by the financial mechanism does not exceed voluntary savings. To put it differently: excessive demand may be evoked on one or a few markets not only by excessive issue of money but also by the real redistribution of voluntary savings. For instance, if the National Savings Bank granted credits of several thousand million forints for the purpose of motor car purchases out of the savings deposits, this would inevitably cause tensions on the market of cars, and would, perhaps, justify the raising of car prices.

Similar phenomena might have taken place in some years on the construction market: funds flowed there which, although not exceeding the total amount of savings, asserted a demand exceeding the construction capacity of the building industry.

Utilization of the mediating systems in a renewed form in the system of indirect control of the economy has brought great results but has also caused the emergence of problems. In the following, as a conclusion from what has been said so far, we make an attempt at summarizing the problems which should be paid more attention to while further improving the application and regulation of the financial mediating systems.

We shall deal with the following contradictions:

– the paradox of the system of credit money i.e. that the indebtedness of the economic units is a condition of channelling money into circulation;

– the contradiction between the money needed by the turnover and the present limit to the issue of money for the purposes of accumulation by the enterprises;

– the contradiction between development corresponding to effective demand and that made possible by the volume of development funds (self-financing capacity);

– the potential contradiction between demand that can be made effective by redistributing savings or by issuing money, as a substitute of the former, and the structure of supply;

– the contradiction between the requirement of flexible adaptation and the microeconomic disadvantages of capacity reserve.

The paradox of the system of money based on credit has still not been paid enough attention. For money to enter circulation at all, a certain economic unit must get into the position of a debtor in relation to the issuing bank (the National Bank of Hungary). This debtor may be a foreign country when the bank issues national

currency against purchases of foreign currency or can be a domestic enterprise, co-operative or even the state when borrowing money from the bank. Excessive accumulation of foreign currencies, i.e. the supply of credits to foreign countries is not advantageous, thus foreign currency reserves as a basis of issuing national currency do not play a key role in practice. Thus, the paradox of the money based on credit may be put as follows: with growing reproduction, with economic growth, with the accumulation of national wealth, the growing money needs of the turnover must be covered, *following from the very nature of the money system*, by a growing indebtedness of the economy towards the bank. For the economy to tie up more and more money yearly, it is necessary that a part of the economic units produce an adverse balance of revenues and expenses. From the aspect of equilibrium it is indifferent whether this deficit manifests itself in the sphere of enterprises and co-operatives or in that of the state; for the sake of flexibility in the supply of money for the transaction of turnover it is advantageous that the debts of the enterprises and co-operatives should grow. From these interrelations a number of further consequences follow, such as that:

– not *all* economic units should be to build up money funds, savings; to put it more specifically, the positive evaluation of an economic unit saving money cannot imply that another one that increases its debts should get an adverse rating *on this sole basis.* Accumulation of money and a parallel increase of debts are necessary in the system of money based on credit;

– when the increase of money reserves is statutorily demanded or stimulated, a parallel growth of debts ('deficits') should be expected and reckoned with;

– at present expiring credits can be repaid only if the economy gets new credits as the amount of money tied up in the circulation cannot, practically, diminish (it is positively growing with economic growth).

The contradiction between the money needed by the turnover and the amount of money issued for the enterprises' accumulation purposes could be resolved by improving the flexibility of the issue of credit money. At present, the opinion prevails in Hungary that the constant or permanent tying up of working assets is identical to that of fixed assets, therefore both must be uniformly financed. However, this generalization is not justified to this extent, as permanently tied up working assets are *inhomogeneous from the aspect of the mechanism of money based on credit.* Permanently tied up production stocks are, indeed, similar to fixed assets. The piling up of commodity stocks, however, is different, because this 'accumulation', when regarded as excessive, may be mobilized by the money-owning consumer, he may 'transform' it into consumption at any moment by purchasing it. Permanently tied up (of course, saleable) commodity stocks might be financed institutionally by permanent (revolving, repeatedly available) credits as well, as this type of

accumulation actually makes the system of money based on credit more flexible. This is the 'bumper' that makes possible the satisfaction of the unexpectedly rising demand, following from changes in the individual saving propensities or occurring when preliminary forecasts of the voluntary savings of the individuals prove to be fallacious. *Credits granted on the piling up of commodity stocks, thus, regulate themselves and, at the same time, also the amount of money in circulation.* It is only natural that the stimulation system must prevent that the thus financed accumulated commodities should transform into an involuntary piling up of stocks unsaleable for quality reasons. Otherwise, such an additional solution could bring credit money closer to its commodity cover from which it has been detached to a certain extent in the present system built on the additional issue of money as an advance on incomes and the depreciation allowance.

The *contradiction between development corresponding to the effective demand and that made possible by the development fund* is well known. In principle, it might be mitigated by the transfer of development funds between economic units. However, as economic units are not willing to 'invest' their money under normal circumstances in 'securities', they tend to invest their 'free' money into their own operations, which is only encouraged by the open nature of our economy. The state as a 'financial institution for development' can also contribute to the solution of the contradictions between demands for, and possibilities of development, in individual cases. A more flexible provision of credits could, however, play a role here as well.

Two means are available for avoiding the *potential contradiction between the structure of supply and of demand that may be made effective by financial mediators.* One is to transform the structure of supply according to demand; and if this cannot be accomplished completely, then the external financing of accumulation must be strictly tied to a definite purpose, with regard to supply ('money must be earmarked').

The contradiction between the requirement of flexible adaptation and the microeconomic disadvantages of capacity reserves also deserves attention. Today this problem emerges sometimes in a form that this flexible adaptation is rendered difficult, above all, by the centrally decided determination of investment possibilities. However, a flexible adaptation cannot be provided merely by a greater freedom of the enterprises in making investment decisions. It is a condition of the realization of the decentralized investment for the above purpose that appropriate supply, i.e. a capacity for the realization of the project should be available on the market of capital goods. But the construction or manufacturing enterprise is not interested in reserving capacities for an undetermined period. Thus, it is very likely that even if the allocation of capacities is not made by a central organ, the construction and manufacturing enterprises themselves will strive at filling their order-books for the

longest possible period ahead; consequently, even such a system would not provide the possibility to obtain capacities, at any time. The problem is, of course, not equally acute in the case of capital goods that can be imported (e.g. equipments) and of goods that cannot be imported (e.g. construction). The thoroughest possible study of the 'economics of reserves' seems to be a very important task also from the aspect of the financial mediating systems, since a flexible adaptation of the enterprises also provides the possibility of the money owner to spend his money at his will, thus, it ensures that money is covered and stable.

The experiences gained in the operation of financial mediating systems are very useful for the improvement of the means of economic control, for increasing their efficiency.

НЕКОТОРЫЕ УРОКИ РАЗВИТИЯ ФИНАНСОВОЙ СИСТЕМЫ ВЕНГРИИ

М. РИС

Цель статьи — подытожить и сопоставить опыт сочетания и функционирования различных систем финансирования, опосредовавших сбережения и материальное накопление до и после реформы 1968 года. Речь идет о следующих системах: самофинансирование, перераспределение средств и дополнительная эмиссия. Опыт функционирования рассматривается по следующим трем группам вопросов: сферы применения отдельных систем финансового опосредования, гибкости денежного обеспечения обращения и воздействия на материальное накопление. Опыт периода до реформы 1968 года показал, что в рамках совокупной величины сбережения возможен относительно свободный выбор сфер применения отдельных систем финансирования. Поэтому и сумма превышения доходов над расходами в госбюджете — это лишь вопрос принятия соответствующего решения, и сама по себе не служит показателем сбалансированности или состояния народнохозяйственных финансов вообще. Период после 1968 года показал границы свободного выбора сочетаний средств финансирования: новая система кредитования предприятий не обеспечивала в достаточной мере выпуска денежной эмиссии, необходимой для удовлетворения потребностей обращения, и это «вынудило» дополнительную эмиссию путем кредитования государства («бюджета») Поэтому новая система кредитования и не позволила гибкое удовлетворение нужд обращения. В отличие от этого в настоящее время впервые удалось оказать эффективное воздействие на децентрализованное материальное накопление с помощью опосредующей системы финансирования. В результате все материальное накопление стало вполне управляемым. При дальнейшем развитии этой системы нужно учесть следующие важнейшие противоречия: условием нахождения денег в обращении является задолженность субъектов хозяйствования; эмиссия денег для нужд накопления предприятий не покрывает потребностей обращения в деньгах; фонд развития (источник самофинансирования) образуется не всегда там, где есть необходимость в развитии; противоречие может возникнуть между структурой спроса, становящегося платежеспособным под воздействием финансовых средств, и предложения; требование гибкого приспособления может наталкиваться на отсутствие микроэкономической выгоды от резервирования мощностей.

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REVIEWS

S. BALÁZSY

ACTUAL PROBLEMS OF THE HUNGARIAN ECONOMY AS REFLECTED IN THE LECTURES OF A SCIENTIFIC SESSION

On the occasion of the 30th anniversary of the liberation of Hungary the Karl Marx University of Economics and the Hungarian Economic Association organized a scientific session in Budapest on the 21st and 22nd April 1975. The opening address was read by Deputy Prime Minister István *Huszár,* under the title *"What thirty years tell".** The session was given a solemn character by the 30th anniversary, but the subjects discussed during the session were far too topical: prospects of economic growth and development of the economic structure in Hungary; latest development of the methods of planned economy; changes in the world economic relations of Hungary, and finally, the various functions of the socialist enterprise and the enterprise structure of the Hungarian economy.

Sources of growth

György *Darvas,* the author of the lecture dealing with the future possibilities of economic growth, approached the problem by examining the *main sources* of the growth process, these sources being: labour capital and foreign trade. As far as *labour* is concerned, the utilization of labour reserves has been the main source of the expansion of production during the last 25 years. In this period the number of those gainfully occupied increased by 24 per cent (round 1 million persons) in such a way that agricultural employment decreased to the same extent, while the number of persons employed in the non-agricultural sectors increased by round two million. A basically different situation can be expected in the next 15 years: employment may increase at most by 150 thousand and also the number of those who could be regrouped from the agriculture is much smaller than it was in the past. Since the staff

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of the service branches should be increased by all means, the labour available to the industry will not change substantially. Under such circumstances the growth rate of material production will be determined by the dynamics of productivity increase.

As far as *capital supply* is concerned the national wealth of Hungary increased to two and a half-fold in the last 25 years. Within this the stock of fixed assets in the branches of material production was three and a half times as much at the beginning of 1974 as in 1950 and it was twice as much in the non-material branches. In the future capital intensity is expected to increase for structural reasons. This may require the raising of the rate of accumulation, and, in order that this should not take place at the expense of the demands for increased consumption, further efforts must be made at a better utilization of fixed assets.

Finally, when speaking about *foreign trade* it can be stated that its development corresponded in its main features to the characteristics of the rapidly developing industrial countries. In the future similarly dynamically expanding trade relations will be required. In addition, also the intensive character of foreign relations, especially co-operation in the field of technology and production must be strengthened. The growth rate of foreign trade is expected to increase more rapidly than that of the national income, thus the volume of export will presumably increase (from the present 40 per cent) to 60 per cent of the national income by the 90's.

External effects and foreign relations

The problems of external economic relations were dealt with in other lectures, too. (E.g. by István *Hagelmayer,* under the title *"Effects of external inflation on the structure of domestic income distribution",* and by János *Deák,* under the title *"Structure of foreign trade and some aspects of the production pattern".*) One of such problems is the *effect of external inflation on the Hungarian economy.* Previously, several people were of the opinion that the effects of external inflation and also the losses resulting from the deterioration in the terms of trade could be kept aloof from the internal economy, first of all by means of budgetary intervention eliminating the external price increases. The lecture read on this topic at the session challenged this "naive, essentially arbitrary conception based on illusions". It was emphasized that by means of budgetary intervention the incomes can be regrouped, but the losses arising from foreign trade cannot be eliminated. It is explicitly harmful to prevent the changes in the external price proportions from entering the cost accounts of the enterprises since thus there will be no real basis for economic orientation. The assertion of the external inflation can be rationally impeded (or moderated) only by a revaluation of the domestic currency. In this way the rise in the

prices of imported goods can be moderated and, on the other hand, also the fictitious incomes resulting from exports can be skimmed.

Speaking about the relationship between the structure of foreign trade and the internal structure of production great emphasis was laid upon the importance of commercial and economic co-operation with other countries. In an economy, sensitive to foreign trade – as is that of Hungary – the rate of economic growth, the structure of the increment of production, the development of productivity, investments and the rate of employment are decisively influenced by foreign trade. Changes in internal economic equilibrium also affect foreign trade.

An analysis of the commodity pattern of the Hungarian foreign trade shows that the product pattern of the economy is lagging behind the rapid technical changes taking place on the world market. This can be seen also from the fact that the proportion of manufactured products has decreased in the non-socialist exports by about 15 percentage points since 1960. The structure of Hungarian exports in this relation corresponds rather to the export pattern of industrializing countries. The changed structure of the industry is reflected only in the trade with the socialist countries: in this relation 76 per cent of the total export consists of manufactured products. From all this the conclusion can be drawn that a balanced economic growth can be realized in the long run only if the structure of supply corresponds to the export requirements. Concerning the problems of export orientation and import substitution a stand was taken that both of them have their specific role: it should be decided on the basis of efficiency considerations what to export or import or to produce at home for meeting domestic demands.

Manpower policy and development

In Julia *Venyige*'s lecture, entitled *"Labour mobility and changes in the economic structure in Hungary"*, the sectoral, professional and regional structure of the labour force employed in the Hungarian economy and the structural changes were analyzed in detail. In the present phase of socio-economic development the flexibility of the labour structure has become especially important, since this is a fundamental precondition of the necessary changes in the production structure. The necessary changes in the labour structure postulate, beside demographic changes and the eventually possible further expansion of the rate of employment, also a greater mobility of those already employed. In this respect the main task is to channel the decisions of people on taking a job and on career correction in a socio-economically advantageous direction by means of adequate regulators.

Concerning the interaction of structure and development policy Antal *Máriás* and János *Radnótzy* stated that the changes having taken place in the sectoral structure during the last three decades were significant and favourable and, as a consequence, a sectoral structure similar to that of the developed countries has developed. However, we have lagged behind in modernizing the microstructure. One of the reasons of this is that the plan identifies structural development with sectoral development, but only from the quantitative point of view. Moreover, the efficiency requirements are not properly asserted. The investments of the productive sphere are not selected by uniform returns requirements, nor is any other proper standard available for ranking the development initiatives. Therefore, development takes place on a too wide scale and we have not succeeded in developing some branches – of great importance both in production and in exports – in a stressed way.

Planning

The lectures dealing with the development of planning methods (István *Hetényi: "Salient features in the development of national economic planning"*,* Antal *Stark: "Planning the main economic policy targets in medium-term plans"*, Gusztáv *Báger* and Ernő *Zalai: "Some characteristics of the application of mathematical models in national economic planning"*, László *Horváth: "Enterprise planning, development and perspectives"*, József *Varga: "Development of long-term decision models in the microsystems"*) reviewed the actual problems of national economic and enterprise planning, as well as of long-, medium- and short-term planning.

The development of national economic planning is a process lasting already 30 years. If we want to review this process the main ordering principle could be the relationship between the *changes in the requirements* raised against central planning and the *possibilities of adjustment* to the requirements. In the period 1949–1956 the concretization of an externally given economic policy conception was regarded as the main task of planning. Between 1957 and 1967 the *founding* activity became stronger in planning. Planning became gradually more flexible, economic policy decisions, decisions on the planning work and the action programmes were separated within the plan decisions. Consideration of the role of efficiency and profitability as well as of the points of view of stimulation became more important within planning. From the methodological point of view an important event was the

* See its full text on pp. 1–15 of this issue.

appearance of mathematical methods in this period. From 1968 on planning has further developed in the spirit of the reform of economic control and management. Progress has been made in planning methodology: the statistical bases and the democratism of planning have widened.

From the point of view of the application of mathematical models also three periods can be distinguished: the 1950's were the beginning, the early 1960's the evolution, followed by the spreading of mathematical models in an ever widening range.

The long-term plans of the enterprises should cover two basic spheres of questions. Firstly, they should contain the concepts concerning the enterprise strategy and secondly, the means of realization. When working out a long-term strategy, three main objectives should be kept in view: the "survival" of the enterprise, progress and finally the assertion of so-called human considerations. Concerning this latter the people (the enterprise collective) should be regarded not as a means, but as an objective when formulating the enterprise strategy. In the assertion of the objective concerning development the *competition* developing between the socialist enterprises and interpreted in a wide sense is of great importance. In the long-term plan the *optimum strategy* to be realized under the given circumstances must be formulated through the joint consideration of the hierarchically ranked strategic goals and the available means.

World economic background

The *external economic foundation* of the economic policy was much discussed during the session. The seven lectures read on this topic covered a very wide range of this field (József *Bognár: "Beginning of a new era in the world economy and its effects on the Hungarian economy"*, Kálmán *Pécsi: "Development of Hungarian-Soviet economic relations"*, Tibor *Palánkai: "The integrating world economy and Hungary"*, Ferenc *Kozma: "Topical problems in East-West relations"*, András *Rába: "Some forms and requirements of up-to-date co-operation in East-West relations"*, Tamás *Szentes: Some questions of principle in the development of our economic relations with the developing countries"*, László *Radó: "The role of foreign trade in the economic growth of Hungary"*). In the following we should like to present, for the sake of demonstration, some ideas from the abundant material. Earlier ideas about economic facts and relations as well as our related institutional system should be revised nowadays. In order to understand the essence of world economic processes a distinction should be made between strategic and cyclical

elements. Such industries should be developed which are capable of exporting and are at the same time profitable, too. To achieve this, the so-called sectoral chauvinism must be pressed back, a selective industrial policy should be followed and qualified labour concentrated. Although our system of control inherited from the past is organized by *sectors*, the assertion of the *vertical* organizational principle should be allowed to prevail in developments aimed at export. In the Hungarian-Soviet economic relations, too, the organization of co-operations will come into prominence. Here the quality of the parts (units) delivered should be improved, so that the technico-economic standard of final products manufactured by utilizing them could be high enough. Within the framework of developing production-co-operation the system of international general contractors should be established.

We have reached a new phase in the development of integration, characterized by the integration's advancing not only on macro- but on micro-level, as well. Even the development of integration requires that some leading branches be identified. With general economic development better possibilities will emerge for the planned co-ordination of the economies of the CMEA member-countries. For this the increased utilization of commodity and money relations is required.

The East-West relations are just beginning to develop, since the historically necessary conditions have come about only now. In order to achieve the optimum development of East-West relations we must fight against erroneous views. One of these is the one according to which the *only* possibility to make up for our historical backwardness is the development of East-West relations, but the view is similarly wrong according to which the East-West relations are a kind of "unavoidable evil" that should be got rid of as soon as possible. Both views contain some renouncement: the first one would give up socialist integration, while the second one the advantages resulting from the East-West relations. The proper way is to participate intensively in the socialist integration which, at the same time, enhances the development possibilities of our relations with the West, too.

The forms of co-operation are different in the western world from those in the socialist community. Those methods and forms of economic co-operation may be considered effective which release growth energies for the further development of the domestic economic culture, the dynamic and co-ordinated adaptation of the technological and enterprise sphere as well as for the increase of the profitability of production. To realize all this the long-term economic policy objectives should be determined centrally, the development of CMEA-relations should be organized also centrally, while in enterprises conditions promoting the development and a greater efficiency of the international division of labour in everyday practice must be brought about.

Towards the developing countries a differentiated foreign trade policy, varying by countries, should be followed. Let us offer them attractive constructions for industrial development and trade which are, at the same time, advantageous for us. However, we should beware of creating "alien" economic units in the developing countries not fitting organically into their economic structure. This would finally lead, namely, to an indebtedness of the countries concerned. We have good possibilities to participate in the modernization of agricultural production in the developing countries.

Socialist enterprise and factory democracy

During the discussions which took place in the framework of the session various topics of enterprise character, among them those connected with the control of circulating assets and stockpiling were dealt with, too (György *Tallós: "Some topical problems of financing circulating assets"*, Ervin *Fábri: "Stocks of the national economy and the problems of their judgement"*, István *Bárány: "Enterprise reserves for the saving of materials to be explored by management"*, Attila *Chikán: "Stocks as elements of enterprise reserves"*). In these studies the changes in the financial sources of circulating assets during the last 5–6 years were analyzed, the development of stocks and its reasons were examined. In 1974 – after some years of relatively moderated stock increases – the stocks significantly increased, namely, by 35 thousand million forints (12.7 per cent). The increase in stock is obviously related to economic growth, but it has several other reasons, too. On the one hand, the accumulated stocks engage considerable resources, but, on the other hand, they are important power reserves, too.

Speaking about the saving of materials attention was drawn to the fact that this should be founded already in the phase of preparing production. Therefore, saving must not be limited to the means already available, nor must it be conducted only at times but should become an integral part of management behaviour.

The lectures read in the sub-section dealing with agricultural topics were concerned mainly with the efficiency problems of the Hungarian agriculture (Ferenc *Vági: "Efficiency in the agriculture"*, László *Bethlendi: "Industrialization of agriculture and production systems"*, Csaba *Csáki: "Linear-dynamic models in enterprise development"*, Béla *Csendes: "Profitability and efficiency of agricultural production in the Fourth Five-Year Plan"*, Tibor *Ferenczi: "Enterprise behaviour and enterprise interestedness"*, László *Vargha: "Some connections between technological development and profitability"*). In this context the relationship between the efficiency of assets and live labour, respectively, were discussed. The industrialization of Hungarian agriculture between 1961 and 1970 was characteri-

zed from this respect by the fact that the efficiency of assets decreased to a great extent, while that of live labour increased, but in such a way that the productivity of live labour increased to a lesser extent than technological equipment improved. Therefore, production costs increased (even if calculated at unchanged prices), i.e. the social productivity of agricultural production decreased. Between 1971 and 1974 the decreasing tendency of the efficiency of assets slowed down, the growth rates of technological equipment and of the productivity of live labour got nearer to each other and thus the diminishing tendency of social productivity lessened.

However, the increase of production costs was coupled with a fast increase of agricultural production. While the yearly average increase amounted to 1.6 per cent between 1961 and 1965, and to 2.9 per cent between 1966 and 1970, this rose to about 3.5 per cent between 1971 and 1975. Modern techniques were rapidly introduced into the everyday life of farms. In the meantime the number of agricultural farms has decreased to one half, while their average cultivated area has doubled. The specialization of production will continue in the future and modern production systems will gradually spread.

The behaviour of the enterprises can be deducted in a socialist economy from the system of interestedness recognized by the enterprises. In this context it must be known that the interestedness of the controlling and controlled sub-systems, respectively, is not identical in the socialist enterprise, either. There are conflicting interests which are not antagonistic but occasionally may sharpen. This, as well as the non-recognition of interests may result in an enterprise behaviour that cannot be explained by the system of interestedness. An examination of enterprise behaviour is necessary first of all for the perfection of the regulating system.

In the lecture on technological development it was mentioned, among others, that for the technological development of agriculture a developed industrial background is required which is ensured partly by the domestic industry and partly by co-operation agreements concluded with the CMEA-countries.

Another sub-section of the session discussed some special aspects of the internal organization of enterprises. From among the lectures (Ágoston *Papp: "Ergonomic factors increasing the efficiency of enterprises"*, György *Parányi: "Some theoretical and methodological problems of investigating factors influencing the organization of product manufacturing workplaces – and major experiences obtained from the surveys carried out until now"*) that one dealing with ergonomic researches called attention to the fact that on the workplaces examined the working conditions visibly lagged behind the parameters required by the activity in question and, what is more, these parameters were apparently disregarded when developing the working conditions. In case of a meaningful work and an adequate approach on part of the enterprise a harmonic attitude corresponding to the purposes of work

humanization may develop in the workers. If, however, the conditions of a meaningful work are missing, this will lead to indifference to and dissatisfaction with the work as well as to striving after secondary advantages.

The workers do have their own opinion about their work, workplace, working conditions which can be relied upon in the analysis, organization and the development of factory democracy. Otherwise, the questions of factory democracy appeared in the lectures of another sub-section, too. (László *Szarvas: "Factory democracy in practice"*, Mrs. Szlávik Éva *Hajba: "Party organization and factory democracy"*, Mrs. *Venczel: "Role of voluntary public activists in factory democracy"*)

Factory democracy means the disposition by working collectives over the means of production owned by the socialist state. The members of the collectives obtain this right of disposal in a double quality: on the one hand as citizens, the personal carriers of the public property and, on the other hand, as employees, members of the given working collectives. The task of the responsible leaders of the enterprise is to make possible for the employees to dispose of their collective property. The task of the social organizations, first of all that of the party organizations, is the creative exploitation of the conditions ensured by the economic management, the operation of democratic forums and forms.

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BOOK REVIEWS

ФАДДЕЕВ, Н. В.: Совет Экономической Взаимопомощи. Москва, 1974. Издательство «Экономика». 375 стр.

Книга посвящена двадцатипятилетнему юбилею Совета Экономической Взаимопомощи. Ее автор — секретарь СЭВ, и это в значитель ной степени определило содержание книги, а также характер освещения затрагиваемых в ней вопросов.

Вот уже несколько лет, как теория социалистической международной интеграции вышла из области чистых экономических исследований — из области общетеоретических соображений — и в настоящее время все больше начинает играть роль прикладной дисциплины, обслуживающей практику международного экономического сотрудничества стран-членов СЭВ.

Уже в предисловии автор стремится выяснить характерные черты социалистической экономической интеграции. Он пишет: «Социалистическая экономическая интеграция, охватывающая все главные стороны хозяйственной деятельности стран-членов СЭВ, характеризуется ускоренным процессом хозяйственного сближения стран, более глубоким взаимодействием национальных экономик, их взаимопроникновением на основе процессов международного социалистического разделения труда и высших ее форм — специализации и кооперирования.» (стр. 13)

Однако эти характерные черты процесса интеграции еще не воплотились полностью в жизнь. Правильнее говорить здесь об усилении определенной тенденции, а не о ее полном развитии. Автор говорит: «Развертывание интеграционных процессов в экономике стран-членов СЭВ связано с преодолением известных противоречий и трудностей субъективного и объективного характера, с решением новых задач и проблем. Ведь это еще не изведанный в развитии человечества исторический процесс во всей его сложности, многообразии, и потребуется приложить значительные усилия, чтобы использовать все огромные возможности, заложенные в социалистической экономической интеграции.» (стр. 9)

Примечателен метод, с помощью которого автор анализирует причины возникающих в связи с интеграцией противоречий и проблем, их характер и пути их разрешения: «Преодоление возникающих трудностей возможно лишь на базе марксистско-ленинской идеологии, путем выяснения причин их возникновения, учета требования законов общественного развития и принятия соответствующих решений на основе взаимопонимания и дружбы.» (стр.

10). Это утверждение — результат многолетнего практического опыта автора, оно выражает один из важнейших принципов сотрудничества стран-членов СЭВ и метод их работы.

Значительное место занимают в книге такие вопросы, как предпосылки и объективные условия создания СЭВ, его цели и принципы, организационная структура, его сотрудничество с другими международными организациями и пр. Эти главы дают четкую картину пройденного странами-членами СЭВ пути экономического сотрудничества, его основные события и переломные этапы. В наши дни все это уже является достоянием экономической истории, но в то же время и предпосылкой дальнейшего развития нашего сотрудничества.

Автор посвящает отдельную главу принципам и содержанию международного социалистического разделения труда, организации этого процесса. Он не скрывает трудностей этого процесса, его сложностей, поскольку речь идет о странах с неодинаковым уровнем экономического развития. Трудности этого процесса усугубляются еще и тем, что интересы экономического развития этих стран не всегда совпадают с интересами других стран на отдельных этапах их разития и по отдельным проблемам. «Сближение этих интересов является одним из важнейших вопросов сотрудничества стран-членов СЭВ. Задача всех стран-членов СЭВ и органов Совета состоит в том, чтобы терпеливо, на строго научной основе, учитывая интересы каждой страны и всего содружества в целом, развивать сотрудничество в соответствии с принципами международного социалистического разделения труда» (стр. 102).

Говоря о различных областях и формах сотрудничества, автор стремится показать состояние выполнения целей, намеченных Комплексной программой. Однако цели программы — долгосрочные, и прошедшее до сих пор время слишком мало для их осуществления.

Из различных областей сотрудничества автор прежде всего рассматривает **сотрудничество в области плановой деятельности**, которое он называет главным средством совершенствования интеграционных процессов. В отличие от прежних подходов автор значительно расширяет круг участников сотрудничества в области плановой деятельности, включая в него помимо центральных плановых органов, играющих, естественно, ведущую роль, также и все затрагиваемые и заинтересованные организации, подчеркивая, что без привлечения соответствующих министерств, ведомств, крупных предприятий ныне невозможно успешное сотрудничество и в области плановой деятельности.

Автор подчеркивает, что координация планов ведется на основе строгого соблюдения национального суверенитета, взаимной выгоды и товарищеской взаимопомощи, при этом «ни одна из стран-членов СЭВ не может иметь каких-либо преимуществ перед другими... Органы СЭВ не принимают никаких постановления, определяющих направление экономической политики отдельных стран...» (стр. 128)

Научно-техническое сотрудничество становится все более важной областью сотрудничества стран-членов СЭВ. В книге подробно рассматривается пройденный в этой области путь, постоянно обогащающееся содержание и формы этого сотрудничества, а также некоторые наблюдаемые трудности. Известно, что Комплексная программа наметила широкие и конкретные задачи также и в области научно-технического сотрудничества. Развитие этой формы сотрудничества особенно уско-

рилось в последнем десятилетии. Страны-члены СЭВ создали целый ряд международных научно-исследовательских институтов и проектно-конструкторских организаций для проведения фундаментальных и прикладных исследований по важнейшим научным проблемам, для разработки соответствующих прогнозов, а также предложений по использованию результатов этих исследований в экономике стран-членов СЭВ. Хороших результатов обещает и деятельность международных хозрасчетных научно-производственных объединений, позволяющих совместно координировать научные исследования, производство и сбыт продукции.

Важное место в сотрудничестве стран-членов СЭВ занимают **межгосударственная специализация и кооперирование производства,** которые автор называет высшими формами международная специализация и кооперирование производства, которые автор называет высшими формами междубыло бы также назвать важнейшей составной частью, носителем процесса интеграции.

Выгоды международной специализации и кооперирования производства хорошо известны, также общепризнана и заинтересованность в этом относительно малых стран. Однако не секрет, что несмотря на очевидные выгоды эта область сотрудничества стран-членов СЭВ остается одной из наиболее проблематичных, и продвижение вперед происходит здесь довольно скромными темпами. Поэтому общественность стран-членов СЭВ с живым вниманием следит за каждым новым шагом в области специализации и кооперирования. В книге подробно рассматриваются все важнейшие решения, рекомендации и организационные меры, направленные на дальнейшее развитие специализации и кооперирования производства. Кроме того, читатели получают представление и об уже достигнутых в этой области успехах. Но, как отмечает автор, «необходимо иметь в виду, что прошедший период не был достаточным для серьезных структурных сдвигов в машиностроении в направлении международной многосторонней специализации и кооперирования производства. Это чрезвычайно сложный процесс, требующий определенного времени». (стр. 230)

Речь здесь идет о хорошо известных факторах; таковыми являются, например, параллелизмы в структуре продукции машиностроения стран-членов СЭВ. Не случайно, что специализация вновь создаваемых отраслей промышленности вызывает меньшие трудности (например, в химической промышленности, в производстве средств вычислительной техники, в автомобильной промышленности и т. п.), чем в отраслях, возникших в эпоху «автаркии». Автор правильно говорит о процессе специализации в этих старых отраслях: «Учитывая, что в странах налажено параллельное производство ряда финальных изделий машиностроения, особое значение приобретает международная специализация и кооперирование производства узлов и деталей...» (стр. 230). Это означает отход от традиционной позиции производства «финальных изделий».

Однако нерешенные экономические проблемы существуют и в новых отраслях, задерживая темпы специализации и кооперирования в химической промышленности, в производстве вычислительной техники и в других отраслях. Как пишет автор: «Для более успешного сотрудничества в области специализации и кооперирования производства важной задачей стран-членов СЭВ и органов СЭВ продолжает оставаться разработка вопросов экономического, правового и валютно-фи-

нансового характера, проведение стандартизации, унификации и типизации изделий, координации научных и технических исследований и др». (стр. 251)

В главе о внешнеэкономических связях стран-членов СЭВ автор анализирует динамику и структуру внешнеторгового оборота стран СЭВ с отдельными группами стран. Освещаются также цены социалистического рынка и система его ценообразования. Правда, система ценообразования во взаимной торговле социалистических стран значительно видоизменилась со времени написания книги. Хотя базой ценообразования и сегодня являются цены мирового капиталистического рынка, «очищенные» от конъюнктурных факторов, страны-члены СЭВ перешли к системе ежегодной корректировки цен. В отличие от установления цен на пятилетний срок, как это было принято раньше, в настоящее время система ценообразования характеризуется так называемыми скользящими ценами. Наряду с этим произошло значительное изменение и самих принимаемых за базу мировых цен, что ослабило некоторые существовавшие прежде напряженные моменты, но породило также и новые напряжения. В настоящее время в социалистических странах и в органах СЭВ ведется активная работа по решению новых проблем ценообразования, соответственно новым условиям сотрудничества.

В книге затрагиваются также и вопросы **валютно-финансовых и кредитных отношений.** Автор дает правильную принципиальную и практическую оценку места этих отношений, их роли в системе экономического сотрудничества социалистических стран и в усиливающемся процессе интеграции. Это следует отметить и потому, что вплоть до принятия Комплексной программы не существовало не только практического, но и теоретического признания важной роли товарно-денежных отношений в процессе социалистического сотрудничества. В первой же половине семидесятых годов созрели плоды проводившихся до тех пор широких дискуссий, и теперь уже многое прояснилось в этой важной сфере. Вслед же за теоретическими выводами следуют практические мероприятия. Автор и в этом вопросе стремится дать картину исторического развития. Так, мы узнаем из книги, что поворотным пунктом в создании и дальнейшем развитии валютно-финансового механизма был 1964 год, когда в качестве коллективной социалистической валюты был принят переводной рубль и была принята система многосторонних расчетов.

Небольшая глава книги посвящена вопросам **правовых основ** сотрудничества стран-членов СЭВ. В ней говорится об усилиях соответствующих органов СЭВ, направленных на разработку таких вопросов, методов и средств, с помощью которых можно было бы добиться большей унификации применения норм международного права в различных областях социалистического сотрудничества, а также сблизить правовые нормы регулирования экономической и особенно — внешнеэкономической деятельности стран-членов СЭВ. Большая работа ведется также в области сотрудничества по вопросам правовой охраны изобретений, товарных знаков и промышленных образцов, а также другим вопросам, направленным на решение правовых проблем, связанных с усилением процесса интеграции.

Подводя итог всему сказанному, можно сказать, что читатель получил полезную книгу по важным и актуальным вопросам сотрудничества между странами-членами СЭВ.

Я. КОЗМА

SZITA, J.: *Az összeurópai gazdasági együttműködés távlatai* (Perspectives of an all-European economic co-operation). Budapest, 1975. Kossuth Könyvkiadó, 345 p.

In this book the author summarizes his research work covering several years, and his rich experience accumulated in the course of his activities in international and particularly in European co-operation. He examines and summarizes not only what was said at the forums of the UN Economic Commission for Europe and at the preliminary negotiations of the conference on European security and co-operation but analyses scientifically the perspectives, possibilities and problems of European co-operation as well. The author begins his work, of course, by outlining the specific framework of East-West relations and analysing the objective economic and political conditions that have rendered at all possible to treat the questions raised in the book and to work out the programme of an all-European co-operation for the coming decades.

The transformation of the economic image of Europe is the objective economic background of the development of co-operation. At the beginning of the century the continent was ruled by a few industrial powers centred in the Western part, but by the 1970s it has become almost totally an "industrial estate" and bears every consequence of this transformation.

By the late 1960s the economic structure of the European socialist countries became in many respects similar to that of West European countries. This created the basis for a further development of the volume, forms and contents of relations.

To the objective economic conditions belong also the changes in the economic policies of the governments of CMEA-countries during the past 10 to 15 years (influencing, naturally, also the system of economic control), affecting the role of foreign economic relations – a most important factor of economic growth. The "balance-keeping" role of foreign trade has been replaced by the complex utilization of advantages resulting from the international division of labour as one of the main pillars of economic policy and planning. This change has, of course, influenced the approach of planning not only in relations within the CMEA but also in the whole system of international economic relations of the socialist countries, including East-West relations.

However, these conditions could not have become realistic without an improvement of the political atmosphere.

Since the mid-sixties – as is stated also in the book – the political situation has changed for the better and development tendencies are encouraging. No such important forces: governments and social organizations – in both Eastern and Western Europe – have ever taken a stand for the policy of reducing tensions and developing relations. As a result, political relations between the various parts of Europe are now incomparably better than they were 10–15 years ago. And this may really open a new era in the life of this continent. These political changes may be the beginning of a new era in which the European peoples who suffered so much in the two World Wars and during the "frosty" years of the cold war may spend their full creative energy on peaceful construction and on making the continent prosper.

The book starts, correctly, from the analysis of commercial relations. On basis of statistical data it deals separately with the so-called asymmetry of interestedness, which caused serious problems in the past and may do so in the future. Behind the average numbers the actual interest of each industrial branch is, of course, different and so is the dynamics of changes. The author points out that the trade between the European socialist countries and the advanced capitalist countries makes up only a small percentage of the international turnover of goods. And, unfortunately, it remains far below the limits allowed by the actual political conditions of the two systems. The economic incentives of foreign trade with the advanced capitalist countries can be further developed, not only by raising the limits but also by enriching the forms.

The author makes also the statement that the trade with capitalist countries does not conform, either in volume or in structure, to the changes in

economic structure that have taken place in the production of the socialist countries since the Second World War. The European socialist countries buy mainly machines and equipment, and in the second place semi-finished articles, raw materials and food from the West European capitalist countries. Among machines and equipment a special importance is attributed to the high proportion of research-intensive articles and to importing new technologies. The structure of exports from West European countries to CMEA-countries is hardly different from those into other countries. The situation is different with the exports of CMEA-countries: more than half of it was made up of food and raw materials even in the early 1970s.

It is beyond dispute that the structures of production and exports cannot change according to the same logics. The book makes it also clear that the structure of exports and imports of individual countries is not identical with respect to other countries, either. In the relations between industrial countries, however, the social conditions of the international division of labour are realized more intensively: the changes in technological development, the enlargement of the scientific basis, etc. Unfortunately, these factors have affected the structure of East-West relations only one-sidedly. To reveal the causes is not simple, and it is even more difficult to change the situation. In the literature on economy and foreign trade treating these questions intensively since the early 1960s several arguments have been found.

Many of the Western specialists referred to problems originating in the differences of the social systems (encounter of planned and market economies, different incentive and value systems, different mechanisms). Political and trade policy causes (discrimination, embargo, customs restrictions of the Common Market, etc.) often came to the foreground. Sometimes technical (not sufficiently up-to-date constructions, poor quality), other times organizational reasons (inadequate sales network, lack of a knowledge of the market, etc.) received greater emphasis. The relations between the two integration organizations: the CMEA and the Common Market, as well as the problem of their development have also come to the foreground, particularly since the enlargement of the Common Market.

The totality of the problems, each difficult in itself, had and has to be faced; investigations have also shown that a solution – similarly to the approach of the analyses – can also be but complex. Difficulties of commercial policy and those of structure must be removed simultaneously with increasing the long-term and mutual interest of partners. János Szita finds answer to these questions in developing a comprehensive strategy of an all-European economic co-operation and demonstrates convincingly that a considerable intensification of relations between the two parts of the continent and their raising to a higher qualitative level are feasible only on such bases.

The development of the new dimension of relations has already begun, which proves that practical economy reacted adequately to the new needs and possibilities.

1. The European socialist countries have assumed active roles on the West European markets. Some of the socialist countries have founded financial institutes in Western Europe (or participated in such foundations) with a view to financing East-West economic relations. By raising medium-term and long-term bank credits and syndicate credits and by issuing bonds they tried first of all to solve the structural troubles of East-West relations. This intensification of financial relations meant not only that the banks of the most important West European capitalist countries undertook an enlarged role in the development of East-West economic relations but it marked also the end of the era of credit discrimination against socialist countries. At the same time, the growing activity of banks stimulated other forms of economic relations. The participation of socialist countries in the development of a new international financial system has also come to the foreground.

2. The role of direct production and technological co-operation among enterprises has increased. This extremely varied and, therefore, hardly definable form of co-operation practically integrates directly the interest of partners, and makes it permanent. From buying licences and know-hows

to joint selling or guaranteeing a share in the capital, there are a number of stages under the heading of international enterprise co-operation. All this expresses the process of internationalization of production relations under the specific conditions of East-West relations.

One of the key questions of the development of industrial co-operation and East-West relations is the transfer of modern technologies. The flow of new technologies in East-West relations is not only unidirectional. Between 1964 and 1971 the European CMEA-countries bought 31,927 licences from West European countries and sold 25,877 licences to them. In the balance of amounts paid and received for the licences the deficit is larger than what is reflected by numerical comparison. The scientific capacity of the socialist countries enables a much more varied and efficient technological co-operation with the industrially advanced capitalist countries than what exists today. The ideas are wrong, which – either in the West or in the East – restrict the role of the European socialist countries in technological co-operation one-sidedly to the acceptance of Western techniques, or try to reduce it to the introduction of primitive labour-intensive procedures, saying that labour is cheaper in the socialist countries. Much larger perspectives are offered by bilateral or multilateral industrial co-operation that can be developed in the fields of goods requiring research and highly qualified specialists.

3. New perspectives have opened up also for the development of all-European economic co-operation. Both in the UN Economic Commission for Europe and in the agenda of the European conference on security and co-operation large emphasis was laid on the possibilities of so-called economic-infrastructural co-operation. The development of transport techniques is very fast and expensive. The combination of transport facilities, containerization, pipe-lines, the new waterways – which may connect even closer the various parts of Europe – will pay only on an all-European level and if they are co-ordinated. This is even more true in the case of nuclear resources which will play inevitably an increased role in the future and which will require huge investments. An all-European electric energy policy may largely increase the efficiency of investments. Merely by co-ordinating peak energy consumption periods the investment requirements could be reduced by about 10 per cent on a European level.

The necessity for organizing co-operation in environmental protection on a European and even a larger scale is even clearer, since seas and oceans surrounding Europe cannot be pushed behind the borderlines of either countries or social systems. Not only from the aspect of measures to be taken against pollution but also from that of relevant scientific research a comprehensive co-operation and global settlement would be essential.

It appears from the book that the new multilateral European co-operation system must go beyond the limits allowed today by UNO organizations.

Of course, the author does not leave out of consideration the positive role that the Economic Commission for Europe has played and may play in the future in Europe. The Commission has undoubtedly done much for the development of co-operation between the two parts of the continent. It served as a forum for discussions and proposals for co-operation, with its research work it has called attention to results and problems. It has indicated the needs according to the tendencies of changes in Europe. It has pointed out the fields where important co-operation could be realized among the countries of the continent. It has brought together the people who direct important economic, technical or scientific fields in the administration of their country and submit decision proposals to governments. It has revealed possibilities of developing relations in foreign trade, industry and transport and has promoted also the conclusion of actual agreements.

Other institutions to work on regional co-operation have also been founded on the continent. In the course of the past 25 years the specialized organizations of the UNO (WHO, UNESCO, ILO, FAO, etc.) have established regional bureaus or organized regional conferences in Europe. Yet the regional activity of these organizations played, even in the best case, only a limited role in East-West co-operation, and possibilities inhe-

rent in each special field were by far not utilized.

János Szita's book pays great attention to the further development of the Economic Commission for Europe, to its strengthening and rendering its work more efficient; this is because the activation of the huge resources of Europe and of the creative energies of its peoples for common purposes does not require only a network of agreements, but also such an efficient organizational system as is suitable for carrying out these tasks. In principle, several solutions are possible on this continent: the scope of existing European organizations may be enlarged; the membership of already functioning organizations of a limited circle can be increased; similar organizations working on parallel lines could be fused; new organizations might be created. Which would be the best solution? The question can be answered only after a simultaneous analysis of expediency and possibilities.

The "Perspectives of an all-European economic co-operation" is a work of international interest, and is meant primarily for specialists. Yet it is not only for specialists of world economic problems. The book supplies also for those working in any field of the economy or science a useful and stimulating survey of the perspectives, for the achievement of which we still have to face hard fights.

M. SIMAI

PÉCSI, K. – KOLOS, M. – CSERNUS, I. – APÁTI, S. – BENEDECZKI, J. – SZAKÁL, D. – OZSWALD, L. – MILUTINOVICS, L. – VÁRADI, GY.: *Az európai szocialista országok gazdasága* (Economy of European socialist countries). Budapest, 1975. Kossuth Könyvkiadó, 538 p.

The rather large group of authors undertook a pioneer experiment in Hungarian literature when they compiled into a single volume studies about eight European socialist countries: the Soviet Union, Poland, Romania, the German Democratic Republic, Czechoslovakia, Bulgaria, Yugoslavia and Albania. The picture, given of the eight socialist countries under examination, constitutes a conceptionally uniform complexity, and, beyond reviewing objective facts, the book supplies a comprehensive economic policy analysis of economic development in these countries. The revealing of the social, political and direct economic policy motivations and the background of economic development is particularly interesting and may be quite novel even for the reader acquainted with the historical development of the countries discussed.

A review of historical events and a simultaneous study of economic developments following the Second World War strikingly reveal the common and different features among the eight European socialist countries. The reader receives a complex picture of the past of the countries in question, the peculiarities originating in their "Central-East-European" geographical position, the historical fate shared in many respects, the rather similar degree of economic development, and the historical heritage of backwardness, while also the long way which has been covered by these countries up to our days is reviewed. Thus the authors also draw up a balance, since the objective description of difficulties, periodical halts and their reasons further supports and underlines their final conclusion: the superiority of socialist society and socialist economy, – resulting from their very nature – over any earlier socio-economic system.

The introductory part of the book (written by Ferenc *Kozma*) systematizes the common and different features in the economic development of the countries examined. European socialist countries began their economic development by building up big industrial units, promoted industrial development by drawing on extensive labour resources, spent a comparatively large share (about 30 per cent) of national income on accumulation, pursued a strongly selective development policy, in their manufacturing industry "... because of the lack of direct inter-enterprise relations between countries of the area..." "specialization in final products, parts and partial units could not develop from the beginning" (while small- and medium-scale factories were not built on account of emphasis on big industry), and finally, considering the economic structure of these countries: "... selection fitting the potentials of each country (to be based on CMEA co-opera-

tion) could not become a firm pillar of economic strategies in any of the European socialist countries."

The causes of differences in economic development level and economic policy are, among others, the following: the size of each national economy, the initial development level and nature of socialist transformation (industrialized, on the way to industrialization, poorly industrialized), the historical past of the form of the state serving as a framework for economic development, regional differences in development and between nationalities within a country (e.g. Yugoslavia), richness in (or scarcity of) natural resources, and also some special, individual development conditions (e.g. touristic potentials, good transit conditions, war damages, foreign policy reasons – e.g. Albania's isolation from the CMEA countries).

The book goes on to discuss the eight countries one by one, and in identical structure as far as this is possible within the limits of the data and information basis. In addition to examining general economic development and the situation of primary economic sectors, the studies of each country discuss in detail the foreign trade of the given country and its specific features. A short yet comprehensive picture is given of the foreign trading tendencies prevailing on a long term and of the envisaged tendencies and methods of development. Beside analysing the dynamics of the development of foreign trade we also find an interesting analysis of the product pattern of the total turnover. Although the foreign trade analysis of each country treats relations with the CMEA separately, it would have been worth while giving a uniform survey, in a separate chapter, of the CMEA, the common organizations, the most important co-operation projects, the main historical circumstances and the prevailing development tendencies of co-operation. This would have been useful partly because co-operation within the CMEA is a decisive element in the foreign trade policies and in the economic planning of most of the countries discussed and partly because the picture of European socialist countries could have been made more complete in this way.

I. KATONA

BENKE, I.: *Érdek és ösztönzés* (Interests and incentives.) Budapest, 1975. Kossuth Könyvkiadó, 253 p.

This book is the first one in Hungarian literature to treat the problems of interests and incentive in a complex way and through an inter-disciplinary approach.

The first chapter bears the title: "Motive powers, motifs, interests" and throws light upon the system of objectives and the means of material and moral incentive, as a fundamental part of the motivation system.

The author points out, among other things, the highly important fact that incentive does not act only on the plane of rationality, but it creates an atmosphere. He takes a stand against the narrow and practicist interpretation of rationality. It is very remarkable what he has to say about the relation of factory democracy to the system of interests and the system of incentives.

The second chapter treats the most important theoretical questions of economic interest relations. This chapter is the "most exciting" part of the book. Among other things it deals with the following questions: interest and economy; the concept of economic interest; interest and law; interest, need, distribution; structure of interests, the appearance of interests and the recognition of interests; conflict of interests and reconciliation of interests.

As regards the relation between interests and law the author underlines that the relation between economic law and human action is generally more complex than that between action and interest. Besides, the relation between law and action is usually deeper, while there is more of the superficial in the interrelations between interest and action.

In the interpretation of economic interest one meets usually with two kinds of views. According to one interpretation economic interest is deduced from property: it is considered as a manifestation of property, i.e. the subjective aspect of property or appropriation. According to another interpretation interest is connected primarily with need, saying that interest is the manifestation of need i.e.

the subjective aspect of need, or, – a ramification of the second interpretation – the form of realization of needs. In this question the author's standpoint is the following: "Economic interest... can be deduced from property, from appropriation relations, from the aspect of the activity, while from the aspect of the product (the result of activity) it is related to needs." (p. 31)

István Benke's discussion of false consciousness and alleged interest is also very interesting. As regards the effect of non-recognized interest he holds the opinion that it is similar to the effect of a non-recognized law. He traces alleged interest back to false recognition in most cases. At the same time he emphasizes that mistakes show not so much in the feeling of interests, but rather in the interpretation of the extremely complicated interrelations and in the ranking of the various interests.

The third chapter examines the system of material incentives. This section contains the richest practical material. First of all the author formulates the relation between interestedness and incentive: "... incentives as well as interestedness are interpreted as a continuous relationship, in which the unity of means and objectives must be continuously and palpably guaranteed. However, in stimulation (as in exterior influences in general) the means side is dominating, to the extent that it is mostly – although by far not fully – clarified objectives to which we try to find means that may be activated and make them function. On the other side, in interestedness means are already doing, or have done their part, and it is the approaching of the objective and identification with it that are dominating the process. Besides, the emphasis of incentives is closer to the controlling activity, while that of interestedness to direct production." (pp. 106–107) It is also instructive what the author says about the intensity and durability of incentives. He points out that the direction of incentives is correct in vain if its attractive power is slight.

It is also justified on the part of the author to raise the problem that, if the realization of an increasing number of socio-political principles is shifted to the enterprise level, this may create the bases of new disproportions and tensions.

The fourth chapter covers the unity of material and moral incentives. The most important idea in it is the statement – although the author says it simplifying – that "material incentives are primarily connected to "how" the economy is conducted. On the other side, the moral incentives clarify rather the question of 'why' ..." (p. 216).

Another important statement of István Benke's is that if the appreciation of the socially useful aspects of work is much delayed, the weakening of the power of incentives may last much longer than the delay in appreciation.

It is interesting and to be specially noted what the author says about acquisitiveness. He does not moralize and judges acquisitiveness in such a manner as to show also the way out of it. He points out that "alienation from work causes more damage (and damage more difficult to repair) than acquisitiveness. That is to say, there may be a way from acquisitiveness to socialist work, but from nihilism there is none. As for the acquisitive man, one can rely at least on his willingness to work... It is a more difficult case, when it is the willingness to work that is missing and not merely the understanding of the meaning of work is inadequate." (p. 228)

É. SZEBEN

M. VENYIGE, J. – JÓZSA, Ö. – GYETVAI, L.: *Munkaerő-szerkezet és mobilitás* (Labour structure and mobility.) Budapest, 1975. Közgazdasági és Jogi Könyvkiadó, 278 p.

One of the central issues of the Hungarian economic policy in the 70's has been an intensification of development and an efficient labour economy.

The skill embodied in labour is an indicator of the nation's economic potential. This possibility, however, asserts itself purely inasmuch as the workplace structure allows of. The harmony between workplace and labour structure or the lack of it has nowadays become an especially vital issue.

The book approaches this problem from the aspect of labour structure, aiming at a survey of

two main interdependent fields of labour economy. One of its objectives is to analyse the mobility of labour, its readiness and capability to change, the other – to outline the changes within the labour structure during the past decades and to show its present characteristics.

The concept of mobility and its most important socio-economic implications are dealt with in Chapter I. The author's interpretation of mobility passes beyond the stricter application of the term – the flew of individuals and groups (e.g. families) within the social structure – and includes the modifications of social and labour structure as well. They find the above-mentioned interpretation wholly justified "as... the point is to observe the same process from two aspects, i.e. from the individual and social aspects." (p. 12) This concept of mobility is later divided into several types. Economic mobility is treated in the fullest details while demographic and social mobility are merely touched upon. In the category of economic mobility they include the flows of manpower (meaning active earners), and, relying upon both domestic and international literature they present a detailed analysis of the sectoral, professional and regional mobility.

Special attention is paid to labour fluctuation, interpreting it as a specific form of labour mobility "... acting in many instances as the mediator and channel of economic – and even social – mobility". (p. 39)

Beyond the survey of mobility types the concept of inter- and intragenerational mobility is also discussed along with their rational classification.

Chapter II – the most voluminous one – investigates the transformation of labour structure. From among the possible viewpoints of investigation the demographic structure of labour is treated first – relatively briefly. Examining the proportions of the two sexes in the number of employees, they point out the growing share of women. The importance of this phenomenon is very well represented by the fact that in the European countries, in the period between 1950–65, about 50 per cent of the increment of employment was due to an increase in female labour. In Hungary approximately in the same years, – between 1949–70 – not less than 94 per cent of the earners' increment fell to women. Accordingly, their share rose from 29.9 per cent in 1949 to 41.1 per cent in 1970.

The authors also treat the role of age in structure formation in detail.

Going thoroughly into the development of the sectoral labour structure the authors rely on the richest statistical material. The investigation of postwar international tendencies demonstrates that the sectoral distribution of the employees and its changes closely depend on the level, rate and trend of economic development. This correlation is perfectly corroborated by the international data of 1968 showing the sectoral distribution of the employees and the level of per capita GNP. In all these data it is well reflected that the changes in the sectoral labour structure of the socialist and capitalist countries follow the same chief tendencies although divergencies are also observable. In the socialist countries the vigorous growth of employment was accompanied by such changes in the sectoral structure as rapidly decreased the number of those employed in agriculture (a decrease by 17–40 per cent). For all that, the proportion of agrarian cultural earners in these countries is higher (20–30 per cent) even now than in the highly-developed Western European states (10 per cent).

Analyzing the particuliarities of the sectoral structure of labour in Hungary the authors have compiled the statistical data of seven decades (1900–1970) but the emphasis has been laid upon the decades after the liberation. It is stated that during the past 25 years we witnessed an extremely speedy structural transformation. This has a bearing upon "... one of the main problems of the sectoral structure of our economy, upon the fact that, compared with the level of our economy measured by per capita national income the share of employees in industry is too high" (p. 88) (in 1949 19.8 per cent of all active earners worked in industry as opposed to the 36.6 per cent in 1970). The weight of industry expressed on the basis of labour is higher in Hungary than in some highly developed capitalist countries.

The professional structure of labour is closely linked with this field. It shows the alterations in educational level, and reveals that the number of those having secondary or a higher qualification rose in Hungary to fourfold between 1949–1970. An account is given of how the share of skilled workers changed in the past decades. The authors investigate in details the modifications in the proportions between manual and non-manual workers. The fact that the number of the latter tripled between 1949–1970 and their share within the whole earning population rose from 10 to 25 per cent is traced back to 3 interdependent factors:

- accelerating progress;
- shifts in proportion between the economic sectors;
- a rising organizational level of the economy and, altogether, of the whole society.

As regards manual workers the changes in the qualification structure are demonstrated by changes in the relative shares of the skilled, the semi-skilled and the unskilled.

The authors analyse separately the regional structure of labour, pointing out within that the contradiction between regional labour structure and the regional location of the material conditions of production (commuting) and also investigate the intensity of changes in the labour structure.

In Chapter III the actual flow of labour is analyzed relying mostly on the results of the representative surveys carried out by the Hungarian Central Statistical Office in past years. It is succeeded by an analysis of the tendencies of labour turnover, of the impact of fluctuation upon the wages and upon changes in the sectoral structure. On the basis of sociological surveys they try to reveal the causes and triggers of fluctuation. The mobility types discussed in Chapter I are here filled with real data and thereby we can form a true picture of how, in which direction and to what extent labour mobility has changed in Hungary in the past few years.

Chapter IV makes an attempt to define the costs and returns of mobility analyzing in detail the various possible interpretations of cost.

Summing up what has been said, it can be ascertained that the good composition, the far-reaching selection of statistical data and the target-oriented reasoning make the book suitable for fully satisfying the widest circle of non-professionals interested in economic issues.

L. HARSÁNYI

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* We acknowledge the receipt of the enlisted books. No obligation to review them is involved.
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Annamária INZELT, b. 1944. Research worker at the Institute for Economic Research, Central Statistical Office, Author of articles, published in different Hungarian economic journals.
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Dr. Miklós RIESZ, see Vol. 10, No. 2.
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J. DRECIN

ON ECONOMIC GROWTH IN HUNGARY ON THE THRESHOLD OF THE FIFTH FIVE-YEAR PLAN

The Hungarian economy enters the period of the fifth five-year plan (1976–80) under economic conditios at home and abroad that have become less favourable to development. The productive worktime fund of society cannot be increased , for demographic reasons and because of full employment , the supply of the economy with raw materials, fuel and energy has become more costly, and the capital-intensity of development is growing. The author examines what has to be done in order that the Hungarian economy might continue along the road of dynamic development.

These days the general public shows an increasing interest in problems connected with economic growth. "Limits" to growth and predictable effects on human society are being explored with growing attention also by economists.

In the context of conventional Western theories the group of economists who call themselves the *Club of Rome* [1] manifest a new approach. Their methods and conclusions may be debatable on occasion but they do expose national and international social problems, and point to functional disorders in the capitalist system.

There are therefore signs showing that recent events in the capitalist world make some Western economists aware of the fact that it is insufficient and unsatisfactory to explain the phenomena of our age with abstract "classical" theories, and that Keynesian ways will not get us far either.

Nor are socialist theories of growth complete. Maintaining and supporting the correct principle that theory must bear practical fruit, it becomes increasingly clear that theoretical work must be improved in two directions: specific factors, propelling forces and equilibrium factors in socialist economic growth, which derive from the structure of the society, must be better explored and international economic integration, a field hitherto not properly considered by theories of growth, must be more organically linked with the system of growth theories – not forgetting the relations between systems with different social order, either.

When searching for theoretically well founded answers to the growth of Hungarian society, we too are up against the well-known problem that methods are either too abstract or too pragmatic. A special propelling force, politics (in the conceptual sense, of course), is present in a socialist society. The purposeful policy of socialist society and its institutions play a special role in economic growth. This differs in capitalist social formations, where growth does not take place guided by conceptual social objectives, but in a spontaneous manner. Given the facts, some

Western economists consider this to be a deficiency of the capitalist social system. In spite of the existence (sometimes the abundance) of resources, it was capable of growing only in a wasteful manner, conflicting with the interests of mankind and taking a great part of the earth's population to the brink of catastrophe. Now it has to face a major revision of established value systems concerning society, welfare, economic growth, morals, international relations, etc. And this process can hardly stop at a "revision".

We know from practice that the policy founding the planned development of socialist society, with its long-term programs, and then with the organization and mobilization of creative forces in the interest of implementing these programs, is one – if not the strongest – spring of socialist economic growth. Yet one cannot maintain that the place of politics, its role, the social and institutional "mechanism" of its interrelations with the economy have been theoretically clarified and systematized completely by socialist political economy.

The fundamental problem of every five-year or longer plan from the point of view of economic policy is how optimal economic and social development can be attained, taking fully into account the objective factors, both domestic and international.

This optimum does not necessarily mean the highest rate of growth. There is not only theoretical but also practical evidence for a maximum rate of growth being attained only at the price of serious social and economic tensions. Sometimes some degree of tension can be risked in the hope that it will last only for a few years, but sometimes it cannot. Political considerations must decide in the last resort. It would be a great mistake, however, to force a maximum rate of growth involving economic and political tensions for any length of time. This is why economic policy and political planning, weighing up problems of precisely the above type, must not examine the conditions of growth for some strictly taken "calendar period"; it must not neglect an examination of the social problems and ways of growth either.

Are the conditions of economic growth changing?

Many changes continuously occur in a dynamically growing economy and its environment. From the point of view of the dynamics of economic growth, we are interested not in changes in general, that is, in every kind of change, but in changes in the basic factors of growth. Even their analysis cannot ensure that the indices of national income and other basic indicators of the growth of production (e.g. the growth rate of industrial output) are assessed so precisely for several years ahead that an annual 1–2 per cent deviation in the rate of growth could be excluded in

principle. Thus, when the growth rate of the fifth five-year plan for 1976–80 is said to *somewhat slow down in comparison to the preceding five years* under the combined effect of the determining economic factors and the given concept of economic policy, only one of the basic features of the predictable economic process has been given within a margin of tolerance.

Given the economic processes of our age it no longer suffices to weigh up the theoretically well elaborated "classical" factors, labour (the expansion of employment), the expansion of fixed assets (in simpler terms: the possibilities of investment) and the effects of technical progress when examining growth. Beside these important and essentially endogenous economic factors one must analyse new trends in the international context and changes in the old ones, since the open nature of the Hungarian economy is *becoming forcefully accentuated and her sensitivity to foreign trade is bound to increase in the years to come.*

What changes in what basic factors can thus be expected, and which can already be recognized?

First of all, we must point out that *the expected annual 5.5–6 per cent growth of national income between 1976–80 is not slow*. Deceleration is relative to the fast growth of the years 1966–1970. Taking the annual 5.8 per cent growth rate for the 25 years between 1950 and 1974, there is no change in the growth rate computed for the next five years that appears to be worth mentioning at all. It is conspicuous, however, that in spite of the relatively steady fast growth there were considerable fluctuations in the domestic use of the national income. The causes can be traced back partly to the foreign trade positions of the economy, partly to fluctuations in the rate of accumulation. It seems to be a rule that, whenever the measure of domestic utilization is divorced from national income and reaches a higher level, this must be reacted against in the following years by slowing down domestic use. Although the fluctuation cannot be fully eliminated, it is desirable to reduce it to the minimum.

Data for both 1966–1970 and 1975 show that domestic utilization growing faster than national income did not correspond to economic realities and a more purposeful regulation of the utilization of the national income created would have been warranted. This is an important lesson for regulating distribution during the fifth five-year plan.

To explain the planned rate of growth it seems expedient to examine first separately the basic factors and the various circumstances and then try to form an opinion about their combined effect.

a) Let us first weigh up expected changes in employment, the classical factor of economic growth.

According to the available figures the possibilities for considerably increasing employment were getting exhausted by 1974–1975. Practically 100 per cent of men

of working age and 70 per cent of women in the same age groups are either working or studying. Between 1966 and 1970 employment increased by 1.3 per cent, within that by 2 per cent in industry and by 1.4 per cent in all branches of material production.* Between 1971 and 1974 employment increased by only 0.9 per cent, while the corresponding figure for industry was 0.6 per cent and for the total of material production 0.3 per cent. The limits to a further increase of industrial employment are clear. The reason may be found in the development of the infrastructure or, rather, of the tertiary sector.

While labour reserves are gradually becoming exhausted, there has been an almost even tendency for the share of the primary and secondary sector to decline within total employment since 1965. Since 1970 industrial employment as well has practically stagnated. At the same time, the ratio of those working in the tertiary sector is on the increase.

The last four years have therefore shown a *relatively sharp turn in the labour conditions of economic growth.* This was foreseeable. Up to now this unfavourable change could be counterbalanced by growing productivity in the primary and secondary sectors. While aggregate productivity of the material branches (measured in terms of national income per person employed) increased between 1966 and 1970 by 5.3 per cent on annual average, its growth was 6.2 per cent between 1971 and 1975. The same indicator had the values of 5.2 and 7 per cent in industry. Relying on the analyses prepared in the course of planning it can be argued that although growth in the next years will be more difficult given the absence of labour reserves, an economic growth rate somewhat lower than 6 per cent on the annual average can be secured by a realistically attainable increase in the productivity of labour.

b) The *circumstances* related to the other factor of growth, that is, the expansion of fixed capital, explored with approximate accuracy, will change as well. Changes must be reckoned with first of all in the growth processes of the fixed assets in the productive sectors. Two basic phenomena must be pointed out: *first, the likely and lasting increase in capital-intensity, and secondly, the limitations to the growth of investments in order to secure economic equilibrium.*

When examining the limits to the expansion of the fixed assets, some recent phenomena related to the production and utilization of national income are particularly worthy of attention. The growth rate of national income shows good results (average annual growth in the last four years has been, e. g., 6.5 per cent). The source of difficulties must be sought, therefore, not here, but in factors influencing utilization (distribution). The share of investments and stockpiling (the volume of products used for these purposes) appears to be of decisive importance: as do foreign

* i.e. excl. services.

trade factors, be they surpluses or deficits in the balance of trade.* Since this latter factor will very likely have an unfavourable effect for several years, we have to reckon with a slower growth in the domestic utilization of national income. Under such conditions, however, it is self-evident that the growth rate of investments cannot be fast either, considering that the living standards policy ensures that consumption by the population enjoys strong preferences.

Even if one may hope that the unhealthy increase in stocks, experienced twice in the last four years, is emphemeral, the unfavourable situation in external economic relations does not seem to be one that will be eliminated fast. Most likely it will accompany also the economic development processes of the new plan period, even if with a diminishing intensity, and will strongly restrict investment possibilities. This is why we cannot reckon with a growth rate of investments of more than 26 per cent in the fifth five-year plan period.

But an understanding of the relationship between economic growth and the accumulation of fixed assets also requires the examination of capital-intensity. Obviously, even a justified increase in capital-intensity impairs – other things being equal – the chances for economic growth (this should not be confused with the problem of investment efficiency).

The investment intensity**of economic growth – as investigated on the national economic level – develops under the effect of several factors. The most important are: changes in the capital-intensities of particular industries, and the share of the industries with high capital-intensity within the total of the economy. All that depends on how fast technical progress penetrates industries which are still (live) labour intensive or technologically backward; on the degree of efficiency of investments; on the cost tendencies prevailing in the sectors producing investment goods and in the international markets of the capital goods. The experience of recent years and that of five-year planning work up to now allow one to conclude *that the capital-intensity of development will grow.* The main reason is the growing costs of infrastructural investments due to changes in content (more up-to-date and higher standards, better quality structures, greater cost of environmental protection, more up-to-date transportation,etc.), and the greater costs, because of objective causes,of the development of the fuel basis, as well as the inflationary increase in the price of

* An active balance of trade directly limits domestic use, a deficit does not work in this way, since, on principle, within a given year an increase in domestic consumption might be the cause of the deficit. In practice, however, the deficit in the balance of trade sooner or later demands – through a mechanism that works with a time-lag – the restoration of equilibrium, also by reducing the domestic use of the national income.

** Although the notion is scientifically not identical with that of capital-intensity, from the viewpoint of the main trends its being used as synonymous with the latter will not cause a major error.

equipment imported from capitalist countries, neglecting certain minor causes. There are possibilities to partly counterbalance these tendencies: first of all by a better utilization of existing fixed assets, while the growing capital-intensity can be countered by shortening the time needed for the completion of investment projects. According to the computations and assumptions of the National Planning Office, though capital-intensity will perceptibly and lastingly increase in some fields, this will not endanger economic growth. This means that the demand for assets of planned growth can be satisfied by a roughly 26 per cent growth of investment possibilities. This also assumes, of course, a better utilization of fixed assets than is the case at present.

c) There is one basic factor of growth which has caused headaches aplenty to western economic growth theoreticians. I mean *technological progress.* In the course of weighing up the factors of the growth processes and estimating their effects, this "technological factor" causes perhaps even greater concern to practical planners. It is much easier to find the theoretical place of this factor in a growth model than to survey the chain of effects in the diversified processes of reality, quantifying the consequences for growth.

Technological progress has such diversified effects on the rate of growth, asserting themselves through several transmissions that it is impossible to exactly measure the expected results. In general terms, we, of course, know that as a result of technological progress: 1) the social labour time input must diminish; 2) the qualifications of labour and its value creating capacity must increase; 3) partly related to the former, the economic structure must change and 4) internal and international specialization must increase. Under normal conditions all these have a favourable effect on economic growth. This is testified by experience.

In the Hungarian case technological progress as a propelling force of growth deserves even closer attention. One of the reasons is self-explanatory: under the new conditions of growth, with extensive sources having become exhausted or scarce, one must choose the intensive road to development, and the main problems of intensive development are related to technological progress. The other cause reveals itself as a consequence of somewhat more complicated factors. For the Hungarian economy, so sensitive to international relations, the terms of trade are one of the most important questions of both growth and equilibrium and, at the same time, they are functions of competitiveness. The latter is, however, no longer motivated by the "classical" principles of comparative advantages, but by processes influenced by fast changing and developing technologies, which reduce the advantages of some branch of production in international competition to so to say a minimal field and to a minimal time. Production procedures securing dominating competitive positions and lasting advantages become established only in industries requiring much

scientific research. In much of production, however, technological competition has relatively great "freedom" and nobody can rest contented with past achievements, everybody must be on his guard.

Fast technological progress is promoted by the diversification of consumers' and producers' demands in a particular manner. It provides an opportunity for the development of a more specialized structure of the economy, and also the competitiveness of small countries increases if they concentrate efforts on a few tasks by fully exploiting the international division of labour.

Assessing the socio-economic trends likely to affect Hungarian technological progress in the near future, one could argue that:

– Technological progress is objectively forced, with a compelling power, by the circumstance that the interest of the enterprises in economic expansion is powerfully handicapped by limited labour reserves. The shortage of labour can be in most cases effectively countered by development based on the domestic technological level (including the effects of domestic and international co-operation).

– Technological progress is indirectly promoted also by the general rise of the economic level, since this also means a rise in the standards of producer and consumer needs. Higher-quality needs can be satisfied in most cases by technological development. However, attention must be paid to key points and the tasks selected accordingly.

– International competition, which links technological competence to "remaining competitive" also urges progress.

– Finally, personal and objective conditions of technological progress constantly improve through the fact that of investments of a larger volume more can be spent on the development of technology and, as a result of experience acquired, the readiness to absorb technological change also increases. In some fields the problem is not simply adaptation, but also that the objective and personal conditions for the next stage of development be created.

Technological progress has, of course, not only a technological but also *a specific socio-economic mechanism.* Although this process has not yet been fully explored from the theoretical aspect, it is familiar in practice. We know, for instance, that technological progress adapting itself to the present rules takes place *under the effect of the partly centrally co-ordinated, partly decentralized activities* of several levels of control and decision. Beginning with the independent technological policies of enterprises through centrally co-ordinated, controlled and supported processes, this is a highly ramified development, in which *the most important change* in comparison with the first half of the twentieth century *is the more integrated system of conditions of technological progress and the claim to long-term foresight* (in respect of economic, environmental, research programme, etc., problems). It seems

that this is the main explanation why the socio-economic mechanism of technological progress has come nearer to economic policy and its institutional system, although it was originally a completely "autonomous" process. In the Hungarian case, when technological progress is examined in a small economy with limited resources, action most favourable and indeed timely must be circumspectly and, from the economic policy viewpoint, purposefully selected.

Of what kind is this action? More precisely, what are the main directions and points of emphasis?

It must be accepted that the processes of technological progress must be evaluated under economic and social control, according to their economic and social results. This means opposition to any kind of technological development for its own sake.

Setting out partly from the recognized long-term interests of the Hungarian economy, partly from the concrete conditions of growth in the next plan period, some characteristic features of technological progress can be drawn. They are as follows:

– *Updating technologies* with a view to securing the competitivity of the products in terms of both *costs and quality.* Points of emphasis must be formulated in such fields where competitivity serves exports, or where the domestic market requires production carried on on a large scale. Plans for technological modernization must not be drawn up and organized according to industries, but in consideration of vertical technological and economic interrelations.

– *Elimination through technological modernizations of the major structural disproportions* which put a brake on economic efficiency. These are mainly fields where disproportions can be attributed to technological backwardness. E.g. technologies absent in the food industry, technological obstacles to the production of parts in the machine building industry, or those hindering improvements in the quality of steel.

– Application of outstanding technological solutions *resulting in savings of materials and energy* everywhere where the savings attainable are proportionate to inputs.*

* A few examples supporting its importance in Hungary:
- the quantity of heat used in power plants to produce one kWh of electric energy declined between 1960 and 1972 from 4079 to 3069 calories;
- the quantity of electric energy used to produce one ton of caustic soda declined between 1960 and 1973 from 3746 kWh to 2415 kWh;
- the technologically necessary steam used to produce one ton of alumina diminished between 1960 and 1973 from 6.07 tons to 3.25 tons;
- the technologically necessary alternating current used to produce one ton of aluminium was reduced during the same period from 17,783 kWh to 15,569 kWh;
- the calorific value of fuel used to produce one kg of ammonia fell from 1463 calories in 1960 to 837 calories in 1973.

Effects of some international tendencies on changes in the factors of growth in Hungary

An analysis of the "classical" factors of growth has true importance for economic policy if they are examined as embedded within the international economic and social framework.

It is an evident fact that, in the case of an open economy, the economic growth of a nation is intertwined with development tendencies in the international economy. Though these effects could not yet be successfully "built" into theoretical systems, empirical experience and specific research have disclosed many phenomena worthy of evaluation.

Narrowing down the scope of interesting international effects emerging in connection with medium-term growth perspectives one may turn, simplifying somewhat, towards market movements (in respect of both purchases and sales).

In this interpretation it will be expedient to view the market not simply as a narrow concept expressing commercial activity, but as a system of economic, social and political relations linking national economies. It must be, though, taken into account that the world economy is divided into capitalist and socialist countries, and shows divergent movements even within the capitalist system.

First of all, one must set out from the requirements of Hungarian economic growth and examine the conditions of adjusting to a changing world economy.

The growth of some industries (and of their markets) is still quantitative under present conditions. This applies to certain building materials, electric energy, certain chemicals and foodstuffs, etc. In others, however, the value-increasing processes adapting themselves to the needs requiring more complicated and valuable products are given greater emphasis (e.g. light industry, the metal-working industries, the materials-industries serving higher-quality production). This process is highly differentiated and generally under the influence of effective demand depending on the level of economic development, since needs that can be satisfied with more valuable output necessarily mean greater purchasing power. Knowing, however, the rules of economic growth it is obvious that this effective demand puts different limits on the production of consumer goods than those applying to capital goods, and that in this respect the level of economic development influences the qualitative processes of the economy related to structural changes with differing force. Thus, one of the most important economic policy problems of economic growth in Hungary is in what manner to develop the value-increasing processes, that is, their product and labour pattern. The answer and solution were found partly in expanding

the scope of the economy through foreign trade, partly, and related to the former, in a faster development of the production of investment goods.

The adjustment of economy to the world at large has been underway for some time mainly as regards the socialist countries. These relations have been developing smoothly. The question emerges whether we have to reckon with world economic effects to which one should react in a new way, and which require changes in customary economic behaviour.

Several circumstances affecting Hungarian development have changed in the world economy. Their effects must be reckoned with. The economies of CMEA countries have developed up to now in a relatively trouble-free manner. They have attained, by relying mostly on relations amongst themselves, a fast rate of economic growth and have quickly increased mutual commodity trade. Now they are reaching the level of economic development when the gates of international relations must be opened wide and new elements, such as production integration, must be developed even in mutual relations. At the same time, owing to the objective processes of the world economy, a number of capitalist countries and even economic blocs are forced to expand relations with socialist ones. East–West trade and, indeed, economic relations between the socialist camp and the Third World must steadily expand under peaceful conditions.

A fast growth of foreign trade with the capitalist countries involves, of course, much care and risks for us since a powerful and lasting product specialization is not present as a background, and trade fluctuations are significant. At any rate, preparations for expanding relations with the capitalist world and for the new activities must be made in time. Owing to our economic endowments, this must happen already during the fifth five-year plan, since exports to these countries must grow faster than trade with socialist countries. All this must be done with more unfavourable terms of trade than in the past, and under conditions of declining business in the West for some time at least. The difficulty of the task only increases because of price losses due to the deterioration in the terms of trade even in respect of manufactured goods. In other words: the deterioration in the terms of trade should be attributed not only to materials and energy imports, but also to the weaknesses of Hungarian industrial competitiveness. The damaging effects of this deterioration can be most likely eliminated only over a number of years. The only possible reaction meanwhile means ensuring a slower increase in the domestic utilization of national income than in its production.

The damaging effects of factors affecting the growth process negatively are increased by the long-lasting and accelerated inflation raging in the world economy. We have essentially succeeded in warding off its effects in domestic price policy, since a greater part of Hungarian foreign economic relations are with the socialist

countries which are free from inflation, and because a socialist planned economy has at its disposal the technical means of regulation for warding off the major part of world economic price effects which are detrimental to home prices. In the future, we can only succeed if, beside an efficient development policy, we act with a certain flexibility also in price policy and do not strive to ward off *uniformly* every price effect affecting the economy. If a rigid system of measures is established against said price effects, a theoretically well-known problem must be faced that the currency must be considerably revalued, although this procedure does not satisfactorily stimulate the expansion of exports. We must, however, be aware that we do not utilize the possibilities inherent in inflationary effects to raise export prices sufficiently. This calls attention first of all to certain unsolved problems in the regulating and incentive systems influencing foreign trade (incentives to raise export prices and reduce import prices are weak).

In the changes taking place in the world economy and in the socio-economic tendencies following in their wake *there are also positive elements present* which improve chances for long-term growth. Among these, income regrouping in favour of some countries of the Third World may be considered as the most important. This, of course, is not free from contradictions, but these countries, which are simultaneously underdeveloped and wealthy, appear for the first time on the international-economic scene with such particular effect and are in the process of becoming more and more important factors in expanding world markets.

Time has been too short to allow for a thorough evaluation of their effects and therefore only a general forecast of their future and of their economic effects can be attempted – with the aid of the general theory of the Marxist social sciences. It is, e. g., probable that the internal social laws of motion of these countries will relatively quickly place the acceleration of their economic development on the order of the day, leading in the case of some even to the laying of the bases for a modern economy. This will first expand the market for capital goods, produced by the highest, most qualified labour. They will surely accept complex ventures helping to carry out their programmes, particularly if – as is the case in relations with the socialist countries – they are not menaced by the danger of neo-colonialism.

The export interests of Hungary, her faculties and her internationally acknowledged progressive policy, ensure good chances in the long run for an increased participation in these markets, indeed, even for more regular economic co-operation in the long run. Being, however, a small country, we must also think of participation in the large development programs of the Third World not only in national, but *within the framework of international ventures as well.* Perhaps it sounds too bold today to emphasize the necessity of spreading the form of international ventures, but, if we consider the size of the economic and social tasks

facing humanity and the limits to the available faculties and resources, the task becomes perhaps more palpable. The greater part of mankind live in underdeveloped economies and their majority are literally faced with hunger. At the same time, a considerable part of these economies have large unexploited natural resources and manpower. Real needs offer huge possibilities for the industrially developed countries even now, and potential needs are even greater. In face of the real and potential needs the readiness to deliver of the developed world will not prove to be unlimited in the long run. With such a future ahead of us, the use made of such opportunities will be one of the basic problems of the growth rate and the equilibrium of the Hungarian economy, that is, the manner in which it will join the international economic flow. It means real effort to offer genuine help to the countries of the developing world by joining hands with fraternal socialist countries. In addition, it is probable that – by ensuring mutual advantages – we can join in production co-operation with developed capitalist countries as well.

The system of distribution and work ethics

Strengthening the human aspects is an important feature of economic growth under socialism. Among these is the *system of distribution* accompanying development and the economic and political armory for strengthening *work ethics.* Their importance lies in the fact that the willingness to work, and an understanding of the objectives mobilizing for social progress is enhanced through the formation and consolidation of a socialist value system.

Although the possibilities of distribution are continually increasing as a function of economic growth, funds to be distributed are determined in concrete terms by the need to *ensure equilibrium.* There is thus no place for arbitrary, unfounded objectives. In the two most important fields of distribution: investments and personal consumption, the next plan period will see a more modest growth rate than the preceding one. It cannot be sufficiently emphasized, however, that under present conditions – and I hope this could be made clear with the presentation of the factors affecting economic growth in Hungary – the implementation of these more modest, yet not negligible, provisions requires hard work from everyone and on every level.

A further problem of distribution is the share to be received by the different sections within the given framework, that is, the distribution policy to be applied. In this respect a treble requirement must be asserted: *the social viewpoints of distribution (the development of common social consumption), the stimulation of greater economic performance through direct income from work, as well as*

equitable proportions between the basic sections of society as regards living standards. Of course, it might be subject to discussion to what extent a distribution (and wage) system better oriented towards more differentiated performance should be strengthened in the case of intensive economic growth (which is more sensitive to quality). The notion of strengthening this feature of distribution is realistic, the chances derive from the economy itself, since the quantity of new labour to be drawn into production hardly increases. This viewpoint must not, however, be asserted to an unlimited extent, since one cannot give up priorities accorded to housing, health, etc.

One-sided, extreme discussions which lead to overemphasizing one or another task must be avoided. Attention must be paid to the fact that, beside the role of differentiated earnings in stimulating performance, other factors not belonging to the system of distribution are obtaining a growing role. Examples from several fields prove that in an economy where quality requirements are coming to the fore, beside the impulses to performance given by differences in income, factors, such as the quality of management and organization, technology, the atmosphere at the workplace, etc., become important. This is why the conditions for increasing performance are more complicated in our age and point beyond the direct forms of distribution.

Tasks related to enhancing performances would become oversimplified if they were linked merely to the problems of income differentiation.

Examining the human conditions of economic growth, great care must be taken to strengthen the socialist work ethics and socialist work discipline.

Many are inclined to think that under the conditions of a general demand for labour and with our more humanistic methods (which are more limited as regards tools of disciplining when compared with capitalism) no adequate result can be attained. Is that really true? It will be best to draw direct conclusions from good and bad experiences. This shows that laxity in work discipline cannot be found in every field of work and every workplace and dispersion is very wide; discipline is influenced not only by the behaviour of the workers, but also by that of the management; we have not only economic but also political tools at our disposal, but we do not use them sufficiently; the practice and the ethical norms of labour management are in need of improvement not only at workplaces but also generally, in the institutional system of government control.

If we wish to improve work ethics, we must, first of all, mobilize public opinion, particularly that of workers. It is not at all impossible (and lessons can be drawn from positive examples) for workers' collectives themselves to take action against notorious offenders and against those too clever by half. But they must be given greater support by government control agencies, and also from the political aspect.

The point is not to limit the free choice of employment, or to condemn on principle every change of job; indeed, the mobility of labour is highly necessary. But it is not permissible that those destroying work ethics, who have perhaps been dismissed or expelled by the collectives themselves, should not feel the consequences even in the case of repeated occurrence. Migratory birds, and unreliable workers destroying discipline are sometimes in an unexplainably comfortable position. This is not justified either by a national labour shortage, or by socialist ethics and humanism. Their number is not large enough to affect the national labour situation. It is thus obvious that political work among workers in the interest of strengthening labour discipline will also be more efficient if administrative measures are taken to eliminate laxities and if managers more consistently enforce the requirements of work ethics in the labour management of enterprises. Without these measures the educating and disciplining force of work collectives will become lost and even turn into indifference.

In developing the human conditions for growth there are also tasks in education and manpower training. The changes establishing themselves in the major factors of growth involve increasing demand for well qualified and well trained workers. We must study what must be concretely done in this context, e.g. how the present education system should be further improved; how forms of training better suited to the special requirements of enterprises with a pioneering role in developing technology could be more courageously employed; and, naturally, how the standard of educational institutions could be further raised, not only in professional training in the narrow sense, but in educational work in general. These and similar important questions are intensively studied by the Ministry of Labour and other interested bodies. The training of labour is one of the most important tools making for future successes, it is worth paying special attention to.

A summary of the tasks

Having surveyed the effect of certain major factors in growth, the substance of the tasks to be solved during the next medium-term period of economic development might be summed up as follows:

1. Since the productive worktime fund of society cannot be increased for demographic reasons and because of full employment, and because, in addition, also the supply of the economy with raw materials and energy is becoming more and more costly, trends must be supported *in the development and management of the Hungarian economy* – mainly by raising the technology and work standards – which allow for

a) a maximal utilization of value-increasing production processes in the course of economic development and the creation of a production pattern promoting this process. The main line of development should therefore be production securing a greater yield in value terms from a unit of raw materials in a given time unit. In this respect efforts should be made to use to the possible fullest extent the export possibilities as well as those offered by domestic demand;

b) the organizations fulfilling a controlling role in management, but even the economic organizations themselves should more economically handle raw materials, increase the organization of work processes in the interest of a fuller utilization of the worktime fund, and vigorously stimulate, on the basis of a thorough evaluation of results, measures to eliminate sources of waste and to improve management.

These tasks require higher quality and, in many cases, novel management talents and commitments on every level.

2. The requirements of economic equilibrium allow for only a modest increase of investments in the plan period. Therefore, the utilization of the financial, material and intellectual resources of investment demands utmost care in every decision. To this end:

a) it will be expedient to expand the scope of influencing investment decisions in the interest of satisfying the development directives of the national economic plan, and to increase the role of organs capable of surveying the whole economy in the decision;

b) the quality of planning and financing work and discipline during implementation must be improved by applying every necessary sanction; the continuous and the ulterior careful evaluation of investment projects should be used to link both responsibilities and also stimulation more directly to persons; the activity of managers to this end must be politically supported by the whole system of political institutions;

c) stricter control should be exercised over the use of government funds and, in general, financial discipline should be more strictly observed with every form of investment.

3) In the course of economic development and in economic control activities it must be taken into account that Hungary is highly interested in strengthening *international economic relations.* Accordingly, the machinery of planning, preparing and organizing international relations should be strengthened in the management of both the control organizations and in those of productive economic units so that this work should be carried on according to economic policy guidelines, on a high standard, in order to implement the provisions of the national plan in respect of distribution and efficiency.

4) The particular conditions of growth in the years to come and experience justify further concern with the *updating of economic control.* By a more careful selection of the tools of control and through the activity of cadres who can apply them competently and with responsibility a more efficient management of the resources of growth can be attained, and also the economic behaviour of productive units should show a greater harmony with the efforts of economic policy and with the national economic plan.

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No doubt, preparatory work connected with the fifth five-year plan has revealed more trouble and difficulties than have been encountered by the Hungarian economic organs in recent years. It follows that more difficult tasks have to be coped with. This is, however, possible and we can be sure that the smooth curve of economic growth will not show a break.

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МЫСЛИ ОБ ЭКОНОМИЧЕСКОМ РОСТЕ НА ПОРОГЕ ПЯТОГО ПЯТИЛЕТНЕГО ПЛАНА

Й. ДРЕЧИН

Автор рассматривает условия экономического роста в период пятого пятилетнего плана (1976—1980 гг.) и указывает на то, что оптимальный темп роста не следует смешивать с максимальным темпом роста. Венгрия уже испытала на собственном опыте отрицательные последствия форсирования высоких темпов экономического роста.

Национальный доход будет возрастать в этот период предположительно в среднем на 5,5—6% в год, то есть медленнее, чем в предшествующем пятилетии периодом, но быстрее среднегодовых темпов за более длительный период времени, что представляет весьма напряженное задание, если учесть изменение условий роста. Изменение этих условий выражается в исчерпании возможностей для дальнейшего увеличения численности занятых в стране и в росте капиталоемкости экономического развития. Основные причины роста капиталоемкости развития — это удорожание капиталовложений в инфраструктуру, рост затрат на развитие энергетической базы и быстрое повышение цен на станки и оборудование, импортируемое из капиталистических стран. Таким образом, решающим фактором экономического роста становится технический прогресс. Основные направления технического прогресса в Венгрии — это модернизация технологии для обеспечения конкуренто-способности изделий, ликвидация основных структурных

диспропорций и применение технических решений, ведущих к относительной экономии материалов и энергии.

Открытая экономика Венгрии особенно чувствительно реагирует на мирохозяйственные явления. Связи Венгрии с социалистическими странами характеризуются в настоящее время развертыванием интеграции производства. В то же время усиливаются экономические связи с развитыми капиталистическими и развивающимися странами. Особенно много проблем и риска несет с собой быстрое увеличение внешнеторгового товарооборота с капиталистическими странами вследствие ухудшения условий торговли и ускорения темпов инфляции на Западе.

В заключение автор обсуждает систему распределения и вопросы отношения к труду. В распределении должны одновременно соблюдаться три принципа: учет социальных условий, стимулирование производительности труда и установление справедливых пропорций доходов между основными слоями общества. Однако нахождение правильного соотношения между этими принципами — дело нелегкое.

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ZS. DÁNIEL

THE "REFLECTION" OF ECONOMIC GROWTH: EXPERIMENTAL COMPUTATIONS TO REVISE SYNTHETIC VALUE INDICATORS OF OUTPUT

Both in evaluation and comparison a great – sometimes an exclusive – role is played by the synthetic output indicators. The author analyses the properties of the actual price system as an instrument of aggregation and synthetization. Depending on alternative methods of valuation different "reflections" of reality are obtained. These reflections are regarded as indicators of past and future performance of the economy.

With the help of a series of computations the author discusses the properties of the present reflection and its influence on value judgement and decision making.

In the process of economic analysis, planning and the preparation of economic policy decisions we pose continually the questions: how should we evaluate achievements of past development; what are future perspectives; how are the results achieved in this country and the aims set for the future related to results of other countries?

In evaluation and comparison a very important – sometimes even exclusive – role is played by the synthetic value indicators of output. The most evident and most widely used evaluation is done as follows:

Let us look at the changes in per capita production in the past (national product, national income, GDP). What was its absolute size and growth rate? What growth rate is expected in the future? Let us compare our country with other countries on the basis of this indicator, i.e. of its growth rate. Are we going up in the international hierarchy? If the growth rate is high and accelerating, so that we can step forward in international hierarchy, we feel that we make good progress. Our economic policy seems justified.

In all countries, including Hungary, especially great importance is attributed to the value indicators of output aggregated in the usual manner or their implied growth rates; they are regarded as the basic characteristics of economic growth. In recent years, however, more and more criticism has been voiced against this approach to measuring and evaluating economic growth. An extensive discussion has started abroad.* The issue has been raised also in Hungary by several authors.** A number of factors were responsible for it:

* See [1], [8], [12], [15], [16], [17], [18].
** See [2], [6], [9], [10], [14].

– Changes have been and still are taking place in the *structure* of the Hungarian economy. The role of infrastructural branches, of the material and non-material services is increasing. Consequently, the question arises whether these branches are given an adequate weight in the aggregate indicators?

– Changes have been and still are taking place in the *methods of economic control and management,* in the economic mechanism (as we call it in Hungary) and simultaneously also in the price system. The question is whether all changes have been uniformly realized in the individual branches. How are the methods of measurement applied to synthetic indicators affected by these changes?

– Changes have been and still are taking place in the Hungarian *planning and in economic statistics.* Long-term planning has also started: what are its requirements in respect of the synthetic indicators?

We have mentioned, by way of examples, only a few changes partly in the real structure, in the institutional system and partly in the price and valuation system, all of which make the topic of aggregate measurement especially timely.

My research is not aimed at working out a single aggregate indicator to substitute the present one, but at establishing a system of indicators comprehensively describing phenomena and suitable for analysis and long-term planning. I think, however, that the first step to be taken in this work is a critical analysis of the aggregate indicator. I think the analysis necessary for two reasons. Firstly, synthetization and aggregate measurement are inevitable methods of describing processes. If the real processes of production and utilization were measured exclusively by natural or disaggregated value indicators, many thousands and millions of indicators would be needed. Such method of description would be "indigestible" for decision-makers and planners, thus it is necessary to use also synthetic value indicators. Secondly, in order to improve present measurement in any aspect, the characteristics of its aggregate indicator must be known, as well as the nature, tendency and extent of possible distortions.

The currently applicable aggregation system built on *actual current prices,* the weighting system used for compiling synthetic indicators can be investigated from several aspects since it performs several functions. *In the present study the actual price system is analyzed as an instrument of aggregation, from the point of view of economic policy formation and planning.* We try to find out whether it is suitable for economic policy analysis and planning, whether it is capable of giving satisfactory objective answers and helping the planners in assessing problems.

In the following we shall carry out static and dynamic investigations by composing computational weighting systems based on a uniform accounting principle for each sector. These will be compared with results obtained with the actual weighting system. We shall examine the "optical" impact of measurement, its

role in economic analysis, judgement, and economic policy decision. Further development of measuring methods and construction of a system of indicators reflecting also the qualitative aspect of life will be future tasks of research.

Actual and computational weighting systems

The application of *actual current prices* as weights in the aggregation of output raises a series of problems:

– How should we handle those social production processes whose output will not be sold on the market and, consequently, have no "actual current price"? (E.g. most of the education.) Even if it has some kind of price, it is rather nominal than "real", since the greater part of the expenses is covered by the society through subsidies. (E.g. charges for nursery care.)

– How should we aggregate the output of various sectors when it is well known that the principle of pricing is not uniform? E.g. the rent for flats is determined according to principles different from those applied in pricing the products of the food industry and engineering.

– How should we proceed in the international comparison of synthetic indicators if relative prices vary by countries due not only to varying average price levels and not even to productivity differentials but also to different pricing principles.

Other forms of aggregation have been also raised in the literature. Thus for example Ferenc *Jánossy* [9] suggested a synthetic indicator, the "corrected national income in nominal dollars" expressed as a non-linear function of a relatively small number (10–20) of physical indicators. Judit *Rimler* [13, 14] obtains synthetic indexes via factor- and diadic-analysis. The so-called "welfare economics" synthetizes the combined effect of the activities in the society with various linear and non-linear "welfare functions"; these functions appear also as the objective functions of mathematical planning models.

All these make it unavoidable to formulate various "artificial" *computational weighting systems* (shadow price systems) which serve exclusively for computations, analysis and planning and are not used in actual financial accounting. Computational weighting system is being applied when Hungarian output is expressed in the prices of some foreign country or Hungarian exports or imports are measured in some foreign currency or in the so-called "world market prices". (In case of the latter the strongly fluctuating prices of foreign trade deals are calculated with adequate selection and weighting.) Computational weighting systems can be created also artificially with the help of mathematical models. Two instruments are usually

applied for this purpose: "price models" built on the Leontief-tables or "shadow prices" obtained from the dual solutions of linear programming models.

This is the main subject matter of the present study. We shall follow the first way. With the help of a special "price model" based on the Hungarian input-output table various computational weighting systems are determined and then their impact on the synthetic indicators is analysed. Computational weighting systems are illustrative. They are to demonstrate that measurement and aggregation are to be considered a kind of spectacles through which we look at reality. The choice of the lens determines the picture we make of reality, i. e. the "reflection" of real processes.

The methodology of the computations is well known in the economic literature.* We are not going to review the whole topic here, only the basic idea of the method will be outlined. Inputs in every branch can be reduced to two primary components: wages and net incomes. ("Net income" is the sum of profits and the surplus of contributions to the state budget less subsidies from the state budget – i. e. net indirect taxes.) We shall assume that the total wage fund of each branch is given and unchanged in all computations.

The individual computational weighting systems are different from one another just in respect of the *imputation principle* applied in respect of net income. At any rate, if a net income imputation principle is applied, it is done always uniformly for *every branch.*

While in the various computations different imputation principles are applied in relation to the net income, the constancy of a few global indicators is always ensured. Consumption fund, total net incomes, the wage bill, other private incomes are the same in all calculations. This is done in accordance with the idea that our study does not attempt to revise the actual income distribution. Our assumption concerning the consumption fund and the wage bill has taken over the identical assumptions of the above-mentioned price-type computations.

We are formulating such a weighting system where the principle of pricing is identical in every branch. Our aim was to eliminate the difference that exists between the productive and service branches primarily in the present practice of imputing net income.

Imputation principles applied in the investigation coincided in general with the variants discussed in the literature on price-type computations.** We tried to set out from the already known variants examining even the most extreme ones. They were used to formulate *consistent* weighting systems in *every* branch of the economy and

* In the computations we have extensively relied on the literature of "price-type computations", primarily on the findings by Bródy-Rényi [3], Csepely-Knorr et al. [4] and Ganczer [7].

** See [4], [7]

compared with one another and with the actual weighting system based on the currently used accounting principles.

We have set out from two extreme weighting systems. In one of them net incomes are imputed exclusively in proportion to *labour inputs* and in the other in proportion to (fixed and current) assets *engaged.* The rest of the variants represented some combination or/and modification of the above basic principles. E.g., by using data of natural resources and land valuation compiled with a view to computing national wealth we have tried to make such computations in which the value of assets engaged includes also land value.

Thus altogether 8 different imputation principles have been applied and will be analyzed in the subsequent part of the study.

The starting basis of our computations was the input-output table of 1971 compiled by SNA principles and its complementary data. The table was compiled at current prices, i.e. it reflects the *actual prices* and *accounting principles* of 1971. Thus the weighting system of the original table will appear in the further comparisons as the *actual weigthing system.*

The input-output table describes the national economy in a breakdown by 11 sectors. Of these 5 branches* represent the *"growth sectors"* (to be denoted with G further on) and 6 branches** the *"infrastructural sectors"* (to be denoted with I further on).

Static computations: global indicators, structural relations, input-output ratios***

Changing imputation principles influence, of course, the size of value added in the individual branches. The level of net income decreases in industry, construction and trade. The rate fluctuates between 20–60 per cent. The increase is the largest in the housing services. Here the level of imputed net income is several times higher than the actually realized income. The increase in the net incomes is on average five fold in every branch belonging to sector I.It can be inferred unambiguously from the figures that the actual imputation principle characteristically reduces the relative share of sector I. This is true compared with *any other* imputation principle *consistently* applied to every branch.

The effect of re-imputed net incomes is more clearly shown by indicators which express this effect on *gross output value* in the form of price indices.

* Industry, construction, agriculture, home and foreign trade.

** Water-control, transport and communications, personal services, housing services, health and cultural services, public administration and other services.

*** I am indebted to Andor *Csepinszky* for contributing to the static computations.

Depending on how intensively the individual branches participate in the circular flow of the national economy, the effect of modified net income imputation may increase or decrease.

The data in *Table 1* clearly indicate that the computed weighting systems represent similar patterns although they are built on different net income imputation

Table 1

Price indices

Branches	Average of computed price indices (actual price level = 1.0000)	Difference between maximal and minimal price indices	Direction of deviation from the actual ones	Coefficient of variance (average variance as percentage of average)
1. Industry	0.8465	0.0836	↓	0.0289
2. Construction	0.7921	0.1789	↓	0.0807
3. Agriculture	1.1340	0.2999	↑ ↓	0.0864
4. Foreign trade	0.2492	0.0225	↓	0.0128
5. Water control	1.6776	0.8969	↑	0.1530
6. Transport and communications	1.1802	0.2690	↑	0.0677
7. Home trade	0.6401	0.0371	↓	0.0156
8. Personal services	1.0959	0.1564	↑	0.0417
9. Housing services	3.8900	4.4836	↑	0.3622
10. Health and cultural services	1.2489	0.1391	↑	0.0366
11. Public administration	1.1246	0.1937	↑	0.0540

principles. *Thus, for economic policy judgement the main issue in determining a weighting system is not the precise definition of the principle of net income imputation but whether the same or different principles are applied in the different branches of the national economy.* With this we are not going to question the justification or necessity of price discussions. In the present study we also try to compare various weighting systems. We want only to emphasize that no matter which weighting system we accept and apply *consistently*, it disturbs the clear sight of decision making less than the present inconsistent weighting system.

Table 2 presents a review of the main summary indicators.

It is remarkable that in response to the re-imputation of net incomes, to the modification of the weighting system, the value of gross national output decreases. While the output in *real* terms remains unchanged, the *value of gross national output*

Table 2

Main summary indicators

	At actual prices	Average of variants computed	Direction of deviation	Maximum deviation	Coefficient of variance
	thousand million Forints			per cent	
Gross national output	823.6	777.8	↓	105.8	0.0176
Consumption	250.3	258.9	↑	103.0	0.0094
Investment	112.7	98.6	↓	111.6	0.0354
Fixed assets	1302.2	1054.8	↓	120.6	0.0415

Table 3

Relative percentual share of sector I

Percentage

	Actual	With net incomes		
		imputed in proportion		35 per cent imputed in proportion to the wage bill and 65 per cent to the fixed assets
		to the wage bill	to the fixed assets	
In the gross national output	15.6	18.9	25.4	22.9
In GDP	18.9	26.7	38.9	34.4
In consumption	30.3	37.1	45.7	42.4
In the stock of fixed assets	62.2	58.8	61.8	62.1

diminishes. The actual price system overvalues the gross national output by 40–50 thousand million Forints on average which amounts to 6 per cent of the annual output in 1971.

Another characteristic feature of the actual weighting system is that *it overvalues investment and, in contrast, undervalues consumption.* The value of consumption is larger than the actual one in every weighting system different from the present one, precisely because of the share of infrastructure. Considering the average of the computed weighting systems, the share of consumption in GDP increases from 0.693 to 0.7261, i.e. by 5 per cent on average.

Fixed assets are overvalued by the actual weighting systems.

Having investigated the output indicators we turn to further derived ones. We study *relative shares* concerning the relation to each other of the G:I sectors, on the

one hand, and ratio-type indicators, on the other hand, reflecting the relation between inputs and outputs.

There are significant differences in the structural indicators of the relation between the G and I sectors, depending on the weighting systems. Indicators calculated with computational weights are closer to one another also here than their average to the actual valuation.

The relative share of sector I in the stock of fixed assets can be regarded as almost independent of the weighting system. The relative share in the GDP, however, seems to be rather sensitive to the principle of net income imputation. It takes the lowest value if net income is imputed in proportion to the wage bill, but even thus it exceeds the share computed in the current price system by nearly 10 per cent. If the perhaps most realistic principle is applied, where 35 per cent of net income is imputed in proportion to labour and 65 per cent in proportion to fixed assets engaged, the relative share of the sector I increases to a level almost twice as high as the present one. The relative share of sector I in the gross national output and consumption increases too.

For decades very little has been said about the infrastructural sphere. On the basis of the MPS computation only the material costs of these sectors appeared in national economic balances, and in aggregated form only. Later, when the accounting system was enlarged by SNA computations, the weight of infrastructural branches and their importance measured in output value were still not expressive of their actual role and importance in the reproduction process measured in terms of physical indicators. The application of computational weighting systems does not solve the problem; it is only an analysis providing more realistic "reflection" for planning purposes that can "repair" the present picture.

The effect of net incomes re-imputed through the application of different imputation principles on the global national economic accounting categories naturally modifies all the input-output indicators. We are going to discuss here two of these ratio-type indicators: output per labour and fixed assets per output. The global values of these indicators are shown in *Table 4.*

In case of the indicator of labour productivity the effect of the weighting system appears in the numerator, in the output only. After re-imputation of net income the value of gross national output per earner is by 6 per cent less than measured at the actual price level. The explanation and conclusions concerning this indicator are identical with what has been said in connection with changes in the value of gross national output. The point is that elimination of the specific valuation of activities in the non-material sphere necessarily reduces also the value of this indicator.

Table 4

Selected input-output ratios

Indicator	Unit of measure	Actual	Computational, on average	Coefficient of variance
Fixed assets per gross national output	Ft/Ft	1.581	1.343	0.0450
Fixed assets per GDP	Ft/Ft	3.604	2.933	0.0552
Gross national output per employee	Thousand Ft/person	153.8	135.0	0.0183

The situation is different in the comparison of fixed assets engaged. With this indicator the choice of the imputation principle of net income affects both the value of output (denominator) and of the fixed assets engaged (numerator). Since the main producers of the assets are industry and construction and here the net income content is reduced by the re-computation, the denominator of the quotient declines. Therefore, the indicator of capital requirement increases. The value of gross national output per unit of fixed assets will be by 18 per cent higher than in the actual price system. If the return is measured with GDP, the value of the indicator GDP/fixed assets increases even more, by almost 25 per cent.

A comparison of input-output indicators obtained in the actual price system and after the re-imputation of net income leads to an interesting conclusion. *The relationship between the output (labour ratio and the capital) output ratio as expressed with the usual indicators is also a function of the prevailing relative prices, of the weighting systems.* There may be shifts of even 20–30 per cent between the relative position of the two indicators depending on how the imputation principle is determined in the individual branches of the national economy.

The effect of changing the weighting system on the input-output indicators is shown more clearly if the economy is broken down into sectors G and I only. This is presented in *Tables 5 and 6.* Naturally, the basic characteristics of the two sectors will not change fundamentally even after this. The capital per output ratio is higher in sector I than in sector G no matter what kind of accounting or weighting is used, and the output per labour ratio is higher in general in sector G than in sector I.*

* The comparison of the indicators of sector I and sector G serves only to illustrate the far-reaching effect of choosing a weighting system. We want to avoid by all means that the reader should come to such conclusion that a computational weighting system might solve the problem of comparing capital efficiency and productivity and that a ranking according to indicators could serve as a basis for investment decisions.

Table 5

Capital-output ratio in different weighting systems

Denomination of weighting systems (net income imputed in proportion to)	Sector G	Sector I
Actual	0.701	6.348
Wage bill only	0.744	4.560
Fixed assets only	0.664	3.164
Mainly wage bill	0.671	4.028
Mainly fixed assets	0.662	3.370
Combined in a ratio of 35–65 per cent	0.667	3.696
Fixed assets only incl. land	0.626	3.332
Mainly wage bill incl. land	0.658	4.253
Mainly fixed assets incl. land	0.633	3.511
Average of the computed weighting systems	0.665	3.704

Table 6

Output-labour ratio in different weighting systems
Unit of measurement: thousand Ft/head

Denomination of weighting systems (net income imputed in proportion to)	Sector G	Sector I
Actual	269	101
Wage bill only	158	119
Fixed assets only	138	151
Mainly wage bill	149	133
Mainly fixed assets	141	147
Combined in a ratio of 35–65 per cent	143	140
Fixed assets only incl. land	145	142
Mainly wage bill incl. land	154	127
Mainly fixed assets incl. land	147	138
Average of the computed weighting systems	146	138

However, the relative ratios change significantly as a function of the weighting system.

It can be seen from the tables that there is not much difference in sector G between weights formulated by the actual income distribution and the computed weighting systems; the capital-output ratio diminishes only by 5 per cent (0.665 per 0.701 = 94.8 per cent). At the same time, the rate of decrease in sector I exceeds 40 per cent (3.704 per 6.348 = 58.3 per cent). It means that, according to our present

valuation, in respect of capital-output ratio the development of sector I is nine times more capital intensive than that of the sector G, whereas according to the modified valuation it is on average 5 and a half times more intensive only. There exists a weighting system where this ratio is 6.1, but there exists an even lower figure of 4.7. In the former case net income is imputed in proportion to labour (wage bill) and in the latter case to fixed assets. The weighting system mentioned several times, where imputation is combined in a ratio of 35 per cent according to labour and 65 per cent according to capital, yielded a ratio of 5.54, which comes close to the average.

Output-labour indicators are presented in *Table 6.*

In the actual price system differences in output-labour ratios between the two sectors are even more significant than in the capital-output ratios. In the actual price system per capita output is 2.5-times as high in sector G as in sector I. However, in the modified weighting system the difference is negligible, 5 per cent only.

Dynamic computations: growth rate, changes in structure

We have analyzed so far the effect of computational weighting systems from a static aspect only. The indicators of the main national economic relationship have been investigated only for a single year. Within a dynamic analysis we are going to cover now a period of two decades to see *how changes in the weighting systems affect the reflection of growth, the structure of the economy, the dynamic consequences of economic policy decisions.*

The growth of the economy, the expanding volume of goods and services is measured in most cases with an aggregate indicator, the GDP, or more precisely with the growth rate of the per capita GDP.

This growth indicator depends on two factors:

- on actual growth, on the physical expansion of goods and services produced;
- on the weighting system ensuring the aggregation of the physical goods and services.

The aggregate indicator under the joint effect of these two factors provides the "reflection" of growth.

By changing the weighting systems of aggregation in our computations we try, if not to separate the two factors, to investigate at least the role of measurement in the evaluation of growth.*

* In our computations we examine dynamics of volumes, while prices are not handled dynamically, but are unchanged all along the future course of production.

Our static analyses have shown that results obtained with different computational weights do not diverge very much from one another. It has also turned out that the rates of 35 and 65 per cent of imputing net incomes in proportion to the wage bill and fixed assets represent well the average. Therefore, we have confined our dynamic computations to the comparison of this combined and the actual weighting systems and refrained from investigating the rest.

The dynamic analyses have been performed* with the *Plan-sounding model*, ** one of the models elaborated for the purposes of long-term planning. In fact any other dynamic plan model would be suitable for our purposes. One of the explanations why we have chosen this model is the personal involvement of the author in computations with the Plan-sounding model in the course of long-term planning for 1970–1985. Thus her earlier experiences could be used indirectly in comparison. There are further objective reasons: the simple and clear structure of the model. This feature is advantageous since many computations have to be performed. Finally, the application of the Plan-sounding model was supported also by the fact that this model concentrates on those relationships which are also relevant for our present analysis.

We have selected 16 paths of the computations performed earlier with the model. One of them is the *basic path*. Its characteristic feature is that it represents the continuation of the earlier economic policy line. It only reflects how the main indicators of the economy would develop up to 1985, if trends of the last 10 years continued in the policy objectives, technological parameters and efficiency indicators. The remaining 15 paths express characteristically different economic policy objectives, alternative development paths. These paths often represent contradictory ideas. Each path covers 17 years from 1968 to 1985. Two simultaneous computations have been prepared for every path, one being based on the *actual weighting system and the other on the price indexes obtained from the computational weighting system.*

The basic path is characterized with the indicators included in *Table 7.*

In respect of the basic path it can be pointed out immediately that growth rates differ in the two weighting systems. Consequently, the reflection of growth may change without any economic policy decision, or any turn of tendency brought about by changes in efficiency. It is remarkable that growth rates are higher in the computational weighting system for every indicator. The faster growth rate of investment than of the consumption seems to be even faster, the excess being 1.3 percentage point instead of 1.0.

* I am indebted to Mrs. Ferenc Vági, *Anna Jónás*, for her efficient help in performing the series of computations.

** See [5], [11]. The two papers describe in detail the 12 sector simulation model, used for 15-year planning.

Table 7

Main indicators of the basic path
Average annual growth rates

	In the actual	In the combined (35 % – 65 %)
	weighting system	
Gross national output	4.7	5.2
GDP	4.5	4.9
Investment	5.3	6.0
Consumption	4.3	4.7
Fixed assets	4.9	5.5

With the analysis of the remaining 15 paths we wanted to measure the effect of changing tendencies. Data of the basic path have been modified to observe the effects produced. In this modification partly the technological parameters – such as the capital-output ratio, the normal rate of stockbuilding, the share of raw material consumption – and partly economic policy parameters, such as investment, consumption and scrapping rates, are changed.

The picture obtained for the 16 paths is presented in *Table 8*:

Table 8

Sensitivity of growth rates to measurement

	Gross national output	GDP	Invest-ment	Consump-tion	Fixed assets
Growth rate as an average of 16 paths					
At actual prices	5.3	5.2	5.8	5.0	5.1
At computational prices	5.9	5.7	6.3	5.5	5.9
Computational per actual	112.1	110.7	108.4	110.0	116.0
Maximum rate as percentage of the minimum rate					
At actual prices	220.0	236.4	309.4	215.6	129.6
At computational prices	195.1	221.1	227.8	205.6	154.2
Variation coefficient (Standard deviation per average)					
At actual prices	0.0781	0.0863	0.1035	0.0809	0.0327
At computational prices	0.0776	0.0839	0.0815	0.0757	0.0478

The average growth rates measured in the computational weighting system exceed those measured in the actual weighting system for every indicator. Growth rates of gross national output and GDP are by more than 10 per cent, i.e. 5–6 points higher than according to the present reflection. There is an acceleration also in the expansion of fixed assets and while in the actual price system on average it is lagging behind the growth rate of GDP, in the computational weighting system, it is by two points higher.

The limits of indicators describing the growth paths also vary in the two weighting systems. Except for the growth rate of the fixed assets, the distance between the upper and lower limits is greater and the variation coefficient higher according to the actual valuation than in the computational weighting system. It indicates that in the present price system growth rates are more sensitive to economic policy alternatives, *while the behaviour of indicators in the computational weighting system seems to be more stable and less sensitive to changes in the economic policy objectives.*

We have investigated on the basis of 16 paths the changes in the relative shares of the development sector and the infrastructural sector in the light of the different measurements. (See *Table 9.*)

Table 9

Sensivity of the relative share of sector I

		In gross output		In value added		In investment	
		Actual	Computational	Actual	Computational	Actual	Computational
Relative share of sector I	1968	15.1	21.8	19.0	31.6	42.9	42.8
	1985*	12.4	17.4	14.9	26.6	44.2	44.9
Maximum share as percentage of the minimum	1985	107.7	112.5	109.9	122.2	206.0	194.0
Variation coefficient	1985	0.1359	0.1477	0.1351	0.2312	0.4894	0.4495

*Average obtained from 16 programs.

The share of the I branches calculated as an average of the programs is declining in the gross output despite the fact that their share in investments is rising between 1968 and 1985. The indicator of gross output shows a smaller decline in the actual weighting system than in the computational weighting system. It can be also

seen that the *dynamic* indicators of the changing share of branches I are less sensitive to the weighting system than the *static* indicators. By performing the analysis in a finer break-down we have obtained the same result.

Summing up: it can be pointed out that the reflection of shifts in the shares and structures is less dependent on the weighting system than that of static shares and structures.

"Reflection", value judgement, economic policy

The logical structure of problems connected with synthetic measurement is reviewed with the help of a chart. (Fig. 1).

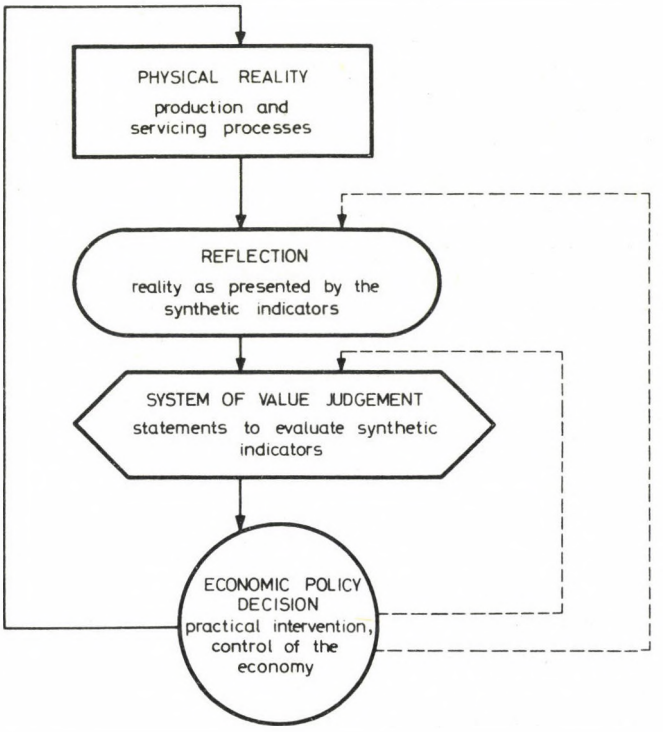

Fig. 1

In the present study we have tried so far to present in quantitative terms that, depending on measurement, the aggregating weighting system selected, different "reflections" of reality are obtained. *Consequently, if one formulates opinion concerning the position and growth of the economy, he does not (and cannot) see the reality of the sub-processes but perceives its "reflection" as it is manifested in*

concrete forms of aggregation. On the chart this is shown with a rectangle and an ellipse.

Well, now, if the results of economic growth presented in the usual reflection are put before the economic policy-maker, the planner or the public interested in economic issues, it is qualified, criticized, a *value-judgement* is formed. "The growth rate is increasing – that is good" or "The growth has slowed down – that is bad." Here we have an "algorithm" of formulating economic judgements. Deep-rooted views, correct principles or rigid prejudices, thinking routines, rules of thumb – these taken together are called the *value-judgement system.* Let us not qualify now how much rational is the value-judgement system attached to the synthetic indicators or how much it is scientifically founded. Nor should we discuss how it has come about, as a result of what historical, social processes. Let us simply state that it is given. It is represented on our chart by a hexagonal block, the third one from above.

The value-judgement system is not independent of the reflection. The usual way of formulating value-judgements is attached to the usual way of aggregation. Nevertheless, they are two logically separable factors. It is conceivable that one of them is changed without changing the other. E.g. the present method of aggregation is retained but the value-judgement of synthetic indicators is changed. (The growth rate of GDP will be measured in the usual way but we decide not to despair if it diminishes.) Or conversely: the actual way of formulating synthetic indicators is changed but meanwhile the pattern of value-judgement formulation is retained. (E.g. on switching over from MPS to SNA we expect to have the same growth rates than we had for the material production only.)

Actual economic policy decision, intervention, regulation (the lowest circle on the chart) are formulated on the basis of what is suggested by the "oval" and "hexagon", i.e. by the reflection of synthetic indicators and the established value-judgement system. E.g. "the growth rate went down – let us increase investment, especially in branches capable of rapid growth."

The regulating activity of economic policy responds not to the direct observation of the infinitely intricate physical reality (upper "rectangle" but to the influence of transmissions, the "oval" and the "hexagon", i.e. to the reflection and value-judgement system. This is so not only in the case of decisions made in the traditional, non-mathematical manner, relying on the clarification of the problem and on a few computations, but also in the case of mathematical planning. E.g. if we have a linear programming model, indicators in value terms are included in it as constrains and objective functions. E.g. one of the conditions of the model allocates the investment fund. The coefficient is a ratio where the denominator aggregates output with a given weighting system and the numerator does the same with investment.

Through the intervention and regulation of economic policy the reflection and the value-judgement system react upon reality. This is represented in our chart by a continuous arrow from the lowest to the uppermost field. Here we have a specific "Heisenberg relation" between economic analysis and regulation: the observer and the actual way of observation react upon the object observed.

This, however, does not mean that only one loop operates in the feedback presented on the chart. In the short run the "oval" and the "hexagon" are given and they react upon the economic policy. In the long run, however, in respect of a lasting historico-social process there may be a reverse relationship: the lasting trend of economic policy adjusts to itself to a certain extent both the methodology of measurement and aggregation and the routine of value-judgement formulation. This is represented on our chart by two broken line arrows leading from the lower field to the next two above. Let us illustrate it with an example! A forced economic development obviously welcomes such a methodology of measurement which included the sphere of material production, the most rapidly growing branches into the "main" indicator, failing thus to bring out clearly the relative backwardness of other spheres (infrastructure, services, tertiary sectors). The routine of value-judgement formulation was connected to it: the fastest possible growth of this indicator, the scope of which had been narrowed down, was regarded "good".

Finally, we shall give just one example to illustrate foregoing thoughts. The judgement of the relation between infrastructural development and growth rate is a recurring problem.

According to one view a higher growth rate of the national economy is wanted for the coming decades, because this is what can create the material basis for faster development of infrastructure. If a higher rate cannot be guaranteed, arrears cannot be made up for.

According to another view disproportions can be eliminated by shifting the national economic development from its present course to another one guaranteeing harmonic growth. Changing of the course entails a slowing down of the growth rate, but this price must be paid in order that the neglect of developing infrastructural branches should not become irreparable.

The rate of growth is, of course, not immaterial, since from the viewpoints of economic and societal policies it is necessary to secure such minimum of the growth rate as will satisfy the requirements of a "harmonic" development.

In consideration of the above-mentioned views the following has been examined: does a development of the infrastructural branches at a higher rate than before necessarily entail a slowing down of the growth rate in regard of the total of the national economy, or is this phenomenon just a consequence of measurement, of "reflection"?

First two extreme economic policy alternatives are examined in *Table 10.* In the computations we have set out from the allocation pattern of investments in 1968. The share of the infrastructural sector was 40 per cent. This was gradually diminished along one of the growth paths up to 1985, by when the share of sector I went down to 36 per cent. This share was increased along the other path to reach 67 per cent in 1985.

Table 10

Extreme development alternatives of the sector I
(Shares and growth rates)*

Indicator	Weighting	Growth sectors G	Infra-structural sectors I	G/I
Allocation share of the sector I				
	1968 Actual and	40 %	40 %	1.00
	1985 computational	36 %	67 %	1.86
Share of sector I				
	1968	19.1 %	19.1 %	1.00
	1985 Actual	13.3 %	20.1 %	1.51
Growth rate of sector I		2.7	3.8	1.40
Growth rate of national economy		5.0	3.3	0.66
Share of sector I				
	1968	32.5 %	32.5 %	1.00
	1985 Computational	23.4 %	35.7 %	1.53
Growth rate of sector I		3.3	4.7	1.42
Growth rate of national economy		5.4	4.1	0.76
Share of sector I				
	1968 Computational	1.70	1.70	–
	1985 weighting per actual weighting	1.75	1.77	–
Growth rate of sector I		1.22	1.24	–
Growth rate of national economy		1.08	1.24	–

* On the basis of GDP (value added) indicators.

A 4 per cent decline in the investment share had significant consequences. The Plan-sounding study has drawn attention to the fact that such share in investment would allow only a 2.7 per cent annual growth rate for sector I, while the average of the economy was 5 per cent. The difference in growth rates would reduce the share of the I sectors in GDP from 19 per cent in 1968 to 13 per cent in 1985. If, however, the 40 per cent share in investment were raised to 67 per cent, i.e. by 27 per cent, the share in output would go up from 19 only to 20. All this with a 3.8 per cent annual

growth rate of the infrastructural sector and with an even lower, 3.3 per cent, rate of the national economy.

What proportions were obtained with a different weighting system where net income imputation was combined in a proportion of 35% – 65%?

If the activity of the branches were weighted by application of a uniform imputation principle, a decline in the investment rate would diminish the share of sector I in the gross output of the national economy to a greater extent than in the actual weighting system. While the decline is 5 points in the actual weighting system here it is more than 9 points (from 38.5 to 23.4). *This shows that the present "reflection" is favourable to an economic policy neglecting infrastructural development in as much as it indicates the neglect of infrastructure to a lesser extent.*

The global growth rate of the economy is higher with the computational weighting than in the actual one even if the economic policy objective is an accelerated development of sector I. The growth-rate-distorting effect of the present weighting system is the stronger the higher the growth rate of the infrastructural branches. (The index corresponding to the two types of valuation is 1.08 per cent along the path giving priority in development to sector G, while the same figure along the path favouring sector I in development is 1.24 per cent.) Being familiar with the arguments against an increased infrastructural development we think it useful to call attention to this "optical illusion".

*It can be established that a transition onto a path ensuring more harmonic development in terms of the G:I ratio is accompanied in fact with a decline in the growth rate. This statement holds irrespective of the weighting.** It should be added, however, that the rate of decline in the growth rate caused by the transition from the disharmonic onto the harmonic path depends on measurement. (In case of the computational weighting system the decline is smaller.)

We could quote further examples from our computations to illustrate the close relationship among the "reflection" obtained by measurement, value-judgement and economic policy decisions. We believe, however, that the following general conclusion is proved also by results presented above.

If a significant and lasting change occurs in the economic policy (or to go a little deeper; if growth has reached a qualitatively new stage), a revision of the "reflection" and of the value-judgement is put unavoidably on the agenda. And here we have come back to the introductory thought of our study, to the timeliness of our topic. As we have stressed: fundamental changes have taken and are taking place in the

* Not to mention, of course, an absurd measurement representing another extreme, where branches of the infrastructural sector would be assigned many times larger weights than the branches of the sector G because in this case the transition would raise the growth rate.

character of the Hungarian growth, in its structure, and together with this in the economic policy directly regulating this process. The reflection which presented earlier growth as favourable sheds suddenly unfavourable light on the present development. Therefore, since the character of growth and economic policy have changed, we believe that the old reflection and the old value-judgement need to be revised.

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«ОПТИКА» ЭКОНОМИЧЕСКОГО РОСТА

Ж. ДАНИЭЛЬ

В последние годы все больше критики разделяется в отношении измерения и оценки экономического развития на основе показателей совокупного выпуска. В статье рассматривается с точки зрения анализа и планирования система фактических цен как средство синтеза. Делается попытка ответить на вопрос, отвечает ли нынешняя практика измерения экономического роста целям экономического анализа и планирования, способна ли она достаточно объективно содействовать оценке существующих проблем. Исследуется влияние различия методов оценки развития в производственной и обслуживающей сферах на представление об основных народнохозяйственных пропорциях и о темпе роста.

Автор производит статичные и динамичные расчеты по отдельным отраслям с помощью систем расчетных агрегатных весов, базирующихся на едином принципе расчета. Результаты этих расчетов сопоставляются с результатами, полученными при использовании системы фактических весовых коэффициентов. Рассматривается также «оптический» эффект метода измерения, его роль в экономическом анализе, в оценочных суждениях и в принятии решений в области экономической политики. Доказывается, что «оптика» и система суждений оказывают обратное воздействие на действительность через экономическую политику, посредством ее вмешательства и регулирования. В статье делается вывод, что «единственный» показатель непригоден для объективного отображения многообразных общественно-экономических процессов.

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A CONTRIBUTION TO THE CRITICISM OF KEYNES AND KEYNESIANISM

The author tries to illustrate, beside some features of the "New Economics" which have effected a real progress in bourgeois economic thought, Keynes' failure to understand deeply enough the motive forces working in capitalist economy; he tries to explain why for decades the Keynesian tools of controlling the economy appeared to be efficient and tries to show why these same tools must fail in the decades to come.

Western criticism turns against Keynesianism. An attempt at a "non-western" critique

Capitalist economy has proven itself much less manageable than it seemed to be during nearly three decades after World War II. This situation opened the door wide before malicious criticisms of Keynesianism. It may seem odd that this kind of criticism is most vociferous not in the Marxian economic literature but in the West (see, for example, the aggressivity of the Chicago school of monetarists and the rapid spread of its doctrines). I think, nevertheless, that there is nothing very surprising in this phenomenon.

Marxist economists have been taken aback when they experienced that long postwar prosperity in the West, interrupted only by fairly mild recessions, that had been usually regarded as a validation of Keynesian economic policy, because they never believed in the possibility of a relatively steady growth of capitalism. In more recent times, when it seemed that facts do not prove them right, they have looked for the causes of such a surprising change rather in the transformation of capitalism into state monopoly capitalism than especially in Keynesian economic policy. There is no uniformity in the way they tried to analyze how, by what chain of causations, this change could have led to such unexpected prosperity. In any case a very abstract argumentation seemed to be relevant. In the twentieth century the prevalence of monopolies had paralyzed the functioning of the "invisible hand". But, there appeared to exist a kind of analogy between the planned economies of the socialist countries and those elements of planning that the capitalist state introduced into the Western economies. According to this line of thought the factor that may be able to regulate a capitalist economy with some efficiency could be found rather in a recent element of capitalism, i.e. the greatly enhanced economic role of the state, than in the use of any specific Keynesian recipes. And all Marxists firmly contended that

under capitalism only certain elements of economic planning are possible; that such partial planning necessarily tends to aggravate the contradictions of capitalism while often engendering new forms of their manifestations and, thus, capitalism is incompatible with economic growth undisturbed in the long run by major crises.

Thus Marxist economists did not try to find the root of the evils of capitalism in the deficiencies of this or that variant of economic policy – such random deficiencies could have been surely corrected. They found it in the very existence of capitalism; in its contradictions which cannot be eliminated. For a long time, they had been too sure in their convictions. Prominent Marxist economists had declared more than once the imminent outbreak of a deep crisis during the postwar decades and they were mistaken each time. Today, therefore, most of them watch events with much reservation; they will not believe their eyes, and are cautious enough not to prophesy catastrophe. And, indeed, it is yet a far cry from such a state of things. They seem to be in the same boat as old *Max Planck* – the physicist, one of the chief originators of the theory that each 'elementary particle' has some quantum-properties – was in, when, having been shown the device signalling the incidents of single quanta of photons, he allegedly gave voice to his doubts that had impaired his conviction with the words "So they exist, after all!"

Conversely, a Western non-Marxist economist may be utterly convinced that capitalism – whatever he may dub it – is the only economic system capable of ensuring high efficiency. In his opinion capitalism, as if by definition, is a system that could be made work without any greater disturbances. And then, experiencing deep disturbances he is, of course, highly indignant. For him to put the blame on the actual economic policy and on the theoretic school in whose name this policy had been pursued is the most natural thing in the world. The Eastern economist finds this situation rather comic as the theoretical foundations on which the typical Western critics of Keynesianism attack the Keynesian ideas represent a definite setback as compared to those correct insights the works of *Keynes* succeeded in propagating.

In my opinion, Keynes' scientific achievements marked a point of culmination in the history of non-Marxist economic thought. But this climax was highly relative. The present crisis of Keynesian economic policy indicates that the General Theory is far from being a really general theory of employment, interest and money. Of course, in this article I do not intend to criticize the whole theoretic work of Keynes, nor will I discuss every aspect of the General Theory or each practical feature of the economic policies thought to be Keynesian. What I will do is to point out some insufficiencies in the Keynesian theoretic system which are today the most conspicuous in their consequences. My main contention will be that Keynes, while turning against some neoclassical theses characteristic of the Marshallian-Pigouvian school, remained deeply in the captivity of this school. I will try to demonstrate on some examples that

the crucial insufficiencies of his system originated from this very fact. I will try to show that, by not having accepted the classical heritage, he blocked the way to a deep understanding of capitalist economy.

Keynes neglected the essential differences between wages and profits. Some aspects of these differences

It is more or less a commonplace that Keynes was not much interested in the questions of distribution of income. This was by no means a consequence of the fact that those enjoying a high income are not much motivated to meditate on the causes of poverty. It did not follow simply from Keynes' bourgeois 'Weltanschauung' nor was it caused only by the fact that he lived a century after the fathers of classical bourgeois economics who were especially interested in the problems of distribution. An excellent counter-argument is given by the life-work of *J. B. Clark*. With Keynes, however, the roots went much deeper. He not only disregarded the intricacies of distribution. He regarded capitalism more as a society of free producers of commodities than as a class-society. With him, incomes meant simply the compensations for useful services and it seemed to be of little importance whether those incomes took the form of wages or profits. Such a blindness would have been unimaginable in the case of *Adam Smith* or *Ricardo*.

In order to understand capitalist economy it is important to remember that wages and profits are two essentially different forms of income, playing utterly different parts within the chain of interactions the results of which are governed by the economic laws of capitalism.

The chief motive force of capitalist economy and growth is profit. It was not only *Marx* who understood this; it was understood just as well by Ricardo or even by *Malthus*. Western economists, visiting socialist countries, are sometimes very much perplexed by what they regard as backwardness, naivety or dogmatism of Marxists, for Marxists are utterly incapable to understand that a typical big corporation in the West is not managed by 'capitalists' but by managers, who, as such, do not share in profits, and who are, thus, allegedly not directed by profits, but by quite different things, such as success, self-assertion, power and so on. Marxists, on their part, when hearing such revelations wonder whether these economists really think that Marxists were so naive as to believe in such primitive creeds fabricated for the ears of middle-class-freshmen in Western universities, or that the visitors had never seen a live company-manager; never took a glimpse at a business balance sheet or at an advertisement boasting with it; never realized that for a manager success presupposes high profits, and that there is no economic growth and no power won by growth without high profits.

Let us recall some theses on wages and profit, since without their understanding it is impossible to come to grips with the working of capitalist economy!

In the model of a two-sector economy, in which government, and thus government budget, are neglected, aggregate profits equal the sum of capitalists' accumulation and capitalists' consumption. This again equals profits after taxation in a closed economy when budget incomes and expenditures are balanced.

Budget deficits and export surpluses raise profits. When these two latter items are neglected, after-tax profits depend essentially on accumulation, because capitalists' consumption (measured in real terms) is pretty inelastic.

In a closed economy, when GNP and productivity are given, the rate of wages is a function of the rate of gross investments: a higher rate of gross investments implies lower real wages and *vica versa*. Not the rate of wages is the independent variable, but the rate of gross investment. This relationship may be only slightly modified by changes in capitalist consumption.

But even when such minor modifications occur, not wages are but capitalists' consumption is the independent variable. Increasing capitalists' consumption implies, *ceteris paribus*, decreasing real wages. With GNP given, *Kaldor*'s thesis is valid: not aggregate profits but wages are the residual quantity.

And, finally, a simple truism which, when formulated in slightly other terms, will be mostly not understood: wages are not profits. The difficulty in understanding this elementary truth lies in the fact that entrepreneurs know that when workers spend more from their wages to buy goods or services offered by these same entrepreneurs, their profits will be higher. It is easy to conclude from this that higher wages bring higher profits. Thus it seems to be evident that by maintaining effective demand on an appropriate level all difficulties can be solved. But, neglecting taxes and foreign trade, NNP equals the sum of wages and profits; profits equal the sum of capitalists' net investments and capitalists' consumption. When the second sum is given and when NNP would increase owing to an increment in consumer goods produced, while the purchase of this would be promoted only by the increment of wages earned by workers having produced this excess, then profits would not grow, while profit margins and, together with them, the rate of profit would decrease.

I think that the illusionary belief in the possibility of a capitalist economy being efficiently controlled by virtually the sole means of monetary and fiscal policy has been nourished by the lack of a full understanding of the very simple truths just mentioned. And, I think, this holds true also for Keynes, notwithstanding the fact that he was no unconditional believer in the theory that monetary and fiscal policy must suffice.

The neglect of the vital differences illustrated by two formulae for the price level

I begin to demonstrate the shortcomings in Keynes' methodology with his formula for the purchasing power of money, or, more exactly, for the price level of consumer goods. It is true: Keynes' formula may be found only in his Treatise on Money, while the General Theory not only wholly neglected this problem, but it even rejected the solution of the Treatise. But a formula often used in discussing economic problems, which is somewhat akin to that of Keynes, may be found in recent Hungarian textbooks. And what Keynes found not quite correct in his previous analysis has nothing to do with what I wish to show by comparing the two formulas, i.e. with the undifferentiated treatment by Keynes of basically different sorts of incomes.

Keynes, when obtaining his formula, departed from the relation

$$E - S = P \cdot R$$

where E is the total money income of the community in a unit of time; S is the amount of saving; P the price level of consumption goods; and R the volume of these goods (and services) flowing onto the market and purchased by consumers. Thus,

$$P = \frac{E - S}{R} \tag{1}$$

In the Hungarian textbooks we find the formula

$$W = P \cdot (R - s_k)$$

and from this,

$$P = \frac{W}{R - s_k} \tag{2}$$

Here W is the sum of wages paid in a unit of time; s_k is the volume of the personal consumption by capitalists; while P and R have the same meaning as in (1).

Formula (1) is seemingly more exact. In this, saving is deducted from income and, indeed, also workers may save, while Formula (2) is based on the assumption that savings by workers equal zero. But this is a question of very little importance, because Formula (2) may be easily generalized without altering anything of consequence. In this more generalized form

$$P = \frac{W - S_W}{R - s_k - L} \tag{3}$$

where S_W represents the possible net savings by workers and L stands for the possible increment in the inventories of consumer goods.

The difference between the two formulae that really matters is as follows: Formula (1) brings the whole money income spent for consumer goods in comparison with the full volume of consumer goods, while Formula (2) relates money wages to that amount of consumer goods that will not be consumed by people not living on wages or salaries. Keynes did not distinguish between money spent on consumer goods by workers from money spent on such goods by capitalists, i.e. by people not living on wages (or salaries). But these two kinds of spending are most different both in their character and in their impact on prices – and not only on prices.

One aphorismatic description of this difference is pretty well known: "Capitalists earn what they spend, workers spend what they earn." The second half of the sentence refers to the fact, verifiable also statistically that, in the not very long run, the net savings of the workers' class are negligibly small (this is why we are allowed to neglect S_W in Formula (2).* More important than this is what is meant by the first half of the sentence cited. As Keynes has pointed out already in his parable of the Widow's Cruse, an increase in the consumption of capitalists does not diminish their profits disposable for investments; it raises their profits, instead. It increases by its own amount the receipts and money profits of the producers and sellers of consumers goods, causing also the prices of these goods to increase. And that the volume of capitalists' consumption is inelastic to changes in prices is partly due to this same reason. Putting this somewhat pointedly: workers as consumers influence prices by the sum of their *money* wages, while capitalists as consumers do so by the *volume* of their consumption.

As may be seen from Formula (2), the price level is a linear function of the sum of wages. True, it is a linear function also of the sum of money spent by capitalists on consumer goods and this is the relation Formula (1) refers to. But this sum of money is itself a function of the price level of consumer goods. The numerator E – S in Formula (1) is not independent from the price level P which it intends to explain. This formula does not explain price level.** The formation of price level is much more relevantly explained by Formula (2) operating with *the volume* of capitalists' consumption, instead of the *sum of money* spent by them on buying consumer goods. And we may see from Formula (2) that, in relation to the really relevant variables, there does not exist even mathematically a symmetry between capitalists' and workers' consumption. Workers as consumers influence the price level of consumer

* Workers do save but they also run into debt (when buying a home, often durables and so on) and they dissave when old, ill or unemployed.

** This remains true also when we take into account the fact that Keynes's interpretation of E was, in his Treatise of Money, a very peculiar one. If, namely, we understand by E something different from what we usually mean by this term, then also S, i.e. saving out of the given income, is different from what one usually understands by the term 'Saving'.

goods with the sum of their wages according to a linear function, while capitalists as consumers influence the same by the volume of their consumption in the way of a hyperbolic relationship.

Finally, Keynes' fundamental equations, neglecting the vital difference between consumption of workers and capitalists, divert attention from that most important fact which I cannot repeat often enough and which, as testified by the parable of the Widow's Cruse, was known even to himself, that the amount of consumer goods consumed by capitalists goes entirely into real profits, while profits in money terms increase even more. Consumption by workers constitutes no part of profit. When production of consumer goods and the part taken from them by capitalists are given, then increasing money wages serving to buy consumer goods will enhance prices, and, by doing so, increases also profits in money terms, while leaving real profits unchanged. Whereas, when the volume of the production of consumer goods also increases, and when this increment does not go entirely into the consumption of those not living on wages or salaries, then real wages of the working class will rise, profits in real terms may be left unchanged, but prices decrease and so does profit in money terms.

A criticism of Keynes' fragmentary theories of profit

It would be, of course, absurd to interpret what I have written about the undifferentiated treatment of different kinds of income as if Keynes had utterly neglected to deal with profits or wages as specific categories of income. What I intended to say was only that he often treated them indiscriminately when he should not have done so. But we may say even more than this: he had no consistent theory of profit.

For example: according to one of his Fundamental Equations, the price level of output as a whole is

$$\pi = \frac{E}{O} + \frac{Q}{O},$$

where, besides notations already known to us, O is the volume of total output and Q is aggregate profits. The "income of the community", as already mentioned has, in the Treatise, a peculiar meaning. As Keynes put it later, in the General Theory: "The peculiarity in my former definition related to that part of aggregate incomes, which accrues to the entrepreneurs, since I took neither the profit... actually realized from their current operations, nor the profit which they expected when they decided to undertake their current operations, but, in some sense (not, as I now think, sufficiently defined if we allow for the possibility of changes in the scale of output) a

normal or equilibrium profit; with the result that on this definition saving exceeded investment by the amount of the excess of normal profits over the actual profit"[1]. Let us convert the end of this sentence! "When actual profit exceeds normal profit, then Investment exceeds Saving; I – S is a positive quantity." The aggregate profit in the above formula is just this positive difference between actual and normal profit: $Q = I - S$. Thus, Q is a kind of surplus profit, or, as Keynes put it, a windfall profit. More specified, it consists, in his opinion, of two parts: a) the profit accruing to the entrepreneurs producing consumer goods, $Q_1 = I' - S$, where I' is the cost of production of the investment goods, and b) the profits, originated from producing new investment goods, $Q_2 = I - I'$, where I is the price of those investment goods, so that $Q = Q_1 + Q_2 = I' - S + I - I' = I - S$. But when Keynes allegedly came to speak about the problem of the price level of new investment goods [2], he committed a sudden slanting of definitions: instead of meaning by the term "investing" "the act of the entrepreneur when he makes an addition to the capital of the community", he defined it as a "purchase of securities by members of the public"([2], p. 141). And so the problem of the price of investment goods became that of the price of securities – a trick which, for that matter, he repeated also in the General Theory and which made his analysis senseless. (Compare the price level of common stocks in 1974 with that of investment goods or with company profits!)

Nor do we find in the General Theory any coherent theory of profit. Perhaps we are not mistaken when saying that in Keynes' mind there coexisted some elements of two competing theories of profit, the one of which allegedly prevailing more in the short run, while he thought the other one more to be true in the long run.

As to the first one of these, he seems to have followed, more or less, the reasonings of the Theory of Marginal Productivity and in this setting, indeed, wages and profits occupy two polar positions.

Doubtless, it must be regarded as one of Keynes' major merits that he repudiated that doctrine of the neoclassical economics that "the utility of the wage when a given volume of labour is employed is equal to the marginal disutility of that amount of employment". Doubtless, he was deeply wrong when he stubbornly championed the doctrine dual to the aforementioned that "the wage is equal to the marginal product of labour". Many economists and from various aspects demonstrated the incorrectness of this thesis and so, I think, here I may limit myself simply to state its fallacy. But it was this very theory which led Keynes, when considering the short-run changes in profits to write that "in a given state of organization, equipment and technique, the real wage earned by a unit of labour has a unique (inverse) correlation with the volume of employment. Thus, *if* employment increases, then, in the short period, the reward per unit of labour in terms of wage-goods must, in general, decline and *profits increase*. (My italics: P.E.) This is only the adverse of the

familiar proposition that industry is normally working subject to decreasing returns in the short period" ([1], p. 17).

Indeed, if the marginal postulates of neoclassical analysis were correct, then, with given technology, the size of real wages would be uniquely determined by the size of employment, and so would profits, too. If those postulates were correct, and if the production-functions were not homogeneously linear – and, as a rule, they are not – then there could exist a positive profit for the enterprise, and also an aggregate positive profit of an exactly determined amount. (Although, as I have tried to demonstrate elsewhere, this would not be reconcilable with market equilibrium.) But these postulates are far from being correct. Keynes remained a prisoner of the neoclassical school in spite of his war of independence against it and this led him to fully fallacious consequences.

He, however, did not pursue consequently this line of thoughts. First of all, the theory of marginal productivity is based (or was, at least, originally based) on the concept of the productivity of capital. But Keynes, and also this should serve to his credit, rejected this idea: "It is much preferable to speak of capital having a yield over the course of its life in excess of its original cost, than, as being productive... I sympathize... with the pre-classical doctrine that everything is *produced by labour,* aided by what... is now called technique, by natural resources... and by the results of past labour, embodied in assets..." – a conclusion which would have evoked most fierce rebukes from J. B. Clark. But the crucial point is this: "If capital becomes less scarce, the excess yield (that is, the profit – P. Erdős) will diminish, without its having become less productive – at least in the physical sense" ([1], p. 213). And so, instead of a theory of (physical) marginal productivity, Keynes arrived at a different theory of profit: a theory of scarcity: "... the only reason why an asset offers a prospect of yielding during its life-services an aggregate value greater than its initial supply price is, because it is *scarce,* and it is kept scarce, because of the competition of the rate of interest on money" ([1], p. 213).

The second half of this sentence refers to that thesis of Keynes that in equilibrium "the marginal efficiency of capital in general is equal to the market rate of interest" ([1], p. 136). Now, the efficiency or marginal efficiency of capital is in the General Theory the notion which occupies the place of profit (or the rate of profit) and differs from it mainly by being an *expected* yield instead of profit actually accrued. What we are expected to know about its size is its being limited (normally) by the rate of interest. As to the causes of the existence of profits we do not know anything except the hazy concept of scarcity; and as to the indefiniteness of its actual size, at least in its shape of *expected* profits – its only form which seems to matter – the best witness is Keynes himself. He addressed the full Chapter 12 of the General Theory to this theme. And as to the vagueness of the very concept of scarcity, it may

perhaps be best judged by those lines of thought that Keynes followed when speculating about a "not so far future". In his opinion, under some circumstances, a "properly run community equipped with modern technical resources, of which the population is not increasing rapidly, ought to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation ([1], p. 220). This state of things "would mean the euthanasia of the rentier" ([1], p. 376). Moreover, Keynes even advocated "this order of events", being, in his opinion, "the most sensible way of gradually getting rid of many of the objectionable features of capitalism" ([1], p. 221), while preserving the same. *Alvin H. Hansen* mildly mocked over the like sentences of Keynes by declaring in Chapter VIII of his "Guide to Keynes", that "The 'rentier euthanasia' discussion is a kind of 'free-wheeling' detour by Keynes in his less responsible moments" [3]. But the matter is much more serious than this. The fact that Keynes considered, if even only for moments, a capitalist society with zero profits (including interest) in the state of equilibrium as a viable formation, highlights how little he understood the central role of profits as *the* driving force of the capitalist economy. On the other hand, profits will be sufficiently high even in the richest conceivable community if investment goods to be used for whatever application are being produced in sufficient quantity.

Keynes' principle of effective demand usurps the part played in reality by the profit principle

But, someone could retort that the concept of marginal efficiency of capital is one of the cornerstones in Keynes' system and that this fact proves by itself that Keynes did not neglect the role of profits. He surely did not neglect it but he missed its full importance. The central concept in his system and even in those of his followers is, as far as I understand it, not that of profits but that of the effective demand.

Keynes justly regarded demand as made up of two parts, namely, "D_1, the amount which the community is expected to spend on consumption and D_2, the amount which it is expected to devote to new investment", the sum D of which being the *effective demand* ([1], p. 29). More exactly, "the value of D at the point of the aggregate demand function where it is intercepted by the aggregate supply function" is "the effective demand" ([1], p. 25).

Now Keynes thought to have found the key to the basic problem of capitalism of his time, i.e. the problem of underemployment, in the fact that "when employment increases, D_1 will increase, but not by so much as D", and, therefore, "the greater the volume of employment, the greater will be the gap between the

aggregate supply price (Z) of the corresponding output and the sum (D_1) which the entrepreneurs can expect to get back out of the expenditure of consumers. Hence, if there is no change in the propensity to consume, employment cannot increase unless, at the same time, D_2 is increasing so as to fill the increasing gap between Z and D_1." And so, contrary to the "classical assumptions", "the economic system may find itself in stable equilibrium with N (the volume of employment) at a level below full employment..."([1], pp. 29–30). "Moreover, the richer the community, the wider will have to be the gap between its actual and its potential production", because, in contrast with a poor community that will be prone to consume by far the greater part of its output and where, thus, "a very modest measure of investment will be sufficient to provide full employment", a potentially "wealthy community will have to discover much ampler opportunities for investment". Thus, if in it "the inducement to invest is weak, then... the working of the principle of effective demand will compel it to reduce its actual output" until it becomes sufficiently poor ([1], p. 31).

This analysis invites a lot of comments. First, it is directed against Say's Law and it proved to be very effective in shaking the belief in that misconception. Of course, Say's Law had been criticized also earlier, and not only by Malthus and later by several others but also by Marx; their criticism, however, remained mostly unaccepted. So far, Keynes' accomplishment is surely to be acknowledged. Second, it is said that Keynes' analysis provides a sufficient or even full account of the causes working against Say's Law and especially for a trend of ever growing difficulties in ensuring full employment in a rich (capitalist) economy, widely held during the immediate post-Keynesian period. Well, it does not. The whole concept of a definite point of interception of two functions, one being allegedly governed by hazy expectations existing only in the minds of members of the community, is misconceived. The line of thought indicating growing difficulties, which, in the hands of Keynesians, led to the theory of secular stagnation, is even more incorrect. According to Hansen, Keynes never claimed that the rate of consumption would be decreasing with increasing income.* In reality, and in the long run, it did not fall. In this case, however, the statement that, with increasing employment and, therefore, increasing incomes, D_1 increases by less than D, is fully irrelevant, leading to no consequences. Income may become doubled; it may grow, let us say, from 100 to 200, i.e. *by* 100. When, during the same period consumption grew from 80 to 179, then it did not grow *by* full 100, but its weight increased from 80% to 89.5%. There would be no difficulties of the sort Keynes thought of.

But all this is far from the central point I want to stress. In reality, profits realized and profits expected is what governs growth in capitalism. Keynes seems to

* And yet, at least once, Keynes ventured to suggest just this: "These reasons would lead, as a rule, to a greater *proportion* of income being saved as real income increases" ([1], p. 97)

think that *effective demand* was doing this, or, at the very least, his texts suggest *nolens volens* that it was so. There could be, it seems, no difficulty if everything produced were demanded for consumption. The difficulties arise because this is not so and, therefore, to fill the gap between production and consumption, there must exist some investment, too. It is only in this sense that we have to understand his statement stressing the importance of investment, according to which "given... the community's propensity to consume, the equilibrium level of employment... will depend on the amount of current investment" ([1], p. 27). The elementary truth: that however great or small D_1 may be, D_2 is the real stimulus to producing profits, and, therefore, to producing anything at all – fades altogether away. In reality, when production and, within it, production of consumption goods increases, capitalists' consumption will, indeed, not grow by quite as much. But there are no such quantities of consumer goods that, supplied in the proper assortment, workers were not willing to buy. Nor is their aggregate saving of any considerable size. However, of course, they cannot pay more for goods than they earn in wages. So, if the production of consumer goods *ceteris paribus* increases, then their price level will necessarily sink. But this price level can never become so low that there did not remain a profit margin between their aggregate price and the aggregate costs of their production that would not be at least so much as the price of consumer goods consumed by capitalists (except when even gross investment happened to fall below the annual wear and tear). This is so simply because capitalists' consumption converts the full value of those goods consumed into surplus value, i.e. into profits. So far as there is some net investment, profits will contain also the value of the investment goods serving net investment, simply because the price of goods invested is also a component part of profits. The size of profits, measured in money, is equal to the sum of the goods invested and consumed by capitalists.

Keynes seemed to think that there were no differences that really mattered when either D_1 or D_2 increased so that their sum became equal to aggregate supply. He seemed to think that so far as this would be ensured, prolonged growth would be warranted (at least up to the point of full employment). But demand for consumer goods raised by wages, i.e. consumption by workers, does not add to profits. However, see also the following section.

Consumption by capitalists constitutes a part of their profits, but not the part that really matters. Capitalists as such are not consuming machines. They are servants of their capitals. Capital demands its own growth and, therefore, it demands accumulation of capital, i.e. investment. Investment can be made out of profits, profits are a source of investment. But all this is true in the other way round, too. Production of investment goods which will be sold is the very process of producing surplus value, and, therefore, of profits. Profits are a source of investment, but

investing is a source of profits as well. Nobody will normally want to invest when general investment activity is low, because in such times, and just because investment activity is low, profits, and therefore also profit expectations,* are low. And, conversely, high investment activity stimulates, as a rule, investment, increasing by itself profits. Effective demand will become thus greater too. But demand for investment goods is not just another means to enforce prosperity and full employment, for which, in principle, demand for consumer goods could be a proper substitute, and even less a *faut de mieux* substitute for D_1. It is the very means for directly enhancing profits, by enforcing the production of investment goods, which incorporate profits, the chief propelling force of capitalist economy by their virtue of being investment goods. The production of excess consumer goods going to be consumed by workers does not satisfy that kind of demand which would automatically enhance capitalist prosperity. Malthus, so much admired by Keynes, had long ago formulated this quite crudely saying that: "... no power of consumption on the part of the labouring classes can ever, according to the common motives which influence mankind, alone furnish an encouragement to the employment of capital... nobody will ever employ capital merely for the sake of the demand occasioned by those who work for him" [4].

Increased demand may evoke, instead of a multiplier effect, a rise in prices

Malthus was right in what he said but his conception of the problem was too narrowly drawn up. I have tried to formulate it more cautiously, saying that increasing demand for consumer goods does not automatically enhance prosperity. Everybody is acquainted with the concept of the multiplier and with Keynes' thesis according to which "when there is an increment of aggregate investment, income will increase by an amount which is k times the increment of investment" where

$$k = \frac{\Delta Y_w}{\Delta I_w} = \frac{1}{1 - \frac{\Delta C_w}{\Delta Y_w}}$$

([1], p. 115). And, of course, Hansen was right when he remarked in a footnote to Chapter IV of his Guide to Keynes that the initial outlay evoking a multiplier effect, represented in Keynes' multiplier theory by an increment of investment, is not necessarily an outlay spent on capital goods. The result would be the same if the

* The top of a boom at the end of a depression period when profit expectations switch over are no "normal" situations in this sense.

initial outlay would mean subsidies immediately paid to the consumer or an increase in the wages brought home in consequence of tax reductions or anything else of similar nature. For generating the multiplier effect, it is only the demand for consumer goods which needs to increase.

Is this really so? Under "normal" circumstances, more or less, it is. When capitalists try to win for themselves a greater part of the demand for consumer goods by increasing their supply of those goods, this would result in decreasing prices and decreasing profit margins. But here we have to do with the case where aggregate demand in terms of money started growing; this, by itself, would increase prices and to counteract happening this an increase in production would be necessary. Such an increase in prices is indeed very likely to stimulate production. Capitalist prosperity is characterized by vivid investment activity which means increasing profits. This tendency will be usually reinforced by the increasing money wages fostered by the increase of employment. Such conditions virtually call for increasing the production of consumer goods. And so, increasing prices even when they are not accompanied by any greater investment activity, will often be found by capitalists as a signal to increase only if measured in money terms, while real profits will remain unchanged. This will often be true even if increasing money demand were only a consequence of a rise in the rate of wages causing costs of production to rise, too. Finally, forced production of consumer goods may lead – via the accelerator effect – even to an increase of investment activity and, by this, to that of real profits. Increased demand for consumption goods will, normally, stimulate their production. The only question remains how effectively it will do so.

Some economists will say that this question has been fully and exactly answered by Keynes' theory of the multiplier. To this I could reply that Keynes' theory of the propensity to consume, the underlying principle of his theory of the multiplier, is not correctly founded; that, for example, in times of a boom it is not because of any falling propensity to consume that the rate of consumption is lower than usually but because the rate, and, thus, the proportion, of investment is higher than usual.

But I need not do this. Keynes himself knew it better.

The General Theory has shared the fate of many a classic. It is often being quoted, but seldom read. Its commentators are those who are really read; they usually do not qualify statements which, so long as unqualified, look consolingly simple and unequivocal. Keynes formulated his theory of multiplier in Chapter 10 of the General Theory and this theorem is what everybody thinks to understand. However, he goes farther than this. In chapter 20 of the General Theory Keynes dealt with the employment function. This he began with a warning to the reader in a footnote: "Those who (rightly) dislike algebra, will lose little by omitting the first

section of this chapter." But just in this first section he introduced the concept of the elasticity of employment and that of the elasticity of money wages in response to changes in effective demand D in terms of money. And here he came to the conclusion (though using in his algebraic demonstration the fallacious thesis about the equality between prices and marginal prime costs) that if the elasticity of employment is absolutely rigid or if the elasticity of money wages equals one, "output will be unaltered and prices will rise in the same proportion as effective demand in terms of money. Otherwise, they (i.e. both of them – P. Erdős) will rise in a smaller proportion"([1], p. 286). And this statement, this correction of his theory of the multiplier, is equivalent to the confirmation of the fact that nobody could know *ex ante* how effectively an increase in demand would stimulate production (and increase prices).

Keynes' hints at the real requirements of securing full employment

Profits and profit-expectations are the decisive stimuli of capitalist economy. The size of profit is mainly regulated by the volume of investment. Economy could not be threatened by secular stagnation, chronic underemployment, crises of overproduction, if investment activity could be made a steady process. I know only two passages in the General Theory directly connected with this fact. One of them begins with the "traditional" Keynesian recipes: in a correctly managed rich economy "the state will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways". This sentence is followed by a qualifying statement: "Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment." And here follows the sentence I want to stress: "I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment..."([1], p. 378). And on page 164 we read: "I am now somewhat sceptical of the success of a merely monetary policy directed towards influencing the rate of interest. I expect to see the state... taking an ever greater responsibility for directly organizing investment."

These sentences are pretty obscure. What is to be meant by socialization of investment? Socialization which would be somewhat distinct from applying some incentives (such as banking or fiscal policy)? And how were "directly organizing" to be implemented in a capitalist society if it meant also some compulsory measures changing directly, if necessary against their will, the intentions of capitalists to invest?

Structural changes that lessened the danger of a secular stagnation and mitigated the crisis proneness of capitalism

Anyhow, in the principal capitalist countries this aspect of the Keynesian recipes has been almost completely neglected by Keynesians when trying to form the economic policy of those countries. Monetary and fiscal policy have served as panaceas and I do not see any other tools that in peacetime could have been applied instead. Such measures are apt directly to increase or deflate consumers' demand in money terms and can somewhat promote or substantially impede investment activity.

Whether an increase of consumers' demand will be followed mainly by increased production or by a rise of prices depends, before all, on the overall economic situation. In the depth of the depression of the thirties, entrepreneurs were happy if they could sell anything even at very low prices, and an increasing demand could have worked as a very efficient stimulus to production. Under less severe circumstances it will tend to manifest itself mostly in enhancing prices. And in circumstances of chronic inflation, rising money-demand becomes a most unreliable incentive to growth of production. While, as experience shows, indirect methods of slowing down investment activity are apt to choke growth, indirect incentives of investment are of very dubious efficiency.

But, apparently, the methods of Keynesian economic policy did work quite well during a long period of some three decades! The last very severe crisis occurred in the 'thirties. The capitalist world experienced since World War II a period of exceptionally fast growth and prosperity, disturbed only by lesser recessions. (Great Britain, with her eternal stop-and-go periods was quite a special case.) How has it come to this?

It is, of course, impossible here to analyze if only the chief causes of such a trend. I do not wish to mention more than one or two factors.

I am not going to deny that the application of Keynesian tools has greatly helped. They did not solve and could not have solved the innate contradictions of capitalist economy, but, under the given conditions, they could and did significantly contribute to palliating the symptoms of ailing capitalism, or, even to making it seemingly healthy. But, directly and chiefly, they could help because, aided by Keynesian analysis, a whole set of fatal blunders has been avoided, which, during the 'thirties enormously contributed to the severity of the crisis. The prototype of such blunders was the forced deflation of budgetary expenditures during a great slump. What I have so far tried to show in the present article is that Keynesian analysis did not dig deep enough and this does not contradict the fact that it was able to indicate for everyday practice sufficiently correct causal, and previously unknown, relationships between economic factors.

The chief immediate cause of an unsatisfactory rate of growth or even of recessions is to be found not in a lack of general effective demand, but in a lack of demand for investment goods. During, and after World War II, however, a kind of second Industrial Revolution had emerged. New interrelations came into play among several factors. Such are the technical potentialities mostly originating from military engineering and applicable also to civil industries; the highly-developed economies of the leading capitalist countries, their richness, making the real application of those potentialities feasible; the prosperity elicited by large-scale investment activity and the continuing advances in technology put into use which had been furthered by this prosperity, together with the rapid obsolescence of assets caused by these advances, due to which, during two decades, the chief headache of capitalist entrepreneurs was not so much the problem of finding investment opportunities in a rich country as the opposite of this, mainly a kind of *embarras de richesse*. It is almost superfluous to add to this that all this has been reinforced by such trifles as the Korean or the Vietnam war. Under such circumstances it was not by chance that the idea slowly became obsolete that richness itself, by "lessening the scarcity of capital", would threaten with secular stagnation.

All this could not, of course, prevent recessions or even lesser crises from occurring in several countries with different frequency. But since the great slump of the 'thirties and (at a greatly accelerated pace) after World War II, major structural changes took place in the economies of the leading capitalist countries that very much lessened the propensity of these economies to crises. This point deserves some more detailed explanation.

In the course of more than a century, from the first quarter of the 19th century to the 'thirties of this century, crises of the classical type had shaken the capitalist economy grossly every tenth year. Each one was different from the other. Nevertheless, they had also such common characteristics that we may regard them as of being of the same "classical" type, so that their course should be fit of being simulated by a not too complicated economic model. To their essential characters belonged a regression of the aggregate production. Essential to them was the fact that the causes, having triggered off that regression, initiated a whole series of cumulative processes in such a manner that the initial slackening would be reinforced and develop into a chain reaction: the slackening would change into a decline and this into a steep crash.

To put it differently, the structure of the economy is such that there exist between some of its elements and some other ones certain positive feed-back relations. Here again a distinction is to be drawn between the production of consumer goods and that of investment goods. The slowing down of, or fall in demand which will trigger off a chain-reaction ending in a crash, cannot be limited to

the demand for consumer goods. Between the production of consumer goods and the price level, and, via the latter, the profit margin, there exists a negative, instead of a positive feed-back relation. This we can see also from Formula (2) of the price level of consumer goods. We may break down the sum of wages W in the numerator of the formula $P = \frac{W}{R - s_k}$ into W_1 and W_2, where W_1 is the wages of the workers producing investment goods and W_2 the wages of workers producing consumer goods. When the state of technology is given, $R = \alpha W_2$, where α is nearly a constant. When, further $\frac{W_2}{W_1} = q$, then $W_2 = q W_1$ and, thus,

$$P = \frac{W_2(1+q)}{\alpha q W_{1-s_k}} = \frac{1}{\alpha} + \frac{W_1 + \frac{S_k}{\alpha}}{\alpha q W_{1-s_k}} \qquad (2a)$$

According to (2a) there exists an inverse relationship between q and P, and so, if the production of consumer goods, and therefore q, decreases, the price level P will rise. Here a *negative* feed-back effect is at work. A slackening of the production of consumer goods will increase the price level of these goods and the profit margin will be higher, too. The secondary processes work against the primary process, that is, against the slowing down in the production of consumer goods.

A downswing in the production of investment goods brings utterly different results. Here a positive feed-back process operates. When investing activity decreases, q becomes greater; hence the price level of consumer goods will decrease too, or if it was not allowed to decrease, unsold stocks must pile up. Under such circumstances further investing would be senseless and now investment activity may severely fall. The initial change evokes further and reinforced changes in the same direction, and so on.

An initial downswing in the production of consumer goods may also trigger off a positive feed-back mechanism, when potential investors think that this downward trend will last and therefore they abstain from further investing. This may be the case, for example, when a past investment wave had already produced some excess capacities, so that they are not fully utilized. In this way the decrease in the production of consumer goods leads indirectly, coupled with the consequent fall in the investment activity, to a general recession. The final outcome will be different depending on whether the negative feed-back effect of the decreasing production of consumer goods or the positive feed-back effect of the decreasing investment activity will prove to be the stronger factor. How much an economy is, owing to its structure, prone to crises will therefore mainly depend on the intensity of the feed-back relation between changes in investment activity and this activity itself.

We may obtain a very simple, although by no means exact, indicator of this intensity when we observe the percentage fall in the price level of consumer goods, respectively (because production of investment goods means production of profit) the fall in aggregate profits following a decrease in the production of investment goods and the decrease in the sum of wages paid in these industries, while the production of consumer goods remains unchanged.

A simulation model assessing the impact of the structural changes that had occurred

In an article, written in 1969, Péter Erdős and Ferenc Molnár published a simulation model of the U.S. economy for the years 1929 and 1957, this latter being the year immediately followed by the deepest post-war recession in the U.S. before the article had been written.

It appeared that if in 1929 net investment fell back to zero, this would have caused a 13.2 per cent fall in the price sum of consumer goods and a 29.2 per cent fall in the incomes of those not living on wages or salaries. The same would have caused in 1957 but a 6 per cent fall in the price of consumer goods and a 10.8 per cent fall in the money incomes of non-workers. In calculating this, the effects of unemployment benefits and the decrease of indirect taxes paid by workers have been neglected; if taking into account these as well, in accordance with the rules effective for 1957, the fall in the price of consumer goods would have appeared to be less than a tenth of one per cent, while the percentage decrease in the aggregate incomes of those not living on wages or salaries would have amounted to not more than 4 per cent. And after allowing for the actual increase in government purchases and the increase in government wages, which occurred in 1958, the price level of consumer goods would have been even 3 per cent higher than it was in 1957. This exaggerates what happened in reality but between those two years the price level did indeed rise somewhat, although production of consumer goods had risen, too. All this shows that the intensity of the feed-back relation had much decreased since 1929.

It has been exposed earlier that the lessening of the propensity to crisis of the capitalist economies was mainly a consequence of some structural changes. In the model depicting the behaviour of the U.S. economy these changes manifested themselves in the very diminished proportion of workers producing investment goods or consumer goods as compared to overall employment.

The numerator W in Formula (2) should contain the wages of all workers and not only of those employed in the production of investment and consumer goods. In accordance with this, W is greater than the sum $W_1 + W_2$ of wages earned in these industries, that is, than the wages of productive workers in the Marxist sense of the

word 'productive'. Thus in reality, $W = W_1 + W_2 + W_3$, where W_3 is the wages of all improductive workers. And, again, for q we have to write $\frac{W_2}{W_1+W_3}$ instead of only $\frac{W_2}{W_1}$. Whereas the denominator of Formula (2) should contain the volume of the totality of wage-goods, i.e. the sum of all goods and services of the kind usually bought also by workers, diminished by that part of these that will be bought not by them but by persons not living on wages or salaries. Also those goods and services have to be disregarded in the denominator which are free of charge (e.g. free primary education).

In more recent decades W_3 has much increased. In the U.S.A. some 60 per cent of the working population is employed in the service industries and many of those belonging to the remaining 40 per cent producing material goods are employed in industries the products of which are neither wage-goods, nor investment goods for the use of enterprises. (To these belong, for example, all military equipment.) Since W_3 has become greater in proportion to W_1, a change in W_1, i.e. an increase or decrease in the production of those producing investment goods will have much less impact on the size of q than if W_3 were smaller or even negligible. This is the decisive force, stemming from structural changes, behind the diminished crisis-proneness of capitalism. But, in a sense, the significant extension of social security and taxation may also be classified as a major structural change; they act as built-in stabilizers against business fluctuations.

The same changes engender a permanent inflationary tendency. Government expenditure plays a prominent part here

The diminution of the propensity to crisis is, however, only one side of the consequences of those structural changes. The other side had been more or less hidden for a long time; it began to grow to full and fatal proportions only during the last few years. The majority of Keynesian economists considered (and under the given circumstances not without reason) the slow, controlled inflation as a more or less favourable phenomenon being one of the vital incentives of growth. This mild inflation was more and more regarded to have been caused, and deliberately caused, by Keynesian economic policy. In this proposition we may see a grain of truth although by no means the whole truth. This half-truth nursed the hope that inflation, at least when handled with proper circumspection, would remain controllable indefinitely; though economists always had the uneasy feeling that between price stability and the policy of full employment there existed an innate conflict.

A slow rise of prices probably stimulates to a degree economic growth also because of the money-illusion of entrepreneurs, but the inverse of this statement is definitely true. A decrease in aggregate demand that would lead to a fall of prices if

production was not diminished certainly evokes a regression. This is not an empirical fact of today. For decades there has not occurred a considerable fall in prices on a general scale. But, as we may see from Formula (2), prices would immediately fall when the rate of money wages decreased. This is what happened in most countries during the Great Slump. Today such a general fall in the money rate of wages does not occur. It would not be tolerated by organized labour which, as far as money wages go, has become a Great Power. Their intransigency in this matter prevents capitalists striving to diminish costs from throttling the economy with their own hands. From this, conversely, does not follow that prices had to remain stable if the rate of money wages did not increase. Even less would this follow if the rate of wages increased in proportion with increasing productivity. In this latter case, owing to the structural changes we have mentioned, a slow inflation is bound to occur.

One characteristic of these structural changes, namely the fact that an ever increasing part of private enterprises does not produce wage goods or investment goods but is engaged in the service industries instead (wholesale and retail trade, together with advertising industry, financial institutions and *hoc genus omne*), is surely not a result of Keynesian economic policy. It is an upshot of the inner tendencies of capitalism. However, wages are flowing into the economy from these service industries and these wages are a part of W_3.

An increasing proportion of W_3, while moderating the changes of q accompanying the changes in the rate of investment, increases principally the numerator of Formula (2), as compared to its denominator. The price level of consumer goods will tend to rise when W_3 grows faster than W while the rate of money wages remains constant. This would be different only if an increase of productivity in the industries producing wage-goods neutralized this change. In today's reality, however, the rate of money wages tends to grow at least in line with productivity and this settles the matter: the growth of the portion of service industries tends to raise prices, engenders an inflationary tendency.

The other principal characteristic of the structural changes is the unprecedented swelling of government expenditure. The government's share in GNP was rather less than 10 per cent, at the beginning of the 'thirties; now it lies at about 50 per cent. The chief source of budget income are taxes, together with the incomes of the social-security funds. The revenues of government obtained from other sources are much less. It follows that the budget's contribution to R in the denominator of Formula (2) is negligible. But government spends its incomes partly directly in the form of wages and partly on the purchase of goods and services the production of which requires further wages. The transfer payments directed to workers or their families have of course the same effects as wages. Thus, these wages too form a part, actually the greater part of W_3. The growth of the incomes and payments of

government arouse the same kind of inflationary tendencies as the factors mentioned in the foregoing paragraph.

We can hardly tell how great a part deliberate Keynesian economic policy has played in the growth of government expenditure. The triumph of Keynesian ideas certainly created a favourable atmosphere for that process. It is no less certain that a very considerable part of those expenditures simply could not have been avoided. To them belong most of the social and cultural expenditures; social equilibrium made their rise inevitable. And to them belong the construction of roads, of bridges and, generally, the government participation in the build-up of infrastructure. Nor was the immense increase of military expenditure simply a consequence of Keynesian economic policy. All this rendered a vast growth of administration necessary, while "Parkinson's Law" played its part, too. But I will not go into further details. Government expenditure has vastly grown, engendering an inflationary tendency.

A short excursion into the economics of unproductive costs and taxation

In this regard I have to clarify two common misconceptions. For Marxist economists it is an elementary doctrine that the costs of trade and finances have to be paid out of surplus value. Some of them, so Gillman, extended this proposition also to the wages and salaries of the major part of non-manual workers in industry. All this is partly a question of definition and, so far, quite correct. However, departing from this, many Marxist economists, together with Gillman, arrived at an inadmissible conclusion. They think that, because these costs have to be paid from the surplus value, their existence is equivalent to a reduction of, i.e. a subtraction from, profits. Hence the tendency for the rate of profit to fall – so they say. This seems to be even more so with respect to taxes, and, especially to profit taxes. Marxists know that taxes are a part of surplus value, and they think to conclude correctly when declaring that profit taxes diminish the part of surplus value disposable for capitalists, i.e. profits. In this matter, especially as regards the costs of circulation, they seem to be backed up also by Marx's opinion, and they are backed up also by Ricardo, according to whom, with the sole exception of taxes on rents, all taxes, and, thus, also taxes on wages are, in last analysis, profit taxes. And this idea is backed up by the voice of capitalists and of reformist labour leaders as well. All of them contend that a heavy taxation imposed on capitalists would diminish after-tax profits and, by doing so, hamper investment.

Marxists, of course, listen more to Marx than to capitalists or reformists. What most of them forget is "only" that Marx's conclusions, and also those of Ricardo, could apply but to economies with gold currencies. They have been based on the theory of Marx and Ricardo that price is governed by the labour value of the

commodities and of gold, and, therefore, if money wages were to rise, prices would remain unchanged while profits would diminish.

Now, whether Marx and Ricardo were fully right or not, today's money is not gold, and when money wages increase, the price level will, *ceteris paribus,* increase, too. But before proving, instead of only stating, the fallacies of the foregoing ideas, I want to mention the second misconception I have spoken of. Many economists, Marxists as well as non-Marxists, seem to think that government expenditure has an inflationary tendency only when the budget is not balanced. This, however, is not the case.

Is there an absolute upper limit for possible taxes on profits? If there was such a limit, obviously it ought to lie at a point where taxes would take away the whole of profits – if such a state of things were possible. But this state can never be reached and not only because capitalists would not allow it. So much has to be evident if we take a look at any balance of national economy. Let us consider a set of such balances as devised by *Kalecki*!

The first of them depicts an economy where taxes and government expenditure may be neglected.

I

Gross profits	Gross investment
Wages and salaries	Capitalists' consumption
	Workers' consumption
GNP	GNP

Here, gross profits of capitalists or income of capitalists includes depreciation and undistributed profits, dividends and withdrawals from unincorporated business, rents and interests. It follows when also workers' savings can be neglected that

Gross profits = Gross investment + capitalists' consumption, and
Net profits = Net investment + capitalists' consumption.

For a closed economy where taxes are not negligible but workers' savings are still zero, we may write:

II

Gross profits net of (direct) taxes	Gross investment
	Government expenditure on goods and services
Wages and salaries net of (direct) taxes	Capitalists' consumption
Taxes (direct and indirect)	Workers' consumption
GNP	GNP

Here Gross investment does not include governmental investments.

If we allow for foreign trade and reckon with a budget deficit but still disregard workers' savings, we have

III

Gross profits net of taxes	Gross investment
Wages, salaries and transfers net of taxes	Export surplus
	Budget deficit
	Capitalists' consumption
	Workers' consumption
GNP minus taxes plus transfer	GNP minus taxes plus transfers

(because Government expenditure on goods and services – [taxes – transfers] = Budget deficit).

From III follows, when taking account also of possible workers' savings,

IV

$$\text{Gross profits net of taxes} = \text{Gross investment} + \text{Export surplus} + \text{Budget deficit} - \text{Workers' savings} + \text{Capitalists' consumption}$$

All these relations are self-explanatory; the balances contain but simple identities. They indicate that after-tax profits which, in a closed society where there is no budget deficit (or surplus) and where workers spend just what they earn, are equal to the sum of gross investment and capitalists' consumption, can be increased by an export surplus, by a budget deficit and by workers' dissavings. It is only necessary to understand which items in Balance IV belong to the dependent and which to the virtually independent variables.

Gross profits net profit taxes do not depend on wages and salaries or on profit taxes. Nor do profits net of depreciation and taxes depend on them. Gross profits net taxes depend in *real* terms only on gross investment and on capitalists' consumption, while export surplus, budget deficit or workers' dissavings may increase profits (whether gross or net) only in terms of money. (And even as for real profits only the part incorporated in investment is well apt to stimulate further growth.)

Profit taxes can never confiscate profits. So long as capitalists invest and consume, their real after-tax profit will be equal to the amount of their investment and consumption. Conversely, so long as they invest and consume, they will be able

to pay for it out of their money income after tax. In terms of money their profits before tax will be equal to the money costs of their investments and consumption plus export surpluses, budget deficit and workers' dissavings, all this increased by the amount of direct taxes they had to pay.

It is only a formal truth that profits net of taxes are equal to gross profits diminished by taxes. The deeper truth is the opposite of this. Gross profits are equal to profits net of taxes, increased by direct taxes upon profits. In a positive fashion we may formulate the essential difference between these two sentences by saying that profit taxes are paid out of surplus value but they are no liabilities upon surplus value; they do not diminish surplus value disposable to capitalists.

I will try to explain this, for the sake of Marxists in a Marxian terminology.

Surplus value is, by definition, that part of national income that does not accrue directly (in the form of wages) to productive workers having produced this national income. The sum of money spent on profit taxes represents, therefore, a part of aggregate surplus value to be measured by the value of those goods and services which this sum of money can buy. (Strictly speaking, the value of services in general is not a Marxian concept, but the reader will understand what I mean by it.)

This, however, does not imply that this part of surplus value had been from the very outset produced in some mysterious way as such, i.e. as surplus value. What really occurs is that a part of value produced *becomes* a part of surplus value by the very fact that a sum of money has been paid into the budget as tax on profit, and, afterwards, most part of it will buy goods and services to the benefit of people other than those producing national income. To this I will add that the case with the improductive costs of circulation is exactly the same. Improductive workers are paid out of surplus value. This is a part of value that becomes surplus value not as if it had been *produced* as such but because it will accrue to improductive workers. Its existence, therefore, does not involve any deduction from profits. It *increases* surplus value. This increment of surplus value will, however, for capitalists constitute *costs* instead of profits. The real wages of productive workers tend by its existence to diminish.

Everything I have expounded in the last few paragraphs contradicts the most elementary everyday experiences of entrepreneurs. Well, it seems to contradict common sense. Everybody knows perfectly well that the higher he will be taxed the less of his income will remain at his disposal. Every capitalist knows that the part of his pre-tax profits that will be taken away from him cannot be invested by himself. And, conversely, he will be able to invest the money somehow he manages to keep untaxed. And I will not contend that a new or higher tax cannot frustrate the intentions of lots of entrepreneurs to invest, or, conversely, that loosening of the tax-grip cannot initiate an opposite process. What I have told in the previous

paragraphs is not valid for the individual entrepreneur, and it is not necessarily true in the short run. It refers to the macroeconomy, to the class of capitalists in its entirety and it holds true in the long enough run. And experience shows that in reality the volume of taxes did grow, beginning at hardly 10 per cent of GNP, to 50 per cent and even more of it, without having the least endangered aggregate profits net of taxes. Regarding the system of taxation from this point of view, there does not seem to exist any absolute upper limit to the part of GNP that could be taken away by the government in the form of taxes. No amount of profit taxes could prevent the class of capitalists from investing and consuming, and thus preserving their high enough after-tax profits, if this were all that ought to be said.

The usual Keynesian tools of anticyclic economic policy fall short of "a... comprehensive socialization of investment" vaguely advocated by Keynes and, thus, capitalism slides into a world of stagnation and inflation

But this is only one side of the whole story. Increasing profit taxes, when spent by the government, while increasing pre-tax profits, raise also prices. Pre-tax profits are the difference between the realized price and the costs of production. So long as these costs do not decrease and taxes rise, also prices cannot but rise. But, with rising prices, costs of production, far from decreasing, rise, too. And it is not only profit taxes that raise prices. So do all indirect taxes, and not only because capitalists will try to charge the public with these expenses. Indirect taxes tend to increase also demand almost by their own amount. Workers spend their wages on wage-goods; a part of their wages goes, by way of indirect taxes, into the state budget; from here it reaches directly or indirectly the workers producing goods or services for the government, and, in their hands, it constitutes once again demand for wage-goods. So prices cannot but rise. The only kind of taxes not raising prices directly are the direct taxes on wages. They do not, by themselves, increase prices, because they diminish the disposable money wages of those affected. This is true so long, and only so long, as workers do not successfully react to an increase of their taxes with demanding higher wages. And, thus, we have arrived at the ill-famed problem of spiralling prices and wages.

Prices do not rise simply because wages rise. They also rise because the proportion of workers whose wages belong to the class W_3 is increasing. And this is increasing mainly because of the steady growth of budget expenditures. Direct taxes do not, by themselves, augment the costs of production; they do not cause a "cost-push" variety of inflation; they – mediated by government expenditures – enhance demand. Nor could indirect taxes raise prices if government expenditures

met by the influx of these taxes did not increase demand, except when production were to be cut. If, conversely, enhanced demand were followed by an increase of production (of consumer goods) according to the over-simplified theory of the multiplier, prices should not rise. Nor would such a state of affairs necessarily involve any sinking in *real* profits. Prices rise with rising demand because of the prevalence of oligopolistic supply, as entrepreneurs do not allow a fall in their profit margins; they rise because of what Marxists call monopoly and monopoly capitalism. And prices rise also because, in an inflationary situation, workers try to preserve the purchasing power of their money wages by demanding and enforcing higher wage rates. Thus, prices rise *also* because of the phenomenon of price-wage spiral. (And, of course, their rise may be caused by many other factors which here I cannot, and need not, enumerate.)

For a long period inflation was, in the leading capitalist countries, a slow and controlled process. This was a period of prosperity disturbed only by minor setbacks. In these countries workers have long enough listened to preachings about the unequivocal advantages of capitalist prosperity also beneficial to workers, to keep quiet, be patient and believe in "social partnership". And, as a just price for their patriotic behaviour, they took for granted their right first to nearly full employment and, secondly, to growing real wages at a rate no less than the increase in productivity.* But this latter cannot be realized if in a situation of inflation, however controlled, money wages do not rise faster than productivity. And when money wages rise, they must rise even in industries where productivity is stagnating. Thus, there works a built-in mechanism forcing inflation to accelerate, to run wild and to threaten the whole economy with explosion.

The situation is somewhat analogous to ignition. Just as ignition does not occur below a critical temperature but, after having reached that, a chain reaction follows, there seems to exist also a critical speed in the process of inflation; and inflation in the leading capitalist countries seems to have reached this critical point.**

Recently it has not been too difficult to enforce a stop to growth by the usual weapons of Keynesian monetary and fiscal policy used in the opposite sense as that usually thought to be apt to promote prosperity, i.e. by reducing effective demand. Inflation could not be stopped by them. Unemployment increased instead. But massive unemployment is not a situation which could be tolerated for a long period. It is not aggregate demand but production that ought to be increased in such a situation. The private investment activity ought to be somehow enhanced, for this is

* An illusionary aim if productivity in the industry proper is meant by "productivity".

** The fact that in spite of its impact on the inflationary pressure, collective wage contracts often and very understandably discount the expected rate of inflation may be deemed to be characteristic for such a state of things.

the method of increasing private profits, thus setting off the working of the propelling force of the capitalist economy. Nor would, so long as capitalism prevails, a "somewhat comprehensive socialization of investment" suffice if this was to mean increased government investment. Investment goods accumulated by government are no additions to the real profits of capitalists. And so, for want of something better, capitalist governments will surely return to the "classical" tools of monetary and fiscal policy, enhancing effective demand, thereby producing even higher and more steady inflation.

The multiplier effect, working rather well in a slump when prices are falling or at least stagnating, does not work effectively enough during inflation. Not a lack of effective demand but insufficient private investment and, therefore, a low rate of profit is the central problem that ought to be tackled when growth is slow. But this, when inflation has reached a critical point, is not manageable with traditional Keynesian (and even less with monetarist) methods.

Epilogue

My aim was not to prescribe better medicines, or to denigrate, lock, stock and barrel, Keynesian economic policy that has served in saving capitalism quite successfully for a long time. My aim was to show that Keynes or the Keynesians, hampered by their neo-classical inheritance, did not fully grasp the very essence of their economy. Only so could they think that they had invented the way to eternal capitalist viability while what they advocated was good only for symptomatic treatment. Capitalism is a class-society and as such, full of deep inner contradictions. Temporarily these contradictions may remain more or less hidden; any major change in the economy's structure may modify or thoroughly alter the forms in which these contradictions break through,* but sooner or later they inevitably come to the surface, jeopardizing the very existence of capitalism.

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* A more recent form seems to be capitalism's inability to curb inflation without provoking recession and mass unemployment.

К КРИТИКЕ КЕЙНСА И КЕЙНСИАНСТВА

П. ЭРДЕШ

Автор выступает с критикой Кейнса и кейнсианства с точки зрения экономического кризиса середины семидесятых годов. Наиболее очевидной теоретической ошибкой методологи Кейнса автор считает размывание классовых категорий, недопонимание им весьма существенных различий между такими специфическими формами дохода, как заработная плата и прибыль; то есть непонимание роли прибыли как движущей силы капиталистической экономики. У Кейнса категория «эффективного спроса» узурпирует место нормы прибыли должной высоты. В принципе не было бы препятствий для роста капиталистической экономики, если бы норма прибыли была высокой и оставалась таковой в течение длительного времени. Кейнс же провозглашает, что поддержание эффективного спроса на должно высоком уровне обеспечивает капиталистический рост даже в том случае, если норма прибыли низка или равна нулю.

В действительности рост спроса может при соответствующих условиях стимулировать экономический рост, однако при этом появляются инфляционные эффекты. Автор указывает на специфические обстоятельства, обусловившие в первые послевоенные десятилетия достаточно эффективное функционирование факторов экономического роста и без кейнсианской экономической политики, при этом их инфляционные эффекты оставались в пределах терпимого. Далее автор вскрывает причины, в силу которых соотношение стимулирующих рост и инфляцию факторов должно измениться на прямо противоположное и установиться такое положение, сохраняющееся в течение длительного времени, когда важнейшим препятствием на пути экономического роста будет инфляция. Приводя свои аргументы, автор вкратце указывает и на некоторые стороны экономики также непроизводительных затрат и налогообложения, игнорируемые до сих пор в марксистской теории.

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G. PETRILLI

THE EUROPEAN ECONOMIC COMMUNITY IN THE PRESENT INTERNATIONAL SITUATION*

At that very moment when the realization of the old pet project of the United States concerning the general liberalization of the trade among all Atlantic and Pacific industrial countries is likely to get more and more remote as a consequence of the crisis, the European Community has to demonstrate with facts that the opinions saying that the Community is merely a distortive factor in international trade are unfounded. The Community has to prove its capability of assuming a growing international responsibility and of solving its own structural problems, rising above the forms of monetary co-ordination that leads necessarily to penalizing and neglecting the developing regions of the very Community. The existence of a strict relationship between these two demands – which can be expressed, in the simplest terms, by the obvious consideration that each international subject can be the readier to confront the problems of others the stronger its own inner cohesion – means that the very challenge deriving from the present world crisis constitutes a decisive opportunity for the growth of the European Community.

In terms of extreme simplification, I would say that the root of the present international crisis lies in the changed relationship between demand and supply, characterized by a more and more noticeable insufficiency of supply against an ever rising demand. Even if we accept the existence of an objective scarcity of the available raw materials – of foodstuffs, to begin with – I am not convinced that this scarcity is already to be considered a structural fact. I would rather think that the actual temporary penury was caused, in the final analysis, by an uneven distribution of resources – on an international level, but more than once, also on the internal level of the individual countries. However, this could be avoided by promoting more efficient forms of organization, also in order to mitigate sudden fluctuations in the terms of trade and to release them partly from the dangerous logic of the co-allied interests having come into conflict with each other.

Contrary to the neo-Malthusian philosophy, which, at present, tends to approach the entire concept of development more and more from the aspect of demography, I am invariably convinced that the very expansion of supply has to be stressed unambiguously, in which technological development remains a decisive element as regards both the aspect of the diversification of raw materials, in particular energy resources, and the constant improvement of relative yields.

The effective disequilibrium between demand and supply has led to inflationary tensions through three main channels: the cost of primary products and energy, the cost of labour and of money.

* This article is based upon a paper of the author read on 28th April, 1975, at the Section of International Economics of the Hungarian Economic Association.

As regards the cost of primary products and energy, the sudden shifts in the terms of trade of manufactured goods, on the one hand, and of raw materials and energy, on the other, were not an exclusive result of the fact that the producing countries had exploited the emerging situation of scarcity but also of the abrupt abandonment of long standing practices, so far considered to be a stable part of the world economy, such as the creation of food reserves in order to balance the cyclical fluctuations of harvests and the practice of relative self-sufficiency in petroleum followed by certain countries. From the aspect of the *cost of labour* there has been an undeniably increasing tendency to eliminate the ties between its growth and the improvement of productivity, resulting in a falling rate of accumulation, and, thus, in a general slowing down of growth. Finally, as regards the *cost of money*, the renunciation of maintaining a currency in the position of a stable international value parameter, further, the consequent crisis of the whole monetary system have contributed to the inherent inflationary pressures and to an increased speculative activity, while on a national level the restrictive measures adopted by the monetary authorities have, through the pressure exercised on costs, and, thus, on prices, eventually become stimulators of the very inflationary pressures they were intended to restrain. In spite of all this, the governments have not only failed to take considerable steps toward the reorganization of the world trade but the persistent inadequacy of legislation seriously hindered the creation of an actual equilibrium, by putting obstacles in the way of the international development of a number of economic activities. Finally, I have to mention that the exogenous factors of the crisis inherent in the present international economic situation tend to combine with the endogenous ones in the individual countries, with the effect of a mutual intensification.

It seems to me that it is opportune to recall that in 1944, when at the Bretton Woods Conference the new foundations of the interntional trade and payments system had been negotiated, the Keynes-plan proposed to penalize all the countries that caused any situation of disequilibrium, disregarding whether such countries were in a position of deficit or surplus. The main application of this fruitful principle was related to the Marshall Plan, which, from an economic aspect, represented the penalization of the expanding economy of the United States. This helped to contain the disequilibrium of the balances of payments, thus creating the conditions for a general revival of trade between the Western industrial countries. In a more recent period, a disequilibrium of opposite nature, determined by transatlantic and transpacific economic relations, has become mitigated – on the urging of the United States, which, at a time, was opposed to the propositions of Keynes – through the revaluation of the main Western currencies, among them, those of Germany and Japan. At present, however, the problem has taken on different proportions, since

the shift in the terms of trade between manufactured and primary products has created a universal disequilibrium. Without underestimating the capacity of adaptation demonstrated by the industrial economies and without ignoring that the redistribution of the incomes in the short span of a few months is undoubtedly helpful from the viewpoint of the overall progress of humanity, it remains true that the changes in relative prices took place extremely rapidly and manifestly. It may be expected that the prices will be reassessed according to more realistic value relations; it is obvious that this reassessment should be realized through a concerted action rather than through an inflationary process that is likely to erode incontrollably the advantages recently acquired by the raw material producing countries through the fluctuations of prices.

The whole of this analysis leads us to the necessity of reconsidering the problems of the European Community in the light of the responsibility which Western Europe is challenged to assume in the new situation of the world economy. Even recently, Europeans have been predominantly preoccupied with the Middle-East conflict, introducing a grave factor of tension into an area so important for Western Europe from the viewpoint of her security. Today it has become clear that the Middle-East problem, independently from its objective seriousness and the risks it involves for the world peace itself, constitutes but the detonator of a rather more complicated mechanism. A mechanism, which has again raised the question of the problem of worldwide underdevelopment in peremptory terms, which has so far been dealt with rather theoretically than in concrete terms. The circumstance that a number of third-world countries have recognized the already imminent scarcity of certain raw materials as an instrument of their own economic and political self-assertion is certainly not a fact of secondary importance. It has been generally recognized that a certain type of economic equilibrium, which was a symbol of order created in Bretton Woods for the international monetary system, has been swept away by the energy crisis and can be no more reconstructed in its original form. Events of great importance have taken place both in political and in economic fields: the emergence of a group of raw material producing countries from the state of general underdevelopment characteristic of the third-world countries, together with a corresponding drastic worsening in the conditions of the remaining countries in this same group, which are now called "fourth-world countries". The most remarkable of the latter is the Indian giant – with almost a quarter of the world's population – where the capacity to develop the food resources indispensable for subsistence has been decreasing at a moment when the country has, paradoxically, reached the status of a nuclear power. Simultaneously, in the case of industrial countries we have seen that recent developments contributed to the reinforcement of the leading role of the two superpowers, above all to the detriment of the European Community and Japan

– countries structurally poor in raw materials and, for this reason, extremely sensitive to exogenous factors.

According to the somewhat optimistic opinion of quite a few, these developments may well bring about certain positive effects from the viewpoint of the industrial countries as well. The extent to which the raising of raw material prices revealed a relative elasticity of certain consumptions as in the case of petroleum products, may contribute to such orientation of future development as will be more in conformity with the opportunities really offered by the available natural resources, encouraging the search for substituting products through technological progress.

However, this does not alter the fact that there is a general tendency for raw material producing countries to set up sectoral consortium-type organizations and that, simultaneously, the industrial countries make concerted efforts to obtain a reduction of prices through various mechanisms, by stimulating the utilization of substituting products and a close co-operation between consumers in the prospect of confrontation rather than negotiations; even disregarding immediate political risks, this co-operation may exceedingly reinforce the distorting tendencies already observed in international trade. In more general terms, the risk also prevails that the deflationary policy pursued in most of the industrial countries will end in hardly controllable recession tendencies, setting in motion a chain reaction of protectionist measures. The experiences of the period between the two World Wars and the close correlation between recession, protectionism, and the proliferation of nationalism observed in that period ought otherwise to alarm the leaders of not only the industrialized countries but also of those which have drawn an immediate benefit from what has taken place.

In reality, we are facing a situation which is contradictory in many respects. On the one hand, industrial countries continue to live to a large extent under imported inflation, as if refusing to acknowledge the new realities of international economic relations, while, on the other, the raw material producing countries, having benefited by the unexpected enrichment, are unable to absorb this new riches of theirs in real terms. These countries, notwithstanding certain relevant episodes when they acquired ownership in important enterprises in industrial countries, continue extensively to rely on speculative operations endangering the equilibrium of the world economy; however, these operations are insufficient for ensuring their security in the long run. The dramatic problem of the present international situation results from the very frustration both groups of countries experience with respect to the need of security. For the one group this means security of investment and access to raw materials, while for the other it is synonymous with a call for international sanctions in order that they might take full command of their own natural resources,

with their demand for stable prices, and with their aspiration for a freer access to the markets of the industrial countries. This last aim is particularly voiced by the rest of the developing countries, which have, so to say, remained poor. It is not my intention to dwell long upon the different solutions proposed for different kinds of problems, above all, those in connection with the oil question. I, personally, think that, while recognizing the usefulness and purposefulness of a close co-operation of consumers, the unquestionable divergence of viewpoints among members of both groups of countries, in correlation with, for example, the different extent of dependency of the different consuming countries on imports, justify by themselves several intervention mechanisms on regional level.

As I see it, the countries of the European Community could play in the future an indispensable role in the reconstruction of the already endangered international order by offering new forms, with adequate guarantees, for the investment of the recently accumulated capitals.

On the other hand, such a development could lead to a reorganization of economic relations on a world scale, capable of reconciling the requisites of the development of trade with those of a balanced growth of the different systems. Otherwise there is an evident correlation between the internal consolidation of the European Community and its capacity to undertake a function in the world economy. In this latter regard the diversity of the monetary, inflationary and balance-of-payments problems existing in the countries of the European Community should be underlined; this diversity is related, to a great extent, to the fluctuations of the economic trends having characterized the member countries in the last few years. These fluctuations have been a result of a deeper and widely observed structural diversity. These structural differences have not been taken into account seriously enough in community considerations relating to the policy to be followed in influencing the business situation and the balance of payments. It is often maintained that the co-ordination of economic policies should always and everywhere involve the introduction of uniform provisions rather than measures taking into account the different structural situations. It should be noted, however, that even if the artificially provoked restraint of demand, in particular, that of investment demand, is accepted without questioning in a situation of inflationary tensions manifesting themselves in fully developed countries and even more in countries which have to rely on labour imported from other countries – its application in the case of economies where a large part of the production factors does not find employment would lead to nothing else than the acceptance of a Malthusian equilibrium of underdevelopment.

In this sense, Italy, on account of her own dualistic economic structure, occupies a somewhat intermediary position between the state of an industrial

country and a developing one; else she is a relatively heterogeneous element of the European Community, having characteristics related to the specific problems of underdevelopment comparable only with those of Ireland. Her presence in the Community justifies in itself the raising of the acute problem of how an economic and monetary union among countries with diverse economic structures can be realized. The regional problem, also in a European context, is interesting not only from the aspect of certain peripheral fringe regions, but, in certain respects, from that of the highly developed regions as well. The Italian diagnosis is also true in this regard: the peripheric regions suffer from a gradual demographic haemorrhage, which is not compensated adequately either by tourism or by remittances made by emigrants. Meanwhile, a mounting tension can be observed in the countries of immigration, which is one of ethnic and linguistic type and of a social nature at the same time, as in these countries a great number of foreign workers do the hardest jobs, and, thus, they are doubly discriminated against with respect to the local society. The circumstance that the parallelism provided for by the Treaty of Rome concerning the liberalization of the circulation of production factors and the co-ordination of economic policies has largely remained unattained while in the field of economic and monetary union the objectives of an unlimited circulation of capital and a progressive restriction of the margins of fluctuations of national parities were awarded a privileged status against a common development orientation, explains how this same integration process involved the risk of a stimulated internal migration and the ultimate exacerbation of territorial disequilibrium. A development of this kind was obviously bound to be contrary to the violated interests of these regions and social groups which are more directly exposed to the negative effects of the dynamics of a market let loose. This provoked, as it really happened, in combination with an inflationary wave as well as with the related grave prospect of recession the gradual formation of a centrifugal force within the Common Market, threatening the weaker member countries, first of all Italy, with being pushed to the periphery and, in the long run, with a crisis of the whole construction of the Community. Under such circumstances, pursuing a real regional policy within the Community by regrouping dispensable incomes constitutes a fundamental instrument for the realization of new ties of solidarity among economic structures that are heterogeneous by themselves. This seems to be particularly urgent in the light of the present general crisis situation lest in lack of such policy the equilibrium of the balance of payments on national levels should be restored by the restriction of demand, by the spread of protectionistic trade and monetary practices, such as the restriction of imports or, perhaps, devaluations with the enhancement of competitiveness in mind. Such measures would have, in fact, only negative repercussions on the complex of the economy of the Community, dangerously amplifying the tendencies of the already

prevailing recession. In this sense, the present crisis may be regarded as an objective urging for the globalization of the balance of payments of the community; however, this globalization is unthinkable without substantial progress in the political-institutional field.

The demand voiced all too often in merely social or even in abstractly solidaristic terms, that capital could rather be oriented towards manpower than the latter towards capital, acquires a new, hitherto non-existent concrete meaning in this context, suggesting, perhaps, the main feature of an anti-inflationary policy: the enlargement of supply and the reduction of costs rather than the restriction of demand. From this aspect, the decisions of the summit conference of the heads of state and of government of the European Community (held in Paris, in 1974) – taken in order to create a regional fund – are encouraging, in spite of financial limitations. They are encouraging also because this was the first sign of the recognition that in face of the risk of an imminent recession the economy of the community needs concerted action for boom through the renewed expansive activity of the more prosperous countries.

As to my judgement, the first relevant fact is the shift which seems to have taken place in the economic policy of the Federal Republic of Germany; in the recent past it has appeared that this policy underestimated the recession risks inherent in the current boom, and took the path of reducing internal demand for the purpose of containing inflation without taking into account the apparently wide possibilities offered by a policy of economic upswing made possible by the active balance of payments in that country. The persistence in such a line of conduct would have had a direct repercussion on the Italian economy by provoking the unemployment and consequent repatriation of a large part of our emigrants. In more general terms, however, it would have undermined the very basis of solidarity within the community, contributing to a large extent to the aggravation of the recession tendencies of the individual economies, finally setting into motion a dangerous process of chain reactions in commercial as well as perhaps also in monetary fields, leading to the preponderance of protectionism and autarky.

This very changed attitude, – the more appreciable as it shortly followed the declaration of Willy *Brandt* who seemed to adopt a line accepting as an inevitable minimum the exclusion of the countries with the gravest deficits, i. e. Italy and Great Britain – is a decisive element of the newly found solidarity and it seems very significant to me that the Summit conference commissioned President *Giscard* to call, in the name of the community, the attention of President *Ford* of the U.S.A. to the importance of a convergence of the economic policies of all industrial states, which should be directed both against inflation and recession. The substantial adherence of other member countries of the Community to the French proposal to

convene a conference of petroleum consuming and producing countries also seems to me, beyond the alchemy of any policy of compromise, to express the preoccupation of Europeans with the risk of a general recession. It is, in fact, clear that a policy tending toward confrontation rather than negotiation with the producing countries would, quite apart from the non-negligible political risks, definitely aggravate the economic contradictions generated by the difficulties of the supply with petroleum products, and would exacerbate the present crisis of the world trade whose consequences are dangerous for all. However we judge the compromise arrived at during the talks on the Martinique the real significance of which might be judged by the events of the coming months, in our context it undoubtedly seems to be an appropriate platform of consent for the Community to assert the special demands of the more or less exclusively consumer countries, which are particularly interested in a renewed co-operation with the petroleum producing countries also in financial matters.

Precisely because the present crisis has reached a world-wide scale, the problem of economic and monetary union cannot be, in fact, considered *in vitro*, i. e. independently from its outward relations, assuming that the European Community is a universe in itself: on the contrary, it must be inspected how far it may contribute to the reconstruction of the order of the world economy upset by the present crisis. At this very moment when the realization of the old pet project of the United States concerning the general liberalization of the trade among all Atlantic and Pacific industrial countries is likely to get more and more remote as a consequence of the crisis, the European Community has to demonstrate with facts that the opinions saying that the Community is merely a distortive factor in international trade are unfounded. The Community has to prove its capability of assuming a growing international responsibility and of solving its own structural problems, rising above the forms of monetary co-ordination that leads necessarily to penalizing and neglecting the developing regions of the very Community. The existence of a strict relationship between these two demands – which can be expressed, in the simplest terms, by the obvious consideration that each international subject can be the readier to confront the problems of others the stronger its own inner cohesion – means that the very challenge deriving from the present world crisis constitutes a decisive opportunity for the growth of the European Community. This will call for a contribution to a macro-regional reorganization of trade, which, although opposed by the traditional theoreticians preferring free trade, seems to be the most appropriate means for reconciling the requirements of the development of trade on the one hand, and of the balanced development of different economic systems on the other.

The internal cohesion of the European Community is founded on the irrevocable principle of political and institutional homogeneity of the member countries. This homogeneity is obviously indispensable for the elaboration of a common policy in the field suggested by the European Treaties and for the evolution of the Community toward the progressive establishment of a federal state. It is clear, thus, that the Community could not accept any relation with third countries, European or other, which could impede the evolution toward a political unity in the framework of democratic institutions. The political and institutional homogeneity of the member states is all the more important because it must be admitted that, under the present historical conditions, it would be impossible to pursue the objective of the economic integration without the creation of common institutions. Consequently, the Community must make use of the available means, especially in the field of commercial negotiations, for the reinforcement of economic and political co-operation on international, in the first place, on a European level. Every perspective of liberalization of the external trade of the European Community presupposes, at the same time, the reinforcement of political co-ordination in the entire integrated area, aimed at countering the inevitable political and social repercussions. If it is true that any customs union incurs negative effects when applying any discrimination in the tariffs against third countries, then the structural dependence of the Community on international trade demands by itself the adoption of a liberal attitude; the European Community has always maintained such an attitude, at least in the exchange of industrial products. The resistance of the countries of the European Community to the external pressures toward dissolving the customs union in more general forms of trade liberalization was dictated essentially by the preoccupation with safeguarding the establishment of a real economic union, susceptible of political development. Otherwise, it is not incidental that the Treaties of Rome and Paris have contemplated the institution of a common market under the form of an institutional community: under the present historico-economic conditions, characterized by an ever growing participation of the state in the formation and the distribution of the national income, a liberalization of the trade without a simultaneous intensification of political co-ordination would simply be inconceivable. The principal reason for the lack of success up to now must be sought in the absence of a sufficient parallelism between these two fundamental aspects.

The preceding considerations can be partially applied also to the specific case represented by the distortions of international trade deriving from the common agricultural policy, and, more generally, from agricultural protectionism. In this regard, it must be told that the criticisms from external observers concerning the common agricultural policy are largely accepted within the Community to the extent that many refute the level of protectionism that might discourage any effective

engagement for the competitive rationalization of the agricultural structure. Otherwise, it is known to all that in physical terms the agricultural output of the world is well below the demand of its population and that it is practically impossible to satisfy it without the contribution of the agriculture of the industrialized countries. Now, it must be told that this latter could not exist if the agricultural workers were not provided an average income corresponding to that of other workers employed in other economic sectors. This requirement, coupled with the one inherent in defending the security of supply, is related to the complexity of Community directives concerning the socio-structural reforms of the agriculture, through the partial application of the so-called Mansholt Plan. This, in itself, furnishes the justification of security measures which, perhaps, ought to burden the tax-payer rather than the consumers, but they create problems which are impossible to ignore. Further, it may not be inopportune to remind the reader that these requirements turned out to be more sensitive to the difficulties of the present international business trends, especially in countries like Italy, which had to invoke the safeguard clause also in the trade within the Community because of the grave deficit of her balance of payments.

Let me express a thought of mine on stock-breeding, which is particularly interesting in the case of Hungary. Although I am not an expert on this subject, yet, I would like to note the grave disturbances that have occurred in Italy in the recent past, when excessive imports, regrettably linked to speculative manoeuvres and incomes, have motivated the present efforts made for the achievement of wider margins of autonomy; on the Community level a precisely contrary redimensioning of the stock-breeding in favour of plant cultivation is under way, also as a result of the crisis caused by the increase in the prices of animal feeds on the world market. The recently formulated new proposal of the *European Commission* concerning agricultural prices expresses this orientation. It is justified to think that a surmounting of the present difficulties may lead, particularly in the case of Italy but also for the whole Community, to the achievement of a more balanced situation, to the resumption of imports, which will obviously interest the East-European countries in the first place.

In the future development of the relations between the European Community and the East-European countries the political climate created during the last years will have to be taken into account, the settlement of disputed questions inherited from World War II, particularly the conclusion of the Treaties of Moscow, Warsaw, and Berlin, and the results already achieved at the Conference on Security and Co-operation in Europe. This political tendency, undoubtedly subordinated to the progressive *rapprochement* between the United States and the Soviet Union, appears to be a permanent one, in spite of the tensions reemerging in connection with the present difficulties in the international trade and with purely political

changes, especially the Middle-East situation. It is my firm convinction that the progressive strengthening of international ties on a European initiative, which has recently manifested itself in various fields, would reaffirm rather than weaken the present equilibrium by playing a mediating role between confronting interests. In this sense, the perspective of a possible negotiation between the Community and the CMEA – which has certainly played a positive role in the economic development of Eastern Europe – seems to represent a promising motif, especially in regard to the development of a multilateral dialogue of a nature that could lend a new impulse to bilateral ties, impeded by the difficulties encountered in the field of the balances of payments of the individual countries. Any political initiative of this kind constitutes a progressive factor by itself, creating the prerequisites for strengthening the ties between the united countries, notwithstanding the diversity of the political systems and the geographical situation, with full regard to the fact that we belong to a common civilization.

ЕВРОПЕЙСКОЕ СООБЩЕСТВО В СОВРЕМЕННОЙ МЕЖДУНАРОДНОЙ ОБСТАНОВКЕ

Д. ПЕТРИЛЛИ

Внутреннее единство Европейского Сообщества основано на нерушимом принципе политической и институциальной однородности его стран-членов. Очевидно, что эта однородность необходима для выработки общей политики в области, указанной в Европейских Договорах, и для движения в направлении постепенного превращения Европейского Сообщества в федеральное государство. Ясно поэтому, что Сообщество не может принять такие отношения с третьими странами, — будь-то в Европе или в других частях света, — которые могут препятствовать движению в направлении политического объединения в рамках демократических институтов. Политическая и институциональная однородность государств-членов Сообщества тем более важна, что в современной исторической обстановке достижение цели экономической интеграции было бы невозможно без создания общих институтов. Следовательно, Сообщество должно использовать имеющиеся средства, особенно в области торговых переговоров, для усиления экономического и политического сотрудничества на международном и прежде всего — европейском уровне. Любая перспектива либерализации внешней торговли Европейского Сообщества предполагает одновременное усиление политической координации во всем этом интегрированном регионе целью противодействовать неизбежным политическим и социальным последствиям этой либерализации. Если верно то, что создание любого таможенного союза сопровождается отрицательными эффектами — таможенной дискриминацией третьих стран, то структурная зависимость Сообщества от международной торговли сама по себе требует принятия либерального курса, и Европейское Сообщество всегда придерживалось его, по крайней мере, в обмене промышленными изделиями. Сопротивление стран Европейского Сообщества внешним нажимам, стремящимся к растворению таможенного союза в более общих формах либерализации торговли, было продиктовано в основном стремлением установления подлинного экономического союза, способного к политическому развитию.

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PROBLEMS OF PRICING IN MARKET ECONOMIES

Illustrated by an example of the pricing of agricultural products and food in the European Economic Community*

Agricultural price formation causes particular problems because of the violent price fluctuations which arise already with minor disproportions between demand and supply. Government market and price policies try to interfere with their regulation. Recently this has achieved high efficiency in the agricultural price system of the EEC countries. Nevertheless, it is exposed to criticism. The article discusses the starting points and justification of the system in view of the objectives, tools and efficiency of EEC agricultural price policy.

1. Conditions of a functioning market mechanism in market economies

In market economies the prices of goods and services have the function of co-ordinating the economic plans devised by individual subjects of economic activity. When the price mechanism is able to function adequately, price changes will stimulate or restrain the supply and demand (this being the controlling or orientating function of prices); at the same time, any price change having taken place belongs to the set of factors determining the creation of incomes (this is the income-regulating function of the prices). This distinction between the two kinds of function will have a relevance when evaluating the various interventions affecting the pricing process from without. For the ability of the price mechanism to function, two conditions of special importance prevail. The first of these, a market structure favourable to competition, is invariably emphasized in literature, whereas the second – an adequate market behaviour on the part of the subjects of economic activity – is mostly tacitly supposed to be present. It is, however, worth considering that a market structure favourable to competition (i.e., an adequate number of the competitors and an adequate extent of their economic power) is a necessary but not sufficient condition for the price mechanism to function; it has to be complemented by

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another, namely, an adequate ability of response to price changes on the part of the competitors, resulting in appropriate modifications of the quantities offered or demanded by them, respectively.

Market structure

As regards its market structure, the food economy (which category includes agriculture, the food industry and the trade in food) has served for a long time as a textbook example of "polypolistic" (as distinct from "monopolistic" or "oligopolistic") competition. In view of the atomized structure of supply in this sector, one is likely to attribute the inefficiency of this kind of competition to the fact that so many competitive chances are being unutilized, rather than to the existing inequality of power relations. During the last two decades, however, a growing concentration in the trade in, and in the industrial processing of agricultural products has led to important structural changes which sharpened competition rather than eliminating it. Similar effects of a more acute competition on the markets of the food economy have resulted from the integration of the Federal Republic of Germany into the European Economic Community, since the supply (and demand) of other EEC countries were, as a result of free trade, increasingly realized in the FRG.

Market behaviour

In the framework of the pricing model pertinent to polypolistic competition, our textbooks present all relevant problems in a form suggesting that supply and demand are being brought into equilibrium through price changes. These models invariably assume that any rise or decline in price as an incentive of supply or demand will cause adequate responses in quantities on the part of the suppliers or buyers. However, in the sphere of the food economy, this assumption will lose its validity to an extent to which the (in itself rather low) price elasticity of supply and demand diminishes in the process of economic growth. The more the price elasticity of supply and demand approaches zero, i.e., complete rigidity (and this is the case with certain agricultural products), the more the regulating function of the price mechanism will cease and, as it will be shown below, extreme price fluctuations will take place.

2. The motivation of state intervention affecting the prices of agricultural products

Arguments for diverting agricultural prices from their long-term equilibrium (subsidizing prices)

In a closed national economy where prices are not influenced by the state, the following principal factors will determine the price level of agricultural products:

(1) *On the side of demand:*

- the growth of the population,
- the increase of per capita real income,
- the income elasticity of the quantitative demand for food.

(2) *On the side of supply:*

- the compulsion felt by the individual economic units to apply the achievements of technological progress, leading to a spontaneous increase of supply,
- the lack of mobility of the factors of production (particularly of land and labour, but also of most fixed equipment).

The increase of the demand for food and, consequently, for agricultural products is restrained, in *growing industrial economies,* by the decreasing rate of population growth. As regards the *highly developed economies,* it is also restrained partly by the slower increase of per capita income, and partly by the diminishing income elasticity of the demand for food, resulting from higher living standards. Consequently, in a closed economy food supply may increase only at a rate corresponding to the growth of demand.

However, – owing to the overall growth of the economy – the productive capacities of agriculture increase at a rate much exceeding the limits mentioned above. For the individual farming unit, the application of progressive techniques and the exploitation of yet unutilized reserves may seem lucrative, and this aspect leads to an increase of supply which is not stimulated by the evolution of prices. A long-term disequilibrium between the growth rates of supply and demand can be, in this case, avoided only through restricting the employment of productive factors in agriculture. In view of the – relative – immobility of agricultural land, labour and fixed equipment, serious concern may arise against leaving it entirely to the free play of the market forces to bring about such adaptation. For, desirable as it may seem as regards the optimum allocation of resources and the maximum rate of economic growth, it would be dangerous with a view to social justice to allow the process of spontaneous adaptation to run its course and, most likely, to pass beyond tolerable limits.

The main hindrance to an immediate adaptation of supply to any given market demand consists in the insufficient mobility of the factors engaged in production, namely:

(1) As soon as the most mobile part of labour (consisting of hired workers and helping family members) has been withdrawn from agriculture, any further withdrawal of labour means that a number of small individual farmers have to give up formerly independent activities, to abandon their land and home and to find jobs as hired workers in other sectors of the economy.

(2) As a consequence, the withdrawal of labour from agriculture represents a problem involving a change in agricultural and in the general structure of society, thus requiring intervention on the part of governmental structural and social policies.

(3) Not even the amount of capital employed in agriculture can be diminished overnight. Under the high pressure of the price-cost relation the amount of employable capital tends to decrease anyway. As a consequence, the parts of fixed capital formerly used in agriculture and withdrawn from it are sold for next to nothing. Thus a radical restriction of the capital stock employed in agriculture would cause enormous losses to the national economy. This is one more reason for moderating the pace of structural change.

(4) The reduction of the cultivated area, i.e., of land as a factor of production, is not solved, but only postponed through the merger of smaller farms and the resulting economies of scale. When, ultimately, some marginal land will be eliminated from cultivation, also problems of environmental protection will emerge.

When, in spite of all these hindering circumstances, the necessary structural changes have to take place without causing social tension, intervention and aid on the part of the state are needed in order to slow down the pace of structural change to a tolerable rate. The main motive force promoting the structural changes of the type described is furnished by disparities existing among the income levels of the various economic sectors. Therefore, a rational agricultural price policy must intervene in order to regulate the differences existing among sectoral levels of income (i.e., income per employed person), in a way that they should not pass socially tolerable limits, but should remain significant enough to produce the desired extent of structural change. An excessive disparity of sectoral per capita incomes may be avoided by trying to separate the agricultural price level from the long-term equilibrium, that is, by *subsidizing* the prices.

Apart from the necessity of slowing down the pace of structural change resulting from the adaptation to market circumstances, price subsidies are often applied in order to ensure a higher participation of domestic agriculture in the supply with food. In this case, they serve for eliminating the risk of the country's being dependent on foreign supplies.

The necessity of checking erratic price fluctuations

Agricultural markets furnish a typical example for situations of short- or medium-term market disequilibrium, which become balanced only after violent price fluctuations. Variations in the volume of supply and demand result partly from natural causes like weather, pests, epidemics, etc., partly from delayed adaptation of supply due to biological or technical conditions, and partly from economic repercussions of a general nature (business cycles, etc.). The price fluctuations caused by changes in the volume of supply and demand may, however, be explained mainly by their insufficient flexibility, i.e., their insufficient reaction in the face of price changes.

Rising standards of living tend to mitigate the economic compulsion to substitute less expensive kinds of food for those whose prices were increased, thereby diminishing the short- and medium-term price elasticity of the volume of demand. At the same time, the growing capital-intensity of agriculture causes also the price elasticity of supply to diminish. As a result, the same rate of change in the volume of supply or demand tends to produce price fluctuations of an increasing violence.

However, the extreme price situations whose only cause consists in the insufficient short- and medium-term mobility of supply and demand lose the function of controlling production. Only price trends from which extreme fluctuations have been eliminated can serve as reliable indicator for the allocation of resources. If production adapted itself to extreme price situations, this would lead to excessive but delayed reactions on the supply side as well as to misallocation of resources, for the market circumstances are likely to become quite different long before the "price-induced" change in the volume of supply would have taken place.

Thus, a realistic and reasonable objective of governmental market and price policies consists in supressing the false signals coming from extreme price situations. The purpose of measures taken in this context is to reduce erratic price fluctuations to an extent which is likely to involve, in the next production period, only as much change in the volume of supply as is deemed necessary. Thus, the task is to *moderate* price fluctuations rather than to eliminate them altogether.

3. Objectives and conceptions of economic and price policies regarding agricultural markets

Objectives

The objectives of the agrarian policy of the EEC are defined by Article 39 of the Convention of EEC ([1], p. 209) as follows:

The objective of the common agricultural policy is:

- to improve the productivity of agriculture, through promoting technological progress, rationalization of production and making the best use of available factors, especially of manpower;
- to ensure, in this way, adequate living conditions for the agricultural population, in the first line by increasing the per capita income of persons engaged in agriculture;
- to stabilize agricultural markets;
- to ensure the supply of the population with agricultural products;
- to supply consumers with food at adequate retail prices.

These objectives of agricultural policy are subordinated to the general economic objectives of the EEC, as stated by Article 2 of the Convention ([1], p. 179.). These latter provide for promoting, by creating a Common Market and by gradually approaching the economic policies of the member countries,

- a harmonic development of economic activities within the Community;
- a steady and balanced economic growth;
- an accelerated improvement of living conditions;
- closer relations among the member countries.

In view of these lines of general policy, and by eliminating overlappings due to different wording, it seems possible to formulate the objectives of agricultural policy in a few points of a more factual content:

- *the income objective* (maintenance of the desired rate of economic growth in general and of adequate incomes in the agricultural sector; avoiding of misallocation of resources);
- *the objective of market equilibrium* (greater stability of the economy as a whole; stabilization of agricultural markets);
- *the objective of securing the supply with agricultural products;*
- *the objective of market integration,* i.e. of creating a European Common Market whose circumstances would be similar to those prevailing in the internal market of a single country (involving closer relations among member countries, free migration of labour and capital, free exchange of commodities and services throughout the Community, co-ordination of the

economic and monetary policies, as well as of the legal rules regulating economic activities within the Community, and a common policy regulating economic competition).

Conceptions or sets of measures

The setting of these objectives defines, at least in part, also the conceptions regarding the economic measures that have to be taken in order to achieve them. Thus, measures serving to support the prices will contribute to achieving the objectives of "an adequate income in the agricultural sector" and of "the securing of supply with agricultural products", irrespective of the price system actually applied, for, under otherwise unchanged conditions, higher prices tend to increase incomes and to stimulate domestic production.

The measures taken in order to curb price movements are intended mainly to ease temporary (short- or medium-term) disturbances of market equilibrium. Measures of this kind must be adequately proportioned, in order to avoid the occurrence of permanent (or structural) disequilibrium.

4. The tools of governmental market and price policy

A review of accessible tools

The *support of prices* on a level above that which, under the given market circumstances, would materialize in the long run, *in the absence* of government intervention, may be achieved, in principle, through the following measures:*

- quantitative regulation (quota system) of domestic production, derived from quotas on sales, under the condition of a perfect import regulation;
- quantitative regulation of imports, using the tools of foreign-trade policy (customs duties, etc.);
- the "deficiency-payment system", i.e. the payment to the agricultural producers, of the difference between the price guaranteed by the government and the sales price actually achieved by them.

The first-mentioned method involves a complicated and costly administration of production quotas, as well as a very strict channelling and checking of the quantities sold by the producers. In the EEC, it is applied only in the market of sugar, in combination with a regulation of imports.

* Regarding the mechanism of the price instruments and those of foreign-trade policies, see [2].

The second method is the one typically applied by the EEC countries. The control of foreign trade flows takes, in the case of the most important agricultural products, the form of import levies ("Abschöpfung") for which purpose either fixed or variable amounts are levied. In the case of certain products, import regulations rest solely on customs duties; in other cases, the former mentioned import levies are applied alone or in combination with customs duties.

Thus, the agricultural price system of the EEC may be best characterized as a system of import levies ("Abschöpfungssystem") and export refunds; in the latter case if quantities are supplied to the world market at lower prices.

The third method, i.e., that of deficiency-payments, was characteristic of the British agricultural price system at the time when Great Britain did not yet belong to the EEC. (It was, however, already in the last years preceding Great Britain's accession, complemented by foreign-trade regulations having a more direct impact.) The price policy of the EEC applies this system only on rare occasions, either alone or in combination with import levies.

The *effects of excessive price fluctuations* are, as a rule, eliminated by government intervention, i.e. by the purchase and stockpiling of price-reducing surpluses when the market is temporarily oversupplied, and by the sale of such stocks when supply is insufficient. Although such interventions were originally intended for balancing short-term (or, with storable products, medium-term) disequilibrium situations, the misapplication of the instruments of price policy has ultimately led to the absorption, through intervention, also of surpluses of a permanent (structural) nature.

In addition to intervention, the effects of excessive price fluctuations may be dampened by raising import levies. In this way, the EEC market can be protected to a certain extent from the direct influence of price fluctuations taking place on the world markets. However, given the great importance of EEC in the world trade in some agricultural products, its isolation from the world price level tends to cause additional tensions in the world market, since the production-control function of prices is intentionally paralysed regarding a considerable part of the global supply and demand. Thus, the objective of "stabilization of agricultural markets in EEC" is achieved partly at the cost of producers and consumers in the rest of the world.

5. Factual forms of market and price intervention regarding individual agricultural products in the EEC

Common features in the market organizations existing for the most important agricultural products

The market organizations created for the most important agricultural products are characterized by a combination of foreign-trade regulations (for separating the internal EEC prices from those of the world market) and of regulations affecting internal EEC trade, with the main purpose of restraining excessive price fluctuation.

An effective support of EEC prices resting mainly on regulating commodity exchange with the rest of the world presupposes, in the first line, the definition of the desired level of EEC prices, and of the minimum import prices calculated on this basis. The desired level of EEC prices is fixed, for every year, by EEC's Council of Ministers, either in the form of "directive prices" (e.g., for sugar, cereals and milk), or "orientation prices" (beef and wine), or "floor prices" (pork, fruits and vegetables). The minimum import prices at frontier are derived from these target prices (in some cases as, e.g. with sugar and cereals by taking into account also the transportation costs emerging between the frontier and the principal consumer markets within the EEC area). Minimum import prices are fixed either in terms of "threshold prices" (sugar, cereals, milk), or of "sluice prices" resting on the costs of production outside the EEC (pork, poultry, eggs) or else of "reference prices" (fruits, vegetables, wine).

On the internal market of EEC, prices are prevented from rising above the desired level by increasing imports, provided that the world market price is below the EEC level, and the additional quantity is available for imports.

A fall of EEC prices below their desired level may be more or less permanently avoided by way of government intervention, i.e. the purchase and stockpiling of surpluses. In the case of some products, however, the efficiency of intervention is limited by the capacity of stockroom, and also by the storability of the product in question.

The market organization for cereals

The great number of EEC market organizations for the various products, resting on different conceptions, cannot be treated in this paper [3]. By way of illustration, the market organization provided for cereals will be described.

The objective of the relevant market organization is to maintain the desired level of EEC prices of the various cereals. These are fixed annually by the EEC

Council of Ministers, in the form of "directive prices" valid for Duisburg, a market place situated in the main importing area of the Community.

Although the "directive prices" are not "guaranteed prices", foreign-trade regulations ensure that cereals imported from the rest of the world cannot be offered in Duisburg at prices lower than the directive EEC prices. In other words, import prices of cereals below the "threshold price" (which is fixed at Rotterdam parity, by calculating the transport costs emerging between Rotterdam and Duisburg) are not permitted to assert themselves.

Namely, when an importer can purchase cereals on the world market at a price lower than this threshold, the difference between the threshold price and his actual purchase price must be paid into the budget of the EEC. These import levies vary from day to day, so as to prevent fluctuations of world market prices from influencing the EEC market, as long as the former are below the threshold prices.

Although the European Common Market as a whole is a deficit area as regards cereals, in certain of its regions and in certain cereals (e.g., wheat) temporary surpluses are occurring. In order to protect producers from a resulting fall in price, *the regulations of the internal market* provide for interventionistic purchases by the government of the country in question. Such intervention takes place when the domestic price falls below the "level of intervention". This latter equals the minimum purchase price prescribed for wholesale trade. Also these are fixed annually; they are, e.g., for wheat, by 10 to 18 per cent lower than the "directive price", according to the "marketability" of the product.

With a view to the costs of storing, the intervention prices are graded according to the season of the year, in order to relieve the state of a part of the storing. In addition, at present the intervention price for wheat is also regionally differentiated: it is lower in the surplus regions, in order to facilitate the transfer of surpluses from there into the deficit regions. In the case of rye, barley and maize there are no regional differences, their intervention prices are uniform throughout the EEC area.

Since the time of its introduction up to 1973, the market organization of cereals fulfilled its function of supporting and stabilizing EEC prices. Afterwards, when world market prices have begun to rise above the EEC threshold prices, and when exports of cereals from EEC countries to the rest of the world were charged export levies, this function was exactly reversed; now it protects the consumers from excessive price rises.

Products for which no market organizations are in existence

Products for which EEC market organizations have not yet been created come under the responsibility of the member states as regards market and price policies. Their pricing is left to the free play of market forces, when no intervention is

undertaken by the individual states. The member countries are by now obliged to apply uniform customs duties to commodities imported from the rest of the world; and customs duties between member countries have been gradually eliminated. In the case of some products, however, imports are not yet wholly liberalized, being subject in some member countries to quotas in order to influence the domestic price level (as, e.g., the imports of mutton to France).

Border levies ("Grenzausgleich")

The agricultural conception of EEC consisted in creating a Common Market with conditions similar to those prevailing in the domestic market of a single country. As regards the most important agricultural products, this objective has been achieved by eliminating the customs duties within the EEC area and by introducing various market organizations dealing with these products.

In order to form a homogeneous EEC market the prices of the main agricultural products have been uniformly fixed for all member countries, in terms of "units of accounts" (UA). Originally, an UA was equivalent to one US dollar.

The uniformization of agricultural prices rested on the assumption of a subsequent co-ordination of general economic and monetary policies of the member countries. Since this assumption included the long-term stability of exchange rates among the currencies of the member countries, it was decided that the common agricultural prices fixed in UA-s should be converted to national currencies at the parities reported to the International Monetary Fund.

Eventually, however, the diverging economic policies pursued by the individual member countries have led to strongly different rates of inflation, whose effect on the balances of payments had to be compensated by devaluation or revaluation of the various national currencies. The EEC regulations prescribed a raising of agricultural prices in the countries having devalued their currencies, and a price reduction in those having revalued them. These prescriptions were actually followed in 1969, i.e., the first time when changes in currency parities had taken place.

For the modification of parity required on grounds of general economic considerations a system of diminishing equalization payments was introduced at the same time, in order to protect agriculture from a sudden change of administered prices expressed in UA.

This measure which had the purpose of a gradual adaptation of agricultural production to this first modification of the rates of exchange was, in the following, paralysed by a new set of much more violent changes in parity in 1971. These latter changes, although they had not been reported to the International Monetary Fund,

were taken into account by the EEC regulation of agricultural prices. The effects on agriculture of the vehement parity changes of December, 1971, as well as the forthcoming "floating" of currencies were eliminated through applying to the exchange of commodities among member countries (no more liable to customs duties) a system of border levies ("Grenzausgleich") which consists of premia and levies levelling out the price differences resulting from the deflection of exchange rates. In this system, prices were first calculated by converting UA values to national currencies according to the rates reported to the International Monetary Fund, and then by readjusting the result by the border levy, a premium or a levy proportionate to the differences between the reported and the actual rates of exchange. This "levelling out" was originally introduced as a temporary ancillary tool of foreign-trade regulation. The protracted insecurity of the global monetary situation, however, has made of it a permanent institution, leading to additional difficulties of agricultural pricing. Namely, whereas the method is applied to most agricultural products, it is not applied to the foreign trade in the means of production used by agriculture, so that the resulting disparities between product prices and production costs tend to distort the competitive situation of the member countries in the EEC.

6. An appraisal of the extent to which the objectives have been achieved so far, and the hindrances to achieving them

Realization of objectives

A critical appraisal should start from the objectives of EEC as formulated (see p. 204).

(1) *The objective of increasing incomes* has been effectively achieved, since without the price-supporting market interventions the actual increase in the per capita incomes of people employed in agriculture could not have materialized or, if at all, only at the cost of a much more rapid structural change.

Per capita incomes both in agriculture and in the rest of the economy tended to increase at about similar rates. The fact that with the given rapid rate of increase, the growing difference between the absolute amounts of the two kinds of income was a mathematical necessity and would not be even worth attention, were it not relevant for agricultural policy as a source of tensions. In this context, also the growing disparity of incomes within agriculture itself has to be mentioned, a trouble that cannot be remedied with the tools of price policy alone.

(2) *The maintenance of market equilibrium* as an objective of agricultural policy has not been achieved in the case of certain important agricultural products. In an earlier period, mistaken application of policy tools has led to long-term

stockpiling of surpluses in cereal, sugar, and milk imposing considerable burden on state budgets. At the time being, the strained supply situation in the world market of cereals and sugar has eliminated the surplus problems of the EEC, but the milk surplus continues to exist. In the last year, also the surplus of beef has caused considerable budget expenditure. These latter difficulties result, however, less from the mistaken application of the tools of the price policy than from difficulties in adapting production to such slow increase in the demand for beef that could not be reasonably expected.

(3) *The objective of securing the supply* has been generally achieved. Had the protection of EEC agriculture and the application of the tools of market and price policy been less effective, the scarcity in cereals and sugar in the world would have led, in the EEC market, not only to a considerable rise in consumer prices but also to real supply difficulties. As a significant example, the strained situation of sugar supply in Great Britain may be quoted.

However, EEC's dependency on the supply of certain agricultural products from world markets is high, in the case of a few products. As an example, the dangerous scarcity of protein-rich animal dry feed in 1973 may be mentioned. This situation is undoubtedly a result of the liberalization of the trade in oil seeds, vegetable oil and oil cake.

(4) *The creation of market conditions similar to those prevailing in the internal market of a single country:* this objective could be achieved only in the years 1968–1969. Uniformity of agricultural prices in the member countries with prices fixed in terms of UA-s, endured but for this short period when a closer integration of EEC countries was anticipated. This expectation, however, proved later to be unjustified, because of the divergence of economic policies followed by parity changes between various member countries.

Problems connected with applying the tools of economic policy

The hindrance to achieving the objective of "maintaining a market equilibrium" consists, as has been already hinted at, not so much in the inadequacy of the system as in its misapplication. In this context, political rather than purely economic considerations have asserted themselves. A few examples should serve for illustration.

(1) At the beginning of the 1970s, great surpluses of *soft wheat* were accumulated in the EEC, whereas considerable imports of cereal for fodder (mainly maize) went on. This paradoxical situation was due to an economically incorrect relation between the prices fixed for the two groups of cereals. According to their relative nutritive values, the prices of soft wheat and maize should have been related to each other as 100 to 102, but their EEC prices were related as 100 to 90.

(2) The high surpluses of *sugar* accumulated during the same period (in spite of a very strict regulation of production and marketing) resulted from wrongly fixed production quotas. The accumulation of surpluses could have been avoided if the EEC Council of Ministers had taken a stronger line against certain national interests. Incidentally, the risk of such an attitude would have been negligible, since the production of sugar beet contributed but a very small fraction to the total income of EEC agriculture.

(3) Even the surpluses of *milk* do not seem to result from the nature of the EEC system; they could have been well avoided by a more reasonable application of the available tools of economic policy. A more realistic fitting of the price of milk into the EEC price system could have been technically quite practicable through a decision of the EEC Council of Ministers. Such a decision, however, was not taken because of political considerations. Namely, it would have seriously affected the incomes of the type of farms growing mainly animal fodder, having hardly any alternative to dairy farming. Such farms are anyway handicapped as regards intrasectoral income distribution. In view of the important role of dairy farming in the creation of agricultural income, a relative reduction of the milk price would have diminished incomes considerably; or else (in case the general level of agricultural prices were raised for compensation) would have sharpened the already existing income disparities within agriculture, as well as those existing among agricultural incomes in various geographic regions. All this would have led to highly undesirable structural changes. Here we seem to arrive at a point where deficiencies of the system itself and the consequences of its mistaken application may hardly be separated from one another.

Misconceptions in the EEC-system

The misconceptions in the system of agricultural price policy, which lead to a lasting distortion of competitive conditions among the member countries, seem to derive from the fact that, whereas in the sphere of agriculture the creation of a common market has led to genuine integration, in the rest of the economy the policies of individual countries have retained their independence. With practically equal rates of inflation and, as a consequence, constant exchange rates (or, at most, with rates changing but moderately at long intervals) the system of a common agricultural market could have functioned by and large, even if a set of competitive disproportions would have to be levelled out. Under the conditions of the last few years, however, when inflation rates in member countries diverged widely, parities of currencies were frequently changed and the exchange rates of the "floating" currencies fluctuated widely, the original conception proved to be ineffective, since a rigid application of the measures provided by it would have led to the collapse of the

common agricultural market as a whole, irrespective of all its advantages. Namely, the prescriptions regarding the measures to be taken after a change in the rate of exchange had been devised under the assumption that the prices in all sectors of the economy would change proportionally. It is easy to show that this expectation was mistaken. On the other hand, the present makeshift arrangement of paying premia or taking levies for levelling out the difference between the original and the actual exchange rates rests on the economically unproved assumption that a modification in the rate of exchange would *not* effect the price/cost relations relevant to agriculture. The problem consists, then, in adapting the system to reality, seeing that reality cannot be adapted – as it has been attempted – to the requirements necessary for the functioning of the given price policy conception affecting the relatively small agricultural sector.

7. Possible and necessary changes in applying the conception of influencing agricultural prices, and some hints at complementing it

Improvements in application

A more adequate application of instruments, the necessity of which has been shown through the examples mentioned before, might be achieved, on the one hand, by improving the institutional apparatus of preparing and taking decisions, in order that the EEC Council of Ministers could reasonably take into acount the economic aspects of the situation. But such an improvement is practicable only when national interests and political considerations are pushed more into the background when taking a decision. As a matter of fact, however, it may be doubted that a deflection from the principle of unanimity in the decisions of the Council of Ministers and a revival of the possibility of majority vote – provided for in the EEC Treaty – could be sufficient for a stronger assertion of economic requirements. The subordination of national aspirations to the genuine economic and political interests of EEC as a whole supposes a re-thinking that may but gradually assert itself.

Conceptual changes in the system. Increased application of subsidies

In recent years propositions were made according to which price policy should pursue less the "income objective" than that of ensuring market equilibrium and of avoiding the occurrence of surpluses. It was also proposed that, in this case, the income objective should be served through a system of subsidies according to the

British example, or even in a way "independent of the product". The advocates of this change seem generally to overlook the following facts:

– The subsidization whose extent varied according to the kind of product in question, as it was practised for a long time in Great Britain, had its relative advantages only as long as the contribution of the British agriculture to the general food supply of that country had been relatively less important (thus requiring the subsidization but of the smaller part of the total supply), and as long as world market prices were not too far from the desired level of the domestic prices. Since both were more and more lacking, British agricultural policy began to complement the system of subsidies by that of import levies, even before joining the EEC.

– Although it is possible to conceive a system of subsidies "neutral to the product mix", i.e., not differentiated according to the kinds of products issued, it is not possible to make it "neutral to the total volume of production". Any kind of subsidy, depending either on the extent of the cultivated area or on employment of manpower or, for that matter, on any other quantifiable indicator of agricultural activity, invariably tends to tie up productive capacities in agriculture, and thereby to hinder desirable structural changes, unless it is graded in a degressive manner. In that case, however, it would fail to achieve the "income objective", acting in the same way as a price reduction would act in the framework of an import levy system, which latter requires much less of administrative work.

A more flexible intervention

We have mentioned before that, originally, government market intervention had not been devised for supporting agricultural prices, although it was often used also for this purpose in the past. Since in reality the transition from "temporary" to "permanent" (i.e., structural) surpluses is almost imperceptible and it is hard to tell in individual cases at which point the limit is being passed, making intervention more "flexible" would mean to accelerate the organization's reactions to price signals, without sacrificing the effect of intervention to curb price fluctuations.

An intervention is flexible in the case when intervention prices for the individual commodities are increased (or decreased) at previously fixed rates, whenever a previously fixed ceiling or bottom of intervention stocks has been reached. True, such a regulation throws back on the producer some part of the risk which had been formerly born by the state alone. Still, part of the price-correcting effect of the intervention continues to be felt. In my opinion, such a flexible intervention is a more "elegant" form of surplus regulation than the "producer's participation in risk", a system much discussed at present, whose administrative costs might be saved in the case of flexible intervention. As a matter of fact, the effects of the two systems on the producers' income are practically identical.

An improvement of the system of border levies ("Grenzausgleich")

The deficiency of the common agricultural market consists in that, whereas the product prices have been made forcedly uniform, the evolution of the factor costs is far from being uniform; these are, namely, as a result of different rates of inflation, strongly diverging by countries. For the non-agricultural economic sectors of the member countries the effect of diverging price movements is at least partly balanced by the international interdependence of prices and by changes in currency parities, but this effect fails to assert itself immediately in the case of the agricultural prices, whose divergency also results from the cause mentioned before. If, namely, the system of border levies (see p. 209) remains invariable and is applied rigidly according to national currencies, without regard to the kind of commodity in question, diverging price levels must result in distorted competitive positions of the member countries. Therefore, the ideal improvement of the system would require that the countries apply flexible rates of border levies, according to the changes in the terms of trade of agriculture that may have resulted from the diverging national rates of inflation and from variations in the rates of exchange. However, as long as quantifiable indicators are lacking, *a gradual abandonment of the border levies* seems more advisable than a long-term conservation of the method now applied. It has to be considered, however, that the system should not be cut down abruptly, since also the divergence of prices in the member countries is but gradual.

It would seem reasonable to allow the member countries a five-year period of adaptation, with a view to the limited possibilities of practicable structural change within the sphere of agriculture. This would mean a 20 per cent annual reduction of the present rates of border levies. This reduction should be taken into consideration when making decisions regarding the "green parities". The individual member countries should be, however, free to reduce the rates even more rapidly, e. g., in the case of a currency devaluation.

8. **Conclusion**

In market economies, problems of pricing will arise, as has been shown here, not only from the spontaneous clash of market forces, though in the agricultural sector the problems are mostly caused by the insufficient functioning of the market mechanism. Another significant part of the pricing problem lies in the increasing extent of government intervention in the pricing process. Notwithstanding the necessity and reasonability of such measures of intervention, they involve further problems also crying for solution. This admission, however, must not lead to the conclusion that any intervening on the part of the states in the formation of prices

should be possibly avoided. Yet, it seems advisable to restrict such intervention to cases where the disability of the price system to function is conspicuous, and where intervention promises a fuller exploitation of the advantages afforded by a directed market economy in the spheres where it is able to function, without weakening its efficiency.

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ПРОБЛЕМЫ ЦЕНООБРАЗОВАНИЯ В РЫНОЧНОМ ХОЗЯЙСТВЕ

Э. ВОЛЬКЕН

В статье доказывается необходимость государственного вмешательства на рынке сельскохозяйственных продуктов исходя из недостатков и функционировании механизма цен. Эти недостатки проявляются в низкой и все уменьшающейся эластичности спроса и предложения в зависимости от цен на рынке важнейших сельскохозяйственных продуктов.

Автор показывает цели государственной рыночной политики и политики цен на примере политики «Общего рынка» в области цен на сельскохозяйственные продукты. Важнейшими из этих целей является обеспечение доходов сельского хозяйства, обеспечение снабжения продовольствием, сохранение равновесия рынка и создание благоприятных условий для внутреннего рынка стран «Общего рынка».

Для достижения этих целей используется целый ряд средств политики цен и внешней торговли. Автор показывает разнообразные формы государственного вмешательства в функционировании рынка и цен сначала лишь в общих чертах, а затем переходит к деталям на примере хлебного рынка. Он обосновывает это тем, что порядок регулирования хлебного рынка типичен и для рынка прочих сельскохозяйственных продуктов, а также служит базой для регулирования оборота продуктов переработки зерна.

Помимо обычных средств и механизмов рыночной политики и ценообразования в качестве временного и дополнительного средства может быть использовано выравнивание цен на границе в случае, если произойдет изменение в паритете валют стран-членов «Общего рынка».

На основании критики осуществления указанных целей и анализа трудностей, автор делает выводы относительно лучшего использования имеющегося арсенала политики цен и необходимых концептуальных изменений.

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B. KÁDÁR

SPECIFIC FEATURES OF DEVELOPMENT OF SOUTH-EUROPEAN COUNTRIES

The countries of Southern Europe have recently come into the centre of international political and economic interest. In the following article the example of four South-European countries – Spain, Portugal, Greece and Turkey – is taken to analyse the South-European characteristics of the so-called delayed capitalistic development, as well as the external and internal economic and political factors that caused an acceleration of economic growth in these countries in the last twenty-five years. The specific features of development differing from the West-European type made their effect not only in the past, but they present also future alternatives for the specific development of the region.

In recent times Southern Europe has come into the centre of international interest, as well as of social, political and economic changes concentrating in the European area. The changing of regime in Greece and Portugal, the consequences of the Cyprus conflict and the events taking place in Spain indicate that from the political aspect Southern Europe is the part of the Mediterranean region – and maybe even of the world – that is most exposed to changes and where the most dynamic movements may be expected. These changes have already influenced the international power relations.

The acceleration of changes, however, cannot be deduced merely from the political sphere. In the last twenty-five years economic development has accelerated in South-European countries which were listed among the backward parts of the world, internationally much isolated and of little importance. Greece, Turkey, Spain and Portugal have been among the most dynamic units of capitalist economy for already fifteen years: their economy and foreign trade show marks of structural transformation, and they take part in the international division of labour to an ever increasing extent. The bases of political changes are inherent to no small degree exactly in this accelerated growth and changing role in world economy. Accelerated growth is not indifferent – already from the geographical aspect – for the socialist countries, which have had in Turkish and Greek foreign trade relations three or four times the weight of the European average, and in the case of Spain they have had an average part. Without forcing an analogy it is worth mentioning here that the historical backwardness of some Central and South-East European countries coincided with the decline of the growth centre role of the Mediterranean region and its becoming peripheral. Therefore, an accelerated development of South-European

countries may improve – even if not essentially – the immediate world economic environment of a few socialist countries which are sensitive to foreign trade. Finally, an examination of South-European accelerated growth is not without interest from the point of view of development history and economics either. In Southern Europe economic development has taken a way different from that of Western Europe: capitalistic development started with a delay and has taken a course with growth specifics of its own. Examination of the South-European variations of the so-called delayed development provides lessons of economic policy and development history for several other developing countries faced with the same problems, and makes evident the weak points of earlier prevailing Western Europe-centric historical conception of capitalistic socio-economic development.

From among the countries situated at the Southern periphery of the West-European centre the Iberian countries were nearly on the same development level of the forces of production as the two Eastern peripheral countries: Hungary and Poland; as for Turkey and Greece, their level indicators showed similarity with those of Rumania and Bulgaria. Growth of the one-time European peripheral zones accelerated in different social systems, interior and exterior growth conditions, so that South-European accelerated growth reflects also the specifics of catching up under capitalistic conditions.

In the following the common development historical specifics of South-European countries, the main economic, foreign trade, and institutional characteristics of accelerated growth in the past twenty-five years, as well as the most important factors related to the changing international importance of the South-European region will be presented.

Heritage of development history

An understanding of the South-European heritage of development history gives a clue to the solution of many of today's economic development dilemmas. The expanding horizon of social science researches during past years has been an increasing help in this. Bourgeois economic history traditionally centred on Western Europe or Anglo-Saxon countries. With its dogmatism stressing the general development pattern of the power centres of the capitalistic world it saw in the South-European development only its backwardness in time and standards in comparison with the power centres and hardly took note of the distorting and specific features of development, or attributed the latter simply to distorting exogenous effects. Unfortunately, also Marxist social scientists who pay comparatively little attention to South-European development history mostly explain the

international backwardness of Southern Europe by a deviation from Western development and by the exogenous capitalistic penetration whose effect is conserving backwardness.

It may not be out of place to mention here that the global strategy of the actual power centre of the world, the USA, based with dogmatic generalization of their own development experience, has failed a number of times in the recent past also in Southern Europe, among other things, because of the non-understanding and mismanagement of problems of other countries.

In a study of mine on the development phases of Latin-American history [1] I tried to demonstrate that Spain and Portugal, colonizing Latin America, had not represented, not even in the colonization period, merely a delayed version of West-European development, but an economic and social development that *fundamentally* differed from that of Western Europe. This statement holds not only for the Iberian countries but also for Greece and Turkey. A different historical background developed other growth paths in the long run, the course-deviating effect of West-European relation notwithstanding.

It is the task of historical science to demonstrate in detail the specifics of development history, yet an analysis of long-term growth cannot do without some anamnesis, since the rationality of today's development strategy and the efficiency of development depend to a large extent on the consideration and correct evaluation of the historical heritage of development from the economic policy point of view.

The difference between historical development in Western and Southern Europe is not explained satisfactorily by geographical views referring to adverse geographical conditions, nor by lower values of population density that would induce more intensive forms of growth, nor by Protestant, Catholic, Orthodox or Moslem ethics, nor by new leftist views underlining the effects of exogenous capital penetration deforming development. In the Middle Ages the geographical conditions were more or less identical for growth in both Western and Southern Europe, and for the most important products participating in the international exchange of the time (e.g. wine, wool, light industrial products) geographical conditions were even more favourable in the Mediterranean countries, there was no difference in population density, and the basic difference in development paths was already quite clear in the period of emerging capitalism. Analyses treating the special features of Spanish or Turkish feudalism cannot be accepted for explanation of the differences either, since the roots of the differences go much deeper: not only the last 500 years but much earlier historical periods are involved.

It escaped most scientists' attention dealing with South-European development history that Marx wrote the following words about Spain: "...Thus the absolute Monarchy in Spain, bearing but a superficial resemblance to the absolute

monarchies of Europe in general is rather to be ranged in a class with Asiatic forms of government"[2]. Therefore, the characteristics of South-European capitalistic and feudalistic development will become clearer if we make one further step backwards in the pattern of social development.

The Marxist model of development history finds the source of the so-called West-European development path in the amalgamation of the so-called antique and Germanic formations. The growth of West-European feudalism and later of capitalism practically fed on the creation of privately owned land, the related social incentive system, the widening of the social division of labour and the fusion of antique and Germanic production, technical, and legal forms. This process of amalgamation did not take place in Southern Europe. The Germanic formation met the antique formation only in the Northern regions of Portugal, while in Spain it hardly affected the Iberian version of the latter. In Greece the antique model was wiped out by the Slav tribes carrying the Slav version of the Eastern formation; in today's Turkey antique formation was practically limited to littoral towns, while in the interior of the country Eastern formation subsisted unchanged even under the Roman Empire. During the last centuries of the Roman Empire, parallel with the centres of gravity shifting towards the East, the Eastern model strengthened also in the South-European provinces. If amalgamation is mentioned in connexion with South European development, it is the meeting of the antique form and the Eastern model, which, in the case of the Iberian Peninsula, was promoted – beside the "late Roman" development – by Arab invasion, and in the case of the Balkan Peninsula by Slavic and later Turkish invasion.

Therefore, the historical process of amalgamation in Southern Europe was different from that of Western Europe already in the migration period. The Southern version is characterized, from West to East, by a decreasing number of Germanic elements, and later by their total disappearance, and on the other side by the increasing number of elements of the Eastern formation parallel with the weakening of elements of the antique formation. The process of amalgamation is shown on the following simplified diagram:

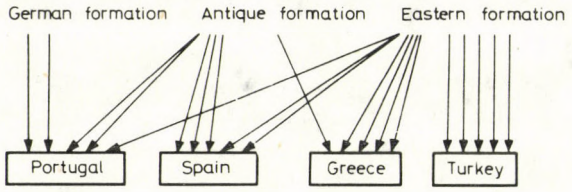

Fig. 1

From among the consequences of the different amalgamation processes I shall treat here only a few specific features of the long-term South-European growth: the roles of landownership, of the social division of labour of the state and of conquest.

In Greece and Turkey the prevailing form of *landownership* was (depending though on the intensity of the elements of Eastern formation) the self-supporting village communities, separated from each other, and having relations with the state only in the form of taxes. The village community is, however, a defensive formation, static through thousands of years, in which common interests and responsibility do not stimulate expansion of production. Self-support and autarky do not stimulate the social division of labour and exclude external impulses of growth. The social stratification evolving in the Turkish empire was not a step forward either, since the army nobility did not receive hereditary rights, but fulfilled only control functions as instructed by the state, and this did not stimulate caring for the land but its exploitation. In this system the distortion of interest relations excluded the development of more intensive forms of growth from the outset.

On the Iberian Peninsula the transforming ownership relations of the antique model reflect a weakness of the Germanic influence and later the effect of the Arab invasion. The Germanic community of land was not introduced; the role of Roman villas, slaves and coloni was greater than in Western Europe. The Arab invasion covering the greater part of the Peninsula, and later the *reconquista* of seven centuries created a layer of proprietors holding hereditary rights but depending on the central power (distribution and entrance into possession of reconquered lands depended on the sovereign's permission).

Marx thought the development of Asian tyrannical rules was a natural course, since peasants – who had the conditions of production in their hands – paid land rent as subject to the State realizing the commonly owned land. In Spain land acquired through the reconquista was distributed by the King against services; the army nobility and "colony" who were given land faced, unlike West-European feudalistic forms and similarly to the Eastern model, not private landowners but the central power. The formula *"soy el servidor del rey"* (I am the king's servant) often read in the literature of the Spanish golden age reflected real conditions of ownership and control.

Independence of the proprietor – whose effect is, e.g. still detectable in the Spanish national psychological character – had developed under such interest relations as did not stimulate the proprietor to attain a maximum economic utilization of the property, but to render maximum service to the central power (and thus to acquire new property). Disinterest in economy and almost a thousand years of continual warfare gradually wore out the lower nobility and agriculture, so that

concentration of landownership and the low economic standards and weak interest of extensive large estates became general by the 18th century.

To the development of ownership relations was closely related the *social division of labour,* and the changing relations between towns and villages. West-European development was stimulated by a part of the population leaving agricultural production: the developing towns became centres of trade and industry, and supplied a growing market for agricultural products; the social division of labour was growing incessantly. In Southern Europe mechanism to stimulate expansion of production and the social division of labour were missing or were rudimentary. Therefore, in the South-European town it was not the economic but the military and administrative functions that came to the foreground. The uncertainty of existence, the almost permanent state of war and the pauperism of villages inflated the number of townspeople disproportionately – Spanish and Portuguese historians often make reference to a higher degree of urbanization in the 15–16th centuries than in Western Europe, but these towns – similarly to the East-European urban development – were not the products and did not become stimulants of a growing social division of labour. The most important economic functions of towns were related to foreign trade or to mediating long-distance home trade, but those engaged in trade were, with the exception of Portugal, foreign or minority groups alien to the central power as well as to the direct socio-economic environment, constituting characteristic social, ethnical and cultural enclaves. (Maranos, Basques and Catalans in Spain, Greeks and Armenians in Turkey, 18th century Venetians and Genoese in Greece, mostly Jews in Portugal.) The enclave character of trade had an important part in that the accumulation of commercial capital did not transform into industrial capital accumulation; because of its being ethnically alien it could not acquire political power: the economic functions of towns remained lastingly at the level of trade.

The level of trade in the Eastern formation is low anyway. The underdevelopment of the division of labour, and the inner isolation of the mode of production entail necessarily *exterior isolation* and an underdeveloped international division of labour. Marx also considered isolation the main reason of Eastern stagnation. It was not by chance that from among the South-European countries it was Portugal – the country least exposed to Eastern effects and the one most exposed to German influence – where the joining in the international division of labour started soonest and developed in the most intensive form.

It is a well known fact that one of the supporting pillars of Eastern formations was the economic and social role of the *State.* The main sources of the central power were the concentration of landed property in the hands of the State, expropriation of the surplus product by the State, subordination of public works to the authority of

central government, and a class division depending on the central power. Marx deduced the greatest contradiction of Eastern class society founded on tribal common property from the role of the State as representative of common landownership, behaving as the proprietor of the means of production, and as a regular exploiter. Thus in Turkey and Greece the strong role of the State is a tradition of the Eastern formation.

On the Iberian Peninsula the most important roots of centralizing state power were the late Roman and Arab influence, the state of war lasting for centuries, and the reconquista in the case of Spain, and the emerging foreign trade and colonizing expansion in the case of Portugal which had started to develop the earliest and where overpopulation appeared. Although the bases of the development history of the four South European countries are, beside a common deviation from the West-European model, not identical, an extremely strong central power – much more so than those of Western Europe – is organically built into the further history of all four countries.

The powerful role of the State was justified, however, not solely by ownership relations and work organization, but an important role was played in it by the *conquests.* Three of the four South European countries had followed politics of conquest and colonization for almost a thousand years, and had striven for world rule for centuries. The putting of the energies of society at the service of exterior expansion consumed growth energies, hindered in itself the emergence of the intensive factors of growth, and established a military and administrative bureaucracy which was parasitical from the point of view of growth.

If we want to summarize the development features of South-European countries that are common in their history of growth, the first place must be given to the difference between the *static* character of the isolated Eastern models and the dynamism of the West-European model receiving ever stronger impulses from the internal and international division of labour and from technological changes. A difference still valid developed in the overall *management and interest system* of society. The main driving force of development in the West-European model was economic profit, and its framework was private enterprise. In the Eastern model, i.e., in the countries saturated with the elements of Eastern formation, the institutional framework of development was provided by the State, and the acceleration or structural transformation of development could receive stimulation only from above – from the central power. Changes of the economy started out of the power sphere and it was not the division of labour or market incentives that played determinant roles.

Because of the indifference of the overall majority of the population towards power, and the undeveloped state of economic incentives, in the operation of South-European models power mechanisms – or moral incentives (titles, ideological

elements) – played much more extensive roles in the long-term historical development than in Western Europe. In a social environment where the source of authority and wealth is the state power, energies of the dynamic elements of society are directed, naturally, at acquiring first of all political power, or at finding co-operation with the State, and not at economic activities.

During a period of almost a thousand years of historical development the element that could be called dynamic in the South-European countries was external conquest, extensive growth resulting therefrom, and looting. The South-European countries isolating themselves in fights for world power positions and external expansion from outer development incentives, while stagnating in their inner socio-economic structure, were one by one overtaken on the international battle-field by the end of the 17th century by the new rising and dynamical West-European powers. As a consequence of the collapse of external expansion, the continued decline of power in the 18–19th centuries and the vassal dependence on West-European powers, capitalistic development and industrialization started to develop with much delay, at a very slow pace and with strong distortions, so that South-European countries sank by the beginning of the 19th century to the level of the most backward and least important group of European countries. The international evolution of the capitalistic method of production strengthened polarization tendencies and the comparative backwardness of the area, and promoted a semi-colonial dependence on more advanced capitalistic countries, establishing their role as raw material supplier.

A dynamic socio-economic development of the South-European area began with an extraordinary historical delay: practically only after the Second World War. Accelerated growth started with an extremely strong historical shock, which is again a feature common to the countries in question. In the case of Turkey it was the disruption of the Ottoman Empire. In the Iberian countries social tensions accumulated as a result of increasing backwardness and dependence were brought to the surface with dramatic force by the world crisis of 1929–33. The obsolete social system was saved in Portugal by Salazar's dictatorship, and in Spain by the three-year civil war claiming half a million lives. A similar process took place in Greece in the years of the civil war following the Second World War. The totalitarian dictatorships acquiring power after the shock of civil wars – unlike the government practices of earlier ruling classes – paid more attention, if only in self-defence, to modernization of an extent that did not threaten power in its foundations and seemed even suited for consolidating it. Modernization efforts were also stimulated by the creation of the socialist world system, i.e. the emerging competition between the two systems.

A simple and traditional counterrevolution was no longer sufficient to suppress sharp interior social tensions and even social crisis extremely strong by international comparison. The not too strong power coalition of finance-capitalists and big landowners in South-European countries resorted necessarily to new methods: it tried to widen its social basis by new layers of the bourgeoisie and bureaucracy, as well as by military layers which had, in the course of history and particularly in the civil wars, inflated disproportionally anyway. The objectives of the totalitarian dictatorships and the widening of their social basis entailed a growing executive power and an intensifying state intervention. Officials and military men often tried to use their enlarged power basis to realize "autonomous" efforts at seizing power, to stand up against big capital and large estate from time to time, and to deepen their socio-political influence. The traditional ruling classes were forced to recognize that in a permanent state of social crisis basic class interests could be protected only through layers holding in their hands the power organizations.

Consolidation of the new power structures and acceleration of growth was promoted by certain exterior conditions favourable for South-European countries, such as non-participation in the Second World War (to which Greece is an exception), profiting from the foreign trade possibilities of the West-European reconstruction and upswing, and the economic reward of the political and military role assumed in the cold war.

The increased economic role of the State owing to socio-political reasons promoted the speeding up of accumulation through power machineries and by directing the increased and more concentrated accumulation resources towards the growth centres. The low wage level guaranteed by the extended use of power machineries, the expropriation- and strike-proof conditions favourable for capitalistic development enabled in the 1940s and 50s to break the deadlock: to open up to world economy, then to draw in external resources and to accelerate the growth process.

Main growth tendencies

In Southern Europe, developing at a very slow rate in the first half of the century, growth accelerated under the general effect of the above-mentioned external and internal factors. The average growth rate of the national product increased from the traditional yearly 2–3 per cent to 7.6 per cent in Greece, 6.3 per cen in Turkey, 7.2 per cent in Spain and 6.2 per cent in Portugal in the average of the years 1960 to 1973. The growth rates of the past fifteen years have brought the four South-European countries into the company of the most dynamically developing countries in the world economy. Although through forced accumulation processes,

the ratio of the national product spent on investments grew in all four countries, especially in comparison with the 8–12 per cent accumulation rate of the period before the Second World War.

The main carrier of accelerated growth was industry in all four countries, which has become the leading sector of the economy in recent years. Despite the narrow framework of the national economies and a lower level of development, heavy industry has also been built up. It is an interesting feature of the growth process that the ratio of industry within the national product, and the weight of heavy industrial branches within industry are of a higher value in international comparison than in other small countries at the same level of development. These structural proportions strongly deviating from the average are usually the results of extreme conceptions and ways of development, autarkic tendencies or, on the contrary, of a very strong export orientation. The so-called relative structural development was noticeable also in the early 1960s and reflected mainly the consequences of the secular isolation from world economy. In traditionally closed economies economic development and industrialization cannot rely on either the substitution of low-level imports or on export demand, but take place practically according to the structure of home demand. Under the given conditions forced accumulation, restricted consumption, and the expansion of investments stimulated industrial and heavy industrial activities more than the average.

It is quite interesting that the relative structural development further strengthened in the period of opening up to world economy, in which also such factors were reflected as the incessant expansion of military production, particularly in the case of Portuguese industry relying much on the colonial war boom, but, on the whole, in structural development the adaptation to foreign trade orientation was manifest (See Table 1).

Table 1

A few important economic indicators of South-European countries

	Greece		Turkey		Spain		Portugal	
	1960	1973	1960	1973	1960	1973	1960	1973
Gross national product (million $)	3480	15800	5220	20100	10345	58200	2476	10100
Per capita GNP ($)	418	1750	190	540	341	1690	314	1200
Ratio of industry (%)	17	21	17	24	29	30	30	35
Ratio of heavy industry in industrial output (%)	36	46	32	–	39	58	31	46
Ratio of investments in GNP (%)	19	28	16	18	19	21	18	18
Ratio of import in GNP (%)	16	22	7	11	8	17	23	30
Share in world imports (%)	0.5	0.6	0.3	0.3	0.7	1.6	0.4	0.5
in the world's foreign exchange reserves (%)	0.4	0.6	0.3	1.1	0.8	3.4	1.1	1.5

Source: Calculation relying on various UN statistics.

The selected indicators of Table 1 show that Southern Europe has reached a new, higher stage of development in the last 15 years. All countries left behind the group of underdeveloped countries and joined the medium-developed group. Of course, Turkey has just reached the lowest step of medium development, while Spain is catching up with industrially advanced countries. The closing of the gap between the West-European centre and the South-European periphery is indicated also by the value of the national product in three South-European countries. The per capita GNP in 1960 was 40 per cent of the European average in Greece, 32 per cent in Spain, 31 per cent in Portugal and 19 per cent in Turkey. As a result of accelerated growth the relative difference fell by 1973 to 58 per cent in Greece, 55 per cent in Spain and 40 per cent in Portugal, while the gap somewhat widened in Turkey because of an extremely rapid increase in population.

In the acceleration growth of all South-European countries an intensified participation in the international division of labour played an important role. Not independently of the political events of the late 1950s (e.g. the Spanish economic reform of 1959, Portugal's joining the EFTA, overthrow of the Menderes government in Turkey) development policies became increasingly foreign oriented. In political decisions, in the allocation of investments, as well as in the establishment of the system of incentives foreign trade aspects obtained a much greater role than before. The foreign orientation of growth is shown by the fact that in the past 15 years a unit growth of the GNP entailed imports growing by one and half, in the average of the four countries. Although only Portugal and Greece have open economies, while in Turkey and Spain the effect of a traditional isolation from foreign economies is felt more even today, the zone of international contact has widened in all four countries, and this has a growth-accelerating effect in the period of intensifying the international division of labour.

In capitalistic conditions of production elimination of backwardness at a quickened pace entails in accordance with international experiences a sudden increase of foreign exchange expenses. However, South-European countries, which had taken little part in the international division of labour earlier and are poor in natural resources that are in demand, had no sufficient commodity export potential to produce the foreign currency wanted for accelerated modernization. (See Table 2.)

The structure of the foreign exchange earnings of the four South-European countries shows an interesting picture. In these countries considered as small and underdeveloped units the balance of foreign trade is chronically in deficit: incomes from exports cover only 30 to 40 per cent of imports. According to the development history experience of underdeveloped countries outside Europe, capital imports played a very important role in establishing the balance of foreign exchange.

Table 2

Structure of the main foreign currency earnings of the South-European countries (in million $)

		Commodity exports	Tourism	Remittances to home country	Capital imports
Greece	1960	203	96	62	130
	1970	643	194	480	406
	1973	1454	515	727	762
Turkey	1960	321	20	–	120
	1970	589	42	273	431
	1973	1317	78	1183	433
Spain	1960	726	240	165	85
	1970	2387	1543	550	– 669
	1973	5162	3125	1320	790
Portugal	1960	328	120	132	65
	1970	949	135	496	45
	1973	1837	280	1092	– 132

Source: I.E.U. Quarterly Economic Review, Annual Supplements, U.N. Monthly Bulletin of Statistics.

Countries that had been fast industrializing at the end of the last century imported capital at an annual rate of 5–10 per cent of the national product; in the average of the last decade the capital imports of the developing countries amounted to 5 per cent of their national product. The South-European countries poor in natural resources and of relatively small home market were not particularly attractive to private capital at the start of their development; their capital imports came primarily from a politically motivated flow of governmental or international capital. Although inflowing capital tried undoubtedly to get under control the key points of the South-European national economies, the volume of capital imports was small in international comparison. In Turkey and Spain it amounted to 1 per cent of GNP, in Greece and Portugal to 2–3 per cent, i.e. it remained far below the average in the underdeveloped countries. The importance of capital imports has been growing only in recent years, after the achievements due to accelerated growth.

With the given constraints of augmenting commodity exports and capital imports the service sector played a determinant role in providing the foreign exchange necessary for the acceleration of growth. Taking the average of the past decade, foreign exchange earnings from services amounted to 40–60 per cent of the total of main resources investigated in each country.

The two main channels of export services: tourism and the direct export of labour (amounts remitted to the home country by those employed abroad) relied

much on the expansions of the service sector observable on an international scale. In the period following the Second World War the service sector of the advanced capitalist countries was increasing at a much quicker pace than material production and in most countries it has become already the leading sector of the economy. This process is reflected in the international division of labour, where the exchange of services has grown faster than the exchange of products. The fast reacting South-European countries could turn to their profit tourism that had multiplied owing to increasing incomes and automobilism, and within a decade they were able to develop their earlier negligible tourist sector into one of vital importance in foreign economic relations. A similarly advantageous possibility for earning foreign exchange was offered by the increasing labour shortage in the West-European countries. The demand for unskilled labour in sectors which cannot be easily mechanized, started in the early 1960s a large-scale direct export of labour from the South-European countries with unused labour resources.

As a consequence of the above-mentioned tendencies Southern Europe assumed the role of a *specific servicing economy* in the international division of labour in the 1960s. From the points of view of foreign exchange earnings, realization sometimes above value, technical and organizational modernization and human capital accumulation, the export of services was advantageous: it helped to avoid a major dependence on foreign capital imports. Its emergence had been preceded, however, by violent conflicts in each country between groups stressing the priority of accelerating growth and those concerned mainly with the safety of the political power of the antidemocratic regimes in each of the South-European countries. Conflicts ended in each country with the victory of groups advocating the priority of economic growth. As a consequence of opening up to the world economy, the erosion of the power positions of totalitarian regimes has slowly started.

Therefore, one of the driving forces of expansion in the external economic sector was the export of services. Let us now see, how the results of growth accelerating were reflected in the commodity trade also developing dynamically.

Up to the end of the 1950s the exports of South-European countries bore marks of underdevelopment; the bulk of exports consisted of agricultural products and raw materials. Portugal was an exception in a certain sense because, owing to her traditionally more open economy, her colonial empire, and her engagement in light industry – due to traditionally established close relations with England – she could develop quite considerable light industrial exports already by the 1940s. (See Table 3.)

Changes in the export structure indicate that the South-European countries can increasingly make use of the results of accelerated growth and inner structural development in their foreign economic relations. Their earlier underdeveloped

Table 3

Structure of South-European exports by commodity groups (%)

Commodity group	Greece		Turkey		Spain		Portugal	
	1959	1973	1959	1973	1959	1973	1959	1973
Vegetable oil, food, beverages, tobacco	67	31	66	56	59	30	31	18
Raw materials	27	13	32	28	19	8	20	12
Chemical products	2	6	0.5	1	3	5	7	6
Machines	0.5	2	–	–	2	22	3	13
non-electric machinery	–	–	–	–	1	7		4
electrical machinery			–	–	–	4	1	6
vehicles						11	1	2
Other industrial products	4	35	3	16	18	35	38	50
textiles	0.5	9		7	4	3	16	18
clothing		4		4		2	1	1
footwear		2				6	1	1
Wood products					2	2	4	5
Iron and steel		8		1	2	6	1	1
Non-ferrous metals	0.5	5	2	1	2	2	–	–
Metal mass products					1	3	2	2

Source: Yearbook of International Trade Statistics, OECD Foreign Trade Statistics, Series B.

structure is changing, as well as their role in the international division of labour. The most dynamic category of their exports, its "pulling power", is constituted increasingly by industrial products which, in the case of Spain and Portugal, make up also the overall majority of exports.

Of course, the majority of industrial products exported consists of light industrial articles, and their joining in the industrial division of labour is not at all a simple process, which is well perceptible in the slow structural development of Portugal having the longest tradition in the export of industrial products. The Spanish example shows, however, that stepping over certain structural thresholds and the starting of heavy industrial exports are, as a matter of fact, not impossible tasks. It is most remarkable that among the South-European countries industrializing with a delay and constituting the poorest group of advanced capitalist countries the structural indicators of Spain and Portugal are not less advantageous than those of the much more advanced small West-European countries. Although some kind of dynamic pulling power has a considerable share in the industrial exports of each

South-European country (e.g. vehicles in Spain, textiles in Greece and Turkey), exports of industrial articles are quite diversified and are composed of several categories of goods.

Today the majority of South-European exports of industrial products is made up of the processed versions of earlier exported raw materials, i.e. produced by branches based on natural and geographical potentials. A surprising phenomenon is, however, the fast upswing in recent years of exports of industrial branches not much based on domestic raw materials. It seems that the main motor of joining the industrial division of labour is the comparative wage advantage, i.e. the relatively low wage level of South-European countries.

Institutional characteristics of South-European development

The main institutional characteristics of the South-European versions of accelerated growth based on evolutional foundations other than the West-European and started with a delay originate in the intertwining structure of ownership and power. South-European modernization has taken place, quite unusually in our age, with a comparatively wide survival of small property. A characteristic feature of delayed development is – as shown by the examples of early 20th-century Europe, Japan or today's Latin America – an acceleration of property concentration. Beside progressing concentration, it is characteristic of all four South-European countries that *small property* (holdings) and small enterprises are present in a high proportion, which seems anachronistic even from the technical aspects of development following the Second World War. In earlier growth theories and economic policy assumptions the requirements of accelerated growth, structural transformation and export orientation were held to be irreconcilable with a relatively low concentration of capital and ownership.

Characteristics of the ownership structure are not deducible from underdevelopment and a possible overweight of the agrarian sector. Namely, agriculture is no longer the leading sector in Southern Europe either, and, with the exception of Greece, it was exactly agriculture that showed the highest degree of concentration: the proportion of large to small estates was much more unfavourable than in early 20th-century Europe. In the newly developed economic sector, i.e. industry, the degree of concentration does not come near e.g. to proportions established by the early 20th century in Hungary and Poland. At the end of the last decade 104,000 manufacturing companies were operating for example in Greece and 120,000 in Spain.

The slow progress of concentration in the last 15 years shows that there is a close correlation between the *servicing economy* and the low degree of concentra-

tion. The economic efficiency of the service sector, and particularly of tourism, is not much dependent on the scale of activities; its profitability and dynamism are guaranteed on the small scale, too. Development of the service sector acting as a driving force of home and foreign economic expansion created directly a series of small enterprises, and, by way of its demand it maintained small property in the sphere of material production.

In countries joining the international division of labour government economic policy usually forces concentration in the interest of promoting competitiveness. In Southern Europe stimulation of concentration has been limited to a comparatively narrow zone. Totalitarian regimes constantly in danger of being overthrown saw a means of diminishing socio-political imbalances in the strengthening of middle classes and maintaining small property as far as possible. The political mass base of the extremely centralized power regimes was exactly the stratum of small proprietors.

In the conservation of ownership relations a certain role was played also by the low level of capital imports. In developing countries and even in the early 20th-century Central and Eastern Europe the massive penetration of foreign capital had an essential part in the concentration of ownership and in the suppression of small plants. As a consequence of traditional isolation, and a smaller attractive power to foreign capital, this process took place only on a small scale in Southern Europe. Foreign capital was drawn mostly towards technically new branches, not putting up competition to small plants.

It is thus clear that the South-European ownership conditions comprise several evolutional paradoxes; economic and social phenomena. Not only that the South-European progress of evolution incorporated elements of the Eastern formation and later on feudal remnants, but it did not eliminate even the primitive forms of capitalistic development to an extent that had been characteristic of West-European countries at a similar stage of development already a century ago. It is a peculiar phenomenon that small property proved to be viable and even expansive at a time when historically even more isolated national economies opened up definitely to the capitalist world economy interwoven with internationalizing monopoly-capitalistic ownership relations. This paradox of historical development creates, in a longer perspective, a basis for sharpening social and economic conflicts between international monopoly capital and national small owners. At the same time, however, ideological factors and mentality related to the fragmentation of the means of production and to the producers' independence are well observable in the social life and workers' movements of the South-European countries, and they constitute a social basis for totalitarian regimes or power politics respecting small property.

Acceleration of growth with seemingly outdated ownership relations is not comprehensible without considering the *role* of the state. Although in the average of the national economies concentration of capital and ownership shows low values, one big proprietor stands out among the large number of small proprietors and this is State. An objective concomitant of delayed capitalistic development is the strong socio-economic role of the State. The extent of state intervention is, however, usually limited by the capitalistic character of development. It is a specific feature in the development of the four South-European countries that the economic role of the State is very high in international comparison, without the least intention of stepping over the limits of capitalistic development. Its extent is illustrated by the size of the state budget (inclusive of autonomous state organs) that represented more than two-fifths of the gross national product in Spain, about two-fifths in Greece and Portugal, and almost 60 per cent in Turkey. In the early 1970s, 60 per cent of all investments came from central resources in Turkey, while this was 50 per cent in Spain, 45 per cent in Portugal, and 40 per cent in Greece. The high share of direct state ownership is remarkable, particularly in key industries. At the beginning of this decade, e. g., the share of the state in the Spanish car industry was 62 per cent and in ship manufacturing 74 per cent.

Strong state intervention in itself can be attributed to the requirements deriving from the so called latecomer development. The delayed development of countries modernizing in the last century still took place with an expansive use of economic incentives and under liberal conditions. The common feature in the development of the four South-European countries is the use of power and repressive organizations. The accumulation wanted for the acceleration of growth could be guaranteed, because of the capitalistic limits of development, only by forced accumulation, by keeping down or freezing the living standards of the masses, and by a terroristic suppression of movements for higher wages. The intensity, term and efficiency of relying on power machinery was undoubtedly influenced by the evolutional heritage of the Eastern formation: a traditionally low reacting ability of society to economic and market incentives. In a social environment secularly accustomed to the initiative and directive role of the State the efficiency of central control and management was much higher than e. g. in the development phase after the Second World War of a few Latin-American countries (Argentine, Chile) which had incorporated elements of the Anglo-Saxon institutional system in the last century.

One of the most important specific features of South-European growth was the *linking of widening state intervention with the promotion of export orientation.* Earlier theoretical simplifications and also political practices closely connected state intervention with protectionistic and even autarkic conceptions of economic

development, while they considered liberalization and decentralization of political-economic control as a precondition of joining the international division of labour and of export orientation. West-European political scientists tend to believe that to open up to the world economy centralized control systems full of socio-political tensions was simply incompatible and unfeasible. This assumption was not only scientific in nature. In the 1950s and 1960 violent conflicts arose e. g. between the power factors of Spanish and Turkish politics about development strategies. Conservative groups thought that the opening up to world economy, the opening of frontiers to incoming tourism and outflowing labour was incompatible with the interest in survival of the dictatorships relying on traditional isolation. From the clash those advocating the opening came out victorious; it is since then that foreign economic orientation combined with centralized power has been evolving in South-European countries.

This process is not simply a product of compromise between different political power factors, but also an objective necessity in the small countries developing with a delay. It may not be without interest to survey briefly the most important components of export orientation intertwined with centralized power.

– In less advanced countries with small home market and limited resources market mechanisms cannot be expected to induce adaptation to the requirements of the international division of labour and of structural transformations, particularly not in countries where the growth stimulating effect of market mechanisms was traditionally inferior to state intervention. In South-European countries both the evolutional heritage and the relatively small dimensions of each national economy necessitated the directive role of the State in the evolution of foreign economic orientation.

– A similar necessity is aroused by being a small country. When stepping out of isolation, small countries have to take into account the fact that on the international battlefield unequal powers meet, and under capitalistic conditions it is a general feature of such "meetings" that the stronger party will try to exploit her more advantageous bairgaining positions. The export-orientated enterprises of South-European countries growing out of narrow national economic dimensions are themselves small units and have little negotiating power when faced with big international corporations. Protection of their interest against the large international corporations may be best guaranteed by a concentration of the power tools of the State.

– The traditional isolation of Eastern societies is partly related to the historical experience that extensive international relations often become carriers of foreign influence. Great powers and big enterprises exerting economic pressure generally try to overthrow governments undesirable for them by creating crisis situations and making use of the opposition forces of the small country. In a small country open to

the world economy the existence of parallel decision channels, centres and countervailing powers is a restraining factor not only from the point of view of the speed and elasticity of decision-making but also of its independence. Small countries cannot react by isolation to risks of maintaining international relations: for them it is the essential expansion of the role of the State and the centralization of political power that brings about a compromise between the requirements of safety and economic development.

Expansion of the role of the State observable also in an outward looking development does not explain in itself why this was concomitant in Southern Europe with an expansion of the power machinery and fascist regimes. A rich collection of examples demonstrates that investments necessary to accelerate *capitalistic* development can be covered mainly by forced accumulation. Development in a capitalistic framework in backward or medium-developed countries cannot yet rely on economic incentives, nor can moral incentives be relied upon. Therefore, in a long historical period the main driving force of modernization is enforcement, i. e. among the State's functions it is internal suppression that stands out. In addition, in the South-European countries this process had also deep roots in their history.

Expansion of the internal suppressing function and of its carrier, the administrative machinery, were strengthened, beside accumulation, by the circumstances of foreign economic orientation. In South-European countries poor in natural resources and capital the main source of foreign economic expansion was the extremely low price of labour in international comparison. The larger the difference between the South-European wage level and that of advanced capitalistic countries determining the international terms of realization, the wider is theoretically the zone in which a joining of the international industrial division of labour can take place. Keeping down the price of labour is, therefore, a basic requirement of the latecomer capitalistic development taking place in our days, not only with a view to maximizing surplus value and accumulation but also to opening up to the world economy. It is not by chance that ten years ago the level of hourly wages in the South-European manufacturing industry amounted to 20–35 per cent of the West German level, and even in 1973 to only 16–17 per cent in Turkey and Portugal and reached 34 per cent only in Spain which went up higher on the scale of structural development.

In improving the realization terms of capital an important role was played, beside low wage levels, by the guaranteed stability of the so-called labour-market climate and possibly safety from strikes. The foreign economic expansion of the first big West-European labour exporter: Italy – developing under democratic conditions – has been increasingly impeded by labour conflicts proliferating in the last decade. In Southern Europe the power machineries guarantee a low wage level and suppress labour disputes, thus augmenting competitiveness of the foreign economic sector.

The power machineries play a role, however, also in the handling of income distribution issues deriving from foreign economic orientation. As a result of internal and international class struggles earlier polarization processes have stopped in the income distribution of advanced capitalistic countries. In socialist countries as well as in a few countries developing in a non-capitalistic way a tendency of income equalization is prevailing. In the interest of an artificial and maximum raising of competitiveness today's latecomer capitalistic development completely *ignores the social aspects of income distribution, and tries to centre on economic efficiency* (of course, with a parallel existence of parasitism). The fast development of export orientation naturally postulates a distribution of income according to efficiency and thus gives rise to a strong differentiation to the advantage of sectors, enterprises and individuals more efficient than the average. As much as the economic logic of protectionism is connected with income levelling, so is outward looking development accompanied by income differentiation.

It cannot be therefore considered an incidental phenomenon that a latecomer growth acceleration under capitalistic conditions can be carried out today only by power machineries and totalitarian regimes. It is not difficult to find a connection between the acceleration of growth and the expansion of power machineries, and the appearance of fascist regimes. At the same time, the process produces its own internal and international contradictions which burst the political and institutional framework at a higher stage of development. Social energies suppressed through a long historical period and accumulated socio-political tensions may therefore sweep away regimes founded on power machineries by unexpected blows as has been demonstrated recently by the examples of Greece and Portugal. The date of the collapse of framework founded on power machineries depends also largely on exterior development conditions, i.e. on international power relations.

The changing international role of Southern Europe

The decline of the economic, military and later also of the political importance of Southern Europe beginning in the 17th century pushed the area slowly to the position of peripheral countries of the West-European centre. Economic development accelerated in the last 25 years and the political changes enforced by it throw a new light also on the future international role of the area.

In the last 1500 years Southern Europe was the main theatre of war between East and West, but, after dependence on Western Europe had been established, it became gradually the extended arm of the West in the Southern direction. In the cold war that followed the birth of the socialist world system Southern Europe meant one

of the main defence lines of the NATO. Following political events of the recent past the utility of Southern Europe for the NATO diminished to such an extent as to have considerably affected the international strategic power relations and raised as a realistic alternative the freeing of the area from military tensions in a not too distant future. From the aspect of European and international security the strategic consequences of political changes may become of extraordinary importance.

In regard of an all-European cooperation the disappearance of fascist dictatorships is an important issue. *Changes in the political framework* create advantageous conditions for an improvement of relations with the socialist countries, and also eliminate the obstacles to developing co-operation with Northern and North-West European countries having social-democratic governments which had opposed close relations with countries having fascist regimes in Southern Europe.

The changes in the *foreign policy orientation* of the area are remarkable. Southern Europe is not only an important field of opposition of East and West but also of competition between the U.S.A. and the Common Market. In the period of the intensifying cold war the area was characterized by a dependence on the U.S.A. Changing international power relations undermined the dominant positions of the U.S. on the political side, and the new interest relations following the South-European an acceleration of growth establish new foreign orientation on the economic side.

A weakening of the U.S. economic positions started already in the late 1960s. Although in the period following the Second World War the U.S. tried to attach to themselves the South-European countries by means of considerable assistance and credits, American orientation could not take deep roots. The share of the U.S. in imports fell between 1960 and 1973 from 19 per cent to 9 per cent in the case of Turkey, from 19 per cent to 16 per cent in the case of Spain and remained at a very low level – 7 to 8 per cent – in Greece and Portugal.

The contest between the U.S. and the Common Market was decided more and more in favour of the latter. Over 50 per cent of the trade of Greece and Turkey are transacted with the Common Market, almost half of the trade of Portugal, and approximately two-fifths of the trade of Spain. An increasing and ever more determinant part of the foreign economic impulses affecting the area come from the Common Market and especially from the Federal Republic of Germany. However, the commodity and service exports to Common Market member countries and their important weight in the developing industrial division of labour and in technological relations might question – other alternatives missing – the perspectives of a more independent foreign orientation of the South-European countries.

A basic element of the South-European foreign economic orientation is exactly the looking for an alternative to avoid one-sided dependence. Efforts of

"bridge-building" towards the developing countries – referring to their traditional historical role and geographical position – revived with equal force in almost every South-European country. Turkey and Greece wish to found co-operation with Middle-East countries on Turkish and Greek labour, with technology and organization coming from advanced countries and with Arab capital. Portugal, freed from the burden of colonial war, wants to establish similar constructions in Africa, and Spain wants to do the same in Latin America. The strengthening international economic positions of the Middle-East and Latin-American countries counting as traditional partners are advantageous for all four South-European countries – these have today a share in their foreign trade much higher than the other European countries on average.

Bridge-building functions may emerge, however, not only in North-South direction. Socialist countries played already an almost traditionally important role in Greek and Turkish foreign economy and, although the opening up of Iberian countries has taken place only recently, it has already brought important results. It is particularly for the socialist countries sensitive to foreign trade that the growing world economic importance and political progress of the South-European area matter, since a fast growth of the small socialist countries assumes an incessant expansion of foreign economic relations, which requires dynamic partner countries similarly orientated towards foreign economies. The growing dynamism of the South-European countries only loosely dependent on the Common Market and even taking a stand against an intensification of dependence improves, in a certain sense, also the immediate world economic environment of the socialist countries.

Southern Europe has been going so far a less known and special way of historical development. Our epistemological limits, the present international political and economic situation and the greater weight of incalculable elements in South-Europe do not allow an exact determination of expectable movements. Yet the new phase and even tendency of the way of historical development is emerging already quite clearly. The speed of movement in the new phase will be, however, impeded by historical heritage for a long time to come.

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ОСОБЕННОСТИ РАЗВИТИЯ ЮЖНО-ЕВРОПЕЙСКИХ СТРАН

Б. КАДАР

В статье рассматриваются особенности истории развития Испании, Португалии, Греции и Турции, специфические черты их институциональных систем, а также изменение их международного значения. В Южной Европе сложился не просто запоздалый по отношению к Западной Европе, а существенно отличается от нее вариант общественно экономического развития. В Южной Европе не произошло характерного для Западной Европы слияния так называемых античной и германской формаций, здесь происходит, скорее, слияние античной и так называемой восточной формаций. Этот отличающийся от западно-европейского процесс слияния породил иные формы земельной собственности, общественного разделения труда, государства и завоеваний, своеобразные формы долгосрочного роста. В связи с довольно статическим характером общественно-экономических структур происходит провал многовековой внешней экспансии, и распространение в международных масштабах капиталистического способа производства приводит к относительному отставанию южно-европейского региона, к полуколониальной зависимости от более развитых капиталистических стран.

Более динамичное развитие этого региона начинается только после второй мировой войны, то есть с чрезвычайно большим историческим запозданием. Быстрые темпы экономического роста, расширение способности к накоплению, начало структурной модернизации экономики и усиление в 1960-х годах внешнеэкономической ориентации этих стран — все это привело к сокращению отставания от Западной Европы.

Институциональные особенности южно-европейских стран обусловлены в большой степени тем, что в процессе своего исторического развития они вобрали в себя не только элементы восточной формации и затем остатки феодализма, но не изжили и первоначальных форм капиталистического развития, что совершили западно-европейские страны на той же ступени развития сто лет тому назад. Распространенность мелкой собственности, высокая даже в международных масштабах степень государственного вмешательства и государственная собственность — все это часть исторического наследия южно-европейских стран. Вместе с тем расширение государственного вмешательства совпало после второй мировой войны с ускорением экономического роста на базе ее ориентации на экспорт, с расширением использования принудительных механизмов государственного насилия, что обеспечило принудительное накопление, низкий уровень зарплаты, и благоприятную для капиталистического развития атмосферу — отсутствие стачек и забастовок, отчуждения частной собственности, игнорирование социальных аспектов распределения доходов.

Ускорение экономического развития этих стран после второй мировой войны распирает рамки их политических институтов, изменяет внешнеполитическую и внешнеэкономическую ориентацию данного региона, его международное стратегическое положение. Новая, возросшая международная роль этих стран создает новые условия также и для развития связей с социалистическими странами.

REVIEW

É. EHRLICH

RESEARCHES ON PROBLEMS OF ECONOMIC DEVELOPMENT AND GROWTH IN HUNGARY IN THE YEARS 1968–1974*

Growth rate

The problems of economic development and growth are among the main subjects both of international and of Hungarian researches. There are hardly any publications on economics which, if only superficially, would not deal with this question. In Hungary, but also in other medium-developed or more developed socialist countries, some changes have occurred in the conception and studying of economic growth as compared with the past. The somewhat "technical" character previously to be found in growth studies has diminished. The studies and publications on economic growth are increasingly engaged in the examination and study of the "qualitative" aspects of economic growth.

The question of growth emerges differently from the point of view of the developed capitalist countries, the so-called developing countries and the socialist countries.

Although the complex problems of growth in socialist countries with different levels of economic development have been dealt with in the Hungarian literature only to a small extent yet, from the verbal analyses of political documents and studies published on this topic it seems that the questions of the growth rate are evaluated, at least in some socialist countries, in a way not too differing from our approach. In Hungary the question of the growth rate is raised mostly in connection with the exhaustion of labour resources and the topicality of carrying out some fundamental changes. As a matter of fact there are two standpoints:

According to *one standpoint* the fundamentally extensive resources of the previous economic and mostly industrial growth have become basically exhausted. In Hungary – and in the majority of the socialist countries – economic policy is invariably growth-oriented. The necessity of rapid growth results from the still

* Shortened version of a report made upon the request of the Economic Committee of the Hungarian Academy of Sciences. The statements and evaluations included in it reflect the individual opinion of the author.

existing economic backwardness and the fact (pressure) of economic competition between the two systems. Until the economic development level of the developed capitalist countries has not been attained we must strive as much as possible to maintain the previous growth rate of the economy. However, this can be achieved only by exploring the resources of intensive economic growth, by the earliest possible elaboration and gradual realization of its consistent system of conditions.

The other standpoint evaluates the factors of past rapid economic growth in the socialist countries basically identically with the first one. It emphasizes, however, that at the present level of development the way of putting questions should be altered. The problem was first formulated by Ferenc *Jánossy* [36] and the category of "forced growth" also derives from him. According to János *Kornai* [39] a consciously planned realization of ' harmonic growth" should be sought after. In his study he formulated the qualitative objective and subjective requirements of a harmonic development. He opposed harmonic growth to the type of "disharmonic growth", an example of which is the so-called forced growth characteristic of the past development of socialist countries. The emergence of forced growth can be deducted from economic backwardness and political danger. In connection with economic growth Kornai considers it important that the harmonic approach should be consistently asserted. In his opinion, this will surely have a diminishing effect on the growth rate of Hungary and the other socialist countries, too.

The latter valuation system illuminates the complex questions of forced growth and harmonic growth from the economic aspect only to a small extent. The quantitative and qualitative economic definition of such questions is missing, for example, as the connection between the forced rate and disproportionateness, or in the case of what rate of accumulation we can speak about a forced rate, etc.

Béla *Csikós-Nagy* [12] refers to the objective nature of economic relations: the maintenance of a previous rapid growth rate does not depend merely on our wish or will. Maybe only a slower rate than the previous one can be regarded as realistic and therefore useful; thus the planning of a slower rate supported by reserves will be expedient. Namely, the population of working age will decrease in the future; because of previous neglect of infrastructure the capital intensity of the national economy is growing; the role of domestic raw material resources will increase with the presently rising raw material prices. The difficulties of economic growth may be overcome in the future only by economic and structural policies that ensure economic efficiency and the increase of productivity.

Also economists, but much more some sociologists [26, 27, 43, 51] emphasize that at our present level of development, where the primary living conditions are more and more ensured for the majority of the population (for the time being with regard to foodstuffs and certain cultural articles) there is a possibility to prepare for

devising a value order of socialist type and to formulating the related view of life and way of living already at present. Our economic plans should be aimed at the gradual realization of these purposes, with a really slower and more balanced growth rate than in the previous period.

Some scholars point out that development and growth are not identical notions. A slower growth rate does not mean stagnation yet. In a complex interpretation a slower development is conceivable even with a fast growth rate. However, a satisfactory scientific clarification of this question remains a task to be solved in the future.

What does growth depend on?

A scientific examination of the question has become topical because of the acceleration of growth experienced in the period following the Second World War. The reasons for more rapid growth had been approached both in the socialist and the capitalist countries for a long time from the side of one production factor, namely, capital.

The rate of accumulation

The view thought to be verified scientifically, too, according to which the reason for the accelerated economic growth after the Second World War had been first of all the generally higher rate of accumulation (investment) as compared with the previous period, remained firm both in the socialist and the capitalist world quite up to the end of the 1960s. Also the practical experience of the growth in countries developing at a very rapid rate and evaluated almost as economic miracles (GFR, Japan, Italy) seemed to support this view. Moreover, even the development of socialist countries with a different social structure seemed to support it: the rapid growth rate was realized in the East-European countries with a three-three and a half-fold rate of accumulation than that before the war. However, it could be more and more experienced that not all countries having a high rate of accumulation were developing at an outstandingly rapid rate, while countries with an average high one may also produce an outstanding growth rate. Therefore, some doubts have arisen concerning the explanation of the growth rate exclusively by one factor, namely, the rate of accumulation.

This "one-factor" (also quantitatively determined) explanation of the growth rate was "replaced" by the new concept of Ferenc *Jánossy* formulated in his book published in the mid-'60s [34]. It can be regarded as scientifically verified as well and provided an answer to the question "What does growth depend on?" – almost

simultaneously with several leading western economists working independently of each other. While proving that one of the fundamental reasons for the extraordinarily rapid economic growth after the Second World War was the particular reconstruction period after the war in several countries, he gave another – basically also one-factor – explanation to the growth. According to him in the long run the growth rate is determined by the quality and cultural level of the available labour force and within this by the most relevant bottleneck and most slowly changing factor, i.e. the professional structure of the labour force. At the same time he also expounded in his book that the existence of a certain "minimum" rate of accumulation and investment, respectively – differing by countries – is indispensable for growth. Therefore, it also had an important part in the development of the growth rate together with the quality and professional structure of the labour force.

During the discussions about his standpoint developing at the end of the 1960s and the begining of the 1970s a "scientific agreement" was reached that both factors (i.e. labour and capital) had an important part in the development of the growth rate. However, the technological equipment, professional structure and qualitative aspects, in general, of the labour force are determinant in the long run. Basically the same synthesis is expressed also in Tibor *Erdős*'s category [16] called "modernization rate", although he considers several other factors influencing growth (e.g. technical progress, etc.) also important.

It must be noted that roughly in the same period when Jánossy's conception was formulated, in the early 1960s, fetishization of education and the training of specialists and, in this context, emphasis on science as the basic factor of economic growth became a rather widespread "professional fashion". To this is connected the significant increase in the proportion of research expenditure within the gross national product to be observed from the 1960s on both in the socialist and the capitalist countries.

However, the almost permanent shortage of capital in the economy relative to the different needs continually renews the debates on the size of the rate of accumulation and investment, as well as the necessity of comparing our rate of accumulation with those of other countries. In recent years debates in Hungary have been concentrated on the following concrete problems of economic policy [1, 3, 10, 12, 15, 30, 59, 60]:

- is the rate of investment low or high in Hungary; what is its rate calculated in different currencies (roubles and dollars); would it not be expedient to increase its rate (even at the expense of consumption) in a socialist country that is forced to follow an economic policy of "catching up";
- is our investment structure correct, with a high proportion even by international standards of mining, primary production as well as agricultural investments and

with that of infrastructure and manufacturing being very low; would it not be expedient to increase first of all the share of manufacturing in investments at the expense of mining, primary production and agriculture, respectively;
is it expedient and if so, then how, by what means to follow an investment policy giving preference to more profitable branches at the present level of our development, moreover because of the open character of our economy, and is it not necessary already at present to change over to a policy of withdrawing social capital from ineffective branches and subbranches and to an investment policy ensuring a faster structural transformation and thus also a higher growth rate?

However, more thorough and complex researches widely made both in socialist and capitalist countries have revealed that the growth rate depends not only on the quality and professional structure of the labour force, on education, scientific research and the rate of accumulation, but also on several other factors. Such are e.g.:

- technical progress connected with the scientific-technical revolution;
- the influence of the level of management and organization as well as
- the adaptation of a more developed technology.

While attempts are made in the international literature even now at quantifying and numerically separating all these factors, it has come more and more into prominence mostly in the western literature in recent years that the most significant bottlenecks impeding growth – which are different by countries and change in time – and the ways of their overcoming should be examined as the main question. Such kind of approach and practice of economic policy are not widespread enough in Hungary at present.

Thus, the one-sided and simplified theories attributing economic growth exclusively to the development level of the labour force or to investment activity, etc. are practically no more found in the Hungarian scientific public opinion. According to the presently prevailing standpoint the growth rate in our country is determined by the expenditure on labour and on means of production as well as by the efficiency with which they can be utilized and permanently regrouped among the different fields of the economy. At our present level of development and in such a small and open country as Hungary first of all our links with the socialist integration and the connections with the most advanced science and technology of the world must be established and operated so that they shall serve efficiency and through this the acceleration of the growth rate. Several specialists are of the opinion that this is the key issue of accelerating our growth.

Employment structure and labour force

A part of Hungarian achievements in researches on the macro-structure of employment is also internationally significant. At the level of present knowledge the problem of the macro-structural connections between economic development (of agriculture, industry, services), growth and employment seems to be solved.

Hungarian researches dealing with the structure of employment [18, 21, 55] have revealed with many other things also the fact that the internationally valid tendencies of employment show very significant deviations in the socialist countries. This is a result and consequence of the economic policies followed. Thus the proportion of industrial employment is high considering the level of economic development in our country. The level and proportion of employment in the sphere of services are low, in general. Within the sphere of services the most considerable shortages can be observed in the infrastructure serving the population – shortage of shop-assistants in trade, in the repairing services, of auxiliary personnel in the health service, of teaching staff in education and of nursery and kindergarten personnel.

At the end of the 1960s and in the early 1970s researches dealing with the structure of employment came to the conclusion, in agreement with practical experts, that it would not be expedient to increase the proportion of industrial employment in the coming period, among other things because of the shortage appearing in the servicing spheres mentioned above. It would be desirable to alter the tendencies of changes in proportions in such a way that the labour migrating from the agriculture should go, on the one hand, to the industry (with the industrial staff stagnating), but more and more from the industry to the sphere of services (perhaps even at the expense of the industrial staff). At present a tendency inconsistent with these endeavours and objectives is still prevailing, because of a lack of harmony between employment policy and investment policy. E.g. even now rather investments creating jobs than those having modernization and reconstruction character are realized.

Western literature lays great emphasis on several problems of the full employment of the available labour, of the lack of skilled labour, of the employment of guest workers as well as of the quality of labour, too. The topics of the Hungarian and of other socialist countries' literature somewhat differ from these. Namely, it is in these countries where – differing from the practice of capitalist countries – labour shortage has first appeared with full employment, mainly in unqualified labour which is contrary to the situation to be observed in developed capitalist countries. Although the labour supply of the individual socialist countries is different and the possibility of an eventual labour migration among the countries arises also here, this has been realized in practice only sporadically as yet.

Researches on the problems of raising the training and qualification level of those employed as well as of the permanent maintenance of working capacity are in an early stage in the socialist countries and in Hungary, as well. This subject has become topical in these countries because of the switch-over from the extensive stage of economic development to the intensive one. It has turned out that previously a vocational training considerably exceeding economic needs in quantity had been realized (a similar phenomenon could be observed also in capitalist countries in the same period). It has become obvious that an education and training much better adjusted to the general requirements of the economy and ensuring a wider basis for further studies should be realized and, simultaneously, a complex and consistent conception of educational policy must be elaborated.

A great problem resulting from a vocational training considerably exceeding the economic needs, that has appeared only recently, is that a considerable part of the young people participated in vocational training on such level, which aroused higher social expectations in them than our present structure of working places could fulfil. Thus the present educational system sharpens the existing contradications of the employment equilibrium. The researches dealing with these questions – mostly rather indicating and raising some problems – have drawn attention, moreover, to the fact that there are close connections between employment, productivity, labour migration and mobility [21, 22, 27, 31, 38].

A new employment policy relating to the intensive phase and effective under labour shortage has not, for the time being, adequately been established and elaborated scientifically. Otherwise, there are sharp debates going on among specialists working in different fields [29, 31, 32, 41, 44, 66] whether there is labour shortage with us at all, and if so, then where and in which jobs it appears first of all; whether it is the right to work or to a given working place that is guaranteed by the state in reality; to what extent social aspects must and may be taken into consideration with employment; whether the striving for employment equilibrium is properly connected with the size of labour migration (changing of working place) and labour mobility (changing of sphere of work or profession) qualified as desirable.

Scientific researchers and practical experts agree in that further growth can be achieved from now on exclusively through efficiency and productivity increase and the quality, professional and working culture as well as the organization of labour have extraordinary great importance from this point of view.

Connections between growth and macro-structure

In recent years several researchers have dealt with the connections between economic growth and the main sectors (agriculture, industry and services) in Hungary. Almost all of them emphasize that in Hungary the regrouping of labour from sectors with low productivity level to those with a higher one (from agriculture to industry) and to a certain extent within the branches from enterprises with lower productivity to the better ones had an important part in the growth of the past period. Several researchers state that in our present macro-structure (as divided into agriculture, industry and servicing sphere) only minor changes of this kind can be reckoned with. Therefore, a factor increasing productivity from the point of view of the national economy in the past may be expected to be missing in the future. This does not mean, of course, that inner regrouping or structural rearrangements among subbranches within a branch which will come more and more into prominence in the future will not continue to increase the productivity of the national economy. However, this will be offset by a further expectable increase in the proportion of the servicing sphere, where the rate of productivity increase is smaller than in the productive sectors. This in itself, too, influences the future increase in the productivity of the national economy in a negative sense.

Industrial development

For the time being we are only at the beginning of elaborating an industrial policy for the intensive stage of development. In the small number of research projects dealing with this subject [14, 28, 37, 48] neither a practically applicable way of an industrial policy that would be in harmony with the requirements of efficiency as well as with domestic and foreign market demands have been found yet, nor the basic directions and methods of changing the product pattern adequately for our purposes, nor the means of its realization in harmony also with investment policy and the principles of employment policy.

The sectoral proportions of our present industrial structure by and large correspond to international proportions experienced at our development level. However, the fastest possible gradual transformation of our product pattern based on a new industrial policy is indispensable both from the point of view of a better adjustment to domestic and foreign market demands, and from those of the growth rate and the increase of productivity. According to the unanimous standpoint of different studies modification of the product pattern must be carried out in such a way that it should be shifted towards more profitable products. It has not been

clarified, however, how far this can be realized in harmony with the permanently changing domestic and foreign market demands.

According to different statements there are several objective and subjective factors impeding the development of a new industrial policy and the realization of conceptions about the adjustment of the industrial structure, respectively. So e.g. the rapid changes in the terms and demands of foreign trade make the manufacturing and marketability of products, previously thought to be profitable, problematic. A considerable part of the industrial producing units (mostly in industries closely connected with personal consumption) are too big and inflexible in terms of employment for an adequately rapid accommodation to changing demands, while some of the producing units amalgamated in vast organizations even by international standards are practically small plants in the technological sense; the technological standard of their industrial fixed assets is low and changing over from one product to another is costly and takes a long time. The proportion of convertible products which meet the requirements of different markets is low among the products of our industry, etc.

These conceptual problems have not yet been solved scientifically either. Scientific research still owes us the elaboration of an industrial policy conception applicable under basically new conditions as well as of the principles of selective industrial development and the means of their realization. For example, such important questions as how the industrial policy conception to be elaborated can be connected with an efficient participation in the international division of labour from the points of view of both production and marketing, or how the main directions of international technical progress could be taken up at least in some fields by the adaptation of modern technology have hardly been dealt with. Only initial steps have been taken also in the formulation and establishment of the principles of selective industrial development. In one research project, for example [61], an attempt was made to give a scientific answer to the question on what basis selection should be carried out, as well as to formulate the requirements (criteria and measure) of an industrial development promoting the increase of economic efficiency. In this context several problems debated in theory and practice as well were raised: when and in what sense an import-substituting development policy was expedient; how to interprete export orientation, etc. [8, 9].

Thus, in the final analysis, no researches can be found in respect of the Hungarian industry that would provide a thorough analysis of the low level of industrial productivity pinpoint the key issues of the increase of productivity, or offer a scientifically founded complex evaluation and formulation of the industrial policy of the selective industrial development to be followed as well as of the ways how the "main points of emphasis" should be marked out.

Services and infrastructure

Under the effect of infrastructural problems arising in Hungary, furthermore of impulses received from the thorough examination of the industrialization processes in various capitalist countries, Hungarian researchers made an international historical-economic comparison of infrastructural development level as a macro-economic phenomenon; the different types of infrastructural development were distinguished and evaluated from the point of view of their relationship with economic development. In these studies the general features of the development and standard of infrastructure in the socialist countries, and among them in Hungary, as well as the characteristics of the main fields of infrastructure (transport and communication, housing, public health, education and cultural level) were presented [11, 18, 19].

On the basis of the international analysis of infrastructure an investigation took place in Hungary for the first time that analyzed the development level and tendencies of the infrastructure in the counties of Hungary over the last 20 years as well as the decrease, in certain territories increase, of their differences in standards.

However, the research apparatus still owes us a concrete and thorough analysis of the infrastructure necessary for the development of the national economy, e.g. a detailed analysis of the state of agricultural infrastructure. Although we are still far from satisfying the quantitative requirements both as regards infrastructure as a whole and the majority of its fields, it would be necessary already now to change over slowly and gradually, only in research work for the time being, from the "quantitative" to a "qualitative approach" in certain fields – e.g. public health and education – and to start devising new ways and methods of measurement.

It would also be a task of the near future – as has already been mentioned in another context – to elaborate the economics of public health and education as soon as possible.

Connections between growth and living standards (consumption, living conditions, way of life)

The planning and realization of an increase in consumption by and large in harmony with the growth rate of the national income have become characteristic in Hungary since the beginning or middle of the 1960s. This change required a scientific investigation of the living standards and living conditions and it duly started in the first half of the 1960s. The first product of this scientific work was the systematizing activity carried out in the early 1960s, which clarified the notion of living standards, the system of its components, including the possibilities and

methods of measurement. The main centre of this work was the Department for Economics of the Central Statistical Office.

The next important product was presented to the professional public at the end of the 1960s as a complex, consistent long-term conception of living standards which was elaborated by the Commission for Labour and Living Standards in the framework of the perspectivic planning exercise in course [29, 65]. This systematized the research achievements, constructively complemented the existing shortcomings and inspired related work. This conception constituted a part of the Hungarian long-term ideas referring to living standards and, with some further improvements, it still does. The conception was elaborated by collective scientific work. Under the direction of the Commission for Labour and Living Standards about 200 scientific researchers, practical specialists, economic leaders had participated in the work for several years. As a final result of the work carried out under the guidance of 13 experts responsible for various fields a system of concepts has developed embodying all the political, scientific and practical requirements, knowledge and experience known to contemporary science in this field both abroad and at home.

The conception itself consisted of two main parts: the first part dealt with the most important past experiences and the direction of future tasks regarding living standards and incomes policies (including the elaboration of preferences and objectives as well as the main means of their assertion), while the second part contained the experiences and most important tasks of employment policy, labour problems and education, respectively.

Although the conception raised the necessity of elaborating a socialist model of consumption and even contained certain elements of it, no such model has been provided actually. Therefore, to remedy this deficiency has been exactly at the centre of interest of economists and sociologists dealing with the subject in recent years. Numerous publications on this subject are concerned mostly with the raising of different related problems as well as with reviewing and evaluating foreign and domestic experience. These works indicate that the synthetization of research experiences obtained in the meantime will take place already in the near future and thus also the system of requirements of a socialist model of consumption and the ways towards its realization in principle and practice will be established and outlined.

In the course of investigations of exploratory character in this direction several interesting questions have come to light. Some examinations of sociological character [31, 32, 43, 44, 45, 51, 52, 58] report, for example, on the following:

- the characteristic signs and types of the way of life to be found among workers,
- the role of past traditions in the way of life,

- the contradictions concomitant with the "new richness" brought about with certain layers, by the rapidly rising living standards,
- the factors playing the main role in the increase of part-time employment (income, freely chosen meaningful work, etc.), and finally,
- to what extent the role of qualitative factors increased in the consumption pattern by main consumption groups.

Thus literature truly reflects, on the one hand, the distortions and temporary disequilibria developed within consumption (e.g. high-level nutrition, supply with durable consumer goods, medium-level clothing and, at the same time, a housing shortage), and, on the other hand, that the living conditions, the way of life and also the view of life of certain layers are considerably lagging behind the medium-level consumption.

It seems that the relevant questions to be answered in the near future are the following:

- what should be done for a practical realization of distribution principles promoting economic growth and efficiency that would work in the direction of levelling family incomes while differentiating personal incomes to a greater extent;
- how can the existing differences in consumption level be diminished while totally eliminating poverty and influencing the changes in the consumption pattern, so that this should promote economic growth;
- how and by what means is it possible and expedient to eliminate the permanently reproducing income-disproportions;
- what are the tendencies of changes in the consumption pattern which can be qualified as useful from the point of view of socialist development and, therefore, to be supported?

International comparison

The international literature dealing with comparisons between countries goes back to a past of 15–20 years actually. The main fields of international comparisons are the following:

1. Static and dynamic comparison of the level of economic development or of the living standards of different countries by means of various synthetic indicators (GDP, national income, consumption, etc.). Two basic methods of the comparison of this type are known at present: one is detailed conversion to a common currency (this requires more work), while the other is the so-called simplified method, i.e. a procedure based upon the linking of physical indicators with synthetic ones.

2. Various structural comparisons which may refer to
   - different macro-structures (e.g. employment or professional structure, etc.),
   - different branches of the national economy (e.g. agriculture, industry, sphere of services and infrastructure),
   - various fields (e.g. housing, transport, etc.).

International comparisons made in Hungary or with Hungarian participation on the level of development or the measuring of growth were the following:

- In the middle of the 1960s an international comparison was made concerning the national income and the development of its main components in the CMEA-countries with the repricing method which was developed almost simultaneously but independently of each other in the socialist and capitalist countries. Since the investigation was made for 1959, 1966 and 1973 as well, there is a possibility for the international comparison of growth also in the framework of the CMEA with identical methods. This provides a basis, at the same time, also for the practical examination of levelling among the socialist countries in respect of development and structure,
- Recently, a comparison of similar character has been finished in the framework of UNO (the so-called ICP) covering ten countries at different levels of economic development, living under different social systems and under deviating natural conditions. From among the socialist countries Hungary took part in this comparison.
- The simplified method of comparison elaborated by Ferenc Jánossy [34] at the beginning of the 1960s for the purposes of statical comparisons can be evaluated as successful also internationally. This method was made suitable also for dynamic examinations later on. By means of it a dynamic international comparison was made at the end of the 1960s covering 24 countries and 23 years (1937–1960) based at first upon the per capita national income (according to SNA) expressed in dollars, and then upon the GDP [19]. It became first possible to compare the growth rates of different countries with identical method and to confront the results obtained in this way with the growth rates computed by different methods in the countries concerned. Especially interesting conclusions could be drawn from this examination for the socialist countries. E.g. concerning Hungary the growth rate obtained by this method was slower for the period of the 23 years examined than the officially computed one. Later on, when the Central Statistical Office revised its computations concerning the previously published rate of growth of national income, the difference resulting from the two methods has become insignificant.
- Another method of comparison deducting the connections between physical indicators and the national income from tendencies experienced in the course of dynamic development and applying it to spatial comparisons served also for the

comparison of the level of economic development. This comparison covered only the comparison of socialist countries among each other.

Significant works were published on another main field of international comparisons as well:

- Different comparisons were made for consumption aggregates and employment (as has already been mentioned in another respect), labour and professional structure as well as the infrastructure on an international level.
- Several bilateral and multilateral international comparisons [13, 48] were made concerning the level of industrial productivity, the growth rate and structure of the industry in the socialist as well as in some capitalist countries.
- Various attempts were made at the comparative measurement of technological standards and technical progress as well as at the international comparison of the cultural situation in Hungary.

It must be noted that one of the purposes of all these comparisons is to reveal those basic tendencies and common characteristics which assert themselves in the average of several countries and are useful for the judgement and evaluation of certain phenomena and changes.

On the basis of the abundant literature on international comparisons we may come to the conclusion that the majority of international comparisons going on in Hungary at present contain investigations based on reliable methods and a wide range of data, whose high-level and mostly methodological presentation can be considered as useful. Less fortunate is, however, that a considerable part of international comparisons is still limited to the registration of facts and phenomena. In the majority of cases the economic political content is still missing, i.e. the revealing, analysis and evaluation of the deeper motives of the phenomena observed.

On the future directions of the development of researches

Since I have tried to point out in connection with all questions discussed the blank spots as regards contents, here I would mention only the most important conclusions from the point of view of the whole subject.

1. Concerning our subject those researches and research directions should be promoted that gather and systematize such knowledge, different relationships and international experience which further the intensive development conception of the Hungarian national economy, its practical realization and the scientific foundation of an economic policy of this direction. Within this it would be topical to examine the questions of economic dynamism and its resources, systematize the related international knowledge and scientifically clarify the subject. The

economic clarification of enterprising, of the controlling and producing organization is also still lying ahead. This means first of all that the "quantitative approach" should be gradually replaced also in research and investigation by a method taking the role and importance of quality into consideration in an ever widening range.

2. Accordingly, the exploration of the ways and methods as well as the development of new systems of indicators, which already serve as a basis for measuring and evaluating not only quantitative, but rather qualitative changes should begin already at present.

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BOOK REVIEWS

KOVÁCS, G.: *A jövő kritikus elágazási pontjai* (Crucial turning-points of future development.) Budapest, 1975. Közgazdasági és Jogi Könyvkiadó, 285 p.

The author, professor of Karl Marx University of Economics, and head of the research group of the Planning Department, considers his new book as a continuation of his work "Long range perspective and planning" published in 1970*. He argues that the new book deals primarily with the turning-points of development and not with trends.

Part 1 of the book consisting of four parts treats questions of systematization and policies of science. It tries primarily to clarify the notions of science, ideology, utopia and futurology, their differences and correlations, providing Marxist criticisms where appropriate.

The book investigates in detail the problem of verification and argues that as regards the formulas of futurology complete identity with reality need not be considered a general requirement. Futurology cannot be expected to supply absolutely sure perceptions, since one of the characteristics of the future is uncertainty, and the original aim of futurology is to reduce this uncertainty. In socialist planned economies the necessarily continuous verification of the propositions of futurology is terminated by the fulfilment of plans based on such research, i.e. by the future judged as historical past.

At the end of Part 1 the author refutes the charge that is so often brought against futurology: that it is an escape into the future. This discipline was the fruit of our times, times of ever accelerating changes showing an increasing deviation of the future from the present.

One of its aims and tasks is to achieve that present decisions should be made bearing in mind future requirements rather than the consequences of the past; another aim is to allow for a weighting of requirements of an even more distant future – by revealing future alternatives – and to create possibilities for later progress.

Part 2 investigates questions of lasting trends and turning-points in development. It deals first of all with methodological questions, among them problems of mathematical models, quantifiability, the relation between futurology and planning, and the application of a systems approach. The book goes on to clarify and reveal the notions, correlations and conflicts of phenomena that are of decisive importance from the aspect of development theory and futurology: growth, progress and development. The author analyses and describes the linear, exponential and logistic development types, i.e. curves, relying on a wide knowledge of the literature, supplying concrete examples and using diagrams for illustration.

It is a general feature of historical development that its automatism leads to growing efficiency; consecutive methods of production cover their course of development corresponding to a logistic

* See review in Acta Oeconomica, Vol. 7, Nos. 3–4, pp. 411–413

graph in an ever shortening time; it can be presumed that after a break-through to qualitatively different social levels the logistic graph will survive in communism. Therefore, qualitative changes or break-throughs will take place also there, which necessitates research into the developmental phases of communism. In communism development will approach the upper covering curve – coming closer to a maximum, indicating that freedom is equal with recognised necessity.

After explanations that add interesting ideas to development theory, the author critically comments on the models used by *Kahn-Wiener* in "The year 2000" and by *Meadows* in "The Limits to Growth". Scientists from socialist countries would fill a gap if they worked out their own model and outlined in it the perspectives of the victory of the new social order.

Part 3 of the book outlines a few social models of the future. The scientific and technological revolution is, in the final account, a social revolution, which will lead to the birth of a new social order: communism. That is why it is such an important task to reveal the social consequences and system of conditions for the transfer of science into technology. Taking qualitative change *and* the fact of a leap as the criteria of revolution, the author draws the conclusion that, in our days, probably no such revolution is taking place, only accelerated scientific progress; revolution comes into question only if modern technology radically changes the forces, structure and organization of production as well as social and production relations.

The revolutionary new feature of the special force of production of the future will be the wide application of biology: it will considerably influence human genetics, the value system and scientific research itself. The management of society must be considered a special force of production. In communist society the higher development of forces of production is correlated with higher productivity, and a qualitatively different structure of commodities as well as a qualitatively different way of utilization to be created. The yearly $ 4000 per head level to be achieved through development in the forces of production may be a (lower) limit of a communist society described as one of affluence, and the yearly $ 20,000 per head level to be taken as the upper limit of post-industrial society may cover the new integrated society. Post-industrial society, therefore, may mean a communist society at least as an alternative.

On examining the convergence issue the book points out that convergence theories are a normal aspect of scientific development, resulting from the coexistence of the two systems. Converging effects are observable in the two societies, and they may even strengthen. In bourgeois literature the converging future image resembles an improved capitalism rather than a version of socialism to be further perfected, which raises the question whether "convergence theories" should be elaborated which underline the importance of the socialist version. The author treats also the subject of the relation of convergence theory and social democracy, which is interesting mainly from the political aspect.

There are diverging processes beside converging ones. At a higher stage of development such traits become conspicuous as make clearer the superiority of the new social order. The greater social advantages pertaining to identical economic development and characteristics expressive of the superiority of the new social system are called by the author "social gap". This means in fact the greater social advantages of the economic development level achieved in socialist countries as opposed to capitalist countries at the same level of economic development. A choice among alternative uses of the social gap entails fundamental political and development problems. Such alternatives are e.g. a catching up, meaning economic development, and a continuous raising of the living standards at the same time; increasing leisure and additional work; social policy headed mainly by common requirements, and a more differentiated distribution within the limits of the given system of interests.

Looking into the perspectives of development, the author attempts to draw a picture of the man of the future. It is a dark feature that man as a biological system shows, for various reasons, a retrograde process; this, however, may be counter-

balanced and avoided by positive interventions. In the ideal model of the man of the future creative work receives an emphatic role both in production and the useful spending of leisure. As regards creative activity an increasingly active participation in the preparation of decisions, and widening fields for creative abilities are to be expected. The society of the future will be characterized by a more harmonious value system than that of today, but it cannot be guaranteed that life for the individual will be without cares or tensions.

Part 4 treats one by one the questions of "future-sensitive activities". Such are planning, of which the problems of long-term planning are investigated in the first place. The author states emphatically that further development in long-term planning is made possible by reliance on futurology. To do this, the information basis of planning must be amended, the system of scientific research plan, technical development plan and national economic plan must be further developed, and their relations must be placed on new grounds.

The construction and operation of regional macro-systems are treated in detail and in a somewhat novel way. Such are e.g. international electric energy systems, pipe networks, airway-, railway-, waterway- and public road networks, roads through settlements, computer networks, mass communication networks. The common features of these are that they make up a network, are of a systems character, serve international aims and that their role in long-term planning is particularly important. These characteristics entail consequences important from the point of view of planning: their time-horizon is larger, they can be planned only internationally, and their mutual interrelations must certainly be taken into consideration. They play a role of regional formation, in that they are apt to create regional structures.

The problem of environmental pollution also requires international planning and implementation systems, but certainly not from an anti-growth position, and to the prejudice of less advanced countries. In order to solve the problem environmental protection should be a subject of education everywhere.

Education is also a typically future-sensitive field: it is almost the most important point of divergence. The world-wide educational crisis necessitates the revision and radical structural changing of the whole system of education. A solution must be found to the question of mass education and individual education, as well as to that of a right relation between education at school, at home and at the workplace. Conditional on the solution of these problems is a revolution of teaching methods, the modernization of the technical basis of education, and a number of organizational improvements.

Géza Kovács's book, briefly outlined here, is a remarkable and important step in the recent development of Hungarian literature on futurology. It is the principal merit of Part 1 that it provides a sound survey and evaluation of the most important problems of research into the future and gives factors of science, planning and politics their right place. It is probably Part 2 that has the most novel and interesting things to say: from the interpretation of growth, progress and development through the analysis of development graphs and their turning-point and theoretical further development to their social generalization. Part 3 treats openly and with lively imagination certain basic problems of the development of the socialist system, its perspectives, tasks, and political and planning problems. By investigating a few stressed future-sensitive fields of activity Part 4 gives concrete meaning to – so to say illustrates – what is contained in the earlier sections of the book.

Á. SCHMIDT

CSERNOK, A.: *A nemzeti jövedelem* (National income.) Budapest, 1975. Kossuth Könyvkiadó. 70 p.

The author tried his hand at presenting in a popular style a review of this most complex, most abstract and much discussed concept of economics and offering a brief survey of its calculation methods.

The methodology of calculating national income gave rise in the past to much controversy, yet no uniform conception has been arrived at. Some economists consider any profit-yielding activity as contributing to national income while others recognize as components incomes resulting solely from such activities as produce material goods. The standpoint of the Marxist economics is uniform and unambiguous: *national income is created exclusively by productive labour.* But which activities to regard as productive has already been widely debated. A. Csernok offers detailed account of these disputes centered practically in every case on the definition of the concept of productive labour.

The author also points out that the role of national income should be clarified. According to Hungarian economic literature national income can be defined in the sphere of material goods equally as a result of the "useful" production of material objects, or in the context of the main targets of society, related to the improvement of living conditions, or as a result of commodity production and as a comprehensive economic indicator.

The study treats all these possibilities in detail and does not fail to draw attention to all the problems still waiting for theoretical clarification. Where necessary, he points to the efforts in CMEA countries to unify the calculation of national income.

On these grounds he concludes that "national income is created by the work of those employed in the production of material goods during a certain period and is the total value of material goods and material services that serve to satisfy the ultimate needs of society, corrected by the balance of exports and imports".

In keeping with this and relying on the yearbooks published by the Central Statistical Office he introduces the model of national income calculation: he deducts from the social product the total of material inputs (that is, the sum of current material inputs and the depreciation of fixed assets) and in this way he obtains the national income of a given year.

Nevertheless, this synthetic model offers in itself only little information for economic comparisons or decisions. That is why the author exemplifies how this coherent calculation of national income is built up, that is, how the sectors of the national economy contribute to the creation of the national income.

The following part of the study deals with the questions of the distribution of an expenditure on national income. It outlines the aggregated balance of national income, which displays how national income is produced, distributed and expanded. It underlines: although calculations concerning national income are generally based on current prices, sometimes, precisely for a more reliable comparability, calculations are performed with price changes eliminated. The author also clarifies the concepts of gross and net national product.

A further noteworthy part of the study reviews the development of national income in Hungary between 1920–72. The examination of the period between 1945–72 presents at the same time a brief survey of economic progress in Hungary since her liberation.

A. ORBÁN

SZABÓ, G.: *A mezőgazdasági termőföld gazdasági értékelése* (The economic valuation of agricultural land.) Budapest, 1975. Akadémiai Kiadó, 146 p.

In the past few years the issues concerning the protection of man's natural environment and the optimal management of natural resources have come to the fore in the whole world. Such targets can only be implemented spontaneously in the capitalist countries and, therefore, only partially. In the socialist countries the objective possibilities to utilize natural resources systematically and to the benefit of the whole society are fundamentally given.

Starting from this train of thought the author – relying on the results of his 5-year research work –

deals with the question of how to manage the most important of the natural resources, agricultural land, under the conditions of socialist planned economy. The investigations embrace the cultivable land alone, excluding all the problems relating to the evaluation of forest districts and (urbanized) areas withdrawn from cultivation.

Chapter I surveys the historic development of the legal regulations of landownership and goes into the details of legal measures concerning the formation of co-operative landownership in Hungary. It acquaints the reader with the measures introduced in some socialist countries to halt irrational mismanagement of land.

In the following the chapter proves the necessity of valuating arable land in terms of money and offers a detailed exposition of the objectives of such examinations. It specifies the issues of land tax imposition and income regulation as fundamental targets. Referring to economists in socialist countries it treats the relations between the valuation of agricultural land and the rational management of land, finding therein the main objective of valuation.

On the basis of examining this issue in accordance with both capitalist and socialist conditions, the author comes to the conclusion that if agricultural land is considered "as nature's free gift" there is no possibility to arrest the wasting of land. Owing to such inapproppriate attitude, for a long while not only was insufficient care taken to exploit land suitably, but in addition large – larger than necessary – areas were handed over to other sectors of the national economy thus getting lost for good to agricultural production. Referring to the views of several economists, the author would judge the charging of agricultural land commensurately with its use as advantageous from the aspect of the rational utilization of land.

Chapter II fully examines the problems of land valuation, dwelling upon the endowments that serve as the basis for the principles and methods of valuation. The immobility and the resulting constant location of land plays a major role in its economic value. The chapter also points out the influence exerted by the other natural characteristics of soil – the irreproducible, indestructible and fertile quality of land – upon the value of land.

In the capitalist countries – states the author with reference to Marx – the value of land is determined by the capitalized value of land rent. The rate of interest used in capitalization in such instances is, however, lower than that of other long-term investments. Yet peasants, farming on small land, take into account their own work, too, at its valuation. Hereupon the book analyzes the more important factors bearing on the valuation of land under the present conditions of capitalism.

In the socialist countries a group of economists find the criteria of land valuation in the returns of land. The differential land rent, net income, gross income, gross production value and production cost are the starting points, on which the diverse methods of land valuation lean. The author thoroughly describes and explains these methods.

Still at the end of Chapter II the author arrives at the final conclusion that in the present price system the results of land valuation methods based on income indicators do not reflect the social value of land. The income indicators, as they are, do not show the social productivity of land correctly since agricultural prices do not even cover the cost of simple reproduction.

Chapter III offers an outline of the methods applied in western countries to valuate land. In some of them – with a view towards taxation soil is valuated on the basis of returns, while in others the market price of land or calculations yielding theoretically the same results serve as the basis of taxation. In such cases farming lease determines land valuation.

In the socialist countries numerous works on land valuation in terms of money have already come to the light. Out of these the author outlines and assesses, beside the studies of Hungarian economists on the same subject, those published in the Soviet Union, Bulgaria, Romania, and Czechoslovakia.

Concerning the valuation method based on the returns of land some economists favour gross returns, while others net returns as bases for further calculations. In the author's view – once

returns form the basis of calculations – gross returns should be worked with.

As regards the question what to include in the sphere of returns to be considered, the author supports the stand that involves barely the returns of plant cultivation, because this is closely related to the fertility of land.

In Chapter IV we become acquainted with the author's own view. In his opinion if a valuation of land in money terms is required the methods yielding truest results are those built upon the concept of "substitution cost". Namely, land area can be substituted by an increase in production inputs. This can best be achieved by the application in big rations of chemical fertilizers. Thus, what remains is to decide how much chemical fertilizer is needed to substitute for the returns of one hectare. By capitalizing the value of this chemical fertilizer – the author suggests a 5% rate of interest to reckon with – we receive the "potential means value" of one hectare of land. This method could later be extended, by means of sample surveys, to valuate the total cultivable land area of the country.

To apply the method of regression analysis is theoretically also thought possible by the author. This actually means the investigation of relations between production and production factors. The results of such computations would show to what extent each of these factors contributed to value of production.

The author treats the valuation of areas withdrawn from cultivation as a most important issue of land valuation. Here again he leans on the concept of substitution cost for the elaboration of the method. The value of chemical fertilizer required for the substitution of one hectare is now increased with the value of land-capital investments on the same area.

The book is complemented by a plenteous bibliography, and ends with a chart summarizing land prices calculated by different methods in the socialist countries.

GY. HAJPÁL

HAGEMANN, M. – KLEMENČIĆ, A.: *Die sozialistische Marktwirtschaft Yugoslawiens. Schriften zum Vergleich von Wirtschaftsordnungen* (The socialist market economy of Yugoslavia – Writings on comparative economic systems). Stuttgart, 1974. Gustav Fischer Verlag, 310 p.

'Social market economy or socialist market economy?' Although this, seemingly terminological, question is also raised in connection with the evaluation of economic liberalism in Yugoslavia, it is truly one of the basic problems of the West-European social democracy. Until now, there have been but rather theoretical discussions on the scientific and ideological limits of 'social market economy', largely regarded as ideal by social democrats, but in recent times an increasing number of social democratic movements integrate different elements of self-management into their socio-economic programs. Thus, it is by no means incidental that there is a renewed interest in the Yugoslav socialist market economy in certain West-European circles, who examine how a commodity economy can be reconciled with the model of self-management.

The solution of this problem is the task of the expanding discipline of *comparative economic systems*. Each of the authors, research fellows of Marburg University, made an attempt to reveal the nature of the 1965 economic reform in Yugoslavia in separate longer studies. The research team, of which the authors are members, has been engaged in comparing different systems of economic control under the leadership of *K. P. Hensel*, and the present publication is not their only one in 1974 dealing with a subject related to Yugoslavia, either.

The scientific standpoint of the Marburg team can be summarized in the following points:

- their basic concern is whether and how the system is *capable of functioning* (although it is not clear how closely this is related to the concepts of rationality and consistency);
- theirs is a *systems approach* (utilizing the categories determined and unified by Hensel);

– the method of analysis is *concrete and descriptive* (i.e., they do not undertake anything beyond the practical assertion and simultaneous proving of Hensel's conceptual framework).

The treatment of this scientific framework differs only in the aspects of the method of discussion in the two studies: in the first one the historical, in the second one, the logical approach is prevalent.

The title of the historical monograph is *"Structure and Reforms"*. The development of the year 1965 is chosen by the author, *A. Klemenčić*, as the end point of the analysis; the preceding period is divided into three parts:

1) economy under central management, 1945–1952;

2) the establishment of a socialist market economy, 1952–1954;

3) the reforms of the socialist market economy, 1954–1965.

According to the chosen approach, the author seeks answers to questions relating to the history of the emergence of the basic elements – social ownership, self-management, stimulation with incomes – of the economic system, which got its more or less final form in the second half of the 1960s. An understanding of the 1965 reform is not only the conclusion but also the objective of the survey. Klemenčić did not choose the retrospective method, he did not approach earlier economic systems from the developed socialist market economy; on the contrary, he examines how the past bears on the present. Consequently, he sometimes overestimates the importance of conscious motives in past economic processes, and, by ignoring spontaneous factors, he depicts the developments leading to the reform as a series of partial reforms *brought about in order to realize* the latest objectives.

Although from contentual aspects this study cannot be regarded as an outstanding contribution to the economic literature about Yugoslavia, yet as a historical summary based on new methodological foundations, it draws attention to telling interrelations, it arouses doubt in stereotype prejudices and facilitates fruitful comparisons. Yet, let us follow the sequence of events.

We learn from the work that after the second World War Yugoslavia, acting on her own, rapidly set herself to the introduction of the system of central plan instructions, so much so that between 1945 and 1947 she completed the task of nationalizing the industry, the introduction of central product distribution and a one-year plan based on compulsory plan instructions, and even a typically heavy industry-oriented first five-year plan was enacted. As Klemenčić sees it, there was no causal relation between the nature of the economic system of that time and the schism in 1948 as the reform concepts came to the fore for the first time only in 1949–50 at the earliest. The criticism of the plan instruction system, in turn, rooted more likely in the internal economic difficulties of the time rather than in the separation of Yugoslavia from the other socialist countries – in the author's opinion, the Yugoslav leadership reacted to the schism with the introduction of the self-management system at first, not with reform measures. The first considerable economic reform was implemented in 1952 – before this, only the adjustment of the plan system to the requirements of the self-management system had been attempted, states Klemenčić. However, he regrettably fails to pay sufficient attention to the question, being of supreme interest from the aspect of the systems approach, as to what logical relations may be revealed between the spreading of self-management solutions and the establishment of the conditions of a market economy.

The author describes the period between 1952–1965 as one of a series of progressive reforms, as a series of steps by which the economic leadership 'felt for the way'. (Here Klemenčić uses the term 'trial and error'). The author finds that the frequent failures of the measures taken before 1965 were caused by their inconsistency, by the lack of comprehensive circumspection and experience, in other words, by the incomplete surpassing of the economic system based on central plan instructions. Accordingly, it is the surviving elements of the earlier system that hinder the unfolding of the reforms and obscure the examination of the extent to which the reform measures

themselves may be held responsible for the growing income differences and for the rise of prices following step-by-step liberalization. The author points out that partial reforms are bound to bring other reforms, which may, in a way, widen the sphere of action of administrative control, as amidst the continual modifications the enterprises are forced to divide their attention between the state and the market. The author also quotes a witty empirical survey by a Yugoslav economist, *Branko Horvat*, which pointed out that there has been an inverse relationship between the growth of industrial production and the number of new economic regulations in the history of socialist Yugoslavia.

Klemenčić produces an impressive assembly of facts proving that almost every principal element of the 1965 reform had been *theoretically* conceived in the first half of the 1950s and a large part of them had been introduced in practice as well (decentralized planning, income incentives, elimination of compulsory contracts, introduction of free prices, abandonment of the state monopoly of foreign trade, liberalization of the banking system, etc.). However, these facts lead the author to an underestimation of the real importance of the inhibiting factors and counter-tendencies, the effects of which he rather superficially classifies as but temporary inconsistencies of the reforms. As Klemenčić sees it, such important economic factors as the intertwining of the state and enterprise sector, central decisions determining the ratio of consumption and accumulation, the allocation of investments, the absence of the capital market, statutory exchange control are but phenomena alien to, and irrational in, the system of market economy and, in his opinion, the Yugoslav economic leadership wishes to eliminate them gradually. (This viewpoint prevents the author from taking into account the unquestionably centralizing tendencies of the early 1960s.) The author incessantly believes in the continuous perfection of the market economy also when analyzing the ambivalence of the post-1965 economy in the longest, but conceptually perhaps the least thorough, chapter of the study.

The systems approach to the economy and the mainly descriptive analysis are the merits of the study enabling the author to expound the subject exactly and objectively, to examine the conformity of the elements, and to give a consistent historical summary. At the same time, however, this involves a disadvantage as well, mainly rooted in a reduction of the concept of economic system to that of a system of control of the economy. Klemenčić mainly derives the current reform measures from the autonomous development of the economic mechanism, while he pays little attention to the other two elements of the economic system – the real economic conditions and economic policy. Such factors, indispensable for the understanding of Yugoslav reality, as cyclical development, the insufficient development of the raw and basic material producing industries, unemployment, or regional problems are not even mentioned in this publication. Consequently, no attempt is made to explain the facts mentioned in the account which was meant to be encyclopaedical; historical analysis is reduced to a *chronological* one; the history of the economic system is almost replaced by a history of *laws* and rules.

While the above, limited method of systems analysis is hardly suitable for the elucidation of historical transitions, there is no reason why it could not serve as a tool of a *static logical* analysis, as may be seen from the second study in the volume, written by M. Hagemann under the title "Allocation Problems in the Workers' Self-management System". True, the merits of this study are partly due to Klemenčić, since he waived to exploit a great number of points of interest in the examination of the developed socialist market economy in order to avoid parallel discussion in the two papers.

Right from the outset, Hagemann assumes that the reader is aware of the morphology of the post-1965 economic system; he seeks an answer to the question whether by starting from the basic elements of the system – social ownership, self-management, income-incentive – we arrive at *rational* economic actions by merely following the inner logic of these elements. Without formulating

practical hypotheses, after a brief theoretical introduction the author deals with microeconomic questions: he analyzes the interest relations within enterprises, the interrelations between the performance of the enterprises and their stimulation through incomes; further, the circumstances of the checking of decisions. The thought-provoking reasoning reaches, at places, the profoundness of an economic-sociological study, it borrows extensively from Yugoslav empirical sources; and, although its effect is not unalterably pessimistic, the emphasis invariably lies on the suboptimal features of the economic system. Hagemann rarely makes statements, nor does he prove, he opts for a description focussing on problems instead of making judgements; he remains descriptive, enumerating motives and leaves the conclusion to the reader.

He starts off with a peculiar definition of power: an individual (or a group) has power over another when he is (or they are) capable of making the latter accept such information as premisses of his (or their) decision which would otherwise be ignored in ascertaining the facts. The author relies on this thesis when, in the argumentation that follows, he deals with the decision relations of self-management and professional hierarchy in the enterprises; at the same time, the above thesis urges him not to rest satisfied with stating the overemphasized antagonism between the lack of proficiency and management. Hagemann finds self-management to be partly inefficient in an economic sense not just because the workers are involved in decisions on problems pertaining to fields in which they lack professional knowledge; his concerns are as follows:

- the original concept of self-management is incomplete, it does not form a closed logical system and is based upon a number of wrong hypotheses, thus it is only partially workable;
- professional management and self-management have come to a deadlock; although this hardly limits the competence of professionals in decision-making, still, it opens the way for shifting the responsibility for the decisions;
- self-management is incapable of eliminating the intertwining of enterprise management and the (mainly local) administrative state organs, and thus, neither the blurring of responsibilities and control.

However, in cases when the councils of workers really live up to their rights, irrational decisions will result not from the 'evaporation' of economic risk but from a linking of the two basic elements of the system, self-management and the income incentive. Here the micro-economic study is often replaced by a macro-economic one: the discussion of such problems as the persistence in producing products at a loss and the interests of self-management in a rapid rise of personal incomes is overridden by allocation questions. From the above basic elements Hagemann derives and thoroughly analyzes the two, probably most important allocational characteristics of the Yugoslav economy: the *relative weakness of market factors in labour distribution,* and the *relatively high capital-intensity* of production. He gives a detailed analysis of the workers' counter-interests in new admissions and lay-offs, in other words, in labour mobility; the strict dependence of personal incomes on the incomes of the enterprise and the resulting long-term income differences within trades and among industries are also dealt with. He arrives at the otherwise controversial, although often heard, conclusion that short-term *underemployment* is an intrinsic characteristic of the Yugoslav market economy, as it is deemed that the attainment of a theoretically optimal employment level is against the interest of the self-managers, because of income considerations. The author attributes the disadvantageously high capital-intensity of production mainly to the combination of the self-management system and the system of income incentives; other factors, such as the banking system, inflation, taxation, market competition, state intervention etc. are also mentioned. In his opinion, the rapid increase of personal incomes, which he otherwise considers as a necessary feature of the system, stimulates the substitution of capital for labour. On the one hand, the workers assert demands for an unchanged employment, on the other, the way is open to obtaining outside investment capital instead of tying up own reserves of the enterprise directly,

thus, the enterprise is capable of further increasing personal incomes – the result is the increase of capital-intensity. As Hagemann points out, these facts reflect a far from sound utilization of production factors, they indicate irrational economic decisions.

Although it occurs more than once that the author gets entangled in the mass of documents enumerated and seems to present economic relations tautologically, his argumentation can be accepted as long as he refrains from claiming completeness and rests satisfied with the far from menial task of giving a partial explanation. This implies that he does not imagine to have "derived" unemployment in Yugoslavia or one of its main causes by pointing out the tendency of underemployment. Still, when reading the study, it is hard to tell how thorough Hagemann himself regarded his argumentation. We are at a loss especially when the author deliberately changes the 'levels' of scientific reasoning, often mingling abstract theory with book-keeping.

In addition to the unclear logic, two serious objections can be raised against this study. Both are related to the central concern of the work. Let us begin with the starting concepts: at the outset, the author speaks of three basic elements of the economic system; however, when using them to construct the system of socialist market economy, he has to include a fourth motive, called the "openness of economic accounting", into the analysis. By this term he means that, by exploiting the intertwining of the state and the enterprise sphere, the burdens incurred through mismanagement may be passed on to the community. The necessity of this term is unquestionable for the explanation of such important economic phenomena as the bankruptcy of enterprises or the overheated capital market. At the same time, he is also aware of the fact that the inclusion of this element points beyond the original framework of the study. And this is where the trouble begins: instead of increasing the number of basic elements treated to four, he tries to avoid this by integrating it into the term of 'social ownership' or by practically ignoring it from the aspect of systems theory.

The other serious query may be raised in connection with the application of the *concept of rationality*. When examining whether the above elements of the economic system imply rational action, he wavers between the application of the pure solution of optimation theory or the example of the concrete capitalist market economy as a basis of reference (this dilemma is most apparently felt in connection with the discussion of capital intensity). In fact, Hagemann gets stuck when he tries to fulfil the requirements of "comparatistics" while retaining, at the same time, a theoretical system of criteria relatively suitable for abstract comparisons. For this reason, however, he does not get much beyond a textbook-style outlining of theoretical problems, while his statements often turn out to be approaching the apology of capitalist economy.

Both studies aim, if indirectly, at a comparison of present-day economic system. In spite of this, due to the rapid 'moral obsolescence' of social sciences, only a year or so after their publication these studies are rather of historical and methodological than topical interest. Paradoxically, though the authors did pay attention to the changes of the Yugoslav market economy in the early 1970s, they still regarded them as but usual minor corrections of the conditions of the system. However, by the time this volume was published in the German Federal Republic, a new constitution had been enacted in Yugoslavia. As a result of the transformation of the system of self-management (and of the reinforcement of centralizing tendencies), the basic elements of the economy have substantially changed so that even the term 'socialist market economy' has become obsolete. New motives take force (self-management planning, social contracts, self-management agreements, capital-sharing etc.), all fair games for the pen of the Marburg economists. It is up to them to take up the challenge and continue their work.

J.M. KOVÁCS

Studies on developing countries. Budapest. 1971 Institute for World Economics of the Hungarian Academy of Sciences.

The series of "Studies on developing countries" has been published since 1965 in several languages by the Institute for World Economics of the Hungarian Academy of Sciences, established as a successor of the former Centre for Afro-Asian Research in 1973.*

The series of publications aims at providing a medium for Hungarian and foreign researchers studying the developing countries. Of the 80 studies published, 50 were written by Hungarian authors, while 30 came from foreign contributors.**

Almost every continent was represented among the authors, manuscripts were accepted from African as well as Asian, American and Soviet authors.

The studies deal with general problems of the developing world and with specific ones of certain regions and countries as well. However, the objectives of articles of different approaches are the same: they aim at revealing the socio-economic problems caused by the backwardness of the developing countries and at finding solutions to these problems.

Economic development in the developing countries is, of course, inseparable from the overall tendencies of the world economy, from the processes taking place in the latter, since their entire economic development is deeply influenced through foreign economic links by the changes taking place in the world economy. These new tendencies in world economy are analyzed by director of the Institute for World Economics, József *Bognár*, in the latest issue of the series, under the title "New forces and currents in the international economy".

The author opens his article by discussing the new factors emerged in the world economy during the first half of the 1970s, examining how these affected the individual participants in the world economy. He regards the modifications in prices in the terms of trade and in cost proportions, as well as the signs of crisis in the centres of economic power as results of unresolved economic, social and political problems. As he sees it, "a new era is coming in the world economy: the period of expansion, which began in the 1950s, has ended and a new, transitional period has begun, leading into a new era".

The changes under way strengthen the position of countries with a large area and population, rich in raw materials and possessing advanced technologies (USA, USSR), while they curtail the development opportunities of small or average countries poor in raw materials. Although the changes cause problems also in the socialist countries, the whole of the socialist world will continue to become stronger in the course of the 1970s. This is secured by the vast energy and raw material reserves of the Soviet Union, on the one hand, and by the co-operation of the socialist countries, on the other. However, the socialist world may only exploit its opportunities if it follows an active international economic policy both within its own integration and in other parts of the world as well.

Examining the position of the developing countries, the author points out that a powerful polarization process is under way among them. Oil exporting countries with a small or medium-sized population may attain the level of the developed countries; a few highly populated oil exporting countries may accelerate their growth; a further class of raw material exporting countries may also improve their position – but, at the same time, a fourth group of the developing countries (India, Bangladesh, African countries south of the Sahara) has to face a disastrous situation.

The global nature and great interdependence of world economic tendencies, the increasing interrelation between economic and political problems create a basically new situation in international relations. A great number of problems cannot be solved through bilateral efforts as only the entire mankind possesses the means to resolve them. The author considers the following

* The first studies in this series were reviewed in Acta Oeconomica Vol. 4, No. 2.

** A list of the publications of the last four years is attached to this review.

problems as such: exhaustion of the non-renewable resources; the spread of technology and the extreme dangers of its utilization; providing food for the increasing population of the earth; the disastrous situation of at least 40 developing countries (with a population of a thousand million people); the relation between natural environment and man; the exploitation of the seas.

The author also examines whether the present system of institutions of the world economy is suitable for the solution of the above problems and whether they curb the dangers threatening the living conditions of mankind. In his opinion the developments in the world economic processes, the changes in power relations and needs require deep reforms in the present system of the institutions of the international economy and a profound reform, on new bases, of economic relations between nations. It will be a task of the new international economic order to foster the economic development of every single nation, to safeguard the conditions of life and existence of mankind and to lead to a gradual levelling of differences in development level of instead deepening them.

It is beyond doubt that the future of the developing countries is closely related to the developments in the world economy. At the same time, the economic development of the developing countries is also greatly determined by the chosen "path of development". Such an alternative is provided by the path of non-capitalist development, discussed by *V. G. Solodovnikov,* corresponding member of the Academy of Sciences of the Soviet Union, director of the Africa Institute of the Academy of Sciences of the Soviet Union, in his study published in the series under the title "The present stage of the non-capitalist development in Asia and Africa".

In the first part of his study the author deals with the concept and theory of non-capitalist development. The main line of thought can be summarized in the concept that backward countries may achieve socialism without going through the stage of capitalist development. This is especially topical in the present international political and economic situation, and in the new period of national liberation struggles going on in the developing countries. The path of non-capitalist development enables the developing countries to eliminate backwardness and achieve full political and economic independence. This is best demonstrated by the examples of the Soviet Central-Asian republics, Mongolia, the Democratic Republic of Vietnam and the Korean People's Democratic Republic.

The superiority of the non-capitalist path of development is proven by the already achieved socio-economic changes and results in the socialist-oriented developing countries as Algeria, Syria, Burma, the People's Republic of the Congo, Guinea, Iraq.

A manysided co-operation with the socialist world system is an important factor for the success of development on a non-capitalist path: its main aspects embrace the economic and technological help provided by the socialist countries; trade between socialist and developing countries; and the strengthening of integration among the socialist countries. This co-operation strengthens the national liberation movements, the internal and external economic and political position of the developing countries and weakens the positions of capitalist forces in the developing world.

The fostering of the integration of developing countries may well serve their economic development. By uniting, rationally distributing and better utilizing the production factors, through the extension of the material-technological, scientific-technological and financial bases, it may contribute to the elimination of backwardness in the developing countries. In a recent issue of the series "Studies on developing countries", a member of the Institute for World Economics, András *Inotai* also examines by means of the example of a Latin-American integration group, the Andean Integration, the possibilities for a balanced and harmonious development of the national economies in the integration. ("The possibilities and limits of a balanced and harmonious development in the Andean Integration".)

The Andean Group (Chile, Columbia, Peru, Venezuela, Bolivia, Ecuador) aims, among others, at the realization of a balanced and harmonious

development, which they wish to achieve with an accelerated growth of the member countries of the sub-region and the mitigation of differences in development levels.

By analyzing the practice of the European Common Market, the Central American Common Market, the East African Common Market and the CMEA, the author arrives at the conclusion that those integration organizations have proved to be longer lasting in which the initial differences in development level were relatively small, and in which these differences continued to diminish, due to a faster growth of, and the preferences offered to, the least developed countries by the integration.

By analyzing the possibilities and obstacles of development within the LAFTA, the author introduces the emergence of the concept of balanced development within the Andean Integration. He points out that in this integration balanced development can be achieved as the development level and potential of the member countries is rather similar.

The economic development of the developing countries is often impeded by the lack of financial funds, which may be mitigated by external financial assistance. However, even the distribution of existing financial means among different branches of the economy is no small problem. The majority of the developing countries have recognized that planning may greatly help in this problem. The Swedish economist, Rasmus *Rasmusson* deals with the interrelations of optimal assistance and planning in his article "On optimal assistance with special reference to the second Kenyan and Tanzanian five-year plan", published in the series.

The author treats the nature of ideal outside assistance through the examples of the development plans of two neighbouring, but in many respects different, countries. By 'optimal assistance' the author means an assistance which helps to mitigate, or eliminate the tensions, conflicts emerging among the objectives of the plan.

By examining the economic development plans, targets, means, limiting factors and bottlenecks of Kenya and Tanzania, and analyzing the institutional models of their economies, the author points out the incompatible targets in the plans of the two countries, and establishes a model by means of which this incompatibility can be eliminated.

For most developing countries foreign trade, the relations with external markets are almost a question of existence. Such an "open economy" on the African continent is Nigeria. The questions of the relation between her exports and economic growth, the problems and perspectives of exports are analyzed by a Nigerian author, A. Olufemi *Lewis* in his work recently published in the series: "Nigeria's exports: problems, prospects and implications for economic growth".

The main problem of Nigerian manufactured goods export is that a large part of it consists of traditional consumer goods which because of their low quality and high import contents, are unable to compete with similar products of the developed countries and certain developing countries. In spite of an industrial development program, Nigeria will hardly be able to increase her receipts from the export of manufactured goods.

The most important natural resource of Nigeria is oil. The dynamic growth of oil export and the increase of oil prices have greatly increased the foreign exchange receipts. Nigeria needs a development policy which eliminates the dependence on foreign capital, personnel and imports. This objective can be achieved through the industrialization of the country, through the creation of capital goods producing industries.

The present state of the developing countries and their economic, social and political development is inseparable from their past, from understanding their development. David *Livingstone*, the missionary, who lived one hundred years ago, undertook the discovery of Africa. A senior member of the Institute for World Economics, László *Krizsán* paid tribute to his and his contemporary's, László *Magyar*'s memory in his work entitled "Homo regius in Africa".

Although we have chosen only six studies out of the 80 or so publications, we hope to have indicated that this series deals with a wide scale of the present socio-economic questions of the developing regions, thus contributing to the recognition and solution of the problems.

J. KISS

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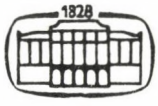

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TARDOS, M.

IMPACTS OF WORLD ECONOMIC CHANGES ON THE HUNGARIAN ECONOMY

The impact of the 1968 reform on Hungarian foreign trade, the consequences of the 1973–1974 "price-explosion" in the world market in the Hungarian national economy, and how the Hungarian system of economic control reacted to them, the desirable way for the easing of the tensions – these are the questions to which the author seeks answers in this paper.

It has been one of the principal objectives of the Hungarian economic policy for more than fifteen years to participate in the international division of labour, thus exploiting the advantages offered by foreign trade for the stimulation of economic growth. During the 1960s and the 1970s foreign trade indeed achieved a growth rate one and a half times or twice as fast as the growth of the national income. This tendency is useful when, through the international exchange of commodities, it creates additional resources by financing the imports of goods which can be produced at a relatively higher cost domestically from the exports of goods which can be produced relatively cheaply in this country – in addition to the procurement of goods necessary for the increase of domestic consumption, but which cannot be produced at home.

The exploitation of the advantages offered by the international division of labour has always been a difficult task for the Hungarian national economy. The main difficulty was caused primarily by the following two factors: *on the one hand,* before 1968 the over-centralized decisions hindered the practical survey of internal costs and of the fast changes in the internal and external marketing possibilities, and this was aggravated by the fact that the internal price system did not reflect either production costs or the expenses and revenues in foreign exchange. *On the other hand,* it is also causing problems that considerable differences emerged between the foreign trade relations with our socialist and non-socialist trade partners. This is characterized not only by the fact that materials and food exports account for only 38 per cent of Hungarian trade with the socialist countries, while this ratio is 50 per cent in the trade with the non-socialist partners, but it is also shown by our hardly having such products for which there is equal demand on socialist and non-socialist markets. This is due to the differences in the prevalent demand conditions. As a consequence, an efficient Hungarian export structure is hard to achieve even by new development.

The economic leadership made efforts to face both problems. The system of economic control and management, introduced in 1968, tried to secure such foreign

trade decisions that would be flexibly adapted to the rapidly changing conditions of the world economy and which would be in harmony with the interests of the national economy. To achieve this, the reform did away with the isolation of the internal from the external markets, a new price system was introduced and the restrictions on price modifications were partially lifted. In addition, the decisions related to foreign trade were delegated – within certain limits – to the enterprises stimulated through profits, and influenced by central economic regulators. This system also fostered a flexible adaptation to the situation caused by the considerable division of foreign markets.

Achievements of the Hungarian economy in foreign trade

In spite of certain inconsistent points, which will not be discussed here, the changes of the system of economic control in 1968 have led to positive results in economic management. The ability of enterprises to adapt themselves to the market conditions has perceptibly improved.

As a result of the activities of domestic producers and rising imports the range of the supply of commodities on the domestic market widened; the rise of consumption was less and less hindered by scarcity or a forced substitution of certain products.

Foreign trade also showed a great improvement. Between 1967 and 1972 the growth of the turnover accelerated, considerably surpassing the growth rate of the preceding five-year period. Exports to socialist markets grew by 80 per cent, and exports to non-socialist countries, which have always been the bottleneck of trade, grew by 98 per cent (at current prices). In the meantime, the costs of earning one rouble by exports decreased by six per cent, and those of a dollar by 11 per cent. The improvement in the cost efficiency of exports was a result of three, partly contradicting factors:

Firstly, under the effect of the profit motive, the producer enterprises strove after improving the *export structure,* the range of products offered for export, by trying to step up exports of products which can be produced at a lower Forint cost, while restraining at the same time, the export of products turned out with relatively greater inputs. *Secondly,* an overall economy with production costs was encouraged; *thirdly,* the profitability of exports was improved by raising export prices. Beyond these three factors, there were two others influencing the changes in the costs of export earnings. The first was the fact that prices on external markets increased at a rate exceeding domestic price rises. During this period, the prices in the trade with the CMEA countries remained practically stable, with domestic prices increasing by about one per cent annualy. Thus, eliminating the effects of the rise in producer

prices, the improvement in the cost of one rouble export receipt was as high as 16 per cent between 1968 and 1972. In exports settled in dollars an inflationary price increase of 25 per cent took place on the world market, with an increase in the domestic producer prices being the same as above. After eliminating this factor, we can draw the conclusion that an improvement in the productivity of labour hardly played any role in decreasing the relative costs of the growing dollar-oriented exports.

Unfortunately, there is no way to quantify and eliminate the second factor hindering the measurement of the efficiency of exports: the factor of the uncertainty of specific profitability.

The difficulty is caused by the fact that we can measure the costs of earning a unit of foreign exchange in two ways: either on the grounds of the Forint sums paid to the enterprises (this was followed here), or on the basis of the costs stated by the enterprises. In the first case a seeming improvement of the specific costs of earning foreign exchange may be caused also by a decrease in the profits of the enterprises. And if, according to the second method, we take into account the costs of export production reported by the enterprises, then manipulations in the accounting of overhead costs cause uncertainities. It is a frequently voiced opinion that the costs of rouble as well as dollar export earnings are increasingly charged to the production destined for domestic marketing, and, thus, the achievements shown seem to be greater than they are in reality.

So far we have dealt with the improving or stable efficiency of a growing exporting activity, ignoring the general problem of taking part in the international division of labour. An analysis of the whole foreign trade activity can be carried out only on the basis of the inputs of export and import substituting activity. The only, rather uncertain, way of measuring this is provided by input-output analyses.*

We regard foreign trade efficient if exports not only make possible the imports of such commodities which cannot be produced domestically – but also the unit costs of exports are lower than those of imported goods competing with domestic products would be (if they were domestically produced).

The computations are hypothetic, for the volume of goods that cannot be produced in this country can only be estimated very roughly. Further, we have to assume that the production costs of domestic sales are equal to those of exports, and we even

* The calculation was first made by *W. W. Leontief*, in an analysis of the foreign trade structure of the United States, in 1938. This survey led to the so-called Leontief paradox, for as against expectations, the results showed that the U.S., imports capital-intensive goods in exchange for labour-intensive products. The controversy is still lasting. Notwithstanding, the method has been used for the analysis of the foreign trade situation of several countries. With the help of Hungarian input-output tables made in several years, the following computations not only describe what the role of foreign trade in economic life was in a certain period, but they also point out how this role changed between 1959 and 1972.

have to assume that the replacement of actual imports with domestic production could be achieved with the same unit costs; that is, the input pattern within a branch (industry) is considered to be homogeneous.

The figures indicate an advantageous situation when the inputs of exports are lower than what the replacement of imports competing with domestic production would cost. This was the case in 1959 in the trade with the socialist countries, when,

Table 1

Labour and capital input requirements of import substitution as percentage of the inputs of equivalent exports (100)

Year	In the trade with socialist countries		In the trade with non-socialist countries	
	Labour	Fixed and working assets	Labour	Fixed and working assets
1959	101	120	56	64
1965	86	96	57	66
1968	91	106	67	79
1972	78	103	71	91

Note: Imports of mining and agricultural products are ignored. These imports could not be replaced with domestic production for specific reasons (lack of natural deposits, climatic conditions).

by way of exports, not only the import of such commodities was effected as cannot be produced domestically – e. g. mining and agricultural products – but the import such goods as well as could have been produced also domestically. However, the latter solution would have required the tying up of 20 per cent more fixed and working assets, while also absorbing one per cent more labour. A saving of relatively scarce resources by way of additional inputs of relatively more plentiful ones can also be regarded as advantageous. Thus, e. g. assets were released by additional labour input in 1968 and 1972.

At first sight, the results of the foreign trade with non-socialist countries seem to be negative – the same is true of the foreign trade in 1965 with socialist countries. The costs of earning one unit of foreign currency were, namely, higher in respect of labour and capital assets than the assumed cost of import substitution would have been. However, if we take into account the range of goods imported from non-socialist countries, it turns out immediately that even those manufactured goods that compete with domestic production *could not be produced domestically*. These are semi-finished goods we do not produce in the required quality; machines whose design is unknown to us, or for whose production have not yet developed the

necessary technology; consumer goods, for which there is a limited demand, and whose production could not be solved domestically, or only with an unreasonable effort. From this follows that if the figures for input substitution relative to exports are less than 100, this is caused by the imperfection of the amount, by the assumption of homogeneity. It may be thus supposed that the benefit from the trade with non-socialist countries and from the 1965 trade with socialist countries derives from the fact that not even the complementary imports of manufacturing could be substituted by domestic production. In these cases, the results of the additional inputs of labour and assets into imports can be judged in the light of the ratio of complementary, i.e. domestically not producible, goods in total imports.

A comparison of the computations based on the 1959, 1965, 1968, and 1972 input-output tables, which were made according to principally identical methods, bears out that the efficiency of the more advantageous trade with socialist countries had deteriorated by 1965, especially in comparison to the 1950s. This was caused by the net imports of raw materials and by the diminishing ratio of the surplus in the trade in machinery. After 1965, a moderate, slighty fluctuating improvement could be observed. It was a general tendency in trade that, in addition to complementing the output of the domestic extracting industries, it helped to save assets by way of labour inputs. In the trade with non-socialist countries, in turn, after the cold-war restrictions on trade had been eased, not only the volume and proportions of trade began developing in the 1960s, but the sacrifices for the imports not competing with domestic production also showed a decreasing tendency. This indicates an improvement in the ability of our economy to adapt itself to circumstances. It was also observable that the sacrifices in labour input exceeded those in assets.

The above facts bear out that, although the available date are not exact for obvious reasons as a result of the decentralization of decisions and the more or less efficient orientation provided for the enterprises the ability of our economy to adapt itself to external markets presumably improved to a moderate extent between 1967 and 1972. However, we cannot be satisfied with this positive tendency, since the development of trade with the socialist countries was not in harmony with the declared opportunities of the CMEA cooperation. As the money and market forms of relations between these countries are not developed enough, up-to-date forms of co-operation and methods for the reconciliation of national interests have developed but slowly. It is also widely known that the trade with non-socialist countries has accelerated, largely with an unchanged efficiency. These positive tendencies were helped not only by our efforts, but also by changes in the capitalist world market. Discrimination against the socialist countries was gradually abolished, and the terms of trade changed in our favour, if not without fluctuations. On the other hand, it cannot be denied that the export potential of Hungary with respect to capitalist

markets did not increase to the extent that would have been required, and this caused, apart from one or two years, a passive balance of payment with these countries even before 1972.

The effect of the changes in the world economy

In 1972, inflation accelerated in the capitalist world, and, contributing to the process, the oil prices also soared.

The accelerating inflation in the capitalist world, the "price explosion" took the Hungarian economy by surprise. The problems had a double root: on the one hand, the control system introduced in 1968 had assumed a stable world market, thus, it had not been prepared for adaptation to rapidly changing conditions. On the other hand, the balance of the changes was unambiguously unfavourable for the Hungarian economy.

Let us first examine the effects of actual economic changes. The inflation on the world market had been felt already in the late 1960s, but the terms of trade did not deteriorate until 1973, as the rise in the prices of Hungarian goods exported to non-socialist countries (cattle, meat, rolled steel) increased faster than the prices of imported goods. However, in 1973–1974 not only the inflation accelerated, but new negative developments affected directly Hungarian foreign trade.

The rapid rise in the prices of imported goods was followed only by a limited rise in the prices of exported goods. While the increase of the import prices between 1972–1974 was 56 per cent (on a Forint basis three quarters of imports consist of raw materials), the rise of export prices was only 33 per cent. In 1975 both the import and export prices decreased, but the change at the price ratio was the terms of trade deteriorated further, and reached a 20 per cent deterioration between 1972 and 1975.

In the exports of Hungary to non-socialist countries the highly processed manufactured goods are represented in a percentage not exceeding that of such products in imports. The main reason behind the approximately 26 per cent deterioration of the terms of trade during the last three years was largely the surplus of meat production in Western Europe. In the period of a general price rise the average export prices of Hungarian animal products fell by 14 per cent, the export prices of live cattle fell even more, by 20 per cent, and its export possibilities shrunk as well because of the ban on imports to the Common Market. Another cause of the deterioration of the terms of trade was that Hungarian exporters were unable to raise their prices adequately on the capitalist markets. A partial explanation may be found in historical reasons: Hungarian enterprises had been too long isolated from the effects of external markets. Because of the rigidity of central control, developments

had not followed the changes on West-European markets flexibly enough, the enterprises had not got used to the trade conditions prevailing there. The time elapsed since 1968 was not enough for a basic change in the behaviour of the enterprises. The demand for Hungarian export goods is not intensive enough for successfully following the price rises on the capitalist markets. Although an exact assessment cannot be made, one reason might also be that the enterprises were not interested enough in exploiting the opportunities of price rises, nor were they forced to raise their export prices. The growing costs of imports, in turn, were borne by the budget.

The price rises on the world market also affected the trade among socialist countries. Although their rises will be less than those on the world market, the new contract prices are expected to involve for Hungary a fifteen per cent deterioration in the terms of trade in 1975–1976. In the coming years we expect a further rise in the prices of imported raw materials also in the trade with this group of countries.*

In the case of exported manufactured goods, we cannot follow the price rises in capitalist countries because the level of the contract prices is in some cases relatively high. In the case of a few products, as against the overall tendency, even a price reduction will be unavoidable.

The growth of raw material imports from CMEA countries will decelerate. The reason behind this is the fact that the Soviet Union is compelled to exploit natural resources (above all, oil fields) lying farther and farther away, at increasing costs. The disadvantageous fact that the ratios of the inputs of exports to those of the import substitution had already deteriorated during earlier years can be regarded as an indication of the above tendency. In the future Hungary will have to reckon with the necessity to lean upon capitalist markets as well in satisfying her raw material needs. Thus, the balancing of imports growing at a rapidly increasing rate will tie up a part of the already scarce production capacities of commodities saleable on capitalist markets.

The greatest change brought about by the changing economic situation occurred in the procurement of primary energy. This is not a unique case in the world, as it is of common knowledge that the 1973–1974 changes in prices are related to the so-called oil-crisis. The world market price of oil increased four- or fivefold. This rise in price was followed by a rise in the prices of other primary energy.

* According to the decision of the 9th Session of the CMEA, the contract prices for the trade within the CMEA are the average prices of the principal markets. These prices had been rarely modified in practice. In general, prices were revised every five years. According to the convention adopted in 1975, prices will be revised annually in the period 1976–1980. The basis will be the average price of the commodity concerned on its principal market in the preceding five years.

The changes have a critical effect on the balance of payments with regard to the leading industrial countries as well. On the average, energy costs increased by about 70 per cent, but if we take into account the almost equally rapid inflation of the dollar, this does not mean an extremely rapid relative rise in energy costs.*

Table 2

Terms of Hungarian trade

1970 = 100

Year	Trade with					
	socialist countries			non-socialist countries		
	Imports (A)	Exports (B)	Terms of trade (A/B)	Imports (A)	Exports (B)	Terms of trade (A/B)
1968	98.8	98.9	100.1	91.8	85.5	93.1
1969	99.1	99.3	100.2	94.7	91.6	96.7
1971	101.4	99.8	98.4	102.2	101.4	99.2
1972	103.6	100.2	96.7	105.2	106.1	100.8
1973	104.2	101.9	97.4	123.6	120.0	97.1
1974	112.4	106.2	94.5	166.9	142.5	85.4
1975	139.3	119.2	85.6	164.7	133.7	81.2

The order of magnitude of the changes is greater in the case of Hungary. At the end of the 1960s, it seemed that this country could cover its energy needs by imports from the Soviet Union practically unlimitedly. This meant that the price of 10^9 calorie of energy was 64 Forints, giving a useful orientation in the choice between coal, oil, gas, etc.

Following the price changes on the world market, not only did the price of oil imported from the Soviet Union rise to 130–140 forints per 10^9 calories (with regard to the above mentioned rise in extracting and transport costs), but the *growth rate* of Soviet oil shipments decelerated as well. Consequently, the additional needs of this source of energy, also important for pricing reasons, had to be covered by supplies from Middle-East sources, at an increased price. This is shown by the fact that while in the 1960s, the whole of Hungarian crude oil imports had been supplied by the Soviet Union, in 1972 six per cent, and in 1974 seventeen per cent of our imports came from non-socialist countries.

*See: *The Economist*, 26th April, 1975. According to the calculations published in this paper, the cost of oil products had risen for the consumer from 14.49 dollars per ton in mid-1973 to 24.49 dollars.

Crude oil from the Middle East cannot be obtained at a price lower than 80–90 dollars per ton free Hungarian border, and this involves a Forint price of 380–450 Forint per 10^9 calories. This amounts to the fact that the costs of Hungarian primary energy imports grew six to eightfold as against those in the 1960s, which, in turn,

Table 3
Crude oil imports to Hungary

Year	Total crude oil imports (thousand tons)	Quantity of imports from 5 countries (thousand tons)	Share of imports from 5 countries %
1972	5360	322	6.0
1973	6063	709	11.7
1974	6613	805	12.2
1975	8431	1469	17.3

would necessitate a basic structural transformation of the domestic price system. The average growth of the costs of primary energy is, of course, considerably smaller, as the production costs of the domestic coal and oil production increased only marginally, and the costs of Soviet oil imports only slightly more than doubled.

Changes on the world market and the Hungarian system of economic control and management

Stability of economic management, or, more exactly, the stability of the enterprises has played an important role as one of the socio-political objectives of the Hungarian economic control. This requires, among others, the relative stability not only of consumer prices but also of wholesale prices and relative prices.

In a period of changes in the world economy having an important influence on the Hungarian economy, however, the requirement of price stability has come into conflict with the principle that the economic units should perceive the changes of external markets through the price system.

A way to relax the tensions is to separate internal prices from external ones, as it was the case before 1968. In such a system, the increase of the import price subsidy paid to the enterprises involves increased outlays from the budget, while this may be compensated by a decrease of export price subsidy payments. These financial means can be applied the less the more extensively the state exploits the opportunities

offered by a modification of exchange rates. In a fortunate case revaluation of the national currency may help in keeping the magnitude of budget outlays unchanged.

However, in a case as Hungary's, where the changes in prices coincided with the deterioration in the terms of trade, the increase of budget expenses is inevitable. The state budget can offset the changes in external conditions in this case as well, but if other expenses are not reduced simultaneously, the result will be either inflation or a scarcity of goods.

Adequate orientation of the enterprises and stable conditions for the management of enterprises should have been secured simultaneously in Hungary under the rapidly changing conditions of the world economy. However, these objectives were in such an extremely sharp conflict with each other that, necessarily, only one of them could be asserted. According to the experience gained in 1973–1975, this conflict was solved, as a result of different factors, in such a way that the enterprises could operate under stable management conditions even under the rapidly changing world economic situation, but their ability to orientate themselves became considerably limited.

The economic regulators had to be modified as early as in 1970, in order to achieve a stability of prices. This became possible by making final the financial levers that had been administered at the time of introducing the reform of the system of economic control and by giving them a more extensive role. In 1968 the subsidies to the import prices of agricultural and food products were practically balanced by the funds from levies on metallurgical and machinery imports. In 1971–1972 however, direct import price subsidies and the net expenditures from the special funds financing the trade of import goods with fixed domestic prices were already more than 5 per cent of total imports from the non-socialist countries. Although the Forint was repeatedly revalued, the budget outlays balancing the rise of import prices increased considerably. The sum paid through different channels in 1974 to compensate for the rise in import prices approached 27 per cent of the value of the trade with non-socialist countries.

In the meantime, although the revenues of the enterprises per one dollar earned by exports decreased following the devaluations, the direct revenues of the enterprises from their exports to non-socialist countries still increased, because the 125 per cent rise in export prices in dollar terms between 1968 and 1974 was followed by an only 38 per cent revaluation of the Forint. Thus, the Forint was, in fact, devalued. The subsidies for exports to non-socialist countries were also increased at the expense of the state budget. Payments of state refunds on exports were 124 per cent higher in 1974 than they were in 1968, while, at the same time, the volume of exports to non-socialist countries increased by only 80 per cent. An increase of subsidies on this scale was necessary because the inflationary effects of

import prices asserted themselves in the domestic price system; the domestic price level rose in spite of the measures taken to neutralize the world market price rises and the increase of the budget expenses. According to the data of the Central Statistical Office, producer prices increased already by about 20 per cent between 1968–1974.

At the same time, we must point out that in spite of the dissatisfaction with the increase in export revenues and with the state of the balance of payments, it was found that the revenues of certain enterprises had become excessively high as a consequence of the inflation in the capitalist world and a special tax (production tax) was levied on their export receipts. In this way, about 40 per cent of export subsidies were retaken from the enterprises. Thus, the net subsidies to the exports to non-socialist countries increased by only 39 per cent, i. e. at a rate considerably lower than the growth rate of export turnover. The actual production tax also slowed down exports and hindered the rise of export revenues. In 1974, the balance of payments with the capitalist countries was especially passive. Import prices increased by 38 per cent while the volume of imports rose by about 18 per cent. In the same year, the volume of exports to non-socialist countries decreased by about 8 per cent, the reasons of which were not restricted to the decrease of livestock and meat exports.

We can see from the above that in the situation developed in 1974–1975 the enterprises were interested in successful negotiations with the state organs responsible for taxes and subsidies rather than in adaptation to the market tendencies.

Below are listed, without mentioning every complex socio-political aspect, a number of direct economic reasons why the stability of the situation of the enterprises attainable through a relative stability of prices became a primary political goal:

- One of the reasons was the already traditional social expectation of continually rising living standards. In the case of a major change in consumer prices even a temporary deterioration of the living standards of certain social strata can only be avoided if the effect of the price rise is overcompensated by a considerably greater price-reduction or wage increase. Such a compensation cannot be guaranteed in the case of spontaneous rises in producer prices directly involving a rise of consumer prices.
- A periodic correction of consumer prices for changes in world market prices cannot be solved in conformity with the above requirements. If it were aimed at that the losses and gains resulting from price rises should be totally compensated in the case of every social strata by special measures, so that the consumers also find the compensation adequate, such budget expenses would be necessary the funds for which could not be provided. This is also an

explanation for the fact that the planned restructuring of the consumer price system is continually postponed or waived.

- The creation of a producer price system well reflecting changing market conditions, as well as the setting off the differences between producer and consumer prices cannot be solved easily from the budget, either. When producer prices fluctuate excessively, the results of the efforts cannot be distinguished in the achievements of the enterprise from lucky occurrences. Consequently, the success of the activity of the enterprise cannot be measured in an acceptable way and, thus, the management of the enterprise cannot be judged objectively either. However, a centrally planned economy demands such objective judgement.
- The neutralization of the changes in market conditions was necessary in the Hungarian economy also because the regulation had made the changes in the incomes of the enterprises employees a function of the results (profits) of the activity of the enterprise. In order to avoid the derangement of social peace by fluctuations in wages and other, similar benefits, the control of the economy also had to take steps to "increase" the profits of the enterprises.*

If, however, producer prices are stable and do not follow the fluctuating supply and demand on the world market, the enterprises cannot orientate themselves to the changing world. This inability to orientate and adapt will force a stronger assertion of central control. This tendency will also emerge even if it is generally accepted that *the soundness of central decisions can be secured only by sufficiently well orientating prices,* and that the system of central decisions is slow at adapting to rapid changes.

The contradiction cannot be solved through a step-by-step correction of producer prices. Such a measure would not facilitate a restructuring of prices as would be required, for instance, by the above mentioned changes in energy costs. An immediate raising of the energy prices would initiate a chain reaction, every consequence of which would have to be borne by the state.

It is a general weakness of step-by-step price adjustments that they follow the changes in prices and values on the world market only with a time lag, so they are often useless in orienting the enterprises. This is well demonstrated by the price corrections made with 1st January, 1975. The rises of the world market prices were assumed by relying on the prevalent market prices in mid-1974, this was frequently

*The stability of the position of the enterprises is also secured by the limitation of the profits of Hungarian enterprises under the prevalent economic circumstances. This was made possible by the nature of the financial control introduced in 1968, under which the enterprises have to realize increasing profits for normal functioning, else they are unviable. The repayment of development credits and the increase of the wages of the employees necessary because of market circumstances can only be made from after-tax profits. See:[1], [2]

done incorrectly. The prices of textiles and other materials were fixed on a very high level. After the fall of the prices on the world market the domestic prices, fixed on a high level, rendered domestic production uncompetitive on the external markets. The budget had to eliminate a part of the emerging contradictions by special measures. However, as a result of these measures, the system of economic control has become even more complex. Thus, a new factor hindered the stimulation of enterprises to increase their revenues.

The way to relax the tensions

The changes in the world economy were unfavourable for the Hungarian economy, but the Hungarian society did not perceive this directly. In spite of unfavourable effects, the Hungarian economy absorbed 13 per cent more goods in 1974 than in the previous year. This increase was greater than that of earlier years. Within this increase, accumulation, especially stocks, grew most, but the increase of consumption was not below the figures of the preceding years, either.

In 1973 domestic utilization of the national income grew 4 per cent slower than the national income produced, but in 1974 the national income, increasing by 7 per cent, did not cover 6 per cent of domestic consumption. The difference, which had to be covered by foreign borrowing, was only partly caused by the deterioration in the terms of trade with non-socialist countries. The fact that after the emergence of difficulties the avoidance of temporary disorders was aimed at and the efforts made at the development of the control system of the economy, at the generation of correcting effects, were insufficient, also played a part. The measures aiming at the elimination of temporary disturbances (e.g. levies on profits, the restraint on the increase of import prices, import quotas, stricter control by supervising departments etc.) often failed to yield the desired effects. To mention but one unwanted effect, they cushioned the effects of the price rises on the world market, thus, they greatly contributed to the increase of imports and stocks. Reaction was also slow to the unreasonable, uncovered increase of investments exceeding incomes.

In 1975 the above tendency was somewhat modified: the increase of the national income was 5 per cent. This resulted in a 12 per cent increase of investments, in a decrease of the rate of accumulation of stocks, and in a 5 per cent rise in the consumption of the population. At the same time, it was a further deterioration in the terms of trade with non-socialist countries and the deterioration of the terms of trade with socialist countries had started. Under such circumstances, the smooth development of the economy was connected with further extensive use of foreign loans.

Further on, in order to secure a continuous economic development, a powerful restriction of the utilization of national income must be avoided, if possible. With a moderate, but a steady increase of consumption and investments, greater efforts to increase exports, especially to the non-socialist countries seem to be most reasonable. A more efficient stock management and a rational saving of imports must be provided. However, because of exhausted labour reserves, the problems caused especially in the last one or two years by the scarcity of labour must also be mitigated.

The solution of this complex task should not be sought in the accentuation of the directive elements of the economic control system. *By improving the central control of the national economy, it must be achieved that the enterprises be able to manoeuvre,* by concerted efforts, *under the complex and continuously changing market circumstances.*

The modification of the control system, put into force in 1976, involving a considerable relaxation of the formerly strict dependence of wages on profit realization, partial settlement of fixed producer prices may greatly help this development. However, it will not be easy in spite of the frequent individual interference, to strengthen economic management, based upon the centrally regulated independent enterprises and to fully exploit the advantages offered by the introduced improvement of the financial control system.

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ИЗМЕНЕНИЯ В МИРОВОЙ ЭКОНОМИКЕ И ВЕНГЕРСКОЕ НАРОДНОЕ ХОЗЯЙСТВО

М. ТАРДОШ

Автор рассматривает народнохозяйственный эффект роста внешнеторгового оборота Венгрии, в полтора-два раза превышающего рост национального дохода.

На основании анализа затрат на экспорт и межотраслевого баланса за период после 1968 года автор заключает, что в 1968—1972 гг. внешняя торговля вне всякого сомнения дала народному хозяйству значительный положительный эффект.

После 1973 года произошло неожиданное ухудшение условий торговли для Венгрии. Поскольку сложный механизм государственных субсидий во многом сделал предприятия нечувствительными к изменениям условий на внешнем

рынке, положительное влияние внешнеэкономических связей уменьшилось, причем в большей мере, чем это объективно оправдывалось изменениями на мировом рынке.

В этой неблагоприятной для обеспечения непрерывного хозяйственного роста обстановке необходимо, по мнению автора, по возможности избежать резкого сокращения потребления и накопления внутри страны. Наряду с небольшим увеличением объема потребления и капиталовложений необходимо стремиться к увеличению экспорта и особенно — к увеличению экспорта на несоциалистический рынок.

Решение этой сложной задачи следует искать не на пути усиления директивных элементов хозяйственного управления. Совершенствуя централизованное народно-хозяйственное управление необходимо добиться того, чтобы предприятия научились лучше маневрировать с помощью концентрации своих усилий в условиях сложного и постоянно меняющегося рынка.

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THE EAST-WEST TECHNOLOGICAL GAP AND THE "REVERSE" FLOW OF TECHNOLOGY

Although the East-West technological gap was indisputable in the past, in several fields the East is already equal to or ahead of the most advanced capitalist countries. The "Westward" flow of socialist technology has assumed the form of the export of sophisticated apparatus, machinery, equipment and industrial plants as well as of licences. Amongst the Western customers are large multinational corporations. It is likely that in the future there will be no clear-cut East-West technological gap. There will be a tendency for new patterns of industrial specialization to emerge, which may lead to a structural transformation of East-West trade.

I. The East-West technological gap

The disparity of technological levels between the East and the West* has been one of the generally accepted facts of East–West relations.** The Eastern technological lag can, of course, be partly explained on historical grounds. Whilst industrial revolutions began in the leading Western countries (England, France, Germany, the USA, Sweden, Japan) during 1780–1880, the real leap in the USSR did not occur before the late 1920s and in Eastern Europe (Czechoslovakia and the German DR excepted) till the late 1940s.

The other explanation is more fundamental, inherent in the socialist economic system of the traditional type, as conceded by a Polish economist: "... the socialist economy was not able to develop effective methods for the stimulation of technological progress and a further utilization of technology in the interest of a more dynamic growth [20, p. 129].

The absence of private enterprise, the limited scope for the acquisition of private property, bureaucratic controls and the rewards to the management incommensurate with the risk involved are not conductive to innovations. These inhibitions existed in their extreme under the old centralized, directive system of planning and management, prevalent up to the early 1960s (early 1950s in Yugoslavia).

*The "East" in this article includes the nine European socialist countries, viz. Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, the USSR and Yugoslavia; seven of these countries (i.e. Albania and Yugoslavia excepted) plus Cuba and Mongolia are full members of CMEA (Council for Mutual Economic Assistance, originally established in 1949). The "West" embraces what is designated in United Nations publications as "Developed Market Economies", viz. the rest of Europe, North America, Japan, Australia, New Zealand and South Africa.

**For major Western studies available in English, see [1; 4; 27; 28; 36; 40].

Thus to give evidence of the "gap", derived from Western as well as socialist sources. In Hungary in the mid-1960s, 39 per cent of the products of the machine-building industry was officially classed as partly obsolete, 47 per cent as completely out of date and only 14 per cent measured up to world technological standards [21, p. 128]. The replacement production cycle of new products in the electronic industry in Poland as of the early 1970s was 13.5 years, compared with 1–3 years in the USA [2, p. 163]; as reported in 1971, the average price per kilogram of Polish lathes exported to capitalist countries was $ 1.20, but for the imported lathes on the average Poland paid $ 5.30 [14, p. 4]. In the USSR in 1962, the lag in civilian technology in different branches of the economy ranged from 5 to 40 years behind the USA, and the lag was in fact greater in that year than in 1940 [4, pp. 149–50]; in 1965 the proportion of the products of the machine-building industry which was below world quality standards was at least 31 per cent [8, pp. 272–73].

But even Czechoslovakia and the German DR – industrially the most advanced socialist countries, with a long technological tradition – have been lagging behind the West. In Czechoslovakia in the late 1960s, 61 per cent of Czechoslovak engineering exports was officially rated below the quality levels demanded in world markets [12, p. 310]; at the same time, the production of building materials with regard to quality, range and *per capita* figures was 5–15 years behind the levels in advanced capitalist countries [15, p. 8]. The average production replacement cycle of technologically new products in industry in Western countries is about six years, but in the German DR in the early 1970s about one-half of the industrial products had been introduced six or more years before [2, p. 163].

Technological levels can also be indicated by the extent of computerization and the production of advanced chemicals. Although in 1970 CMEA claimed 33 per cent of the world's industrial output [26, p. 1], it had only 6 per cent of the world's stock of computers (mostly of first and second generations at that). In that year the number of computers per one million of population in the European CMEA countries ranged from 2 in Romania and 5 in Bulgaria to 21 in the German DR and 23 in the USSR; at the same time, the world average stood at 31 and the figures for Japan, Great Britain, Switzerland and the USA were 56, 91, 145 and 344 respectively [38, pp. 114–16]. The *per capita* output of synthetic fibres in 1972 (in kilograms) was 1.0 in the USSR, 2.2 in Poland, 3.2 in Czechoslovakia and 4.1 in the German DR – compared with 5.9 in Italy, 6.7 in the United Kingdom, 10.7 in the FR of (West) Germany and 11.6 in the USA [32, p. 52*]. Similarly the output of plastics and synthetic resins in 1973 (also in kilograms) was only 6 in Yugoslavia, 9 in the USSR, 11 in Hungary, 15 in Romania, 24 in Czechoslovakia and 29 in the German DR, whilst in France it was 32, in Japan – 42, in the USA – 56, in the FR of Germany – 81 and in the Netherlands – 138 [31, p. 581].

Further evidence of the technological gap is provided by the "Eastward" transfer of Western technology. At first (up to the early 1960s) the socialist countries in some cases imitated Western products without proper compensation. In trade with the West, they have largely been importers of sophisticated manufactures, including complete industrial plants, whilst mostly exporting primary products. Thus in the early 1970s, the proportion represented by manufactures was more than three-quarters in total socialist imports from the West, but less than one-half in total socialist exports to the West [33, No. 9, 1974, pp. XVIII–XXXV]. Eastern imports include such technologically advanced items as scientific instruments, control apparatus, communications equipment, third-generation computers, ships, helicopters, aircraft, nuclear equipment and complete metallurgical, petrochemical power and other industrial plants.

The socialist countries have also been most anxious to enter into industrial co-operation with Western firms as an avenue for the assimilation of technology. By the mid-1970s, these countries (including Yugoslavia) had entered into about 1,600 industrial co-operation agreements. Furthermore, Hungary, Romania and Yugoslavia have also entered into joint ventures with Western firms. The number of these ventures in 1975 exceeded 100 and more were in the process of negotiation. Another important form of the transfer of Western technology is through licenses. By the mid-1970s their total number purchased by the Eastern countries reached the figure of about 2,000. It is significant that in their relations with Western partners, the socialist countries are most anxious to deal with large companies noted for their technological reputation [37].

So much about the Eastern technological lag behind the West. However, contrary to what one would expect, there is now also a "Westward" flow of technology from the socialist countries. The main purpose of this article is to discuss the nature of this flow and indicate some implications for the West as well as the East.

II. Socialist industrialization and technological progress

In the socialist developmental strategy, industrialization has been accorded top priority. In addition to ideological and social considerations, rapid industrial development has been embraced as the most effective avenue for overcoming backwardness and for accelerating technological progress. Industry has benefited from the priority allocation of investment, transfers of superior labour from other branches of the economy and from foreign trade practices designed to protect and speed up industrial development. These policies have produced remarkable results.

The rate of growth of industrial production in the CMEA region has been rising nearly twice as fast as in the West, and CMEA's share in the world's industrial output increased from less than 18 per cent in 1950 to 33 per cent in 1972. In the latter year CMEA's industrial output was twice as large as that of its Western European rival, the European Economic Community [41, No. 20, 1974, p. 13]. In a relatively short span of time and with practically no economic aid from the capitalist camp, the East has been transformed from backward and stagnant agricultural nations into dynamic and progressive economies. The CMEA countries now satisfy 95 per cent of their needs of machinery and equipment from domestic production and from other member nations, so that only 5 per cent (25 per cent of their *import* requirements) has to be obtained from the West [17, p. 48; 35, p. 21].

In order to create more favourable conditions for technological progress, since the early 1960s the socialist countries have embarked on some far-reaching reforms.* These have included decentralization and a greater freedom of initiative accorded to enterprises, the adoption of profit as the main criterion of enterprise performance, the strengthening of material incentives, a flexible use of financial instruments and a substantial commercialization of research and development.

Central planning has been essentially retained and in fact, from the technological standpoint, strengthened. Central planners have been relieved of routine microeconomic details and so they are now in a better position to concentrate on technological developments of macroeconomic, long-run significance. The five-year plans are now supplemented with "scientific and technical plans" which are co-ordinated on the CMEA scale by the Committee for Scientific and Technical Co-operation. Central planning together with the social ownership of the means of production and the selective use of market instruments under the new economic system provide several advantages for the acceleration of technological progress.

Up to about the early 1960s the socialist countries were preoccupied with basic industrialization, with lesser concern with the most up-to-date technology. But since that time their strategy has been revised in favour of the accelerated development of the technologically most progressive branches of industry. This policy, known as "structural policy", "selective development" or "leading development programs", assigns priority to such branches of production as machine-building, electrical engineering, electronics, scientific and technical apparatus, chemicals (especially

*The reforms in Yugoslavia began in 1950, whilst Albania is still essentially adhering to the traditional centralized and directive system.

advanced petrochemicals, synthetics, pharmaceuticals), light metals and vehicle building.*

It is not generally realized in the West that in a number of specific fields the socialist countries have reached impressive levels of technology equal to or ahead of the most advanced capitalist nations. These fields include metallurgy, metal-working machinery, power generating equipment, textile machines, food-processing installations, laboratory and medical apparatus, communications equipment, shipbuilding and aviation.

Thus the USSR, the socialist rival of the USA, is a recognized world leader in the technology of automatic and semi-automatic welding, the blastfurnace smelting of iron ore, the electrolytic extraction of zinc, magneto-hydrodynamic and turbo generators, fast-breeder reactors, thermonuclear fusion, the high-voltage long-distance transmission of power, stereoscopic colour television as well as in the production of some of the most complex weapons and military equipment. The Soviets built the world's first nuclear power station (1954) and the first nuclear-powered surface vessel (1959), put the first satellite into orbit (1957) and the first man into space (1961), and they detonated the most powerful weapon in history (a 58-megaton hydrogen bomb, in 1961). The Soviets make the world's most powerful forging presses (of 75,000 tons) and turbines (of 1,200 MW), the fastest hydrofoil ("Burevestnik") and the largest helicopter ("V-12"). The USSR also has the largest hydroelectric power station (at Krasnoyarsk) in the world, the largest airline ("Aeroflot") and the largest telescope (at Mount Zblenchukskaya, in the Urals) and has overtaken her leading capitalist rival (the USA) in the total production of such items of steel, metalcutting machines, diesel and steam locomotives, buses, tractors and books and in the number of engineers and scientists.

III. The Westward flow of embodied technology

The socialist countries have become important exporters of technologically advanced items. Thus the share of machinery and transport equipment in their total exports to other socialist countries rose from 30 per cent in 1960 to 44 per cent in 1973 (in their exports to the Third World, the proportion ranged from 30 to 36 per cent). But what may appear more surprising is the fact that the West has also been finding socialist industrial equipment of increasing interest. Over the 1960–73

*To illustrate by reference to Czechoslovakia. The 1971–75 plan embodied 43 "leading development programs" – 19 in the machine-building, 14 in the chemical, 6 in the light and 4 in the metallurgical industries. Amongst the types of products specified were numerically-steered lathes, electronic data processing equipment, low-voltage electrical appliances, automation equipment, synthetic fibres, plastics, motor vehicles and nuclear equipment [19, pp. 49–54].

period, the annual value of the Western imports of machinery and transport equipment from the East rose from $ 205m. to $ 1.310m. This class of imports from the East has been rising faster than the total imports from the East so that its proportion during the 13 years increased from 8 to 10 per cent [33, No. 3, 1964, pp. XXii–XXXii and No. 7, 1975, pp. XXiV–XLi].

Some of the socialist exports in question obviously contain technology previously acquired from the West. But not so much as some Western critics are inclined to believe. First, the technology acquired by the socialist countries before 1960 without proper compensation is now outdated and socialist exports based on it have little chance of competing with Western products. Second, the licences purchased more recently normally include clauses restricting the socialist export of the items involved to Western and other countries. Third, the technology obtained from the West is often further adapted and improved by the socialist licenses, so that the items exported embody indigenous technological contributions, too.

Table 1 shows examples of machinery, equipment and means of transport containing advanced technology exported to the leading industrialized countries of the West. Amongst the Western customers are large multinational corporations whose technological leadership in the capitalist world is well known.

For a long time the socialist countries were heavy importers of metalworking machinery from the West (to the extent that Western strategic embargo allowed them to). But in the last decade most of these countries have developed impressive production capacities for the most up-to-date varieties, including automatic, semi-automatic, numerically-steered, laser-equipped and special-purpose types.* Czechoslovak, Hungarian, Polish, Soviet and Yugoslav metal-working machines and tools have been in use for years in the plants of such companies as ASEA *(Swe)*, British Leyland *(UK)*, British Steel *(UK)*, Fiat *(It)*, Ford Motor *(US)*, General Electric *(US)*, Gutehoffnungshütte *(FRG)*, Hitachi *(Ja)*, Krupp *(FRG)*, Mitsubishi *(Ja)*, Montedison *(It)*, Renault *(Fr)*, Rheinstahl *(FRG)*, Siemens *(FRG)*, Toyota Motor *(Ja)*, VOEST-Alpine *(Au)*, Volkswagen *(FRG)* and Volvo *(Swe)*.*

*There are three unique types of metal-working machines developed in the USSR which have aroused special interest in the West. One type is equipped with a laser beam, which can raise the temperature to several thousand degrees (centigrade) in a thousandth of a second, being capable of making holes in diamonds. Another model recently developed is a unique milling machine weighing 180 tons; it is designed for milling nonferrous ingots of up to 5 tons, it embodies several automatic and semi-automatic devices (including semi-automatic suction of shavings and metal dust) and it can be operated by one man. There is also a giant metalwork machine adapted for handling objects of up to 20 meters in diameter and weighing up to 56 tons. It can work with a precision of up to 40 microns.

*The abbreviations for Western countries used in this article are:

Au = Austria	*Fr* = France	*No* = Norway
Be = Belgium	*FRG* = FR of (West) Germany	*Swe* = Sweden
Ca = Canada	*It* = Italy	*Swi* = Switzerland
De = Denmark	*Ja* = Japan	*UK* = United Kingdom
Fi = Finland	*Ne* = Netherlands	*US* = United States

Table 1
Examples of the socialist exports of embodied technology to the West

Exporting socialist and importing Western country		Description
Bulgaria	– FR of Germany	Communications equipment
Bulgaria	– United Kingdom	Hoisting equipment
Czechoslovakia	– France	Electrical machinery
Czechoslovakia	– FR of Germany	Metallurgical equipment
Czechoslovakia	– United Kingdom	Spindleless spinning machines
German DR	– FR of Germany	Measurement apparatus
German DR	– Sweden	Photographic equipment
German DR	– United Kingdom	Optical goods
Hungary	– France	Computer software
Hungary	– FR of Germany	Telecommunications equipment
Hungary	– Sweden	Special containers
Poland	– Belgium	Textile machinery
Poland	– FR of Germany	Railway equipment
Poland	– Norway	Cargo ships for liquid gas
Poland	– Sweden	Floating repair dock
Romania	– Norway	Container ship
USSR	– Belgium	Welding equipment
USSR	– Canada	Turbine generator
USSR	– FR of Germany	Jet aircraft
USSR	– Japan	Heavy forging equipment
USSR	– Sweden	Radio navigation equipment
USSR	– United Kingdom	Printing machinery
USSR	– USA	Automatic transformers
Yugoslavia	– FR of Germany	Cargo ships
Yugoslavia	– USA	Heavy electrical equipment

Sources. Based on literature published in the socialist and Western countries.

General Electric *(US)* and General Motors have purchased Soviet electronic and computer components, and Hungarian software and telecommunication equipment have been acquired by AEG Telefunken *(FRG)*, Compagnie Internationale pour l'Informatique *(Fr)*, Philips *(Ne)*, and Siemens *(FRG)* [7, 21 May, 1974, p. 10; 16, p. 5; 30, p. 266]. Amongst the customers for the Czechoslovak unique spindleless spinning machines are such entities as Courtaulds *(UK)* and Frottierweberei Vossen *(FRG)* [5, No. 3, 1972, p. 21], and for the Polish textile dyeing machines – Kleinwefers Krefeld *(FRG)*, [24, No. 7, 1973, p. 20]. A wide range of technologically advanced machinery and equipment has been imported from the USSR: electric motors (including turbo-generators) – by Innocenti *(It)*, Rauma-Repola *(Fi)*, Technip *(Fr)* and J. M. Voith *(Au)* [13, No. 4, 1972, pp. 36–37 and No. 6, 1972, p. 16]; metallurgical presses – by ASEA *(Swe)*, Creusot-Loire *(Fr)*, Pechiney-Ugine-Kuhlmann *(Fr)*, and Wärtsilä *(Fi)* [9, p. 8; 11, No. 29, 1974, p. 22]; mining equipment – by Gutehoffnungshütte *(FRG)* and Rheinstahl *(FRG)* [7, 9 Oct., 1973, p. 4; 11, No. 7, 1974, p. 21]; and welding machinery (including

electro-slag welders) – by Cockerill *(Be)*, Hitachi *(Ja)*, Ishikawajima-Harima *(Ja)*, Mitsubishi *(Ja)*, Mitsui & Co *(Ja)* and Svenska Kullagerfabriken *(Swe)* [11, No. 7, 1974, p. 21; No. 5, 1972, p. 48].

The socialist countries have also been modernizing or constructing industrial plants in the West. Thus Poland has delivered a complete automatic foundry to Elin-Union in Austria [24, No. 8, 1973, p. 20]. The USSR has modernized and expanded oil refineries for the ELF group in France and has delivered a rolling mill for Hosch Werke in the FR of Germany and cold-rolling tube mills to Japan (for such companies as Kobe Steel, Mitsubishi Metal, Sumitomo Metal Mining, and Tokyo Shibaura Electric), France, the FR of Germany, Sweden and the USA [13, No. 7, 1973, p. 10; No. 6, 1973, pp. 32–33 and No. 12, 1973, p. 51]. Bulgaria has supplied ultramodern complete tobacco-processing plants to Italy and at present Soviet enterprises are participating in the construction of a huge metallurgical complex at Fos-sur-Mer (near Marseilles) in France. The Soviets have also constructed a complete electric smelting plant in Sweden (for Svenska Kullagerfabriken) and a nuclear power station (and another is under construction) in Finland. It may also be mentioned here that the USSR has signed contracts for the supply of enriched uranium or other materials for the development of nuclear power to Austria, Belgium, Canada, Finland, France, the FR of Germany, Japan, Spain, Sweden and the United Kingdom [7, 19 March, 1974, p. 8; 23, p. 85].

Other technologically sophisticated items exported to the West include automatic communications equipment (by Czechoslovakia, Hungary, Poland, the USSR, Yugoslavia), control, measuring and precision instruments (Czechoslovakia, the German DR, Hungary, Poland, the USSR, Yugoslavia), diesel locomotives (Bulgaria, Czechoslovakia, the USSR), electronic calculators or small computers (Bulgaria, Czechoslovakia, Poland, the USSR), helicopters and hydrofoils (the USSR), medical and hospital-equipment (Czechoslovakia, the German DR, Hungary, Poland, the USSR), oil exploration and drilling equipment (Romania, the USSR) and thyristors (Bulgaria, Czechoslovakia, the USSR).

It is rather ironical that most of the items cited in this section were at one stage or another on the Western strategic lists, barred from being exported to the socialist countries [3; 34, pp. 221–25].

For some time in the past the socialist exporters of machinery and equipment were noted for inadequate after-sale engineering services. But great strides have been made in recent years to improve such services and in this drive socialist multinational enterprises have played an important role. Many of these enterprises, which have been establishing subsidiaries all over the world, now have impressive networks of servicing, repair and even research centres to cater to local requirements.

Thus "Avtoexport" of the USSR, which is concerned with exporting 50 types of motor vehicles and 450 related types of items, has established a network of 2,700 servicing stations, spare parts depots and workshops outside the USSR; one-third of these is located in the West, mostly in North-Western Europe, and some of them are joint ventures with local capitalist firms [11, No. 47, 1973, p. 21; 13, No. 9, 1973, p. 30]. "Iskra-Commerc" of Yugoslavia, exporting a large variety of electrical and electronic goods and equipment, has some 600 subsidiaries and agencies throughout the world [6, p. 4; 25, p. 4; 39, pp. 169–72]. "Škoda" is a Czechoslovak multinational with a long tradition of exporting automobiles, buses, trucks, tractors, electric locomotives, industrial equipment, and chemical, food processing, metallurgical and power-generating plants; it operates subsidiaries and agencies (including service stations, workshops and spare parts depots) in 100 foreign countries [5, No. 4; 1974. pp. 14–19].

Other socialist multinational enterprises which provide scientific or technical services, and some of which engage in local production in the West, include "Aviaexport" (aircraft) of the USSR, "Balkancar" (vehicles and hoisting equipment) of Bulgaria, "Energomash-export" (power equipment) of the USSR, "Medicor" (medical supplies and equipment) of Hungary, "Polimex-Cekop", (industrial plants) of Poland and "Traktorexport" (tractors) of the USSR.

IV. The sale of licences to the West

The most convincing form of the transfer of the advanced Socialist technology to the West is the sale of licences. Many readers may be surprised to know that this channel of the "Westward" flow of technology has now assumed substantial proportions. By the mid-1970s the total number of socialist licences purchased by Western countries reached the figure of about 700. Admittedly, most of the inventions sold to the West are minor, of a limited impact. Nevertheless these inventions are obviously technologically sophisticated and economically worthwhile if they have been bought by Western firms operating, as they are, in a highly competitive technological environment.

To the total figure of 700 lincences sold, Czechoslovakia contributed more than one half, followed by the USSR, Hungary, the German DR, Poland, Yugoslavia, Bulgaria and Romania (in that order). The USSR, compared with Czechoslovakia and Hungary, is a recent entrant to the Western licence market. Western visitors to the Trade Fair in Frankfurt/M. in June 1970 were startled to see the USSR's offer of 400 licences for sale; so far the Soviets have sold licences to firms in at least 35 countries [10, p. 5; 29, p. 2]. There are now several firms in Western

countries handling the sale of Soviet licences, such as Finsilta in Italy, Heine Bros. in Australia, Patent Management in the USA and Sofracop in France. But even Bulgaria, which is generally regarded as about the least developed socialist country (disregarding Albania), patented 40 inventions in 1974; at the recent International Salon of Inventions and Novelties in Geneva, Bulgaria emerged in the top class with regard to the prizes won in relation to the number of exhibits displayed [41, No. 8, 1975. p. 14].

The sophistication and magnitude of the inventions made in the socialist countries have been increasing rapidly. Taking the seven European CMEA countries (i.e. without Albania and Yugoslavia), their average receipts per licence sold to the capitalist world in the 1960s was only one-eleventh of what they paid per purchased licence, but by the early 1970s this ratio had improved to one-quarter [22, p. 27]. The annual earnings from the sale of socialist licences to the West in the mid-1970s amounted to $ 40m. (compared with some $ 500m. spent on Western licences).

The fields in which the socialist countries have technology for sale of interest to Western firms include above all the following:

(I) *Metallurgical processes* – Bulgaria, Czechoslovakia, Hungary, Poland, Romania, the USSR and Yugoslavia.
(II) *Electrical engineering* – Bulgaria, Czechoslovakia, Hungary, Poland, the USSR and Yugoslavia.
(III) *Metal-working machinery* – Czechoslovakia, the German DR, Hungary, the USSR and Yugoslavia.
(IV) *Textile machinery* – Bulgaria, Czechoslovakia, the German DR and Hungary.
(V) *Pharmaceuticals* – Czechoslovakia, the German DR, Hungary and the USSR.
(VI) *Petrochemicals and other chemicals* – the German DR, Romania, the USSR and Yugoslavia.
(VII) *Food and feed processing* – Bulgaria, Hungary, Poland and the USSR.
(VIII) *Medical apparatus* – Czechoslovakia, Hungary, Poland and the USSR.
(IX) *Soldering and welding* – Hungary and the USSR.
(X) *Coal mining and processing* – the German DR, Hungary and the USSR.

A sample of the socialist licences purchased by the well-known Western firms is given in *Table 2*. Some of these licences, as well as others not included in the table, represent inventions of major consequence which have been acquired by more than one firm. Thus the Bulgarian license for the electrolytic refining of copper at high current densities has been purchased by firms in Italy, Japan, Spain, Sweden and the

Table 2
Social licences purchased by leading Western firms

Western licensee*	Socialist licensor country	Industrial application
American Home Products *(US)*	USSR	Pharmaceutical drug "pyroxam"
Ataka & Co *(Ja)*	German DR	Steel bar fagotting machine
Bausch & Lomb *(US)*	Czechoslovakia	Soft contact lenses
Bignier-Schmidt-Laurent *(Fr)*	German DR	Contact plates for oil processing
British Steel *(UK)*	Bulgaria	Protective coating for graphite electrodes
Brown, Boveri *(Swi)*	Romania	"Vulcan" type of pumps
Chemetron *(US)*	USSR	Continuous welding electrodes
Chesterfield Tubes *(UK)*	Hungary	Large steel cylinders
Continential Engineering *(Ne)*	Hungary	Sorbitol (for vitamin C)
Creusot-Loire *(Fr)*	Poland	Carousel furnaces
Demag *(FRG)*	USSR	Metal-cutting machines
Innocenti *(IT)*	USSR	Tube cold rolling mills
Mannesmann *(FRG)*	Czechoslovakia	Automatic mandrel changers
Mitsubishi *(Ja)*	Hungary	Extracting proteins from grasses
Montedison *(It)*	USSR	Polycarbonates
Nippon Steel *(Ja)*	USSR	Cooling of blast furnaces
Reynolds Metals *(US)*	USSR	Casting of aluminium ingots
Rhone-Poulenc *(Fr)*	USSR	Gas permeating membrance
Salzgitter *(FRG)*	USSR	High-pressure polyethylene
San Giorgio *(It)*	Czechoslovakia	Spindleless spinning machines
Sulzer *(Swi)*	Poland	Forging of crankshafts
Sumitomo *(Ja)*	USSR	Pneumatic transport pipeline
Texas Utilities Services *(US)*	USSR	Underground gasification of lignite
Toyo Engineering *(Ja)*	USSR	Chemical disposal of waste
Universal Oil Products *(US)*	USSR	Tube reducers

*For country abbreviations, see footnote on p. 298.

Sources: Based on literature published in the socialist and Western countries.

USA (not to mention such less developed countries as Brazil, Chile, India, Peru and Zambia). The highly successful Czechoslovak invention of a spindleless spinning machine has also been acquired by (in addition to San Giorgio) Toyoda *(Ja)* and by firms in 20 other countries. The Hungarian process for the extraction of protein from grasses for animal feeding has also been bought by Alfa-Laval *(Swe)*, Anhydro *(De)*, Scholler-Bleckmann *(Au)* and others. The Polish method for forging crankshafts, purchased by Sulzer, has also been in use in other firms in the FR of Germany, Japan and the United Kingdom.

The Soviet technology for liquid self-hardening mixtures, used in the production of casting rods and moulds, has been adopted by Kobe Steel *(Ja)* and companies in Denmark, France, the FR of Germany, Italy, Sweden, the United Kingdom, the United States and elsewhere. Another major Soviet invention, for the evaporation cooling of blast furnaces, has been most successfully applied not only by Nippon Steel but also by Broken Hill Pty *(Australia)*, Gutehoffnungshütte

Sterkrade *(FRG)* and in such countries as Belgium, Canada, France, Italy, Luxemburg, the United Kingdom and the United States. The metal used in the construction of steel frames for the Anglo-French Concorde supersonic airliner is produced on the basis of a Soviet licence for electroslag refining used by Cie Electro-Mecanique *(Fr)*, Creusot-Loire *(Fr)*, Svenska Kullagerfabriken *(Swe)* and others.

The socialist countries attach a good deal of importance to the sale of their technology to the West. They are prompted not only by their desire to earn hard currency but also by broader considerations of a psychological and political nature. They are anxious to correct the view prevalent in the West that the socialist countries are technologically stagnant. In fact the ambitions of socialist leaders go further, in their determination to demonstrate that socialism is not only a superior social system but it also has the capacity – now that high priority is assigned to technology – to catch up and surpass capitalism technologically.

These considerations largely explain the fact that the number of patents registered by the socialist countries in the capitalist world has more than doubled since the early 1960s. In the mid-1970s their annual applications exceeded 20,000, of which one-half was actually granted. These figures are about twice as high as those representing patents applied for by capitalist countries and granted in the East.*

V. Conclusions and prospects

The well-established Western conviction of the East-West technological gap, although well-founded in the past and to some extent still justified, may very well become pointless in the future. In some fields of technology the socialist countries are already equal to or ahead of the West. It is not unreasonable to assume that – owing to the now accepted priorities – rapid technological progress in the East will continue, and central economic planning can be effectively utilized to facilitate such developments. It is likely that in the future there will be no clear-cut gap. It can be expected that in a number of spheres the West will be technologically superior but in some (fewer) the East will be in the lead, whilst in others both the West and the East will be more or less equally advanced.

The rising technological levels in the socialist countries are certain to lead to the intensification of their export of industrial products to the West. In this export drive socialist multinational enterprises will be playing an important role. Although they are likely to concentrate on marketing, they will also tend to expand local

*Author's estimates, based on [18, pp. 12, 14].

assembling and production in Western countries, partly on the basis of joint ventures with capitalist firms.

In addition to the Eastern nationally-owned multinational enterprises (as discussed in Section III above), a new type of large entrants to Western markets is feasible – viz. multinationally-owned organizations under the auspices of CMEA. So far about 50 of such entities have been established, but they are still in their infancy and their activities have so far been mostly limited to the CMEA countries. However, some of them – especially those concerned with the co-ordination and development of production and services in the fields of advanced technology – are likely to extent their operations to the West. The entities in question may include (the name is followed in brackets by the location of the head office, the year of foundation and the field of operation):

(I) "Interatomenergo" (Moscow, 1973; nuclear power equipment).
(II) "Interatominstrument" (Warsaw, 1972; atomic apparatus and appliances).
(III) "Interchim" (Halle, GDR, 1969; light chemicals).
(IV) "Interchimvolokno" (Bucharest, 1974; chemical fibres).
(V) "Interelektro" (Moscow, 1973; electrical equipment).
(VI) "Interpodshypnik" (Warsaw, 1964; bearings).
(VII) "Intersputnik" (Moscow 1972; satellite telecommunications).
(VIII) "Intertextilmash" (Moscow, 1973; textile machinery).

Thus "Interatominstrument" – as its first sales venture into the West, in 1975 participated in the exhibition of nuclear equipment in Basle; it also declared its intention to establish scientific and technical centres in Western countries for servicing its instruments, apparatus and various installations that might be sold.

The two types of the socialist international enterprises may become a factor to reckon with in capitalist markets. Their export drive may include priceundercutting and other forms of competition. As protective measures in Western (as in other) countries are directed more against manufactures than primary products, the socialist exporters will probably encounter new waves of discrimination against their industrial products in Western markets.

But it may be assumed on the basis of experience in the recent past that once the socialist enterprises establish their foothold in the market, they will want to co-operate and avoid market disruption. Economic commonsense will dictate specialization in accordance with the principle of comparative advantage, and the sooner it prevails the better for the parties concerned. The West may very well find the East as a highly desirable trading area, with a greater capacity for the export as

well as import of highly sophisticated manufactures than the Third World. Historical experience suggests that with rising *per capita* income industrial products assume an increasing role in foreign trade and the best customers for a country's industrial exports are in fact other industrially developed countries.

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РАЗРЫВ В УРОВНЕ ТЕХНИЧЕСКОГО РАЗВИТИЯ МЕЖДУ ВОСТОКОМ И ЗАПАДОМ И «ОБРАТНЫЙ» ПОТОК ТЕХНИЧЕСКИХ ДОСТИЖЕНИЙ

ДЖ. ВИЛЬЧИНСКИЙ

Если в прошлом наличие разрыва в уровне технического развития между странами Востока и Запада и было бесспорным фактом, в настоящее время, как считает автор, в ряде областей социалистические страны уже достигли или опережают уровень развитых капиталистических стран. В статье детально рассматриваются примеры потока в «западном направлении» технических достижений социалистических стран в форме экспорта станков и оборудования, патентов и лицензий. Среди западных покупателей имеются и крупные международные корпорации.

Относительно будущего имеются основания ожидать продолжения быстрого технического прогресса на Востоке, и автор полагает, что это приведет к изживанию резких расхождений в уровне технического развития — в ряде областей будет первенствовать Запад, а в ряде других ведущее место будет принадлежать странам Востока. В целом же произойдет выравнивание уровней технического развития, что породит тенденции к установлению нового международного разделения труда в промышленности и к преобразованию структуры торговли между Востоком и Западом.

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SOME OBSERVATIONS ON THE DEVELOPMENT OF TRADE BETWEEN THE EUROPEAN SOCIALIST COUNTRIES AND THE UNITED STATES

The revival of trade in the early seventies between the European socialist countries and the USA is examined here in the general framework of East-West economic relations. A survey of certain structural problems of this trade contributes to the summing up of some lessons that may be important from the point of view of Hungarian-American trade, too.

For a few years now it has been possible to study different aspects of East-West trade, in a more differentiated and manysided manner than earlier. Formerly, in accordance with the low level of trade between the socialist and capitalist countries a significant part of analyses of the subject dealt primarily, and almost exclusively, with those political and trade-policy restrictions which by administrative means put a break on the development of relations and made it out-right impossible in numerous respects. Therefore, the general principal issues of East-West trade were usually dealt with by political scientists rather than economists.

But as détente made progress, and a co-operative policy of co-existence, recognised to be mutually advantageous replaced the Cold War, most of the capitalist countries more or less consistently gave up the policy of economic warfare that had become obsolate and irrelevant, which had, in their extreme form, robbed East-West trade of any real meaning. This permitted the evolution of an institutional framework for the development of trade, and of political climate favourable for the increase of contacts. Flourishing East-West trade thus proved to be one of the truly dynamic sectors of world trade.

Parallel with this process the automatism which in the most acute period of the Cold War linked the development of political and economic relations, naturally came to an end. Non-trading, which had forced the socialist countries into taking into account the trade with the West only marginally when defining the basic aims of their economic development, had corresponded to the "roll back" of socialism. The end of this automatism, however, did not result in the depoliticalization of trade, that is in an autonomous development of commercial relations independent of East-West political relations. Just on the contrary: while as a result of expanding trade and co-operation there is an increased possibility in the conduct of political relations for a greater influence of economics it becomes increasingly possible to use political methods to further economic links. East-West trade can be analysed in this context

only. Any "purely" economic approach eliminating the political element is at best merely incomplete; and at worst it might be even misleading.

A truly economic study of East-West trade could receive stressed attention only as contacts grew, the element of contingency was reduced, the relevant empirical data were accumulated. But when that happened it necessarily came on the agenda. Intensified trade provided evidence day after day that development depended not only on political relations but also on complex economic conditions. The business cycles of the capitalist world economy, price trends, the level of economic development of individual countries and their performance, their export commodity structure, as well as the structure of their total foreign economic relations or their balance of payments, etc. etc. exercised an influence on the economic possibilities of the development of East-West trade. Thus the growth of their trade depended not only on improvements in political relations, and the cessation of the still existing direct and indirect restrictions on trade but also on the economic interests, needs and opportunities, – in the widest possible sense of those terms –, of the countries, enterprises and individuals concerned.

The increasing importance of East-West trade

Studying the present processes it must be taken into consideration that East-West trade was reduced to an extremely low level during the Cold War, when compared with the earlier state of affairs, while simultaneously trade between the socialist countries grew rapidly well in advance of the actual integration of their economics. We can, therefore, regard it a most natural process that, once the political conditions were established, trade with the West grew faster in just about every CMEA country than that with their CMEA partners, though the latter grew dynamically as well.

Table 1 shows the share of the developed capitalist countries in the total foreign trade of CMEA countries as it shaped since 1960.

The early sixties offer a pretty mixed picture, the majority of the CMEA countries, owing to the political conditions, prevailing at the time did not make efforts to boost trade with the capitalist countries. Since 1965, however, a tendency of general growth is unambiguously discernible.

The figures that refer to Bulgaria show the only marked deviation, and the two final figures referring to Hungary, a less marked one, though it is sufficient enough to attract the attention of Hungarian economists*. It is also evident that the share of the

* *Table 4* also shows that this trend really deserves attention. In the seventies Hungarian exports to capitalist countries grew more slowly than those of every socialist country other than Bulgaria.

Table 1

The share of developed capitalist countries in the total foreign trade of European CMEA countries

	Imports (total imports = 100)					Exports (total exports = 100)				
	1960	1965	1970	1973	1974	1960	1965	1970	1973	1974
Bulgaria	13.7	22.3	19.1	15.9	22.5	12.5	15.8	14.2	13.5	11.7
Czechoslovakia	18.9	18.8	24.5	25.4	27.7	16.7	17.1	20.4	21.8	24.0
GDR	22.0	22.7	26.7	32.6	34.1	20.2	20.7	21.9	22.9	27.4
Hungary	24.7	25.5	28.8	30.0	34.6	21.9	22.3	28.0	26.7	26.1
Poland	29.7	24.5	25.8	44.4	50.8	29.9	28.7	28.4	34.2	36.3
Romania	23.4	33.3	39.5	44.8	48.6	21.3	24.9	31.9	38.8	42.1
Soviet Union	19.8	20.3	24.0	29.5	32.6	18.2	18.3	18.7	23.7	30.2

Source: Rocznik Statystyczny Handlu Zagranicznego 1975. Warszawa, Główny Urzad Statystyczny, 1975. p. 63–64

West was always larger in imports than in exports, and that proportional growth was larger for imports as well. In that sense imports must be looked upon as the dynamic element in trade relations.

In 1965 the share of the developed capitalist countries exceeded 30 per cent in the imports of only one CMEA country, and a 20 to 25 per cent share could be called more typical. By 1974 in addition to Poland and Romania, where this share had grown to around 50 per cent – the countries of the "strong middle league" – the Soviet Union, the GDR and Hungary as well – obtained close to a third of their imports from capitalist countries. It is a matter of indifference when it comes to evaluating the present situation that, as regards certain countries, a significant portion of this shift in shares already took place in the second half of the sixties, whereas in others the rate speeded up only in the seventies and that there were countries as well where in the past ten years the growth was more or less steady.

It is a fact that the trend was reinforced in the seventies, mainly 1973 and 1974, by rapidly rising price-levels on capitalist world markets – figures being based on current prices – since in contrast prices governing intra-CMEA trade remained practically unchanged up to 1975. The acceleration of growth, however, was primarily justified by the new economic objectives with which the CMEA countries were confronted. These are usually summarized as follows: Given the scientific and technological revolution – and bearing in mind particularly that sources for further extensive growth have been exhausted or are about to be exhausted in most CMEA countries – technological development, increase in efficiency, the modernization of

the economic (and commodity) structure, and even a rise in the standard of living, make it imperative that there be a greater and more manysided participation in the international division of labour than heretofore.

These factors had an especially powerful effect in the Soviet Union. A view dominant earlier both in the Soviet Union and the West was abandoned in the seventies, namely that owing to the scale of the country and its economy, foreign economic relations, in particular those with countries with opposing social systems were bound to have a subordinate and limited importance in Soviet economic growth. Developments since 1973 have proved that the international division of labour is increasingly interpreted within the Soviet Union as a long-term, lasting factor of economic growth, and no longer as something marginal and complimentary, used to overcome particular, though important, bottlenecks, or tensions that might occur here and there, now and then. More active Soviet foreign economic policy created more favourable conditions for East-West trade in general, laying particular stress – as will be shown in detail below – on the role of the U.S. in such trade.

A further aspect of the changed situation of the seventies ought to be mentioned.

As the 1971 Comprehensive Programme of socialist economic integration indicates, the CMEA countries wish to cope with ever greater tasks in their economic development by deepening co-operation with each other. This, too, puts foreign economic activity as a whole in a different light in many respects. An important element of the immediate past is that it is becoming quite clear that the furthering of intra CMEA trade and the raising of co-operation to higher levels requires to be more outward looking to the world outside. It was common knowledge in the past as well that e.g. growth in the trade of machines between CMEA countries – and this was equally true of consumer goods or foodstuffs – was significantly enhanced by imports of machinery and materials from the West. For this very reason foreign trade with socialist and capitalist countries could not be treated as things rigidly separated. The new way of thinking was given a considerable boost when it became obvious that major joint programmes such as the petrochemical co-operation or the construction of the Orenburg gas-pipeline were also closely linked with furthering economic relations with the developed capitalist countries. The crux of the matter is that, for the socialist countries, intra CMEA trade, and trade with the developed capitalist countries are not alternatives, but complimentary and mutually reinforcing opportunities and necessities. In other words growth in trade with the developed capitalist countries is not opposed to the purposes of socialist integration, nor is it indifferent to them; such trade must be treated as a process which enhances the realization of the economic integration of the CMEA countries.

All this, together with other factors, contributed to the efforts on the part of the socialist countries to liven up East-West trade. The boom in the West made a speedy extension of relations possible, in spite of the known – largely structurally caused – problems of increasing the commodity background for exports and growth of exports lagging behind that of imports. Nor did financing prove insurmountably difficult since liquidity was the rule in international money markets up to the middle of 1974, and the socialist states, with relatively small debts, were considered good credit risks. This provided a sound basis for the development of relations, although in the overall foreign trade of most capitalist countries the share of trade with the socialist countries is still pretty small. In numerous, mainly Western European capitalist countries, however, the advantages offered by the large, stable markets of the CMEA countries, imports of energy and raw materials from them, and placing the division of labour on a long-term basis, increasingly came to be recognized. It is typical that during the recession, in the period starting in December 1974 when the U.S. Congress passed the Trade Reform Act including the known discriminatory clause, as well as amendments placing restrictions on the operations of the Export-Import Bank up to August 1975, the governments of largely export minded capitalist countries of Western Europe and Japan, granted credits, largely on favourable terms, to the tune of 8.8 billion dollars to the Soviet Union, their largest CMEA trading partner [1].

The United States and East-West trade

The U.S. most rigidly and for the longest period stuck to the embargo policy "hallmarked" by the Export Control Act and the Battle Act, and therefore largely stayed out of the mainstream of East-West economic relations up to the beginnings of this decade*. Even when far behind Western Europe, around the middle sixties, the views made headway, which had no objection to trading with the socialist countries in non-strategic goods, greater flexibility was still linked to selective trading, to the notion of discrimination between socialist countries. As it was stressed in the report of the Miller Committee sent by President *Johnson* in 1965: "Trade...

* In 1970 Professor John *Montias* illustrating the insignificance of U.S. trade with Eastern Europe even in comparison with Western European trade with Eastern Europe compared these with the trends of the end of the twenties. In 1928 when the Great War no longer; and the Great Depression not yet distorted "natural" economic trends, the U.S., Great Britain and France all carried out 2–2.5 per cent of their trade with countries that now belong to the CMEA (not counting the GDR). Forty years later the share of these countries in British and French exports was much the same, but only 0.6 per cent in American exports [2].

should be offered or withheld, purposefully and systematically, as opportunities and circumstances warrant. The President should remove or reimpose trade restrictions on a selective basis according to his best judgement, as our relationships with individual Communist countries demand" [3].

It would perhaps seem unnecessary to bring up this ten year old document if the attitude which would be willing to increase trade with the socialist countries only as a "reward" to be offered for direct political concessions were a thing of the past. Unfortunately, this is not so. Although early in the seventies such trade livened up considerably, by December 1974 it became clear that such notions are still very much alive, so much so that in the words of the former Secretary of Commerce, progress could be retarded once again, and the future role of the U.S. in East-West trade could become doubtful once again [4].

As a consequence of the decisions by Congress in December 1974 the discriminatory regulations remain in force which considerably hindered trade between the U.S. and the socialist countries in the early seventies. Of all the socialist countries, Poland alone (since 1960), and lately Romania, enjoy the benefits of most favoured nation treatment. It is obvious that the most favoured nation clause is important in the first place since it indicates how safe it is do develop business contacts at the given level of political relations between the countries concerned. The more important a deal promises to be, the more sure the potentially concerned have to be that it is not threatened by political risks. One becomes discouraged and prompted to be cautious if protracted public debate shows that political relations have not matured to a point where an end can be put to tariff and other discriminatory practices. The absence of the most favoured nation treatment weighs heavily on countries – for example Hungary – in whose exports to the West the proportion of manufactured goods is relatively large. Andrew Elias and Marjory Searing in their study dealing with the consequences of discrimination calculated that, in the absence of discriminations, American imports from six CMEA countries, not counting Poland, would have been six times what they were in 1971, in particular, those from Bulgaria could have been eleven times as high, and those from Hungary ten times as high [5].

The U.S. restrictions on exports – inspite of being not so wide-spread as they used to be – continue to limit the development of trade, in particular (as it will be shown later) in the fields of considerable mutual interest (selling of the most up-to-date technology). The system of export licences e.g. afflicts American exports especially strongly to Y category socialist countries, that is to all CMEA countries except Poland and Romania, unfavourably affecting both the volume and composition of American exports to those countries. Brada and Wipf argue that a relaxation of the restrictions of export licensing putting Hungary on the same basis as

Poland and Romania alone would increase Hungarian purchases in the U.S. by 10 per cent [6].

But discrimination prevails in the granting of official credits as well. The Export Import Bank has financed American exports to Romania since November 1971, and those to Poland and the Soviet Union since the autumn of 1972. By June 1975 the Eximbank has undertaken to underwrite the financing of exports to Poland, Romania and the Soviet Union to the tune of 689 million dollars, 469 million for the latter and 220 million for the other two [7]. In December 1974, however, Congress determined a ridiculously low ceiling for Eximbank credits to the Soviet Union, limiting them to 300 million dollars for the next four years, only allowing 40 million dollars to be used for research and exploration of mineral energy sources. State credits for Soviet production, processing, and distribution of fuels was prohibited outright [8]. Hungary, as well as other socialist countries are completely excluded from obtaining Eximbank credits.

In connection with the limitations on Eximbank credits we have to make one remark similar to how we commented on the absence of most favoured nation treatment, i.e. of normal conditions for trade: The problem does not lie merely in the direct negative effects of the lack of official credits that is in the unfavourable financing conditions for possible deals. What creates much greater difficulties, and here what can be regarded as the official American position can be quoted in complete agreement is that "... the involvement of Eximbank is taken by the private banking community as a measure of official confidence and support for commercial relations with a given borrower. Under present circumstances it thus appears that the lack of Eximbank activity in lending to most of the socialist countries dampens the interest of commercial banks in this area, thus compounding the adverse impact on our competitive posture" [9]. The creation of a normal political and trade-policy framework is thus much more important to the extension of trade than can be measured by the direct, quantifiable effects of the introduction of some new practice in tariff, financing or export-licensing policy.*

Primarily because of the political difficulties mentioned the socialist countries for a long time saw opportunities to extend trade with the U.S. as limited. This applied particularly to those smaller socialist countries on which American

* It is here stressed that discrimination weighs equally on American exports and imports since, though it is true that there is a primary American interest in exports, that is inseparable from increasing purchases in socialist countries. As for protectionist thinking which confronts the interest in exports with the negative effect of increased imports on employment, this lacks any foundation, particularly in connection with the socialist countries. R. *Morton*, discussing the commodity structure of imports from socialist countries, comes to the conclusion that in the first place they compete with other imports, and not domestically produced products, (not to mention that their share of the market will remain very small indeed, even if they grow at a much faster rate) [10].

discrimination – in spite of its declared "flexibility" – weighed especially heavily [11]. It is not surprising then – though it reflects a narrow outlook – that, not so long ago, a great many economists in Hungary thought of East-West trade primarily, and almost exclusively, in terms of trade between Eastern and Western Europe. Many considered opportunities for trade with the U.S. to be negligible even after 1972, when Soviet-American relations were beginning to develop, looking on the development of trade which got going by that time between some of the smaller socialist countries and the U.S. as merely accidental, or due to very specific factors.

Opportunities for Soviet-American trade surfaced in an undoubtedly different way than those of the trade between the U.S. and other European socialist countries, not only because of the importance of the political relationship between the two countries, but also because of certain similarities of scale, in natural conditions and characteristics of economic development. Trade with the U.S. is made particularly desirable by those most important economic objectives which the Soviets want to realize through the inclusion of the resources of foreign economic relations. Huge investment plans e.g. require technologies that are up to the minute and most appropriate to the scale of the work to be done. On the other side it is precisely major deals of this sort that American or American based multinational firms with huge capital resources at their disposal are most interested in.

These and other factors suggest that, given favourable political conditions, the prospects for Soviet-American trade are particularly good.* Recent figures indicate that although the most striking and sensational events took place in Soviet-American trade parallel with this trade between the other CMEA countries and the U.S. also showed considerable development. The share of CMEA countries in U.S. imports true enough rose only from 0.56 per cent in 1970 to 0.88 per cent in 1974, and fell back to 0.69 in the first half of 1975, in exports the increase is more convincing however: it rose from 0.82 per cent in 1970 to 1.45 per cent in 1974, and to 1.87 per cent in the first half of 1975. [12]

An examination of the share of the U.S. in the growing trade with the West of the CMEA countries shows that development here were even more dynamic between 1970 and 1974 than in overall East-West trade. As a result of this development the share of the U.S. in CMEA exports to developed capitalist

* One should add, however, one strongly qualifying remark on the basis of the experience of recent years: in conditions where further détente and the creation of a climate of trust require further efforts, and influential circles wish to use the extension of trade as an instrument of political pressure, the economic arguments which urge co-operation on both sides may well turn into their own opposites and become barriers to growth. The huge scale of planned deals make so large credits necessary which still appear unreal in the present situation. The purchase of American technology on the other hand meets with greater restrictions in certain fields than that of West European technologies, and this, too, limits the role which the U.S. could play in Soviet foreign economic relations.

countries grew from 3.3 per cent to 4.8 per cent, and that in imports from 5.1 to 6.8 per cent [13].

From the data concerning the development of relations it is obvious that there are sound reasons on both sides to develop economic relations between the smaller East European states and the U.S. These countries, Hungary among them, are highly foreign trade sensitive. Imports are needed not only for the development of economy but also for the mere operation of the economy they are dependent on imports. For that reason growth must be largely export orientated, and taken as a totality they are an important market for the developed capitalist countries. This explains, that with the exception of 1972 and 1973, U.S. total trade with the smaller European socialist countries exceeded that with the Soviet Union. The latest American forecasts presume that this situation may change in case trade with the socialist countries becomes normalized, and that by 1980 the Soviet share of American trade may minimally exceed the total share of the other European CMEA countries, nevertheless the latter will preserve their important role in the Eastern trade of the United States.*

No doubt the possibility of penetrating the Soviet markets is a factor which increases the interest of American firms in trade with other socialist countries, particularly since Soviet-American trade is not running smoothly yet. We cannot but agree with the remark of Paul Marer and Egon Neuberger that from the viewpoint of the American firms the relative smallness of East European domestic markets is counterbalanced not only by the fact that, state enterprises being the trading partners, there is a possibility of securing a large share of the market for a particular commodity in this or that country, but also that this may open up new marketing possibilities in other East European countries, including the Soviet Union with much larger markets [15].

This approach is justified and particularly timely now when the further development of co-operation and specialization in the engineering industry within the CMEA makes an increase in machine imports from the West necessary. Even today the present share of the U.S. in this is still negligible: in 1974 altogether only 426 million dollars worth, i.e. 7 per cent of the total imported from the West by CMEA countries [16].

This is an important point where the commercial interests of the U.S. and those of the smaller East European countries meet. There is a general conviction in the latter that it is in their interests as well to extend their traditional Western source

* U.S. Department of Commerce estimates suggest that this year the total turnover of the U.S. with the European CMEA countries will be 8.600 million dollars, and out of this 4.200 million dollars the share of the smaller CMEA countries [14].

of supply and markets to cover the U.S. There is a need for this not only because there are limitations on East-West trade within Europe as well, largely owing to the protectionist regulations of the Common Market which hinder the export of agricultural and light industrial products that are the most important export goods of a number of socialist countries. In our opinion there is another, much more important consideration: every socialist country is interested in direct access to American know-how, technologies, and managerial skills, instead of getting them with delays through Western European mediation which often means buying those technologies which were the most up to date yesterday, or the day before yesterday thus preserving the gap in the standard of production. But these countries are also interested in importing American agricultural products, and as we shall see, the American share in East-West trade is now largest precisely in the agricultural sector.

Some factors determining trade and commodity structure

Table 2 gives the date of trade between the European CMEA countries and the United States.

Looking at it allows on to establish that in the case of the Soviet Union, Poland and Romania one can speak of an intensive growth in trade in contrast with the others, including Hungary, whose rate of growth and volume of turnover fall way behind theirs. In 1974 the above three countries secured 84 per cent of European CMEA exports to the U.S., and were responsible for 90 per cent of the imports from that source. They are responsible for 92 per cent of the trade debt as well which amounted to 3.200 million dollars. Between 1970 and 1974 Romanian imports from the U.S. grew four-fold, Soviet imports more than five-fold, and Polish imports five and a half-fold. In contrast Hungarian imports in that period not quite doubled, and Hungary's share of European CMEA imports from the U.S. dropped from 8 to 4 per cent. A comparison of Hungarian trade with the U.S. with that of the above mentioned three countries will therefore provide a useful picture of the difficulties and opportunities for growth of trade between Hungary and the U.S.

What has been said so far makes extensive proof of the first point I wish to make unnecessary. The relative falling behind of the growth rate of Hungarian trade with the U.S. is connected with the fact that discrimination against socialist countries weighed particularly heavily on Hungary, that "liberalization" proved selective at Hungary's expense. Inter-state political relations and those of high-level contacts fell behind the rate of development evident in those between the U.S. and other socialist states[17].

Table 2
Trade between the European CMEA countries and the United States
(in million U.S. dollars)

	1970			1971			1972		
	Exports	Imports	Balance of trade	Exports	Imports	Balance of trade	Exports	Imports	Balance of trade
Bulgaria	2.4	15.4	–13.0	2.6	4.4	–1.8	2.9	3.2	–0.3
Czechoslovakia	23.9	22.6	1.3	23.6	37.9	–14.3	28.0	48.9	–20.9
GDR	9.4	32.5	–23.1	10.1	24.9	–14.8	10.3	14.8	–4.5
Hungary	6.2	28.3	–22.1	7.8	27.7	–19.9	12.8	22.4	–9.6
Poland	97.9	70.0	27.9	107.2	73.1	34.1	139.2	111.5	27.7
Romania	13.4	66.4	–53.0	13.8	52.4	–38.6	31.5	66.7	–35.2
Soviet Union	72.4	118.4	–46.0	56.8	160.5	–103.7	95.4	483.6	–388.2
Total:	225.6	353.6	–128.0	221.9	380.9	–159.0	320.1	751.1	–431.0

1973			1974			1975			Cumulative trade balance
Exports	Imports	Balance of trade	Exports	Imports	Balance of trade	Exports	Imports	Balance of trade	
4.5	6.5	–2.0	8.4	22.0	–13.6	19.2	20.3	–1.1	–31.8
35.2	71.9	–36.7	45.6	48.6	–3.0	17.0	27.4	–10.7	–84.0
10.5	28.0	–17.5	14.1	20.9	–6.8	5.0	5.1	–0.1	–66.8
16.4	32.8	–16.4	75.4	56.2	19.2	20.9	52.1	–31.2	–80.0
181.9	349.3	–167.4	265.9	394.6	–128.7	124.3	252.7	–128.4	–334.8
55.7	116.5	–60.8	130.5	277.1	–146.6	35.9	121.8	–85.9	–420.1
214.6	1187.1	–972.5	349.5	611.9	–262.4	133.8	525.2	–391.4	–2164.2
518.8	1792.1	–1273.3	889.4	1431.3	–541.9	356.1	1004.6	–648.5	–3181.7

Source: For 1970: OECD Foreign Trade. Series A. July 1972
For 1971–1975: R. Morton: The United States' Role in East-West Trade. Problems and Prospects. GPO, 1975. Table 1.

One must ask, however, whether political and trade-policy conditions more unfavourable than those of some other socialist countries are the *only reason* why trade between Hungary and America fall behind. It would simplify matters for economists if one could answer yes and saving the trouble of further studies. What is startling though is that trade between particular socialist countries and the U.S. does not merely correlate with the degree of discrimination. Actually, there is no automatic correlation between a lessening of discrimination and an increase in trade. A more complex examination of a historical and economic sort is needed to achieve some degree of understanding.

Table 3

Changes in the imports of European CMEA countries between 1970 and 1974

	1970		1974			
	total	the share of developed capitalist countries	total	the share of developed capitalist countries	The growth of the total import	The growth of imports from the developed capitalist countries
	(millions of roubles)				1974/70	
	(1)	(2)	(3)	(4)	(3:1)	(4:2)
Bulgaria	1648.0	314.8	3195.6	719.0	1.94	2.28
Czechoslovakia	3225.6	814.9	5496.7	1522.7	1.65	1.86
GDR	4359.1	1163.9	7188.3	2451.9	1.65	2.11
Hungary	2217.7	638.8	3844.5	1330.0	1.73	2.08
Poland	3246.8	837.7	7835.1	3980.2	2.41	4.75
Romania	1763.2	696.4	3832.6	1862.8	2.17	2.68
Soviet Union	10558.5	2534.0	18834.4	6139.9	1.78	2.42

Computed on the basis of Rocznik Statystyczny Handlu Zagranicznego 1975. p. 63

One could mention here that Polish-American trade could be considered mostly normalized starting with the early sixties, nevertheless there was a relapse around the middle of that decade, and right up to 1971 slow growth was interrupted by powerful fluctuations. Between 1967 and 1971 American exports to Poland grew only by 20 per cent, but in the next three years they increased 5.4 fold. The growth in Soviet-American trade on the other hand, preceded real normalization, the granting of most favoured nation treatment and the coming to force of the commercial treaty between the two countries, though it is true that the initial boom in 1972 and 1973 was accompanied by numerous bilateral agreements, and the granting of official credits. The boom naturally occurred in the expectation of normalization. Its absence then had a negative effect on long-term prospects. The initial euphoria proved unfounded, without normal conditions for trade those projects for industrial co-operation which had been designed as the chief carriers for a further and dynamic extension of contacts could not be implemented.

All this means that this survey must be continued by an analysis of the economic meaning of the relations that materialized. An attempt will therefore be made to point to a number of further aspects. Going on with the present train of thought we will continue to examine trade between the U.S. and the socialist countries as part of East-West economic relations. What catches the eye in the first place analysing *Tables 3* and *4* is that the most important trading partners of the U.S.

Table 4

Changes in the exports of European CMEA countries between 1970 and 1974

	1970		1974		The growth of the total export	The growth of the export to the developed capitalist countries
	total	the share of developed capitalist countries	total	the share of developed capitalist countries		
	(million Roubles)				1974/70	
	(1)	(2)	(3)	(4)	(3:1)	(4:2)
Bulgaria	1803.5	256.0	2863.8	335.1	1.59	1.31
Czechoslovakia	3413.1	696.2	5151.5	1236.4	1.51	1.78
GDR	4119.9	902.3	6518.9	1786.2	1.58	1.98
Hungary	2085.0	583.8	3597.6	939.1	1.73	1.61
Poland	3192.9	906.8	6215.6	2256.3	1.95	2.49
Romania	1664.9	531.1	3632.1	1529.1	2.18	2.88
U.S.S.R.	11520.1	2154.2	20738.8	6362.2	1.80	2.95

Source: Computed on the basis of Rocznik Statystyczny Handlu Zagranicznego 1975. p. 64

within the CMEA, who have increased turnover at the fastest rate, have generally showed most dynamic growth not only in trade with developed capitalist countries but in their foreign trade as a whole. What is more: although the share of the developed capitalist countries in the foreign trade of these countries grew faster in this period than in that of the other CMEA countries, the growth of their inter-CMEA trade did not drop below the average either. (Between 1970 and 1974 Hungary alone showed a greater rate of increase in exports to other CMEA countries than Poland, the Soviet Union and Romania.)

Looking at trade between these CMEA countries and the developed capitalist countries it becomes apparent that turnover with the U. S. grew much faster than the average, but so did their trade with the Federal Republic of Germany which remained their major Western trading partner, as it did for the other CMEA countries, and with Japan, too.

In other words their trade as a whole, and *imports in the first place,* significantly shifted in favour of those three countries whose financial strength, and the technological level and structure of their economics allowed for the largest possible co-operation and the purchase of the most modern technologies. The share of these three countries in Soviet imports of Western origin grew from 29 to 44 per cent between 1970 and 1974, the figures for Poland being 24 and 37 per cent for the

Table 5

Food and machinery imports of European CMEA countries from developed capitalist countries and the United States respectively (in million US dollar)

	Food				Machinery			
	1973			1974	1973			1974
	Total	The U.S. share	%	from the U.S.	Total	The U.S. share	%	from the U.S.
Bulgaria	13.5	1.8	13.3	15.0	147.7	1.6	1.1	3.9
Czechoslovakia	99.9	38.6	38.6	16.0	431.5	6.3	1.5	11.8
GDR	191.1	23.5	12.3	16.1	476.4	1.3	0.2	1.9
Hungary	113.1	17.9	15.8	29.1	280.6	9.8	3.5	11.7
Poland	378.1	214.7	56.8	171.5	1074.7	26.6	2.4	81.3
Romania	85.5	38.2	44.7	93.4	548.4	20.4	3.7	88.2
Soviet Union	1366.8	841.7	61.6	291.6	1572.0	204.3	13.0	224.6

Source: Computed on the basis of R. Morton op. cit. and U.S. trade status with socialist countries. July, 30th 1975.

same period, and those for Romania 32 and 42 per cent for 1970 and 1973.* To all appearances a similar change took place in Hungarian foreign trade. The share of these three countries in Hungarian imports was 22.5 per cent in 1970 and 36 per cent in 1974, but most of this increase was due to the larger share of the Federal Republic of Germany.

The commodity structure of trade with the U.S. points to two reasons why imports from that country came to the forefront in the CMEA countries. American agricultural products were responsible, and also the purchase of modern technologies and know-how. Two thirds to three quarters of purchases by the socialist countries consist of food and machinery.

So far first of all food imports proved significant. In 1973, when purchases were particularly large, 66 per cent of those by CMEA countries in the U.S. were foodstuffs, 44 per cent in 1974, and roughly 48 per cent in the first seven months of 1975. The importance of food imports from the U.S. is best illustrated by the fact that 52 per cent of CMEA food imports from developed capitalist countries in 1973 were purchased there. The figure for 1974 was 41 per cent [18]. The greatest part of U.S. agricultural exports goes to its major trading partners within the CMEA. The explanation lies in the fact that owing to the peculiar concentration of Western agricultural markets, the socialist countries which import large quantities of food,

* A corresponding increase in exports occurred only in the case of the Soviet Union, and even there it was only a modest one.

make a significant part of their purchases in the U.S. This is one of the reasons why their importance to America's socialist trading partners is so great.

In the field of agricultural imports we see an important specific feature of Hungarian-American trade. The category "food and live animals" occupies first place in Hungarian imports from the U.S. as well. To this degree the structure of Hungarian imports does not differ from that of other CMEA countries. But while most countries purchase largely grains – they amounted to 74.6 per cent of CMEA food imports from the United States in 1974 – Hungary and Czechoslovakia buy soya beans in the first place.

The main peculiarity of Hungarian-American agricultural relations is that while food imports primarily serve to improve domestic fodders it is the American *agrotechnology* what excites Hungarian interest. Since the end of the sixties there has been considerable co-operation between enterprises, first of all the one between the Agricultural Complex of Bábolna and Corn Production System of Chicago concerning industrial methods in corn growing is particularly important. This mutually favourable co-operation served to spread systems methods in corn growing in Hungary, leading to a leap forward in average crop yields, thus ensuring a growth in the fodder basis of animal husbandry. Hungary used to import corn and has now turned into a major exporter. The nature of this co-operation also prompted large imports of machinery, serving as a basis for large-scale industrial co-operation as well. Originally the equipment needed was largely imported from the United States – this is the reason why a large part of Hungarian machinery imports from the U.S. are agricultural machines – and was paid for by the corn it helped to produce. The major part is now made in Hungary, in co-operation with American and West German firms.

But let us move on to the second part of *Table 5* which describes purchases of machinery by the socialist countries. Figures given country by country show that there the share of the U.S. is much smaller than for foodstuffs. In 1973 Soviet machine imports from the U.S. alone were of real importance, amounting to 13 per cent, taking second place behind Western Germany. In 1974, however, as the figures show Polish and Romanian purchases of machinery were also significant. (In 1975 Soviet and Polish machine imports further grew, Romanian imports, however, dropped.)

Table 5 shows that according to the 1973 figures which allow for detailed comparisons those CMEA countries which brought most machinery in the U.S. were ahead as regards machinery purchases from the developed capitalist countries as a whole. It is obvious then that *the place occupied by the U.S. in their imports depends not only on their food imports, but also on their investment and technological development policy.*

In our opinion the present commodity structure of Hungarian trade with the developed capitalist countries also, to some extent, limits what the country intends to buy in the United States. The proportion of materials, fuel and semi-finished goods in total Hungarian imports from the West is quite high, much higher than is the case for most other socialist countries, while, as *Table 5* shows, the volume and proportion of machinery imports is relatively low. Materials, however, occupy second place in the purchases effected by socialist countries in the U.S., since the sort of articles making up this category can be obtained, in similar quality on the "traditional" West European markets. It therefore does not pay to buy on U.S. markets, bearing in mind export licensing and credit provisions as well as the great distances involved. Therefore, what proportion of our purchases in the West will come from the U.S. also depends on a possible shift to machinery in imports from the West taken as a whole.

Finishing the analysis of the import side of trade, let us review briefly the problems connected with exports. It is noteworthy that those CMEA countries whose volume of trade with the U.S. is the highest are simultaneously the largest exporters of mineral raw materials and first of all of fuel. This fact determines or at least influences the commodity structure of their exports to the U.S. as well. In 1974 for example, petroleum and petroleum products, and nonferrous metals (mainly palladium and platinum) made up close to 80 per cent of total Soviet exports valued at 350 million dollars, and almost two thirds of Romanian exports belonged to a single category, that of petroleum and petroleum products. They were able to exploit the favourable changes in the terms of trade between 1972 and 1974 to ensure a dynamic increase in sales to the United States as they did in their export policy to the West as a whole.

The situation differed in the case of Polish exports, though those grew forcefully as well in that period. Here a Hungarian analyst can find much that is of interest. Mineral fuels, (coal and coke) one of the major items in total Polish exports to the West are negligible as far as exports to the United States are concerned. Poland was, on the other hand, able to increase exports of iron, steel, and non-ferrous metals and metal products significantly, undoubtedly also through exploiting the favourable price trends.

Food takes first place in Polish exports to the United States, as it does in the total turnover with developed capitalist countries. In 1974 this commodity group made up 31 per cent of exports and was valued at 82 million dollars, [19] meat and meat products were the largest single item. The proportion of food in Hungarian exports to the developed capitalist countries and to the United States, has as great a weight as in the Polish case. Since Polish food exports to the U.S. are nine times as great as Hungarian ones, meat exports, as part of them, are ten times as great, this

may well be, for that reason, one of those areas where we find the most important reserves of increasing Hungarian exports, particularly because the large number of Hungarians in the U.S. offer an almost unlimited market for Hungarian food products. The utilization of these reserves is, however, handicapped on the one hand by tariff discrimination, which Polish exports do not have to cope with, and on the other by the limited variety and quality of export goods manufactured by the Hungarian food-processing industry. This is so, since Common Market regulations which seriously handicap Hungarian food exports to Western Europe ought to serve as a warning that products showing higher levels of processing are important preconditions if exports are to increase.

Comparing Polish and Hungarian exports to the U.S. it also becomes clear that while Poland succeeded in increasing textile and clothing exports by 80 per cent between 1972 and 1974, their value reaching almost 20 million dollars in the latter year, Hungarian exports in those years stagnated around 1.2 million dollars. The reasons must be sought again on the one hand in the discriminatory practices, and on the other in difficulties in increasing stocks suitable for exports, adding that the negative effect of discrimination is perhaps even greater here than in the case of food. This cannot, however, be the *only* reason, for Czechoslovakia, subjected to the same tariff policy as Hungary, succeeded in doubling textile and clothing exports to the U.S. in the same period [20].

Finally, according to 1974 figures, Poland exports 16 million dollars worth of machinery and transport equipment to the United States, more than any other CMEA country. Any comparison must in this case as well bear in mind that the absence of most favoured nation treatment weighs more heavily on the importing of finished product. But Hungarian machinery exports, worth 3 million dollars, are low very likely because of the limited marketability of available stocks. Once again we refer to the Czechoslovak example. That country is second amongst CMEA countries as regards the volume of machinery exported to America, ahead of Romania and the GDR. Eleven million dollars worth of machinery in 1974 made up 24 per cent of their total exports to the United States [21].

Summing up what we have said about the commodity structure it must be said first of all that there is a powerful correlation between increased turnover with the U.S. and changes in the terms of trade of particular CMEA countries. On the other hand the example of some of the socialist countries shows that turnover could be significantly increased all the same if export stocks grew and their standards improve. The same obstacles have to be moved out of the way which generally handicap Hungarian exports.

An examination of the exports by socialist countries to the United States is of interest to us primarily because it indicates opportunities for covering imports from

the U.S. by the export of commodities. It is clear, however, that all the socialist countries have trade deficits vis a vis the United States. The trade balance is undoubtedly somewhat modified by various services, tourism being the most important, though that as well offers only modest returns at the moment to the socialist countries. There are two main sources which could cover these deficits: American credits on the one hand, and convertible currency income obtained in other markets, on the other. According to official American figures the total American credits to European CMEA countries amounted to 1.5 billion dollars in June 1975, 930 million provided by private banks, 227 million are Eximbank Credits and 299 million Commodity Credit Corporation credits. 22 Thus 3.5 billion dollars worth of purchases by European CMEA countries, between June 1972 and June 1975, out of a total of 5 billion dollars worth, were paid for in cash or by means of short-term credits. In the same period the same countries sold only 2.4 billion dollars worth of goods in the U.S., the purchase of 1.4 billion's worth thus had to be financed from external sources. These sources can vary, including convertible currency surpluses obtained elsewhere, Eurocredits and selling gold on the free market, but directly or indirectly they depend on the foreign trade, or generally financial performance of the country concerned. Trade between the CMEA countries and the United States is thus linked in a million ways to East-West economic relations as a whole, even through financing.

Some conclusions

It is unambiguously clear that the development of trade between Hungary and the United States legs behind the economic relations of other socialist countries with the United States. This is partially due to the particularly heavy burden which Hungary had to bear as a result of discriminatory regulations, leading to greater reservations than in other socialist countries regarding the worthwhileness of furthering trade with the U.S. Another reason is that partially for structural reasons, Hungarian trade with developed capitalist countries as such grew somewhat more slowly than that of other CMEA countries at the very time when the role of the U.S. in East-West trade was increasing. This means that *trade between Hungary and the U.S. has major reserves both in the political and economic spheres. This can be said even if the present general level of relations between the U.S. and the CMEA countries is taken as the basis of comparison.*

A further conclusion is that in spite of the faster growth of recent years the present role of the United States in East-West trade must be regarded unsatisfactory. An analysis of turnover and the commodity structure allows one to say not only that the volume of trade is relatively small compared with the total foreign trade of

the parties (one explanation is that we are still in the early stage of relations) but also that *the sort of structure has not yet taken shape in trade between the U. S. and the CMEA countries which best accords with mutual interests, and is most likely to ensure long-term growth.*

The U.S. is acting in this trade mainly as the exporter of its agricultural products. Undoubtedly this is to the advantage of all. But America has not so far exploited opportunities in many areas – or only to a very limited extent – given by the country's advantages as compared with the other Western countries regarding the export of the most sophisticated technologies to socialist countries, or the contracting of connected co-operation agreements. And yet it could well be that the finding of new export markets will be the key to maintaining first place in the world in industries demanding much research, development and investment. The socialist countries can offer a large, stable and continuously growing market for the products of such industries.

The CMEA countries are primarily interested in economic relations the basic feature of which is access to the most modern technologies, ensuring their large-scale application and fast spread. This can help them to keep up with the achievements of the scientific and technological revolution, to raise dynamically the technological standards of their economies, to create modern production structures. All this would allow them to play a more effective part in the international division of labour, to increase their exports and thus to finance increasing imports from the United States.

All this could open great prospects for the import of American machines and equipment, and for co-operation with American firms. A good example of such co-operation, already mentioned above, could serve as a paradigm. In contrast with a few years ago when the gap was still large Hungarian corn cropyields now approach the West-European average. This was, however, largely due to the introduction of American and not Western European technologies. Although it is true that one cannot skip steps in development, climbing onto the next one often demands the use of the best available technology, and not the one which is just one step ahead.

In summary, American machine exports to CMEA countries could thus prove to be an extraordinarily important element in ensuring lasting mutual interest. But a large-scale long-term co-operation in this field demands continued detente, a systematic liquidation of discriminatory practices by the U.S., and the creation of normal conditions for economic relations with the socialist countries.

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ИЗ ОПЫТА ТОРГОВЛИ МЕЖДУ ЕВРОПЕЙСКИМИ СОЦИАЛИСТИЧЕСКИМИ СТРАНАМИ И США

А. КЕВЕШ

В статье торговля между европейскими странами-членами СЭВ и США, развернувшаяся в начале семидесятых годов, рассматривается в общих рамках экономических связей Восток-Запад. Автор указывает на то, что торговля с развитыми капиталистическими странами в последние годы играет растущую роль во внешнеэкономических отношениях стран-членов СЭВ. Это мотивируется, в частности, характером их экономических задач.

Несколько социалистических стран — в первую очередь те, внешняя торговля которых за прошедшие годы развивалась наиболее быстро — уже осуществляют значительную торговлю с США. В их импорте из Америки наибольшая доля приходится на сельскохозяйственные продукты, но они проявляют растущий интерес и к получению современной техники. Учитывая перспективные потребности социалистических стран, а также конкурентоспособность американских фирм, в последней области имеются весьма благоприятные возможности для более интенсивного участия США в торговле между Востоком и Западом. Эти возможности могут быть лучше использованы, если США прекратят дискриминацию в отношении торговли с социалистическими странами.

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CHOICES IN PLANNING FOR SOCIAL INFRASTRUCTURE AND CONSUMPTION

The choice between the development of social infrastructure and personal consumption is one of the basic dilemmas of long-term national economic planning, and within it, of planning the standard of living. The author examines the factors limiting and influencing this choice on the basis of the Hungarian situation where certain sectors of the infrastructure are lagging behind the general development level of the country. The article is based on a paper read at the Nice conference of I.I.P.F. in September 1975.

Importance of infrastructure for society

The sector of infrastructure is also referred to as tertiary sector or service sectors, although the contents of these notions do not quite agree. A part of infrastructure serves production (transportation of goods, irrigation, etc.), while another part directly serves the population. The two kinds of infrastructure cannot, however, be rigidly separated. In this paper the appraisal of infrastructure will be made solely from the point of view of the development of consumption or, more broadly, of living circumstances.

The network of infrastructure creates the conditions for a healthy and cultured way of life, for the right use of free (leisure) time, etc. etc. This network comprises housing, together with the relevant community facilities, the health system, the system of education and public cultural institutions, passenger transportation, the retail trade, etc. Due to its role in shaping the living circumstances, the infrastructure takes an extremely prominent place in economic and social policies. Its prominence is explained by the fact that the size, sectoral pattern and regional distribution of infrastructure determine in more than one way the structure of incomes and consumption.

Socialist society is aiming at true social equality, and not only as regards its intentions. Among other things, the Hungarian socialist regime dramatically increased equality when compared with the state of affairs before the Liberation, and continued to diminish inequalities during its almost thirty years of development. In spite of this, to this very day there appear non-desirable differences, i.e. such as do not originate from differences in useful work performance, and which are significant, at least by our own standards.

In addition to those inherited from the old system, some of these differences are being reproduced, among our own conditions. Both directly and indirectly, it is

the development level and the distribution of infrastructure that are contributing to the rebirth of the social inequalities. For example, approximately half of the workers in Hungary live in villages. Among these village-dwelling workers, the proportion of unskilled people is essentially higher than among those living in towns. Consequently, both the average size of income and the cultural standard of the village-dwellers are lower. The rate of utilization of social services in kind by these families is also lower, partly due to their lower cultural standards but mostly because the villages are less well covered by the infrastructural network (cultural and social institutions). These conditions then reproduce by their own force the differences manifest in cultural standards, skills and, finally, in incomes. In other words, a better supply of villages with infrastructure is a condition of prime importance for the diminution of inequalities also in this respect.

There seems to be no need to carry on enumerating all the relationships that verify the outstanding role of infrastructure in shaping the living conditions of the population.

Interaction between infrastructure and consumption; the requirement of their harmonious development

It should be obvious from what has been said so far that the standard and development of infrastructure have an *essential impact on consumption generally and the pattern of commodity purchases more specifically.* The coverage and the standard of activities of the health and educational system determine the weight of the health and educational services within total consumption, moreover, within this part of consumption, also the size of the complementary consumption of goods related to it irrespective of whether these are sold as commodities or are included into social benefits (medicines, textbooks, etc.). The housing supply does not only determine the rate of amortization but it also influences the purchase of home furnishing equipment and fitting goods, furthermore it also affects the quantity of fuel and electric current consumed by the population. The scope and standard of the services have an influence on how many consumer durables are bought by the population (cf. laundries vs. household washing machines).

The relation between infrastructure and consumption is of an *inverse direction, too.* The rising level of consumption requires, and even presupposes the development of infrastructure at an adequate rate and in a suitable structure. The relations of this kind are partly direct and tangible, partly however indirect.

It is obvious, for instance, that an increasing stock of consumer durables calls for more repair services; more cars need a wider (and better) road network, more

petrol stations, service facilities. It would be even more striking: should the retail trade network not spread at an appropriate rate, a greater volume of consumer goods, already produced, could not find its way to the customers.

Another set of relations is less direct but the resulting requirements are no less hard than in the above examples. For example, the improvement in personal living circumstances must be accompanied by better conditions of hospitalisation, including also the quality (to say nothing of the quantity) of the hospital board.

From the point of view of the development of living circumstances, and even more so from that of their intentional reshaping, it is also of great importance whether the population, and within it every social group, possesses an actual freedom of choice in satisfying a series of vital needs. For instance, whether the alternative of using comfortable, fast and up-to-date means of mass transportation vs. buying a car exists; or whether the alternative of staying in a large-capacity hotel and recreation home system (that also reflects the differences in what different categories of people can afford) vs. having a private summer house built *is* a really existing alternative for most people, etc. As in these examples, also in other important cases it is only the infrastructure that may provide a substitute and that makes it possible for the state in its planning function to govern the pattern of consumption into the socially desirable direction.

If the development of infrastructure were to lag behind the growth of consumption, social and economic tensions will be created. And conversely: it leads to similar tensions if the growth of infrastructure is relatively fast while the consumption of the population – meaning its income if regarded from the sources side – fails to grow at an appropriate rate or even stagnates.

From all this it follows that the relative growth rates of infrastructure and consumption must be in harmony with each other. *Also in this context, the planner's alternative is the right choice of growth rates and structures.* One of the fundamental tasks of economy-wide planning, and within it of the planning of living standards is to ensure a harmonious development of infrastructure and consumption and to influence the lifestyle of the population in a positive direction.

In Hungary certain sectors and subsectors of the infrastructure are lagging behind the general level of development, primarily behind the increased demand. For instance, it has become the rule to complete the eight classes of the primary school, and the number of those studying on in secondary schools and universities has substantially grown. However, school-building has not kept abreast with this development. Certain services basic for both the society and the individual essentially surpass our general level of development while, at the same time, certain other services or perhaps just one facet of exactly one of the higher than average-standard services, are lagging far behind. This is well manifest in the health

sector. Even until recently, more than 90 per cent of the population were entitled to free medical care; now this has become the right of every citizen. In many respects, the standard of care provided *is* satisfactory. E. g., even by international comparison, the number of physicians per 10.000 head of population is high. At the same time, the position is unfavourable, for example, with regard to the ratio of hospital beds.

The present situation has developed from the fact that our socialist system inherited from the very outset an infrastructural network whose parts had developed to dramatically unequal standards. While in a few major towns the infrastructure was relatively developed, many provincial townships and the outskirts of the great towns had no more than a very poor provision before the Liberation, whereas in the villages the infrastructural provisions were almost totally absent. In addition, the situation was aggravated by the fact, that in the early fifties the neglect of the development of infrastructure was being used as one of the sources for accelerating overall economic growth. In the sixties the development of infrastructure, with special emphasis on housing, was speeded up but the consequences of the situation developed until then could not yet be quite liquidated.

From all this it follows that the development of infrastructure and consumption may only satisfy our social aims under our given circumstances if the development of infrastructure receives high priority.

The role of the state budget in the development and operation of the infrastructure

Nowadays, the development, maintenance and operation of the infrastructure has to an increasing degree become the job of the state in almost every country. The state budget has an outstanding role to play in this job. This applies to an even greater extent to the socialist countries.

– In the socialist countries, the use of the publicly-owned (state-owned or co-operative) building industry is necessary to erect the better part of infrastructure. A great part of such investments are not being financed from enterprise funds (or private resources) but from the state budget.

– The labour force to operate the infrastructure is necessary in increasing numbers and in a suitable composition of a variety of trades and this can only be ensured through a national manpower plan and vocational training programmes. The wages and salaries of a great part of the labour employed in the infrastructure are paid from the state budget.

– An essential part of the services (and the related consumption of goods) provided by the infrastructure reaches the population extra-market. In 1973 in

Hungary 12.8 per cent of the total income of the population was made up of free supplies. In the same year, the share of the free supply was 93 per cent in the consumption group "health and physical care" and 51.7 per cent in the consumption group "education (culture, recreation), sports". In addition, even that part of the services (and goods) provided by the infrastructure which is bought by the population for cash, is to a great extent released into circulation at preferential rates, where the difference between the full purchase price (or cost) and the preferential rate is covered by the state budget. As a matter of fact, it would be very difficult to exactly distinguish free and preferential supplies. For example, in the framework of the social health system, medicines given in the hospitals are totally free; and it is another feature of this system that 1/6 of the price of the medicines prescribed in the out-patient clinics is being paid for by the patient.

However, funds required to establish, maintain and operate the infrastructure do not appear directly in the state budget in their entirety. Firstly, some of the finance for infrastructure appears in the local budgets, and this part is an increasing one. Secondly, some of the expenses are financed by the companies and whether accounted for as costs or taken from the company's share in the profit, they finally affect the state budget: they reduce the revenue. Thirdly, the erection of infrastructure may be financed by the state also through the credit system. This is a specially frequent case with the building of flats. One part of the housing activity is being financed from the state budget and the flats are allocated to the families moving in either free of charge or against a refund that is negligible when compared with the cost of building. The building of a great part of flats constructed from so-called private resources are also being financed by the state with large amounts of very long-term loans at low rates of interest. In essence, therefore it is only a matter of the financial approach employed in each case, what parts of the housing expenditure are financed from the budget and from the credit system.

While the choice between infrastructure and consumption is primarily a dilemma for the formulation of socio-political objectives, it is at the same time a problem of how to create and use the resources and financial potential of the state. It is exactly this last aspect that makes it imperatively necessary to monitor and analyse the returns on resources tied up in infrastructure.

The dilemma of returns and choice

If viewed from the angle of resources (as opposed to that of objectives), the dilemma of choice between expanding the infrastructure or increasing consumption could be formulated along the following lines.

The creation of infrastructure is – as it follows from its very nature – *highly capital intensive,* more specifically intensively dependent on investments primarily of construction type.

An essential part of the total building and construction capacity is involved in building dwellings, hospitals, schools, roads, railways, etc. Not losing from sight the well-known difficulties of measuring the output of the infrastructure, it is clear

Table 1
Share of the services sectors in the fixed capital stock of the national economy
(percentages)

Sector	In immovables	In machinery and vehicles	In total fixed capital
Personal services and housing	36.53	1.24	27.92
Water	5.70	1.60	4.70
Transportation	13.60	18.10	14.70
Telecommunication	1.00	1.90	1.20
Domestic trade	1.90	2.40	2.00

Source: Statisztikai Évkönyv 1973 (Statistical Yearbook 1973) Budapest, 1974. Központi Statisztikai Hivatal. p. 89

beyond doubt: whichever yardstick is preferred, in order to produce one unit increment of national income or GDP, an essentially bigger investment is required in the sector of infrastructure than in the average or in the majority of the sectors whose output consists of consumer goods. Furthermore, the operation of most of the subsectors of infrastructure is – similarly due to the nature of the job to be done – *highly labour-intensive.* (In the next decade and a half the economically active part of the population will practically remain constant in Hungary in absolute terms!)

The preferred development of infrastructure so justified from socio-political viewpoints results, from the general economic viewpoint in an increasing capital and labour intensity of development. In other words, assuming that the capital and manpower available during a plan period is given, this means that the growth rate of the economy will be reduced.

And this is still not the whole story. In addition to higher capital and labour requirements than those of the sectors whose output is consumer (and other) goods, the *relative returns of infrastructure are decreasing.*

Firstly, the productivity of labour employed in infrastructure (not forgetting the problems related to the interpretation of the concept of productivity in this

sphere) is hardly increasing, if at all, while an ever increasing part of the consumer goods are being produced in sectors with fast growing productivity. The situation is even worse in certain segments of the infrastructure where it is precisely desirable to allow productivity to decrease, i.e. to allow for an increase in the labour/output ratio. For example, it is desirable to increase the number of teaching staff in relation to that of students, the manpower in health occupations to patients, the shop attendance to customers, etc.

Secondly, wages in this sector keep up with the general trend of improvement. What is more, during the last ten years, exactly in order to eliminate or reduce inequalities that had developed earlier, the income of the health, educational and commercial employees has grown faster than the overall rate.

Thirdly, during the last ten years, investment costs, especially building costs have grown very fast. While, in 1973 the general price level was 20.1 per cent higher than in 1967 and the retail price level 11.0 per cent higher over the same period, the price index of the building activities of the socialized sector showed a growth of 27.9 per cent and within that the growth of the cost of construction one of 35.9 per cent. Taking the prices of 1967 as 100, the price index of investments into community facilities was 133.4, within which that of the building of flats had and index of 146.7.

A problem always present in the implementation of investments, and therefore in the costs, is the fact that the institutions (such as a new hospital) are meant to operate for a long time, for several decades, and for this reason it would be justified to avoid equipping them with instruments that are obsolete already at the time of commissioning, on the contrary, they should satisfy the needs of tomorrow and not of today. Obviously, the more we adhere to such requirements, the higher the costs. (For example, the funds required to build a hospital that is up-to-date from every respect would suffice to establish two hospitals with traditional furnishing and equipment.) In addition, a non-negligible part of investments into infrastructure serves to replace obsolete facilities (i.e. to facilitate the demolition of old blocks of flats, hospitals, the withdrawal from traffic of unroadworthy vehicles serving mass transportation) or to renew, reconstruct such obsolete units (as e.g. the road network). While such investments, no doubt, do contribute to the quality of the infrastructure, they do not quantitatively add to its capacity; all the same such activities are needed even though there exist essential quantitative insufficiencies in the infrastructural system.

As a result of the above described processes the effect that the reallocation of resources in favour of infrastructure slows down the general growth rate of the economy, and with it that of consumption, becomes increasingly emphatic. And conversely: it is possible to accelerate the growth rate with a somewhat more harnessed development of infrastructure.

It can be said, therefore, that the dilemma of choice between consumption and infrastructure basically follows from the fact that the relative efficiency of the establishment and operation of the infrastructure is lower, and what is more, in many cases this efficiency is decreasing in absolute terms and at any rate in relation to that of the sectors whose output is consumer goods. From the general viewpoint of planning, the dilemma is appearing in the following form: The reshaping of the lifestyle, the satisfaction of needs that are present and of those which may be expected to come would require a preferred development of the infrastructure; the more infrastructure is being preferred, the lower will be *ceteris paribus* the growth rate of consumption. But all this does in no way mean that the preference given to infrastructure should be abandoned, that economic growth should or could be achieved by reallocation at the expense of infrastructure.

The priority of infrastructure cannot be given up, not only because the social objectives cannot be reached otherwise, but also because, in the final analysis, an insufficient development of infrastructure would slow down or even destroy improvement of the efficiency of production. This last relationship can generally be easily demonstrated with cases of infrastructure directly serving the production. (E.g. the effect of the development of transportation on production is obvious.) Although, it cannot be shown thus directly, the same relationship is also true for the infrastructure in direct service of the population. (The unsatisfactory housing situation is retarding the mobility of labour, in the case of unsatisfactory development of the educational system the necessary level and structure of skills and qualifications cannot be provided, etc.) Therefore, all that can be concluded is that the above mentioned relations set a limit to the extent to which infrastructure may be preferred. An indication of this limit can be that the growth of consumption must not fall below a certain level (apart from exceptional years). Naturally, the extent of the preference of infrastructure is also limited by the load the state budget can bear and by the requirement to maintain an approximate balance of the budget. True, this limit becomes manifest in the short-term plans, but in every annual budget of the long-term plan period.

It is also obvious that *the sharpness of the conflict depends on the general growth rate of the economy, of national income and on the efficiency with which the resources of the economy are used.* The higher this growth rate, and the better the general economic efficiency, the greater the priority that may be given to the infrastructure, and this may be also coupled with the growth of consumption surpassing the minimum level, depending, of course, on the overall growth rate. (It is also becoming possible in this way, to shape the patterns of consumption and income by allowing a freedom of choice to the population.) In other words: if all goes well, even a growth rate reduced by the priority of infrastructure may be sufficiently high.

Conversely, the lower the general growth rate, the less possible it is to ensure the priority of infrastructure. In case of a very low rate of growth, all that may be possible is to endeavour to approach as near as possible certain selected objectives within the development of infrastructure.

Priorities within infrastructure

Even if development were to proceed the most favourably, there will not be sufficient material resources, manpower and finance available to simultaneously satisfy all the existing demands for infrastructure. It depends on the growth rate, in what broad spectrum and at what speed infrastructure can be developed.

In the course of developing infrastructure, priorities have to be established for its sectors and subsectors. These priorities are primarily determined by the general social and economic policy requirements. It is of decisive importance to keep in mind the effect of developing one sector or another of infrastructure on the social structure; and also the negative consequences of the neglect of development. In the latter context the potential increase of social tensions should not be lost from sight either.

In the process of determining such priorities, naturally, the weight of the stock of the individual infrastructural sectors and subsectors has a role, and indeed, must play a role (e. g. the stock of flats was 27.9 per cent in the gross value of the total stock of fixed assets in 1973) and so must the ratio of the labour force employed in infrastructure; that is to say, the required investment input and manpower input of development, particularly of an accelerated development.

The ratio of investments into transport, communication and commerce belonging to the productive infrastructure on the one hand and social infrastructure on the other was 3.5:5 in 1973. The shares of the individual sectors of social infrastructure in the investments for 1973 are shown below.

The difference between the weights of the individual infrastructural sectors, consequently between the sums required for development as well, may be of more than one order of magnitude. Thus, a given amount of money that would be negligible if used in the development of one sector of the infrastructure, could essentially solve the problems of development in another sector.

Moreover, it is *not only in "space"* that the development objectives of infrastructure *must be* ranked in the long-term plan but also in time: *the time preference of aims must be determined, too.* Therefore, answers must be found to the following questions: the development of what specific sectors of infrastructure should be speeded up directly, or whether the preferential rate of development of

sectors that had already enjoyed this status before should be maintained; and, on the other hand, which will be the infrastructural sectors whose accelerated development will only be undertaken around the middle or perhaps right towards the end of the plan-period.

The time preferences (including the decision that certain development objectives will not be given priority within the whole long-term plan period) will be

Table 2

Investments into social infrastructure in 1973 by destination

Sectors	in percentage
Health	6.21
Social	7.81
Cultural	19.30
Housing	38.01
Other community development	28.67
Total	100,00

Source: Statisztikai Évkönyv, 1973 (Statistical Yearbook, 1973) Budapest, 1974. Központi Statisztikai Hivatal. p. 94

determined, again, in view of many kinds of factors. One of these points of views is basically identical with establishing "cross section" preferences: what is the intensity of social interests related to the development of individual sectors and subsectors of the infrastructure. But, at this juncture, this particular viewpoint of ranking must be completed with the consideration of how the intensity of interests and demands is likely to develop over time. In Hungary, for many years it has been the solution of the housing problem (more specifically the liquidation of the so-called quantitative shortage of housing) in foreseeable time that has been regarded as the key issue of living standard policy, and within this of the development of social infrastructure, and it is continuing to be regarded as such for the next 15 years to come. At the same time, we are aware of the fact that the health facilities will become just as much of a key problem during the plan period (and partly, it is already the case now) if the health sector continues to develop at the present rate of growth as was the question of housing. Consequently, in 5 to 8 years' time an accelerated development of the health system must start. Until then the development required will be such as will ensure a so-called dynamic maintenance of the existing standards.

Finally, a special viewpoint of the determination of time preferences : what are the social and economic consequences if a development objective is brought forward

or postponed? In economic terms: whether it will not require disproportionately higher outlays to solve a problem if it is postponed than if it is undertaken now or soon? From the point of view of the society: whether the putting off or even straight-away neglect of the development of some infrastructural sector will not cause damages, start up processes that may prove to be irreversible, at least within a foreseable period of time? It is only after having weighed up all this and having taken account of our material resources the scale of preferences may be established.

Considering what has been said before, obviously these priorities should be formulated in the long-term (10–15 years) plan. The annual plans and budgets are called upon to provide for the realization of these aims and, at the same time, to control their reality. It is exactly through consideration of material potentials that it frequently occurs that while we are aware of the non-desirable tendency of processes from a variety of points of view and also of the fact that these may determine many important facets of the life-style for a long time; yet, precisely because of the limited resources, we must allow development to proceed along the given path. For example, to reduce the speed of the growth rate of motoring (whose demand for infrastructure is also essential) would call for such a development of mass transportation that would create a real alternative, not only in general terms but also for the higher income groups, against owning private cars. And while mass transportation is being given preference through both development and subsidized fares, an extent of development that would satisfy the above requirements cannot be secured in the next fifteen years' time.

If viewed from the angle of material resources, the preference given to individual infrastructural sectors and subsectors takes in practice the following form: Infrastructural objectives enjoying high priority are expressed in natural units of measurement (e.g. how many square meters of flats must be built) and the materialization of this objective is being ensured almost regardless of the efficiency involved. The non-preferential development objectives are being formulated essentially by setting the limit of the amount of money earmarked for such development (though also the natural units are being calculated) and the actually implemented extent of development is a function of the returns and of cost and price trends. Therefore, also the time preferences are becoming actual priorities only when the aims set in natural units are beginning to dominate.

The determination of preferences in infrastructure (whether they be "cross section" or time preferences) consists not only in the ranking of the sectors but also the preference scale within each sector must be determined. For example, in Hungary priority is given today to the building of hospitals in the field of health, to the network of nurseries and that of boarding schools for secondary pupils in the provinces within the development of education, to the development of mass

transportation in the bigger towns and especially in Budapest among the objectives of mass transportation. These intrasectoral priorities are directly determined mostly by the budget. But the criteria for ranking, once again, can only be given for the budget by the socio-political and economic-policy strategy.

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АЛЬТЕРНАТИВЫ В ПЛАНИРОВАНИИ СОЦИАЛЬНОЙ ИНФРАСТРУКТУРЫ И ПОТРЕБЛЕНИЯ

Р. ХОХ

Выбор между развитием социальной инфраструктуры и ростом личного потребления обычно является одной из основных дилемм перспективного планирования народного хозяйства, особенно планирования жизненного уровня. Взаимосвязь между потреблением и инфраструктурой, вытекающие отсюда потребности, и не в последнюю очередь, формирование образа жизни населения соответственно целям социальной политики требуют преимущественного развития инфраструктуры. Это необходимо и потому, что некоторые отрасли инфраструктуры отстали от общего уровня развития Венгрии.

Возможности развития инфраструктуры ограничиваются, — и именно в этом заключается дилемма выбора, — с одной стороны, высокой фондо- и трудоемкостью развития и функционирования инфраструктуры, и даже во многих отношениях понижающейся эффективностью использования этих ресурсов по сравнению с отраслями, выпускающими предметы потребления, а с другой стороны, — минимальным темпом роста потребления, позволяющим осуществить соответствующую политику в области потребления и доходов.

Развитие, сохранение и функционирование инфраструктуры вообще, а в социалистических странах в особенности, является в значительной мере задачей государства. Одним из главных орудий в выполнении этой задачи служит государственный бюджет. Однако фактическое финансовое бремя в действительности больше отраженного в централизованном бюджете, а расходы по функционированию инфраструктуры (расход материалов, и главным образом, расход заработной платы) в основном тоже покрываются из бюджета. В то же время инфраструктура дает относительно небольшие поступления в государственный бюджет. Преобладающей частью предоставляемых инфраструктурой услуг население пользуется бесплатно или на льготных началах. Основная часть учреждений, функционирующих в области инфраструктуры, находится на сметном финан-

сировании, но и те, которые функционируют на коммерческих основах большей частью подлежат льготному налогообложению (и получают субсидии из госбюджета).

Увеличение доли инфраструктуры ведет к дефицитности госбюджета. Поэтому преимущественное развитие инфраструктуры требует или уменьшения прочих бюджетных расходов (что обычно едва ли возможно), или покрытия добавочных расходов из прочих источников поступлений. Собственно говоря, сюда относится и то, что плату за услуги необходимо сильнее дифференцировать в зависимости от их характера. Степень остроты проблем, находящих свое отражение в государственном бюджете, в конечном счете зависит от величины темпов роста экономики и от ее общей эффективности.

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B. SZABADI

RELATIONSHIP BETWEEN THE LEVEL OF ECONOMIC DEVELOPMENT AND THE SERVICES

The author analyses the position of the tertiary sector with its connections to industry and agriculture in Hungary between the years 1960–1980. He compares Hungarian economy to international tendencies which he defines by applying analytical regression analysis on the data of 18 OECD countries. He also defines the structure of employment and investment corresponding to the level of the development of the country, quantifies investments and manpower, redundant in industry and agriculture but deficient in services. An answer is given to the question if there is a deviation in the structure of the allocation of production factors among the three sectors and if so in what direction from the structure of outputs.

The development and investigation of the "tertiary sector" did not receive due emphasis in the past in Hungary and the importance of this field has been underestimated quite up to recent years. Neglect of the development of servicing branches brought about a situation where even the realization of fundamental production and living standards policy objectives was endangered. This circumstance has drawn attention to the importance of researches on the tertiary sector. A basic question of research has been the role of the services in the economy of the country [1, 2, 3, 4]. The importance of this question has been recognized, of course, not only in Hungary, but in other socialist countries as well. Since the socialist countries are going through similar historical development, it is no mere chance that the problems connected with the services have become palpable more or less in the same period.

Since economists have by far not developed in literature a uniform standpoint concerning the interpretation of notions connected with the services, I must lay down first of all what I mean by these notions. I consider as services those activities whose main characteristics is that they satisfy demands not by creating independent material goods. Most diverse activities belong here, which can be divided into two main groups – depending on how closely they are connected with production, i.e. whether they increase the use value of the goods already produced or not. There are, thus, material services (transport, communications, trade) and non-material services (the health service, cultural services, public administration, etc.). I consider as servicing branches those having a servicing profile. This analysis relies on the following sectoral classification:

Agriculture: agriculture, forestry, fishing, hunting.

Industry: extractive-, manufacturing-, building industries, electric energy industry, gas-production, water supply.

Servicing branches: trade, transport, communications, personal and housing services, health and cultural services, public administration and other services.

National economy, total.

Agriculture and industry differ from the primary and secondary sectors, respectively, only in the classification of mining, while there is no difference between the servicing branches and the tertiary sector in my terminology.

In this study a quantitative analysis of the situation of the tertiary sector in Hungary through a relatively long period, in the 20 years between 1960 and 1980 is undertaken. The servicing branches are examined not in themselves, but of course, in their interrelation with the industry and agriculture.

An international comparison will help in answering the question whether the weight of the tertiary sector in the national economy – which might be characterized by several indicators: share in employment, in investment, contribution to GDP – corresponds to the development level of the country. 18 OECD-countries were drawn into the analysis, among these there are economically both more and less developed countries than Hungary.* The level of economic development will be measured by an indicator most generally used for this purpose, namely, the per capita gross domestic product (GDP).

The study wishes to give an answer not only to the question how much the weight of the services in the Hungarian national economy deviates from the value corresponding to international tendencies, but also to whether the pattern of distribution of factors in production – among industry, agriculture and the tertiary sector – deviates from the structure of outputs, and if so, in what direction.

Relationship between the share of the servicing branches in employment and the level of economic development

The data of the OECD-countries serving as a basis of the analysis are included in *Table 1.*

From the data it can be established not only that a higher per capita GDP is connected, in general, with a higher rate of employment in the tertiary sector and a

*Considering the fact that the trend of international development is determined in the present study on the basis of data on capitalist countries, the numerical values of the deviations from international trends will show, obviously, not the exact deviations from the optimum which could be set as an aim; however, their order of magnitude is well indicated. Only further investigations revealing the inner structure of the tertiary sector will give an answer to the question to what extent the level of the services attained in the capitalist countries can be attributed to normal requirements of economic life and living standards and to what extent to the different social structures, i.e. how far the tendency outlined here deviates from the desirable development direction.

Table 1

Level of economic development and the share of the servicing branches in employment in 18 OECD-countries

Country	Per capita GDP at constant prices of 1970 (dollars)			Share of the servicing branches in employment (percentage)		
	1960	1965	1970	1960	1965	1970
United States of America	3646	4280	4798	58,1	60,5	63,3
Canada	2550	3058	3485	53,5	56,2	60,9
Sweden	2578	3228	3718	42,1	45,6	53,5
Denmark	2121	2632	3097	44,8	47,7	50,1
Switzerland	2396	2785	3079	38,7	40,9	44,1
Norway	1924	2419	2900	42,9	46,0	48,8
German Federal Republic	1976	2378	2831	37,3	38,8	40,7
France	1798	2233	2819	39,8	40,3	47,1
Belgium	1729	2132	2552	44,6	46,7	50,4
Netherlands	1634	1947	2323	46,2	48,2	51,8
Finland	1393	1733	2063	31,7	37,2	41,9
United Kingdom	1655	1863	2045	47,0	48,6	50,6
Austria	1260	1497	1828	35,1	38,0	40,5
Italy	1062	1317	1690	30,2	33,3	36,7
Greece	526	749	941	25,2	27,9	30,4
Spain	498	722	926	26,6	30,6	33,0
Portugal	403	524	654	27,7	29,5	31,2
Turkey	333	359	447	11,5	14,4	16,8

lower level of economic development with a lower rate of employment, but also the question can be answered why a comparison by pairs cannot lead to objective results. We can select, namely, such countries which are more developed than Hungary (e.g. the German Federal Republic or Switzerland) and where the rate of employment in the services is nearer to that of Hungary. In this case the comparison would give a more favourable picture of the situation of the servicing branches than it is in reality. If we compared Hungary with countries having the highest employment rates in the services (e.g. the United Kingdom, Canada, Belgium or the United States), we would show the situation to be more unfavourable than it really is.

It is much more expedient to compare ourselves to a general international trend than to make comparisons with individual countries. This is actually possible, since a general law of relationship between the level of economic development and the rate of employment can be determined on the basis of the data of Table 1, by using the method of regression-analysis. It can be, namely, expressed what percentage of total employment can be found usually in the tertiary sector at a certain level of economic development. In this way the examination may become

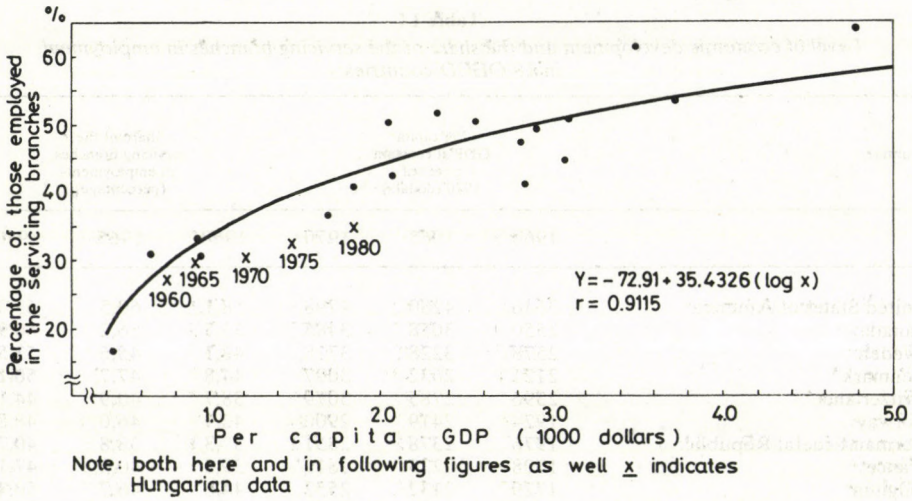

Fig. 1. Relationship between the level of economic development and the share of the servicing branches in employment on the basis of data of 18 OECD-countries in 1970

much more tangible, because we compare our given situation with values corresponding to our development level.

In the first stage the analysis was performed for three years, 1960, 1965 and 1970. The trends are expressed for all the three years by logarithmic curves. The regression data were calculated first by a function referring to the given year, then by the function of 1970 also for 1960 and 1965. Since there were only insignificant differences between the values obtained in this way, I believe no error was made by using the function of 1970 for the analysis of each year. From the minimal differences between the values obtained also the conclusion could be drawn that the function of 1970 could be used even for the evaluation of our expected situation in 1975 and 1980, respectively.

In *Figure 1* – presenting the functional relationship between the level of economic development and the rate of employment in the tertiary sector – also the Hungarian data referring to the five years examined are indicated beside the points determining the function. This provides a possibility for properly following the development of our situation over time.

It can be clearly seen from *Figure 1* that the share of the services in employment between 1960 and 1980 is always lower than the value corresponding to the Hungarian level of development.

The deviation of the actual proportion from the one corresponding to the tendency indicates that Hungary is moving away more and more from the international trend: while the deviation in 1960 was but 6.6 per cent and even in 1965 only 7.7 per cent, the difference amounted already to 15.3 per cent by 1970. It can be seen that no improvement can be expected from the planned increase of staff in the Fourth Five-Year Plan, either. Moreover, the deviation from the trend will further increase

Table 2

Level of economic development and the share of the servicing branches in employment in Hungary

Year	Per capita GDP at constant prices of 1970 (dollars)	Share of the servicing branches in employment (percentage)
1960	753	27,1
1965	941	30,0
1970	1208	30,4
1975 (expected)	1497	32,6
1980*	1845	34,9

*Estimation on the basis of medium-term conceptions known at present.

by 1975 to (17.7 per cent), through to a smaller extent than previously. No favourable change in the labour supply of the servicing branches can be reckoned with in the following five-year plan period either, rather a stabilization of the situation may be expected. In 1980 the deviation from the international trend will be presumably nearly the same as in 1975 (18.5 per cent).

When judging our situation it must be necessarily taken into consideration that the level of economic development determines the rate of employment in the tertiary sector to the extent of 92 per cent. The close connection can be explained by the fact that from among the three sectors of the economy (primary, secondary, tertiary) it is the servicing branches where in principle, there is the smallest possibility, for raising productivity without a deterioration in the quality of achievements. Therefore, according to international experience, there is an almost linear correlation between the increase of demand and employment in the tertiary sector.

It must not be forgotten, either, that the deviation from the trend is even greater in reality. Namely the data basis is different in Hungary from that in the OECD-countries serving for comparison. The data of the latter refer only to the civilian labour force.

The labour force missing from the servicing branches appears as a relative surplus in the industry and agriculture. In order to find an answer concerning the

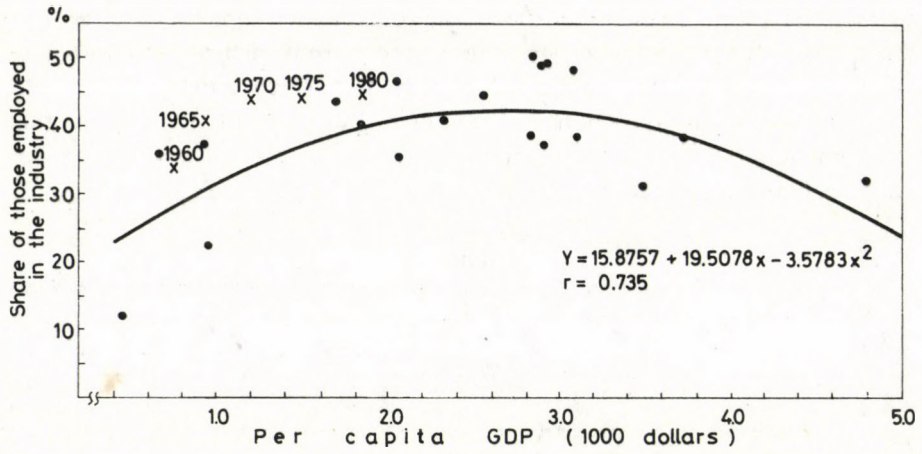

Fig. 2. Relationship between the level of economic development and the rate of industrial employment on the basis of data for 1970 of 18 OECD-countries

distribution of this surplus the above mentioned analysis should be extended also to the industry and the agriculture, i.e. it must be determined what rate of employment belongs – according to the trend – to a certain level of economic development in the industry and the agriculture.

The same 18 OECD-countries served as a basis for determining the international trend as in the case of services. The analysis was made for each year also this time using the function referring to 1970.

Figure 2 presents the functional relationship between the level of economic development and the share of industry in employment. The international trend is expressed by a parabola reaching its maximum (y = 42,5 per cent) at a per capita GDP of 2,725 dollars. For the sake of clarity in the figure beside the points determining the function, also the Hungarian effective data of 1960, 1965 and 1970, as well as the expected data of 1975 and 1980 are indicated. From the figure not only the fact turns out that between 1960 and 1980 the proportion of those employed in the industry always essentially exceeds the value corresponding to the Hungarian development level, but also that from 1970 on the Hungarian data are situated above the maximum of the function expressing the tendency.

The relationship between the level of economic development and the proportion of those employed in agriculture is described by an exponential function. On *Figure 3*, beside the points determining the international tendency, also the Hungarian data referring to the five years examined are indicated. It can be seen that the rate of agricultural employment in Hungary between 1960 and 1980 always

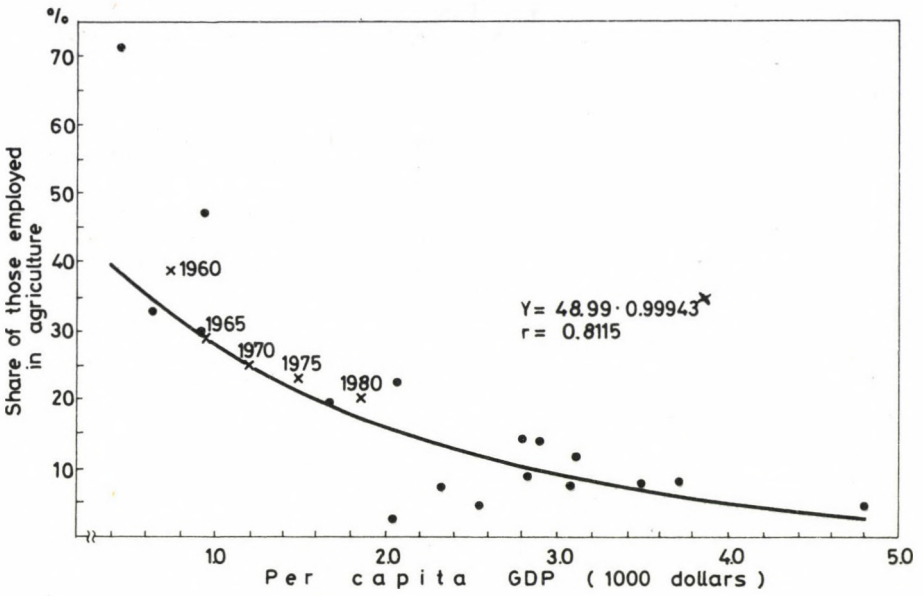

Fig. 3. Relationship between the level of economic development and the rate of agricultural employment on the basis of data for 1970 of 18 OECD-countries

exceeds the value corresponding to the development level, though to different extent. Deviation from the tendency was the greatest in 1960 and was minimum in 1965 – at that time the rate of agricultural employment basically corresponded to the international trend – it has continuously increased from 1970 on.

The employment proportions corresponding to the international trend and the corresponding employment figures for the years examined can be seen in *Table 3*. In this way the deviation from the tendency can be shown not only in percentages but also in absolute figures expressing a shortage or a surplus.

The total of Y values does not add up to round 100 per cent in any year, therefore they must be corrected. However, this is not surprising at all since if computations are made with functions of different type, the total of Y values adds up to round 100 per cent only accidentally. The greater differences of 1960, 1965 and 1970 have also an economic meaning: the initial part of the functions was formed by relatively underdeveloped countries whose economic structure – precisely resulting from their backwardness – involves certain contradictions. Because of the "distorted" economic structure of these countries the initial part of the functions will be steep. If these countries were omitted, the functions would "flatten"; the total of

Table 3

Employment structure in Hungary – as corresponding to the international tendency and the actual one, 1960–1980

Denomination	Y	Y corr.	y	y/Y corr.	Employment (1000) actual (1)	Employment (1000) according to the international tendency (2)	(1)–(2) (1000)
				1960			
Servicing branches	29,0	32,2	27,1	84,2	1281,3	1524,7	− 243,4
Agriculture	32,0	35,5	38,9	109,6	1842,6	1680,9	+ 161,7
Industry	29,1	32,3	34,0	105,3	1611,1	1529,4	+ 81,7
Total	90,1	100,0	100,0	–	4735,0	4735,0	0
				1965			
Servicing branches	32,5	35,1	30,0	85,5	1394,3	1631,9	− 237,6
Agriculture	28,8	31,1	29,3	94,2	1382,1	1445,9	− 63,8
Industry	31,2	33,8	40,7	120,4	1872,8	1571,4	+ 301,4
Total	92,5	100,0	100,0	–	4649,2	4649,2	0
				1970			
Servicing branches	35,9	37,9	30,4	80,2	1495,8	1887,6	− 391,8
Agriculture	24,8	26,1	25,8	98,9	1303,2	1299,8	+ 3,4
Industry	34,1	36,0	43,8	121,7	2181,2	1792,8	+ 388,4
Total	94,8	100,0	100,0	–	4980,2	4980,2	0
				1975			
Servicing branches	39,6	40,5	32,6	80,5	1664,3	2069,4	− 405,1
Agriculture	21,0	21,5	23,0	107,0	1175,2	1098,6	+ 76,6
Industry	37,1	38,0	44,4	116,8	2270,2	1941,7	+ 328,5
Total	97,7	100,0	100,0	–	5109,7	5109,7	0
				1980			
Servicing branches	42,8	42,9	34,9	81,4	1803,8	2211,6	− 407,8
Agriculture	17,3	17,3	20,2	116,8	1040,9	891,9	+ 149,0
Industry	39,7	39,8	44,9	112,8	2310,6	2051,8	+ 258,8
Total	99,8	100,0	100,0	–	5155,3	5155,3	0

Notation: y – actual data (percentages)
Y – function values corresponding to the international tendency (percentages)
Y corr. – corrected function values (percentages)

Y values referring to the years 1960, 1965 and 1970, would be nearer to 100 per cent. In this case there would be no considerable difference between the percentual valuations of the Hungarian situation according to either the corrected or the non-corrected Y values. At the same time, however, comparison of the situation to a tendency determined exclusively by the data of countries economically more developed than Hungary could hardly be justified. It is also true, however, that the correction eliminates the distorting effect resulting from the contradictory structure of the economically less developed countries. Thus both the percentual values obtained with non-corrected values and those obtained with corrected ones may be taken into consideration as limits when evaluating our situation regarding the services.

The total of the last column of *Table 3* is zero. This indicates that a surplus at one place necessarily brings about a shortage of the same magnitude at an other one. First of all two conclusions can be drawn from the table: on the one hand, the labour shortage in the services shows a growing tendency and, on the other hand, the distribution of the surplus corresponding to this shortage between industry and agriculture considerably changes even several times:

– in 1960 out of the 243,000 persons missing from the servicing branches 161,000 – i.e. the decisive part – could be found in the agriculture and 82,000 in the industry;

– by 1965 the situation radically changed: the considerable surplus of the agriculture was replaced by a shortage (64,000 persons); only in the industry were more people working than what corresponded to the tendency (the industrial labour) surplus rose from the 82,000 persons in 1960 to 301,000 by 1965);

– in 1970 the labour missing from the servicing branches (392,000 persons); could be found almost exclusively in the industry;

– at the end of the Fourth Five-Year Plan (1971–75) the labour surplus of agriculture is significant again (77,000 persons), about 20 per cent of the 405,000 persons missing from the servicing branches can be found in the agriculture and 80 per cent of them in the industry (328,000 persons);

– during the Fifth Five-Year Plan (1976–80) the labour surplus of agriculture will further increase (149,000 persons), while that of the industry will decrease as compared to the previous period (259,000 persons).

The National Planning Office [5] obtained a similar result though following another method in the quantification of the labour reserves of the industry in 1970: if the increase of labour productivity in the Hungarian industry had reached in the period 1950–1970 the average of West-European countries (which was essentially lower than the productivity increase of the industry in the South-European and the socialist countries as well, and thus it is not an irrealistic assumption), the production

level of 1970 could have been reached with an industrial employment lower by 320,000 people than the actual one.

In the foregoing the development of the labour supply of the tertiary sector could be followed over time. It could be see that the deviation from the international trend is continuously increasing between 1960 and 1980. At the end of the examined 20 year-period there will be by about 400,000 less people employed in the services than what would correspond to our development level. To reach the value corresponding to the international trend during the Fifth Five-Year Plan Period (1976–1980) employment in the tertiary sector should increase by 5.7 per cent yearly instead of the expected 1.6 per cent.

The necessary 5.7 per cent growth rate would not be realistic during a single five-year period, but a more rapid progress could be achieved in the field of services than the expected 1.6 per cent rate of increase in employment, if a part of the significant labour reserves of the agriculture and industry were regrouped. (Naturally, this is not simply a question of decision, since the release and regrouping of industrial and agricultural labour reserves require – among other things – also a corresponding transformation of the regulatory system, and its "turning" for this purpose.) Otherwise the employment structure will retain its extensive character.

Relationship between the share of the servicing branches in investments and the level of economic development

Despite the fact that the level of economic development of Hungary considerably increases between 1960 and 1980, the share of the servicing branches in investments hardly changes.

To judge whether the share of the services in investments can be regarded as adequate some yardstick is required. This yardstick will be as in the foregoing – a general international trend determined on the basis of the data of 18 OECD-countries presented in *Table 5*.

The tendency is described in both periods by a logarithmic curve. The regression data were calculated first by a function set up for the given period, then by a function referring to the years 1966–1970. Since the deviation between the values obtained in this way was only insignificant, the conclusion was reached that the function for 1966–1970 is suitable for evaluating the situation in Hungary for several periods, too.

In *Figure 4* beside the points determining the function, also the Hungarian data for the periods 1961–1965, 1966–1970, 1971–1975 and 1976–1980 are

Table 4

Level of economic development and the share of the servicing branches in investments in Hungary

Period	Per capita GDP at constant prices of 1970 (dollars)	Share of the servicing branches in investments (percentages)
1961–1965	847	45.5
1966–1970	1074	44.4
1971–1975 (expected)	1352	44.2
1976–1980*	1671	46.0

* Estimation made on the basis of the medium-term conceptions known at the time of writing.

Note: Because of the cyclical fluctuation of investments the analysis was performed not for terminal years, but for periods. The proportions were calculated from data at constant prices covering the whole national economy, not only the socialist sector.

Table 5

Level of economic development and the share of the servicing branches in investments in 18 OECD-countries

Country	Per capita GDP at constant prices of 1970 (dollars)		Share of the servicing branches in investments (percentages)	
	1961–65	1966–70	1961–65	1966–70
United States of America	3963	4539	72.2	69.0
Canada	2804	3271	62.7	60.6
Sweden	2903	3473	61.5	64.3
Denmark	2376	2864	71.2	77.3
Norway	2171	2659	63.4	65.1
France	2015	2526	58.3	61.7
Belgium	1930	2342	61.4	60.8
Netherlands	1790	2135	62.1	62.6
United Kingdom	1759	1954	57.4	60.2
Finland	1563	1898	60.9	63.8
Iceland	1581	1745	60.6	54.7
Japan	934	1532	62.0	62.9
Italy	1189	1503	59.3	63.2
Ireland	954	1144	55.8	57.3
Greece	637	845	66.5	68.7
Spain	610	824	52.7	46.4
Portugal	463	589	51.3	51.9
Turkey	346	403	53.5	52.2

Note: The proportions were calculated from data at constant prices. The date basis changed in comparison with the previous chapter as follows: the German Federal Republic, Switzerland and Austria were left out because of lack of data and Ireland, Japan and Iceland were included instead. However, this has no important effect on the result, the aim being to determine a tendency.

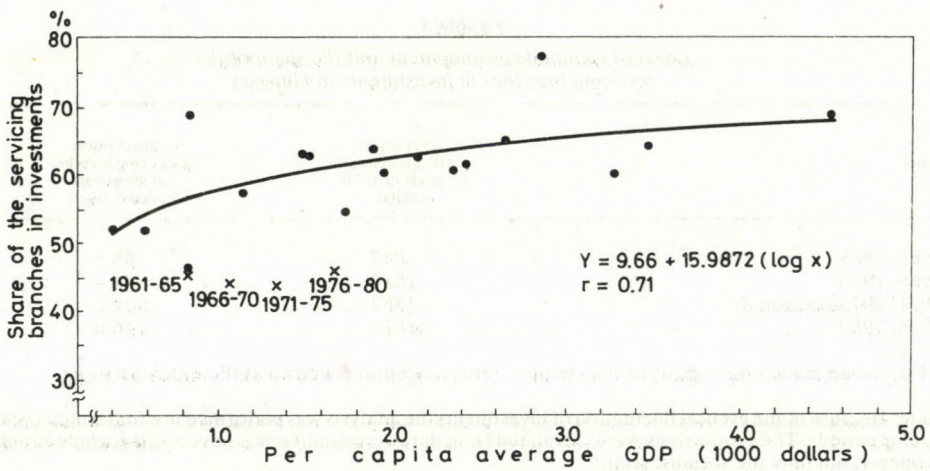

Fig. 4. Relationship between the level of economic development and the share of the servicing branches in investments on the basis of the data for 1966–1970 of 18 OECD-countries

indicated. Thus the development of the Hungarian situation over time can properly be followed. It can be seen that the share of the servicing branches in investments is in every period considerably below the value corresponding to the Hungarian level of economic development.

In *Figure 4* beside the points determining the function also the Hungarian data for the period 1961–1965, 1966–1970, 1971–1975 and 1976–1980 are indicated. Thus the development of the Hungarian situation over time can be properly followed. It can be seen that the share of the servicing branches in investments is in every period considerably below the value corresponding to the Hungarian level of economic development.

If we followed the international tendency in the distribution of investments, the share of the servicing branches would have amounted to 56.6 per cent in the years 1961–1965 and in the years 1976–1980 it would already exceed 61 per cent. However, the actual proportion of investments in the services has hardly changed during the examined 20 years, it is about 45 per cent. Thus our situation is further worsening instead of improving. While the tertiary sector received by about 20 per cent less investment than what would have corresponded to the Hungarian development level in the years 1961–1965, in the following three periods it got already by about 25 per cent less.

It is remarkable that with regard to the allocation of investments the deviation from the international tendency at the expense of the services is even greater than with regard to the distribution of labour.

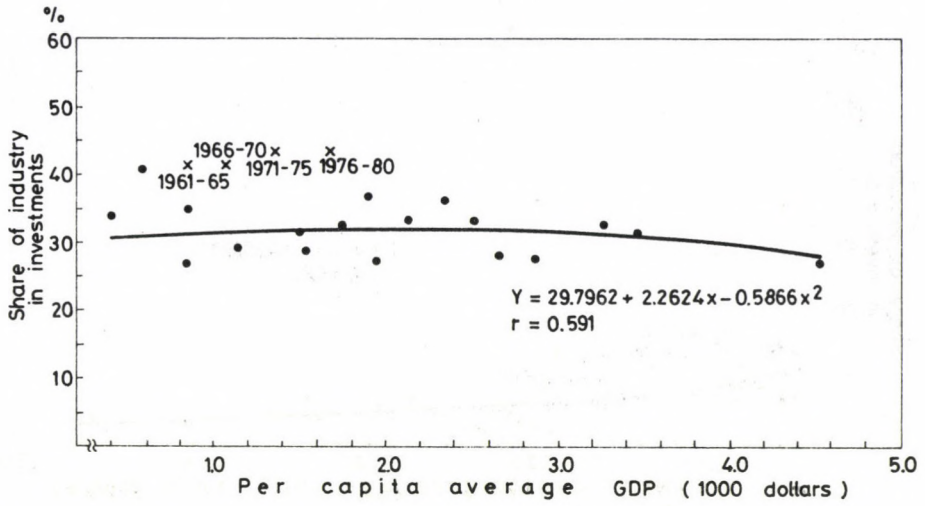

Fig. 5. Relationship between the level of economic development and the share of industry in investments on the basis of data for 1966–1970 of 18 OECD-countries

If this analysis is made also for the industry and agriculture, it can be learnt what sectoral distribution of investments belongs to a given development level according to the international tendency. The same 18 OECD-countries will serve as a basis of determining the tendency as in the case of the services; the analysis was again made for each period with the aid of the function set up for the years 1966–1970.

Figure 5 presents the functional relationship between the level of economic development and the share of industrial investments. The international tendency is described by a parabola reaching its maximum ($y = 32.0$) at a per capita GDP of 1928 dollars. In the figure also the Hungarian effective and expected data of the periods 1961–1965, 1966–1970, 1971–1975 and 1976–1980, were indicated beside the points determining the function in order to demonstrate the development of the Hungarian situation over time. The deviation from the international tendency is very great, indeed. The share of the industry in total investment is greater in all four periods examined not only than the value corresponding to the development level of Hungary, but even than the maximum of the function, moreover, to a rather significant extent.

The relationship between the level of economic development and the share of agriculture in investments is described by an exponential function. Hungarian data were indicated also in *Figure 6*. The figure shows that the Hungarian situation

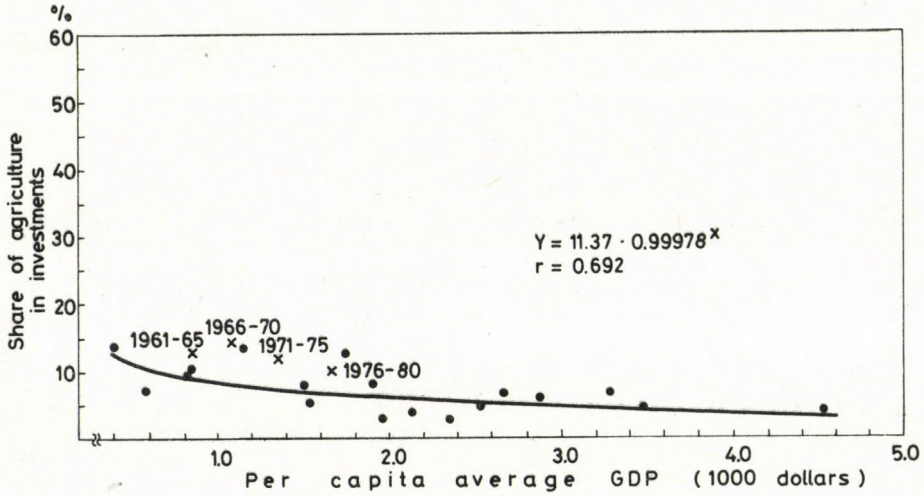

Fig. 6. Relationship between the level of economic development and the share of agriculture in investments on the basis of data for 1966–1970 of 18 OECD-countries

considerably deviates from the international trend also in this respect. The share of agriculture in total investment is much greater than the value corresponding to the Hungarian development level in every period examined. The deviation ranges from 40 to 60 per cent.

On the basis of the preceding examinations there is no obstacle to describing the sectoral distribution of investments corresponding to the international tendency, that is, the share of the servicing branches, the industry and agriculture in total investment at a given level of economic development according to the trend. The investment ratios corresponding to the international tendency and the related numerical data are given for the individual periods examined in *Table 6*. If they are compared with the factual data, the deviation from the trend can be expressed not only in percentages, but in absolute terms as well.

The total of investments missing from the servicing branches is increasing from each period to the next one. While the tertiary sector received by 46.9 thousand million forints less investment than what would have corresponded to the tendency in the years 1961–1965, the deficit will presumably reach 138,5 thousand million forints in the years 1976–1980 (at constant prices of 1972). Let us illustrate the order of magnitude by two examples: the amount of 138,5 thousand million forints drawn away only in this period would cover the building costs of about 270,000 flats or almost 2,800 km of first-class highway. Since the deviations from the tendency are

Table 6

Structure of investments in Hungary, as corresponding to the international tendency and the actual one

Denomination	Y	Y corr.	y	y/Y corr.	Actual	According to the international tendency thousand Forints (1)	(1)–(2) million Forints (2)
			1961–1965				
Servicing branches	56.5	58.4	45.5	77.9	115.5	162.4	−46.9
Agriculture	9.1	9.4	13.0	138.3	36.2	26.1	+10.1
Industry	31.2	32.2	41.5	128.9	126.3	89.5	+36.8
Total	96.8	100.0	100.0	–	278.0	278.0	0
			1966–1970				
Servicing branches	58.0	59.1	44.4	75.1	173.2	247.9	−74.7
Agriculture	8.5	8.7	14.3	164.4	60.1	36.5	+23.6
Industry	31.6	32.2	41.3	128.3	186.2	135.1	+51.1
Total	98.1	100.0	100.0	–	419.5	419.5	0
			1971–1975				
Servicing branches	59.7	60.1	44.2	73.5	263.4	362.9	−99.5
Agriculture	7.9	8.0	12.2	152.5	73.6	48.3	+25.3
Industry	31.8	31.9	43.6	136.7	266.8	192.6	+74.2
Total	99.4	100.0	100.0	–	603.8	603.8	0
			1976–1980				
Servicing branches	61.2	61.0	46.2	75.7	342.7	481.2	−138.5
Agriculture	7.3	7.3	10.1	141.1	79.9	57.6	+ 22.3
Industry	31.9	31.7	43.7	137.9	366.2	250.0	+116.2
Total	100.4	100.0	100.0	–	788.8	788.8	0

Note: Amounts at constant prices of 1972. Notations are the same as in *Table 3*.

cumulating and exert their effects for several years, it can hardly be doubted that we are facing a considerable lack of fixed assets in the servicing branches. Accordingly, the judgement of the labour supply of the tertiary sector should be amended. Since a considerable – and increasing – part of the labour force working here must be used for mitigating the increasing shortage of fixed assets, the labour situation of the

servicing branches is obviously much more unfavourable in reality than shown in the foregoing.

As we have seen, the share of agriculture and industry in all investments is in every period much greater than the value corresponding to the international tendency. The numerical deviations from the international trend are presented in the last column of *Table 6*. The data also show, in what proportion the development of the individual sectors of the national economy is "financed" from the investment amounts drawn away from the servicing branches as compared with the values of the international trend. Accordingly, 70–80 per cent of the investment "shortage" of the servicing branches can be attributed to the fact that the industry and 20–30 per cent that the agriculture receive more investment than would be justified by the level of economic development in Hungary.

Relationship between the contribution to GDP and the level of economic development

The OECD-countries constitute a relatively homogeneous group from the point of view of statistical accounting. Thus it is obvious that the international tendency which shows how the contribution of the servicing branches, agriculture and industry to the GDP changes as a function of the level of economic development should be determined on the basis of the data of the OECD-countries.*

However, a comparison of the Hungarian situation to the international trend can by no means be regarded as one free from problems, first of all because outputs (performances), are valued differently in Hungary than in the capitalist countries (basically for well-known price and financing reasons). If outputs were valued in the way as in the OECD-countries, the contribution of the individual sectors of the national economy to the GDP would change, namely so that the contribution of industry would be lower, while that of the agriculture and the servicing branches, higher than shown by the Hungarian balance of GDP. The analysis will be made with a view to this deviation.

An interesting result can be obtained if the deviation from the international tendency of the contribution of individual economic sectors to the GDP is evaluated not in itself but compared with the deviations of the employment and investment proportions from the trend.

* The international trend described by a logarithmic function in the case of the services, by an exponential one in the agriculture and by a parabola in the industry was again determined on the basis of the data of 18 OECD-countries. The analysis was made for every year with the aid of a function set up for 1970.

Table 7

Deviation of employment and investment proportions, as well as of the contribution to GDP from the international tendency in the servicing branches in Hungary

Year	Rates of employment,	investment	Contribution to GDP
	in percentage of the value corresponding to the development level of Hungary		
1960	84.2	–	77.2
1965	85.5	77.9	72.7
1970	80.2	75.1	75.9
1975	80.5	73.5	72.4
1980	81.4	75.7	71.9
Average	82.4	75.5	74.0

Note: Investment data refer to periods between the years; the first column of the table contains the data of *Table 3* and the second column those of *Table 6*.

Table 7 shows that the contribution of the services to the GDP between 1960 and 1980 is by 26 per cent lower on the average than the value corresponding to our development level. It has already been mentioned that if outputs were valued in the same way as in the capitalist countries, the contribution of the servicing branches to the GDP would be higher than shown by the Hungarian balance. Therefore, the deviation from the tendency may be only smaller in reality, than the value to be found in the table. (Unfortunately, it cannot be answered how much smaller this value would be, since for the time being there are no data available on the exact difference in the contribution to GDP of the individual sectors resulting from the different valuation of outputs.)

Naturally, it is by no means indifferent what labour force and fixed assets support a given output of the servicing branches. It has been already seen in the foregoing that the tertiary sector has a basically smaller share in employment and investment than what would correspond to our development level (on the average by 17.6 and 24.5 per cent less, respectively). From the shortage in these two production factors it is undoubtedly the lack of investment that is more important considering its effect, naturally not only because it is greater numerically, but also because it is cumulating from period to period. The worsening supply with fixed assets is further aggravated by the labour shortage of 15–20 per cent.

Neglect of the development of the tertiary sector is, in the opinion of several experts, necessary for a more rapid economic growth. Let us examine whether the development of the industry and agriculture will be more rapid by receiving more

Table 8

Deviation of employment and investment shares as well as of the contribution to the GDP of the industry in Hungary from the international tendency

Year	Rates of		Contribution to the GDP
	employment	investment	
	in percentage of the value corresponding to the development level of Hungary		
1960	105.3	–	114.6
1965	120.4	128.9	123.2
1970	121.7	128.3	119.6
1975	116.8	136.7	118.6
1980	112.8	137.9	116.9
Average	115.4	132.9	118.6

Note: See under *Table 7.*

labour and investment than justified by their development level, or only the reserves of production will increase in this way.

In the foregoing we have already seen that during the 20 years examined the share of the industry in investments is very high. It is not only higher than the value corresponding to our development, on the average by 32.9 per cent, but considerably exceeds even the maximum of the parabola describing the tendency. As to its labour supply, the industry is in a very favourable situation also in this respect, with an employment higher by 15.4 per cent on the average than justified by the development level.

In view of the very favourable supply of the industry with labour and fixed assets correspondingly high outputs should be expected. According to the data of *Table 8* the contribution of industry to the GDP is by 18.6 per cent above the tendency and this deviation – for accounting reasons mentioned in the introduction – can be only smaller in reality. However, considering that the deviation from the tendency is 32.9 per cent on the average in the field of investment alone, it is obvious that the outputs of industry do not reach the level that might be expected on the basis of the supply with factors in production. Therefore, a rather great part of the surplus labour and surplus investment increases not the outputs, but the reserves. (This is the more important, since – as already mentioned – about 70–80 per cent of the labour and investment shortage of the tertiary sector might be attributed to the fact that the industry receives more production factors than justified by our development level.)

If the cumulation of investment surpluses over time is taken into consideration, it cannot be doubted that most of the reserves can be found in the utilization of

Table 9

Deviation of employment and investment proportions as well as of the contribution to the GDP of the agriculture in Hungary from the international tendency

Year	Rates of		Contribution to the GDP
	employment	investment	
	in percentage of the value corresponding to the development level of Hungary		
1960	109.6	–	146.0
1965	94.2	138.3	139.6
1970	98.9	164.4	134.5
1975	107.0	152.5	145.5
1980	116.8	141.1	154.8
Average	105.3	149.0	148.0

Note: See under *Table 7.*

fixed assets. According to a survey of the Economic Research Institute both the extensive and the intensive utilization of productive equipment is unfavourable in the industry. In principle it can be achieved in two ways, that there should not be so significant unutilized capacities in the industry, namely, either by a considerable acceleration of the growth rate of production or by decreasing the rate of investment. The reality of the first solution is doubtful – with the present not yet satisfactory production structure – because of the requirement of ensuring equilibrium of the balance of trade. (It must not be forgotten that – according to the experience of past decades – transformation of the industrial production structure is a rather slow process.) Another solution could be a reduction of the share of industrial investments with the present production dynamics. Naturally, the role of economic regulators stimulating a better utilization of production capacities should simultaneously be increased.

In the introduction of the present chapter it has already been mentioned that if outputs were valued as in the capitalist countries, the contribution of agriculture to the GDP would be greater than shown in the Hungarian balance. Therefore, the contribution of agriculture to the GDP exceeds on average the value corresponding to the tendency to a more considerable extent anyway than its share in investments. (The average deviation from the tendency in the contribution to GDP would be about the same as in investments only in the unrealistic case if the mentioned difference in the valuation of outputs did not exist.)

Table 9 also illustrates the development of the labour situation of agriculture. Accordingly, the agricultural employment is only slightly higher, on the average by

5.3 per cent, between 1960 and 1980 than what would correspond to our development level. It is thus very probable that in the agriculture outputs are near to the level that might be expected on the basis of the supply with the factors in production in the 20 years examined. Therefore, agriculture has been and presumably will be able also in the future to utilize the overwhelming part of surplus labour and investment in the production. To find a reason for this phenomenon would undoubtedly require a detailed and thorough analysis. A probable and, of course, hypothetical explanation may be the following: there have hardly been – and, as it looks, there will not be in the coming years, either – any major limits to the increase of agricultural production that would be related to ensuring foreign equilibrium.

In the foregoing I have examined how economic growth accelerates between 1960 and 1980 because of the neglect of the development of the servicing branches. It could be seen that the industry is much less able to absorb the surplus of production factors – relative to the value corresponding to the tendency – than the agriculture. Considering the fact that about 70–80 per cent of labour and investments missing from the tertiary sector go to the industry as a surplus, it can be stated that the present rate of economic growth could have been and could ensured even by holding back the development of the servicing branches only to an essentially smaller extent.

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In this study an analysis of the situation of the servicing branches has been undertaken in their interaction with the industry and agriculture as compared to a general international tendency. It could be established that the tertiary sector receives less, while the industry and the agriculture more production factors than what would be justified by the development level of Hungary. At the same time, from the analysis not only the fact turns out that the employment and investment structure of the country significantly deviate from the international trend. This would not say perhaps too much in itself, since it may hide healthy or unhealthy phenomena as well. I consider the fact is much more important that the structure of the distribution of factors in production and the pattern of output are not in harmony, they do not correspond to each other. (The performances of the services, somehow independently of the recognition of their utility, "break their way" precisely because of their close connection with production and consumption.) Therefore, the question should be raised: is it expedient if the allocation of factors in production at the expense of the services becomes a practice valid for decades?

It can hardly be doubted that certain fundamental tasks of economic policy – for example socialist industrialization – may justify a temporary neglect of the

development of the servicing branches. What happens, however, if the process of holding back the tertiary sector will be preserved? Since the expansion of material production and consumption is possible only, if the development of the services also reaches a certain level, an unsatisfactory supply of the servicing branches with labour and fixed assets will be felt, for some time, not so much in the development of performances, but much more in their quality.

The unsatisfactory and worsening quality of the services will damage the efficiency of material production. It is worth referring to an examination carried out by *A. O. Hirschman* [6]. Hirschman stated the following relationship, supported by computations, between the infrastructure (the potential required for rendering services) and the production costs: the production costs of the national economy are the higher, the smaller the volume of the infrastructure, and *vica versa.* If the holding back of the development of the servicing branches will continue, the lower limit to the increase of the service outputs – determined by the expansion of material production and consumption, but also indispensable for them – cannot be reached even by a too high utilization of labour and fixed assets. This is indicated also by the fact that the deviation from the tendency in the contribution of the tertiary sector to the GDP is increasing over time. Therefore, it seems unavoidable that the structure of the distribution of production factors should approach the structure of outputs in the future. The question can be solved obviously only relatively slowly, nevertheless it should begin as soon as possible.

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ВЗАИМОСВЯЗЬ МЕЖДУ УРОВНЕМ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ И УСЛУГАМИ

Б. САБАДИ

Автор анализирует положение сектора услуг в Венгрии в 1960—1980 годы. Он стремится ответить на вопрос, соответствует ли занимаемое услугами место в народном хозяйстве, характеризуемое с помощью трех показателей, уровню экономического развития страны. Автор соизмеряет положение венгерской экономики с общей международной тенденцией, которую он определяет на основании данных по 18 странам участницам Организации экономического сотрудничества и развития, используя аналитические расчеты регрессии. Раздельно рассматривается связь между уровнем экономического развития (переменный фактор), с одной стороны, и долей занятости, участием в капиталовложениях, вкладом в валовой внутренний продукт (факторы результата), с другой. Автор распространяет свой анализ на два других сектора народного хозяйства и определяет соответствующую уровню развития страны структуру занятости и капиталовложений. Приводятся цифровые данные о численности рабочей силы и капиталовложениях, недостающих в сфере обслуживания и представляющих собой избыток в промышленности и сельском хозяйстве. После этого стремится ответить на вопрос, имеется ли расхождение в распределении факторов производства и выпусков между промышленностью, сельским хозяйством и третичным сектором, и если да, то в каком направлении. В заключение автор подытоживает экономические последствия отставания в развитии отраслей обслуживания.

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M. LACKÓ

CONSUMER SAVINGS AND THE SUPPLY SITUATION

The author centers her attention on those savings in Hungary that are generated by the lack of market supply.

After shortly surveying the housing conditions and the level of provision with car, the author defines the different types of savers. Since those who save adapt to market conditions and adjust their savings to waiting time, intented and unintented savings – the latter derives from the lack of supply – cannot be separated on micro-level.

On macro-level, however, savings react sensitively to changes in provision: this is illustrated in the functions of savings formed by the author.

In this article the relations between the consumer savings and market supply will be examined.* In Hungarian economic literature the examination of consumers' savings is a rather neglected field. Particularly such works are missing as would fit the description and analysis of this frequently neglected factor into the examination of the whole of consumers' behaviour. In international literature, however, the consumer savings are a much treated subject: therefore, before analysing the Hungarian experience, a brief survey will be given of the best known standpoints.

Literature on savings

In the economic literature of advanced capitalistic countries an important place is taken by the examination and economic interpretation of savings. Two main trends have developed in the course of research. The first relies on elaborated theories and mathematical models, analysing comprehensively the relation between savings and their source i.e.: income. To this trend is related the elaboration of the absolute income hypothesis, the relative income hypothesis and the constant income hypothesis.**

* Research was started together with Katalin *Farkas*. The main features of the approach applied developed at that time. The subject has been elaborated by the author alone. Calculations are the work of Zsuzsa *Kapitány*.

** The absolute income hypothesis is based on the Keynesian idea that consumption is growing more slowly than income. Various studies that fitted a consumption function to household data – using American and West European data – confirmed Keynes's assumption (*Samuelson*). By analysing time series, however, S. *Kuznets* found that the ratio of consumption to national income had been constant in the United States between 1869 and 1929. The aim of the relative income hypothesis is to solve this

The other trend considers other factors beside the income variable, such as the socio-economic attributes of households, age, occupation, education, various financial characteristics, property, etc., as well as people's buying habits, intentions and expectations. This school is relatively near to the approach of the present study, first of all because it pays particular attention to purchases and, not separating itself from the market situation, it draws also buying motives into the explanation of savings.* Yet this approach to the market effect represents – otherwise understandably – a one-sided view: it observes only the voluntary postponement of purchases and does not deal with cases in which postponement is due to pressure.

From among the socialist countries the subject of the consumer savings has been treated mainly in Czechoslovakia, although a few studies have appeared also elsewhere, e.g. in Hungary. Schools are not sharply separated, and are not elaborated to the extent as are Western theories, yet they deserve attention.

One school underlines the relation between savings and income and, as regards the substance of the matter, applies the Western income hypotheses to socialist countries [11], [14], [10].

The other school connects consumers' savings also with the market situation beside income and considers it particularly important to separate the part of savings that originates in the shortage of market supply. These unintended savings are interpreted on two levels. There are researchers who approach savings from the point of view of macroequilibrium: the increased growth rate of accumulation, entailing an outflow of income, is not followed adequately by the commodity stocks. Therefore, incomes cannot be realized, and unintended savings accumulate** [14], [15]. This approach does not hold consumers' decisions important. In another approach savings are observed from the aspect of consumers' decisions and the actual shortages in market supply are brought into relation with savings [18], [23].

The linking of savings with changes in the "shortage situation" is often done also in Hungary, even if not on a theoretical level but in practical economic analyses

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apparent inconsistency. The hypothesis is based on the assumption that the rate of savings does not depend on the income level, but on the relative position of the individual on the scale of incomes (D. *Brady*, R. *Friedman, Duesenberry, Modigliani*).

According to the constant income hypothesis the consumption of families depends on their constant income and not on their income observed: families fix their consumption at a certain level, therefore, an outstanding income is not consumed but results in savings, while a temporary reduction of incomes is covered from earlier savings (*Friedman, Modigliani, Brumber, Ando*).

* Main representatives of the school: G. *Katona* and E. *Müller*. See *Ferber* [3], *Malinvaud* [17].

** This "macro-view" is supported also by an argumentation with an inverted logic: "The repeated growth in 1968 of the saving propensity relieved the consumers' market from a considerable part of purchasing power outflowing above plan, and created quiet conditions for commerce to realize its inventory policy." (*Lengyel* [16].)

treating current problems. This happens particularly in periods when savings on the national economic level suddenly increase. Analyses seek answer generally to the question – as in Czechoslovakia – whether the increase of savings is not "exaggerated". In such cases usually two answers are given: the first emphasises the existence of forced savings and holds the amount of savings to be exaggerated. It stresses that consumers cannot spend their income as they like because of shortages in the market supply. The other answer contravenes the former by explaining the increase of savings by a general improvement in the global market supply, and holds the amount of savings necessary. According to this opinion with the increase of incomes demand for commodities that require saving is growing and the improvement of supply enables the buying of such articles; that is what induces the population to increase their savings. According to this reasoning the improving market supply will graudally eliminate those hasty purchases that are typical accompanying phenomena of a shortage economy.

Both opinions start from the *global* situation of consumers' market which is characterized at the same time by shortages and an improvement in supply. So both points of view have their own examples to illustrate their statements. The change in the equilibrium situation of the *global market* is not clear-cut and there are not suitable methods for its measurement. Contradictory opinions can probably exist and statements be veryfied because of this.

In this analysis an attempt is made to avoid the not quite clear concept of "global equilibrium". Therefore, the equilibrium situation of two actual partial markets (the housing market and the car market) will be examined in connection with savings. The general explanation and inclusion into consumers' theory of the above-mentioned approach – analysis of the actual effect of shortage in supply on the side of consumers' decisions – was treated in a study by János *Kornai* [15]. This paper is related to the latter study and tries to present, with the aid of concepts introduced there, a few interrelations of shortages and savings in Hungary in the period from 1960 to 1974.

The housing market

The two partial markets to be examined in connection with savings are, as has been mentioned, the housing market and the car market. This is because these are the goods whose purchase necessitates the largest savings. The National Savings Bank of Hungary, carrying out representative investigations of the population's savings habits every 5–6 years, states that 30 per cent of the depositors save primarily for a flat, 18 per cent save primarily for a car, and the division of the sum-total of deposits is about the same.

The high proportion of those saving for a flat and for a car is, of course, not accidental. Its explanation lies in the socio-economic standard of the country, in her habits and, generally, in the living circumstances. In the United States, e. g., because of an entirely different social insurance system people save mostly for old age: for "emergency cases". On the other side, few people save for flats, houses, or cars, since the most common way of buying these is through hire-purchase [12].

Let us see first the characteristics of the housing market. The phenomena of housing shortage and of waiting for a flat are well known. Recent data are apt to give an idea of the global size of the housing shortage: according to examinations at the end of 1974 the number of families, including partial families and the single people, surpasses the number of occupied dwellings by about 400 thousand [19].

The allocation of flats and the housing market shows, first of all because of scarcity, a highly complicated picture: a part of the flats is built by the State, and the allocation of these is done by authorities, at least in the first stage; another part is built by private means (including various long-term credits and other subsidies by the state or by enterprises), and this part has much more of a market character.

State flats are mostly made up of tenement-dwellings and flats sold by the councils, while private flats include blocks of freehold flats organized in various manners, and family houses.

There exists also a market of used flats on which the demand-supply relations have the strongest effect. Although I am aware of the importance of this market, for lack of exact data it will not be dealt with in this paper.

The scarcity of state flats is convincingly proved by numerical data. Although they are not quite recent, they do describe the period under examination: in 1966 two out of a hundred applicants received newly built flats in Budapest, and four in towns of county rank [21].

Thus the 20 to 30 thousand state flats built every year do by far not satisfy demands. The problems of official allocation cannot be treated here in detail. It can be stated, however, that in many cases people with low income are forced to engage in private home-building consuming masses of money. This is further supported by the results of an examination according to which builders of family-houses are mostly people with low income: 83 per cent of the heads of families covered by the investigation had monthly earnings under Ft 2,500, and 27 per cent under Ft 1,500 [8].

Those who want a flat within a short time go over the subsequent steps of "forced substitution": they submit their application for a council (state) flat, but waiting is too long there, so they try the more expensive co-operative flat and, if they fail to get it, they are forced to choose an even more expensive solution. This full "course of forced substitution" is, however, possible only theoretically: "The

existing system of housing in Hungary allows in principle every citizen to take part in any of the house building constructions. Yet in practice there is no possibility of choice in most cases. Several home-building constructions with particularly favourable conditions are today associated with definite employment groups." Further on: "the way of acquiring a flat is very much different by regions: in areas where no state flats are built (e.g. in villages), not even the theoretical possibility exists to have a share in state tenement-flats or co-operative flats" [22].

In Hungary private home-building is of much larger proportions than state house-building, and the proportions deviate considerably from the figures of the development plan of residential construction covering the fifteen years between 1960 and 1975. In the plan 40 per cent of 1 million flats were envisaged to be built by private means of the population. Instead, during the fifteen years two-thirds of the flats were built from private funds i.e. privately owned flats are prevalent.

The ratio was not the same during the full course of the 15-year period: at the beginning, in the years 1961 to 1965 the number of privately built flats was lower than in the preceding five years. In the years 1966 to 1970 the building activities of the population became much livelier, and this was characterising also the years 1971 to 1974. This is illustrated in *Table 1.*

Table 1
Volume and division of residential construction

Denomination	1961–1965	1966–1970	1971	1973	1974
Privately flats:					
built number	179,789	218,642	52,831	57,217	57,000
ratio	63.7	66.8	70.2	67.2	64.8
State flats:					
number	102,567	108,788	22,471	27,984	31,000
ratio	36.3	33.2	29.8	32.8	35.2

Source: (28)

Another important feature of home-building or buying a flat is that credit plays an extremely important part in it: most of the flats built by private means and one-third of the flats sold by the State are acquired by the population by having to pay only a part in cash, while the rest is paid by instalments.* When savings for buying a flat are mentioned, it is always the initial amount without credit (of course, private credits not excluded) that is understood.

* In 1961 43 per cent of the flats to be built received credit, and in 1968 over 70 per cent.

Table 2 shows the percentage distribution of flats built by private means of the population, and the "contribution" of the population.

The great differences existing in the years 1966 to 1970 in private contribution to the various types of flats can be clearly seen from the Table: there were three "steps" widely apart (18, 83–86 and 168 thousand Forints). In the years 1972 to 1974 this changed (the average values being: 26, 68, 93, 140, 215 and 420 thousand

Table 2

Average private funds (Ft) per flat and weight of the type of flats (per cent)

Type of flat	1966–1970		1972–1974	
	Ft	percentage distribution	Ft	percentage distribution
Flat sold by the Council (co-operative flat)	17,800	16.3	26,200	15.6
Block of freehold flats (privately organized construction)	83,600	12.3	93,300	7.2
Block of freehold flats (invested by the National Savings Bank)	85,100	7.0	67,800	15.7
Freehold flat	168,000	1.4	422,000	0.2
Family house with loan	86,000	63.0	139,300	43.4
Family house without loan	–	–	215,000	15.4
Block of freehold flats organized by home-building co-operatives	–	–	...	2.5

Source: National Savings Bank reports (27)

Forints); this was due to the expanding movement of workers' flats subsidised by the enterprises employing the worker: this is also called the half-market form of home-building and allocation (7). Within the scope of this movement only those can receive enterprise subsidy who are entitled to a flat also under the generally valid legal regulations, undertake certain obligations, and have their own financial funds.

The various steps still lie far apart, particularly if it is considered that certain types of flat are linked only to certain layers or certain regions.

The sum of the private funds utilized is, of course, closely connected with the credit terms, and the changing of the latter also affects savings. Yet the rising costs and prices of home-building have the same effect; this may augment the amounts paid in spite of improving credit terms.

The car market

Up to the late 1960s the car market had also been characterized by shortage. There was only a very narrow range of choice. E.g. in 1966 only seven types of cars were sold. In that period there was a high "fictitious demand" not covered by adequate financial means or serious buying intention. This became clear when the shortage of cars was eliminated almost from one year to the next, and several thousands of cars could not be taken over by the claimants for lack of money.

This happened at the end of the 1960s, when the volume of the car supply had grown, and the assortment had also enlargened. In 1970 already 17 to 20 types were marketed, thus expanding the field of forced substitution. "Merkur", the only enterprise selling private cars, which had functioned in the past exclusively as distributor and worked almost like an authority, was obliged to adopt increasingly market and commercial methods: it established new premises and advertises its goods.

Elimination of the shortage is, however, not at all complete: it changes with each trade mark and type. The number of those queueing for a car has decreased with certain makes, waiting time being a few months up to 1–2 years instead of 3–5 years, while there are still such makes whose delivery is promised only after 5 years. (The turnover in used cars will not be treated in the case of the car market, either, even though its importance is known.)

Types of savers

After acquiring some knowledge of the character of the housing market and the car market let us survey, what types of savers' behaviour are possible on these markets.

For the sake of illustration let us take the case of an actual type of flat, that of a family house built with a loan (see *Figure 1*).
According to *Table 2* the private contribution needed for it is on average Ft 140,000. In this case (and, of course, also in the case of other types of flats or cars) there are three main types of savers. The parting line is represented by the saver who saves according to a schedule up to a given deadline. He saves money exactly at the pace required by price and waiting time. This type, therefore, fully adapts himself to the character of the market, and no superfluous savings accumulate with him until the end of the waiting time. For brevity's sake this type will be called the "deadline" type. There are people who save more quickly than that ("quick" type), and there are others who save more slowly ("slow" type).

The relative proportions of the types can be demonstrated but indirectly and not even fully. In 1968 the Central Statistical Office published the housing-demo-

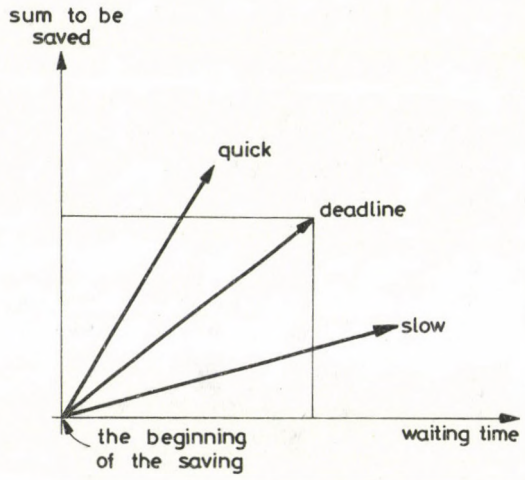

Fig. 1. Main types of savers

graphical data of an investigation by means of questionnaire covering the removal plans envisaged within 5 years by the group questioned [25]. According to this investigation 21 per cent of the families intended to solve their removal by exchanging flats with other families – we shall not deal with them here. The rest i. e. 79 per cent wished to move into a newly built flat. We tried to evaluate these statistics – prepared for another purpose – according to the types of savers in *Figure 1.* According to the statistics, 23 per cent of the families in which the removal required expenses above Ft 3,000 wished to cover the cost from cash in hand. These are rightly to be considered the "quick" type. Another 21 per cent wished to pay for the flat from savings to be accumulated later. These are either the "deadline" type or the "slow" type. Unfortunately, the remaining 56 per cent cannot be evaluated according to our typology.

For the sake of comparison it is to be mentioned that a similar investigation had been carried out in 1963: at that time 18 per cent of those questioned had belonged to the "quick" type and 32 per cent to the "deadline" or "slow" type [26]. It can be seen that the types have different weights in different periods: from 1963 until 1968 the share of the "quick" type had grown.

If somebody is able to save at a fast rate, he will probably do it, on the consideration that an improvement of the market supply may shorten the waiting time. He will make efforts that money should not be the cause of his not getting a flat. Accordingly, many of those waiting for a certain type of flat have in hand the required amount before expiration of the normal waiting period for the type of flat in

question. Thus, when supply improves, they can immediately realize their intention of buying a flat. (This is, therefore, the "quick" type.) This quick pace of saving might allow also the buying of a type of flat in a higher price category and with a shorter waiting period. Therefore, some of the "quick" savers change the queue for a "more expensive" one, if a shorter waiting period may be expected there.

If someone can save only more slowly than the "deadline" type, in the case of improving supply he will try to acquire the wanted amount through private credits and loans from relatives and friends.

In the case of worsening supply all three types are forced to wait longer. If, however, supply worsens to such extent as to render the realization of the buying intention quite impossible, savers may spend their accumulated money and may not save any longer.

Individual savers behave like that depending on the pace of saving and on supply: they accommodate themselves to some extent to the markets in question.

What is the resultant of these movements, how does saving react on the macro-level to the changes in supply?

On the macro-level the yearly balance of savings will be examined, which contains on the one hand the yearly increment of the deposits with the National Savings Bank and, on the other hand that of the population's money holdings.

Improvement of supply reduces savings on the macro-level, while a declining supply increases savings. This regularity does not hold in cases where sudden changes occur on the market from one year to the next: this is because when supply improves considerably, the number of those *starting* to save may largely increase, and when it worsens considerably, their number may largely decrease, and this might counterbalance the effect of annual supply on savings.

However, on the markets under examination no such sudden changes have occurred, neither are they expected to influence considerably the number of those starting to save. Therefore, savings examined on the macro-level indicate the changes in market supply reliably.

Savings functions: direct effect of the housing- and the car market

In the previous section it has been mentioned how, on theoretical considerations, the changes in supply are reflected in the changes of savings on the macro-level. In the following the concrete time series of savings will be compared with the concrete time series of housing- and car supply and of incomes.

If we follow the time series of incomes and savings measured on the national economic level (*Figures 2* and *3*), we shall see that there are periods when growing

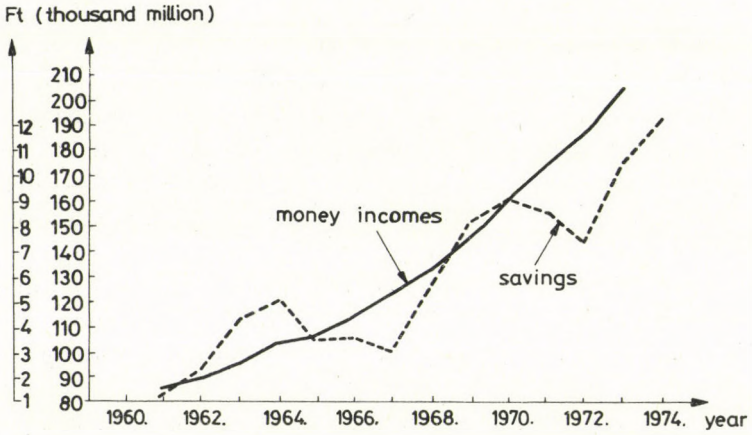

Fig. 2. Money incomes and consumer savings

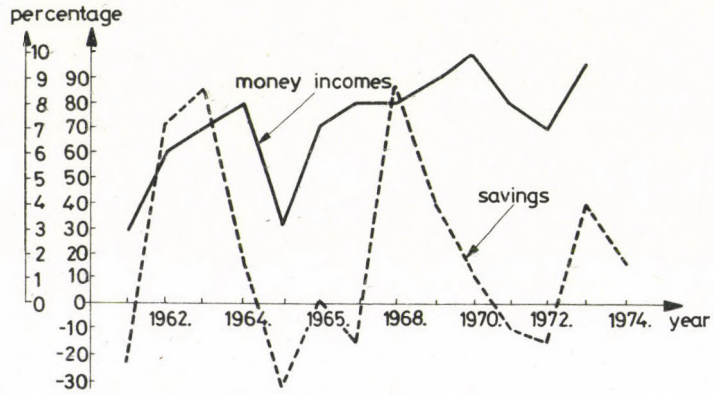

Fig. 3. Growth rate of the money income and consumer savings

income is coupled with diminishing savings, and the reverse: declining income is accompanied by growing savings. The explanation is obviously that savings of the population are also influenced by factors which are independent of income.

What is the relation between savings and the changes in the number of flats available? It is to be gathered from *Figures 4* and *5* that as the number of new flats is growing, savings are generally decreasing, while a slowing down of the pace of house building usually entails an increase of savings. The first part of the interrelation is clear by reasons of the explanation given earlier: flats bought are usually paid for from savings. Besides, the increasing number of flats does not only directly decrease

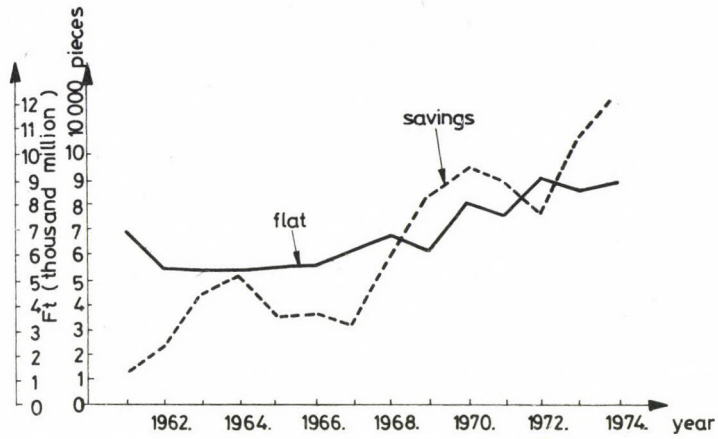

Fig. 4. Number of flats built and consumer savings

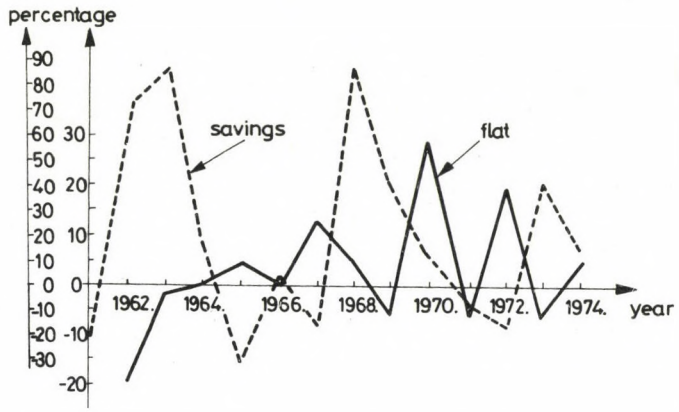

Fig. 5. Growth rate of the number of flats and of the consumer savings

savings: new flats imply additional family expenses. After moving into the new housing estate, e.g., families spend on average over Ft 20,000 on the furnishing and equipment of their flats in 3 to 4 years [21].

The other part of the interrelation i.e. that a decreasing number of flats available entails an increase of savings illustrates the unintended savings resulting from housing shortage. In this case a certain complementary phenomenon also asserts itself, although with opposite sign: unintended savings resulting from housing

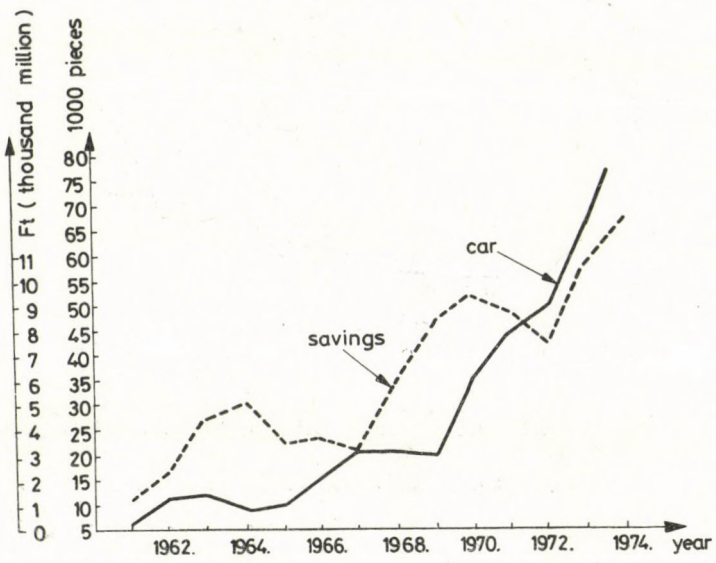

Fig. 6. Number of private cars sold and consumer savings

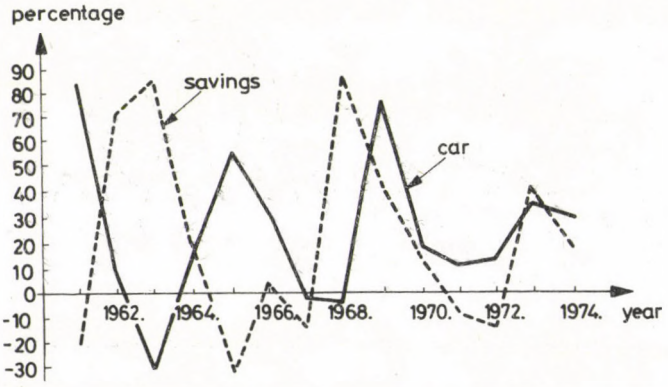

Fig. 7. Growth rate of the number of private cars sold and of the consumer savings

shortage do not only include the price of the flat but also that of intended purchases (new furniture, car) that cannot be realized without the new flat.

The situation is similar in the field of the private car trade: if the retail trade in cars is decreasing, savings are generally growing, and conversely. (See *Figures 6* and 7.)

The above-mentioned interrelations will be examined also numerically, with the aid of the following function:

$$(1) \quad M_i = b_o + b_1 J_i + b_2 L_i + b_3 A_i$$

in which

M_i – savings (thousand million Ft) in the period i (year)
J_i – the population's incomes (10thousand mill. Ft) in the period i
L_i – number of flats (10000 pcs) built in the period i
A_i – number of cars (1000 pcs) sold in the period i

The letters used here in capital form will denote later in lower case form the yearly growth rate of the same variables.

The parameters b_2 and b_3 of the function are therefore in our assumption negative, while b_1 is positive.

The function shows the effect on savings, on the national economic level, exerted by income, and the variables characterizing the market situation of the two products requiring the largest savings, where the market situation is represented, for lack of a better, by the changes in the sales of these products. As has been mentioned, a number of other factors influence savings beside the variables of the function, but we are obliged to disregard them, or rather to assume them to remain constant.

The housing market consists of two parts functioning by two entirely different mechanisms: flats built by the State and allocated by authorities, and flats built from private means and sold on the market. The number of state flats does not affect savings, therefore, only privately built flats will be treated in what follows, (see *Figure 8*).

Because of the highly parallel movement of income and savings the introduction of only a simultaneous income variable seemed sufficient. In the case of cars and state flats it would not be justified to consider a time-lag, since payment and putting into use are very close in time. In the case of privately built flats, however, the introduction of a time-lag or waiting is justified, since savings of this year are connected not only with flats completed this year, but also with those in the course of building but to be finished only after one or two years. For the sake of simplicity only simultaneity will be assumed at the start i. e. only the number of flats finished will be considered. Later this simplification will be eliminated.

The function is linear. We have tried also a non-linear function, but the result did not show a closer relationship either in the significance of the coefficient or in the size of the indicator of correlation than the linear function.

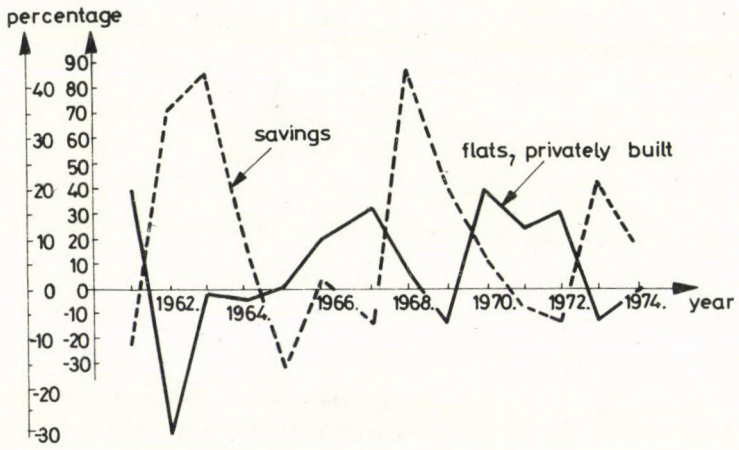

Fig. 8. Growth rate of the number of privately built flats and of the consumer savings

Estimation of the parameters of the function was done with the least square method. With this method parameters are accepted if their error (which is put in parentheses below each parameter) is smaller than the parameter itself. The result is much more significant, if the error is at most half of the parameter's value.

In the course of estimation the following function was obtained*:

$$(1/a)\quad M_i' = -2.4802 + \underset{(0.2686)}{1.044\ J_i} - \underset{(0.5743)}{1.1274\ L_{im}} - \underset{(0.0478)}{0.0178\ A_i};$$

$$R_1 = 0.9548,$$

where L_{im} is the number of flats built with private means.

In order to prove that the relationship of these variables is valid not only in the case of time series, let us examine the function constructed from their growth rate**:

$$(1/b)\quad m_i = -0.9771 + \underset{(3.9643)}{4.2035\ j_i} - \underset{(0.6009)}{1.7218\ l_{im}} - \underset{(0.2754)}{0.4329\ a_i};$$

$$R_2 = 0{,}7683.$$

* As a first step, consumers' durables sold for cash were also included in the variables. Yet, because of their close relation to income, this had led to results that could not be interpreted.

** The value of the Durbin-Watson d-indicator belonging to the regression function and measuring autocorrelation falls exactly into the so-called "ignorance zone" in the case of the function computed from absolute data: it cannot tell anything about autocorrelation. The function constructed from the growth rates eliminates exactly this possible distortion, since there is no autocorrelation among them.

The fitting of the function is judged as good on basis of the correlation indicators $R_1 = 0.9548$ and $R_2 = 0.7683$.

What do the individual parameters show?

The income parameter shows that if in a given year the population's financial incomes grow by 10 thousand million Fts, savings examined on the national economic level will be growing by about one thousand million. This rate is rather high and indirectly it also shows the increase or decrease of savings owing to changing supply: this is because the parameter reflects the hypothetical – sometimes not so much hypothetical – situation in which no change occurs either in housing or in car supply. In this situation the population saves 10 per cent of their surplus income.

The increasing number of privately owned flats generally exerts a negative effect on savings. If, therefore, 10 thousand additional flats are built, savings will be reduced by 1,13 thousand million Fts. Conversely, if 10 thousand less flats are built in a given year, savings will increase by 1,13 thousand million Fts. This means that the average amount of savings for a flat is 113 thousand Fts. (This seems realistic in consideration of the price level of flats and the high proportion of the builders' own work.)

Sales of cars also affect savings negatively. If, in a given year, more private cars are sold, savings of that year will be reduced and, conversely: if the number of cars decreases (by 1000 pcs), savings will grow on the national economic level. The standard error in the function constructed of absolute values is quite large. The reason for this is the linear interrelation between the car-variable and the income-variable, which is proved by the correlation coefficient of 0.9 between these two variables.

The correlation index (0.95) of the function marks a highly intensive relationship. Our statement, i.e., that the volume of savings is largely influenced by the changes in the housing market and the private car market is quite sufficiently proved by the fact that the correlation indicator of the function constructed with the elimination of the income-variable shows a strong relationship of 0.84 and also the function constructed from the growth rates:

$$(2)\quad m_i = \underset{}{3.6} - \underset{(0.6)}{1.7}\, L_{im} - \underset{(0.2)}{0.5}\, a_i;$$

$$R = 0.70$$

indicates an intensive relationship.*

* The influence of income is, however, not entirely eliminated here, since a positive linear connection exists between income and the sales turnover in cars. The connection between income and flats is much looser, and therefore, the danger of multicollinearity is much smaller. The turnover in cars is not in significant relationship with privately owned flats.

One of the most widely spread theorems of the theory of consumers' behaviour is that consumers react to prices with great intensity, and this is what determines their purchases and savings.

In order to demonstrate that in Hungary savings are most strongly affected by the interrelations analysed here and not by the changes in the market prices, we have introduced a savings function which relates income and the market price index to savings:*

$$(3/a)\quad M_i = 1.2990 + \underset{(0.1005)}{0.6906}\, J_i - \underset{(4.5253)}{2.1535}\, P_i;$$
$$R = 0.91,$$

where P_i is the market price index of the year i. For the growth rates:

$$(3/b)\quad m_i = -5.2259 + \underset{(5.6825)}{6.8412}\, J_i - \underset{(1.35)}{0.85}\, P_i;$$
$$R = 0.4151.$$

It can be seen that in these functions the parameters belonging to price changes do not show – either by their significance, or their correlation coefficients – an important effect of prices on savings. This can be further affirmed if these functions are compared with such two-variable functions in which, beside income, also the number of privately built flats is included:

$$(4/a)\quad M_i = -1.6440 + \underset{(0.1235)}{0.9164}\, J_i - \underset{(0.5462)}{1.1567}\, L_{im};\ R = 0.9541;$$
$$(4/b)\quad m_i = 3.7 + 6.3\, J_i - 1.81\, L_{im};\qquad R = 0.70.$$

Another savings function: indirect reflection of the shortage situation

So far savings have been explained, beside income, by means of the interrelations with the turnover in privately owned flats and in cars.

Now a further variable will be included in the examination: supply with building materials. This is justified by the fact that so far an improvement or

* In her study J. *Klacková* [14] considers price as an important motive in savings also in the socialist countries.

worsening of the shortage situation has been represented, in a highly simplified manner, only with the changes in supply. However, a situation is also possible, where – parallel with growing supply – savings do not decrease but, on the contrary, they increase, if in the meantime demands are growing faster and thus the intensity of

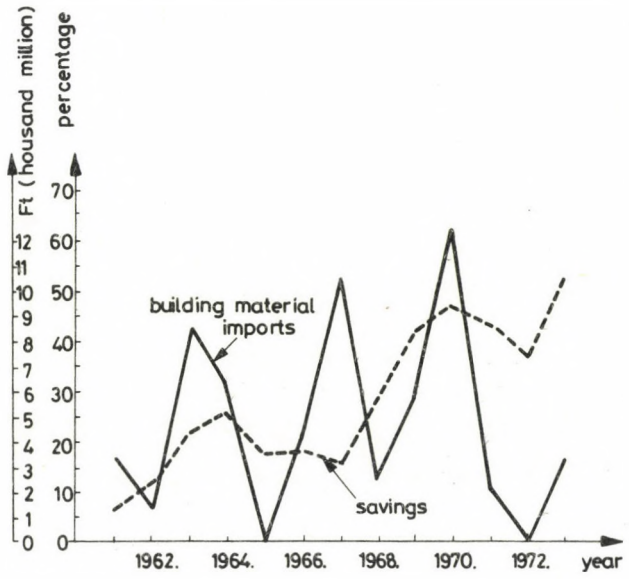

Fig. 9. Growth rate of building material imports and the consumer savings

shortage is also growing. Conversely, if supply is decreasing, and demand is also strongly diminishing, savings on the macro-level may be decreasing.

With a view to examining this factor a variable to express shortage has been included in the function i.e. relation between demand and supply.

In the case of building materials there is an indicator available – the growth rate of imports of building materials – which is suited to describe shortage or surplus on this market, even if not its absolute extent but its relative changes and in a way comparable in time (6). This is because the import of building materials is usually rather uneconomical. An increased growth rate of building material imports occurs in Hungary usually if there is a bad shortage on the home market and demand far exceeds supply (see *Figure 9).*

With the introduction of this variable the function will be modified as follows:

$$(5/a)\quad M_i = -4.5271 + \underset{(0.1467)}{0.8891}\, J_i - \underset{(0.6138)}{0.9091}\, L_{im} + \underset{(1.5440)}{1.8038}\, E_i;$$
$$R = 0.9434;$$

$$(5/b)\quad m_i = -4.1 + \underset{(4,8)}{6.6}\, j_i - \underset{(0,6)}{1.9}\, l_{im} + \underset{(0.4)}{0.2}\, E_i;$$
$$R = 0.74.$$

The parameter belonging to the new variable in the function is significant. This parameter is not to be interpreted directly. It means only that the import of building materials as an indicator of shortage is in a significantly positive relationship to savings. The variable E_i completes the function also from the aspect that it does not only consider the effect of savings on the number of flats finished in the given year but gives an indication also of the possibilities of starting constructions in the given year.

In the function constructed with growth rates E_i is not significant: this is because it moves closely together with the growth rates of income.

★

In the Introduction the trends of appreciating savings were presented. One interpretation emphasized forced savings, i.e. the existence of unspent income originating in the shortage of supply, while the other interpretation, on the contrary, found the reason for savings in the improving market supply.

In this paper it has been said that it cannot be decided generally, which viewpoint is right, since on the global market shortage and surplus are present simultaneously. The joint analysis of actual partial markets and savings have not produced a clear picture, either.

The reason for this is that a permanent shortage situation developed on the partial markets analysed influences savings habits (their pace) in a way that the savers adapt themselves to the situation developing on the market: they adjust their saving capacity to the waiting time, and therefore, surplus (forced) savings do not necessarily accumulate on the micro-level. The changes in supply, however, are strongly registered by macro-level savings, independently of how much of it is intended or unintended: in the case of worsening supply unspendable amounts accumulate, and conversely.

At the end of my paper I wish to emphasize that I am aware of having left out of consideration a number of important factors affecting savings. Extensive further research is needed for their exploration. In it, among other things, the interviewing method seems indispensable: the direct questioning of consumers and savers about their saving motives.

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СБЕРЕЖЕНИЯ И ПОЛОЖЕНИЕ СО СНАБЖЕНИЕМ НАСЕЛЕНИЯ В ВЕНГРИИ

М. ЛАЦКО

В статье рассматривается динамика сбережений населения в Венгрии в 1960—1974 гг.

Автор сосредотачивает внимание на той части сбережений, которая является следствием недостаточного рыночного предложения. Так как совокупное предложение на рынке одновременно характеризуется и дефицитом, и улучшением товарного обеспечения, что служит основой и для возникновения противоречащих друг другу мнений и аргументов о природе сбережений, в статье выделяется состояние спроса и предложения на двух частичных рынках — автомобилей и жилищ — и проблема сбережений рассматривается на их примере.

После краткого обзора жилищного положения и снабжения легковыми автомобилями автор выделяет различные типы сберегателей. Так как одной из характерных черт частных рынков является ожидание, основой этой типизации является тезис о том, что на рынках такого типа сберегающий субъект адаптируется к положению на рынке, приспосабливая свой режим экономии к периоду ожидания. Этим объясняется, в частности, тот факт, что на микроуровне намеренные сбережения нельзя отличить от вынужденных, являющихся последствием дефицита.

На микроуровне, однако, сбережения остро реагируют на изменения в снабжении — в случае ухудшения снабжения образуются неистраченные денежные суммы, и наоборот. Автор иллюстрирует это построенными им функциями сбережения. Одна из функций показывает прямое воздействие рынка жилищ и легковых автомобилей, а вторая — содержит более косвенный, но лучше отражающий дефицит (в случае жилищ) показатель.

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M. HOFFMANN

THE MODEL OF HOUSEHOLD MANAGEMENT IN HUNGARY

The author had been gathering representative data from the same households for three years to get acquainted with their management, living conditions and the hierarchy of their needs. By processing these data with computer-technical methods a verbal model consisting of 16 parameters was created. The mechanism regulating the interaction of the parameters was disclosed and attention was called to the influencible points. In addition to forecasting demand the revealed system of relations shows the peculiar habits of the Hungarian households, as well.

Socialist economy centers on needs, as is reflected in the general economic policy, in the contents of long- and medium-term national economic plans as well as in enterprise targets. Needs gets differentiated with rising living-standards and the growing money incomes of the population, with satisfaction assuming a new meaning.

In the process of meeting needs in the course of reproduction several factors variable in time exert their influence. The satisfaction of needs, the creation of harmony between demand and supply depend also on the quality and quantity of information we have on the buying intentions of each income group.

Statistics – by their very nature – do not furnish us with data on buying intentions. Therefore, a wide-range research of needs is inevitable, a possible direction of which is to examine the management of the household and the extent of its planned nature.

In the course of our researches, aiming at a better understanding of the nature of housekeeping, we created partly hypothetically selected and determined factor groups, studied the mechanism of their interactions and described it with the aid of a model.

We formed the factor groups on the basis of observations made in the first two periods of our 3-year research programme. The repeated surveys were carried out yearly by interviewing the same population (0.05 per cent representative sample of households).

The 16 parameters of our experimental model were selected by employing computer-technical means. We supposed that the economic behaviour of households might be motivated by verifiable factor groups. These are the following:

a) income and how it is spent
b) equipment (the flat, stock of durable consumer goods)
c) behavioural factors
d) inclination to planning

The factors in our model are interlinked by an intricate system of relations yet they can be interpreted, the effect of their influence either revealed or – by applying certain abstractions – approached.

The selection of the elements may thus seem arbitrary, – to a certain degree – since the efforts at quantification push the quantifiable factors to the foreground.

Elements and structure of the model of a socialist consumption unit

Our model, with its abstract methods, tries to meet a threefold demand. Its contents and the revealed regularities must prove to be equally reliable from the aspects of society, the enterprise and the individual alike, and also applicable in planning.

The social aspect plays an extremely important role in the model. Some of its parameters can characterise the consumer of any social system, which has achieved a given level of production forces, while others refer exclusively to socialist consumers.

Acting also as elements of the model, the characteristics of the consumption unit are the following:

1. family size
2. income level
3. characteristics of the pattern of outlays
4. stock and age of durable consumer goods
5. the amount of discretionary income
6. the amount of savings
7. value and type of products bought at first sight (impulse buying)
8. housing conditions
9. willingness to buy on hire-purchase
10. possession or lack of a car
11. saving habits
12. nature of procurement plans
13. the way of income allocation among different uses
14. pattern of managing cash income
15. nature of pre-purchasing decisions
16. advertisement-absorbing capacity

In classifying the characteristics in the above manner we were striving to find such qualitative criteria beside the quantitative ones as can be easily interpreted and even quantified. We aimed at decreasing the proportion of non-prognosticable elements this way. Moreover, we did not wish to have to cope with too many variables, for in a simultaneous model almost all the factors are interlinked.

Systematization of the parameters for the model

Our parameters may undergo classification from different aspects: e.g. interpretable-uninterpretable; influencible-uninfluencible; quantifiable-unquantifiable; prognosticable-unprognosticable; quantitative-qualitative; objective-subjective etc. factors.

We might also group the parameters following a method that reflects the possible mechanism of acting upon them. Whatever the method used, parameters influencible by economic-policy measures occur, in our model, by all means along with those influencible by measures taken on enterprise-level. This apparent contradiction follows logically from the requirement that the model should be optimally applicable from social, enterprise and individual aspects alike.

We first present the parameters divided into two groups. One of them comprises those to which a directly verifiable value is attributed, the other those for which there are no natural quantitative measures available. In order to make the latter quantifiable, we must transform them, so as to characterise each qualitative degree in quantitative terms. For the sake of simplicity we may call these two groups both quantitative and qualitative, emphasizing though, that a not small proportion of qualitative criteria is largely dependent on the quantitative ones.

Parameters with a verifiable value:

1. family size
2. income level
3. pattern of expenditure
4. stock and age of durable consumer goods
5. ratio of discretionary income
6. amount of savings
7. value of products bought at first sight

Qualitative but quantifiable criteria:

8. housing conditions
9. willingness to buy on hire-purchase
10. possession or lack of a car
11. saving habits
12. nature of procurement plans
13. the way of income allocation among uses
14. pattern of managing cash income
15. nature of pre-purchasing decisions
16. advertisement-absorbing capacity

The assumable relations among the parameters may be approached on the basis of the following grouping:

Means and results, quasi-objective factors	Behavioural quasi-subjective factors, factors relating to the level of planning
Means-factors	Behavioural factors
2. income level	12. nature of procurement plans
3. pattern of expenditure	11. saving habits
5. ratio of discretionary income	13. the way of income allocation
6. amount of savings	14. pattern of managing money income
Result-factors	Factors relating to the level of planning
8. housing conditions	9. willingness to buy on hire-purchase
4. stock of durable consumer goods	7. value of products bought at the first sight
10. possession or lack of a car	16. advertisement-absorbing capacity
Demographic factors:	15. character of pre-purchasing decisions
1. family size	

The interaction of these factors is shown in *Figure 1.*

Meaning of the parameters in the model

I. *Family size:* the family size parameter of our model depends on the most subjective, almost privileged decision of the individual or the couple, it is thus questionable to what extent it might be influenced. Notwithstanding, determination of influencing means and of their efficiency is of great importance from the point of view of both social and demographic policy. The effects of the new family law in Hungary and of other demographic policy measures thus far encourage us to forecast an increase in family size. Of course, we do not want to go beyond the limits of possibility in considering the family with two or three children as the dominant family type of the next 10–15 years, but we can, nevertheless, reckon with an accelerating rate of population growth as compared with former years. The rise in the income level of the population is also conducive to this tendency.

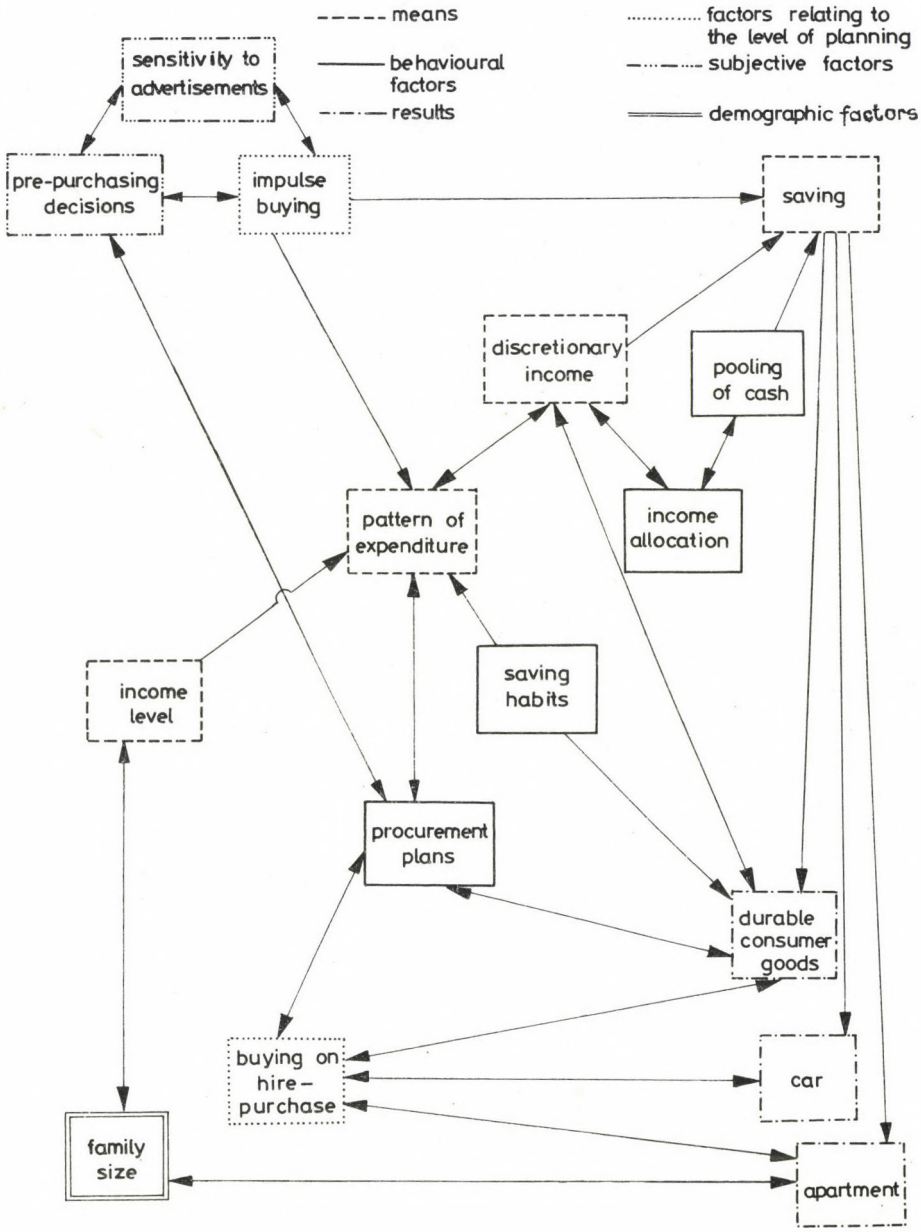
means
behavioural factors
results
factors relating to the level of planning
subjective factors
demographic factors
sensitivity to advertisements
pre-purchasing decisions
impulse buying
saving
discretionary income
pooling of cash
pattern of expenditure
income allocation
income level
saving habits
procurement plans
durable consumer goods
buying on hire-purchase
car
family size
apartment

Fig. 1

2. We judge the size of income as susceptible to influence from both social and individual aspects. Social influence may appear in the form of long-range income regulation, but certain social-policy measures may also have similar effects. Suffice it to mention here the raising of the schooling age, which results in the postponement of a child's becoming capable of earning, and thus the sources of income of the consumption unit may increase only later.

The individual is able to affect his income by acquiring higher qualification and, as regards inactive earners, with incomes from renewed activity, etc.

Incomes from activities pursued during leisure time are not included because of their uncontrollability.

Table 1

Structure of the sources of income in households
(in percent)

Source	Budapest	Provincial towns	Villages
Father's income	42.0	44.6	55.9
Mother's income	32.1	25.2	21.7
Earning child's income	24.6	22.8	15.6
Income from yielding land	1.0	6.8	6.5
Income from leasing rooms in summer	0.3	0.6	0.3
Total	100.0	100.0	100.0
Proportion in the sample	22.6	25.4	52.0
Calculated average income Ft/month	5849	4802	3573
Returned average income Ft/month	5004	4760	3671

By the income of the consumption unit the gross money income is meant*, and social benefits – other than pensions – are not included.

As our investigations show, the income level is affected – beside the nature of the husband's or wife's job – by the location of the settlement as well.

3. *The pattern of expenditure* can be characterised by the relative proportions among the expenditure groups or by their share in the total income, respectively.

* In our research we have not assessed extra (part-time) earnings, but as our data have references to their size, in our forecasts we can also consider this factor.

The fixed spending obligations of our consumption unit were classified into three groups:

I. flat (rent), heating, lighting, gas, electricity, transport, kindergarten, school, television, radio, telephone (that is, overheads to use a colloquial phrase).

II. food, toiletry, detergents, washing and cleaning services

III. costs of car, other (not dwelling) amortization (payments by instalments for durable consumer goods)

Over and above these three main expenditure groups we reckon with a part of income disbursable on non-recurring expenses, and out of which our consumption unit finances its clothing expenses, higher-valued investments and savings.

Apart from the size of income and the established consumption level, the saving habits typical of the unit, the value and type of products bought at the first sight and the type of procurement plans – all of them specially individual factors – bear on the pattern of expenditure.

From among the social factors the impact of changes in the price level and the influence of the social benefits are to be reckoned with.

From among the enterprise tools the impact of the range of assortment, of new and substituting products, of advertisement, of the conditions of hire-purchase and of propaganda advocating a more cultured exploitation of leisure-time are to be mentioned beside price policy.

The data referring to the pattern of expenditure in our household sample show that the consumption units spend 15 per cent of their income on payments by instalments, 20 and 42 per cent on the expenditure groups I and II respectively, 7 per cent on the costs of a car and land (building sites), and 15 per cent on non-recurring expenses.

Our findings demonstrate that the fact whether the head of the family is a manual or non-manual worker has hardly any bearing on the disbursements of expenditure group I and II. However, the peasant strata and inactive earners expend more in the second and less in the first expenditure group than the former two consumption units. With increasing household incomes the proportions of both main expenditure groups diminish. Comparing absolute sums, the difference between the highest and lowest income – bearing in mind the aggregate of incomes – is eightfold, in the first expenditure group it is only 4.2 – fold and in the second 3.6 – fold. By comparing those having medium income (4001–5000 Ft/month) with the group disposing of the highest income (from 8001 Ft/month upwards), the two expenditure groups show a mere 20 per cent rise in the higher income bracket relative to the bracket following it.

4. *Stock and age of durable consumer goods.* To judge the equipment of our sample households we employed a scale of supply divided into classes. According to

our investigations, 40 per cent of the country's households may be deemed to be well supplied.

The equipment of the households shows a close correlation with income and location (Budapest, provincial towns, villages). But the car – as it is often put before other durables in the province – can be regarded as an exception. The relationship between the equipment and the income according to domicile is presented in Table 2, broken down to the main regions.

Divergency in the closeness of correlation remarkably disappears in the context of the type of domicile. The picture emerging is that the investments of the households with a monthly income of 3100 Ft or less are – independent of domicile – slow, they comprise primarily amortization of debts connected with the home.

Table 2

Equipment of the studied households according to the type of domicile

Domicile	Complete equipment + car			Complete equipment + home (flat)		
	private fully paid	private not yet fully paid	rented	private fully paid	private not yet fully paid	rented
	Average monthly income of the household, Ft					
Budapest	5487	5053	6255	5187	6300	4328
Provincial towns	3269	4733	5171	4066	4256	4404
Villages	4454	4203	4931	3390	3472	3863
Total	4424	4691	5602	3791	4762	4309

A certain regularity may be detected in the purchasing hierarchy of appliances possessed by the households. During our investigations we could meet with manifestations revealing a tendency to attain the ideal state registered in the completely equipped households.

The stock and age of these goods may be subject to the influences of incomes policy, the general price level, the "conveniences" of the new appartments and how they are equipped, etc.

From among the influencing tools of an enterprise, its price policy, the level of its repair and guarantee services, the form of distribution, advertisement and new products providing for more comfort should be mentioned.

The most important of the individual's influencing factors are perhaps the share of income spent on non-recurring expenses, saving habits the nature of procurement plans, the willingness to buy on hire-purchase, and the type of pre-buying decisions. Sensitivity to changes in fashion and to prestige is still worth mentioning (partly negative characteristics).

5. *The proportion of discretionary income* is expressed in percentage of the gross income of the consumption unit.

Discretionary income is the amount that remains left after spending on the three expenditure groups (discussed above), on clothing, not yet analysed and on the education of children.

In the case of our households this income share moves around 20–25 per cent. We found its fluctuation to be very moderate.

Our experiences disclosed that with the increase in income the expenses on clothing and entertainment are also going up, and that is why, on medium-term, the proportion of discretionary income is supposed to be practically constant in our model. Even if the share of income to be spent on these items does not alter it is certainly rising in volume.

6. *Savings* are expressed in percentage of the income of a consumption unit. Saving is an important condition of a planned individual (family) economy. The consumption unit has to "accumulate" a given proportion of its income in order to realize investments.

We assume that in the "submicro" sphere of the economy – similarly to the national economy – some kind of planning also asserts itself. Without such planning our research would make no sense, insofar as without households operating – at least to a certain degree – according to a plan, information on decisions made in the households could not be made use of either on enterprise or on national economic level.

Our assumption was justified by the research: 57 per cent of the households are saving, though in different ways and to different extent. We shall still discuss saving habits later on.

The amount of savings in a household varies between 2–13 per cent – depending on the size of income and family – the weighted average is 12 per cent from an average monthly income of Ft 4249 of a household.

The households reserve about 80 per cent of the savings to realize their longer-range targets. This explains – among others – the rapid growht rate of Savings Bank deposits.

The data of our investigations put the amount of savings in saving households to Ft 10 milliards (thousand million) in 1973, (calculating with an average monthly income of Ft 4249 a 12 per cent savings rate, and 1,980,000 households). In 1973

Table 3

Housing situation of the households by the profession of the head of the family

Profession of the head of the family	Private fully paid	Private not yet fully paid	Rented	Total	Rent Ft/month in 1974	Instalment Ft/month
	home (flat)					
Intellectual worker	12.2	29.3	58.5	100	339	380
Administrative employee	25.0	25.6	49.4	100	257	397
Manual worker	49.4	23.5	27.1	100	186	418
Peasant	80.1	13.9	6.0	100	83	343
Inactive	63.9	2.6	33.5	100	128	288
Total	51.6	19.2	29.2	100	205	392

alone the increment of Savings Bank deposits amounted to as much as Ft 7.5 milliards.

7. *The type and value of products bought at first sight* reflects sensitivity to novelty or refers to habitual behaviour concerning low-valued purchases, furthermore it can lead us to infer on the differences between the hierarchy of needs and the level of their satisfaction. Such manifestation of buyer attitude is gaining more and more in importance from commercial-technical and enterprise aspects (from the aspect of "supply").

We defined the type and value of products bought at the first sight in full accordance with these requirements. Their scope includes foodstuffs, cultural articles (books, records, theatre tickets, etc.) and low-valued industrial goods.

This factor is basically a qualitative criterion relating to behavioural and buying customs, to lifestyle. Nevertheless – in this approach – it becomes a quantitative parameter.

Our households spend Ft 245 on average to buy at the first sight, without thinking twice. 21 per cent of the products bought is food, 7 per cent cultural articles and 42 per cent low-valued industrial articles. Households headed by non-manual workers do not substantially differ, in regard of *ad hoc* expenditure on food, from those headed by manual workers. If they dispose of the same income, non-manual and manual workers spend about the same sums on cultural articles.

Obviously, not-planning households expend higher sums at the first sight than planning ones. For example, not-planning households spend Ft 132 on food without a second thought as opposed to the average Ft 107, Ft 416 on low-valued industrial

goods against the Ft 330 average, and Ft 137 on cultural articles against the average Ft 121.

8. *Housing conditions.* The data of the 1973 microcensus demonstrate a 1 per cent annual growth in the proportion of privately owned houses (flats) since 1970.

70.8 per cent of the households lived – according to information relating to the 1st of January 1974 – in their own houses (flats), and 72.9 per cent of these had already paid off their credits. The sum of the average monthly instalment amounted to Ft 392, the rent to Ft 192 in 1973, to Ft 205 in 1974. The average number of the remaining years for repayment is 13.

There are considerable differences in ownership depending upon the profession of the head of the family and the type of domicile.

The investigations according to domicile show that in Budapest 32 per cent, in the provincial towns 62.8 per cent, in the villages 91.5 of the inhabitants live in privately owned houses (flats). In appraising the data we must be aware of the fact that the composition of the inhabitants of the capital strongly deviates from the average, the proportion of intellectual workers being here 40 per cent higher than the country's average.

9. *Willingness to buy on hire-purchase* is a necessary factor in our model, for we assumed that our consumption unit runs the household according to a plan – at least to a certain degree – and is eager to create a cultured environment. It ensues logically that buying for cash cannot be an exclusive characteristic.

30 per cent of the households is obliged to pay monthly instalments, amounting to 15.3 per cent of the total monthly expenditure.

The distribution of instalments among the various obtainable goods corresponds in magnitude with that of the sales on credit of the home trade. The highest sum of loans is absorbed by furniture, TV-sets and refrigerators – in this order. The repayment obligations of our households are in perfect harmony with these findings: amortization of debts related to furniture, TV-sets and refrigerators come to 9.7 per cent, 8.5 per cent and 6.3 per cent, respectively (on the basis of frequencies).

The availability of buying on hire-purchase is advantageous from the point of view of the society, the enterprise and the individual, alike. On the one hand, from the aspect of the national economy, it is an inevitable condition of market expansion and economic growth on the other, from the aspect of the enterprise, it means advanced demand, which allows for the engagement of more purchasing power. Therefore, the information on the willingness to buy on hire-purchase has great importance for planners on both economic levels.

Our households also indicated the expected terms of payment in their procurement plans for 1973: they intended to buy on hire-purchase 40 per cent of the TV-sets, 50 per cent of the tape recorders, 29 per cent of the washing machines,

50 per cent of the refrigerators and 30 per cent of the furniture. The actual sale on credit of the retail trade in 1973 was the following, (in the same order of the goods): 61 per cent, 41 per cent, 32 per cent, and 39 per cent.

The divergency between the indicated intentions and the actual data is not so siginificant as to make doubtful the applicability of household information to demand forecasts, but it warns us to always reckon with some deviations.

10. *The possession or lack of a car* is a necessary parameter of our model, not only because the rate of car purchases has sped up considerably, but also because the scope of movement of our car-owners, as consumption units, is getting enlarged, exploitation of their leisure time, their travelling and relaxation habits change in both quality and meaning. Their knowledge is growing, their intellectual horizon widening, family members spend more time together, they undergo the same experiences. All this leads – in our judgement – to tighter family bonds.

At present 12 per cent of our families have a car, and 5 per cent of the planned expenditure in 1973 is directed to the acquisition of a car.

11. *Saving* habits are, according to our empirical data, a decisive factor in the equipment of households. Families saving a fixed sum are better supplied with durable consumer goods than those saving occasionally, and with the former families yearly savings also run higher.

According to our data, a parsimonious behaviour is typical of the households, and with an increase in income merely the amounts of the sums saved or the possibilities of saving are growing.

The highest yearly savings were revealed with those depositing a fixed monthly sum, it totalled Ft 11,281 as against the average of Ft 5 198. It is very characteristic of their behaviour to deposit the usual sum with the Savings Bank immediately on receiving their pay. In our sample the proportion of those saving in this way is 14.2 per cent and, calculating on this basis, we obtain an annual increment of Savings Bank deposits of Ft 5.4 milliards.

12. *The nature of procurement plans* is incorporated in the model so that the consumption units forecast their larger investments, and deviate from them only under the pressure of critical circumstances.

This interpretation may appear as overly deterministic, because it presupposes a behaviour characterized by purposeful planning, a strict economy within the family. It is a debatable point whether the majority of people can comply with such behavioural standards or not, or whether the description of a closed behavioural pattern like that is permissible at all. Our consumption unit does not live in a vacuum, it is affected by external and internal, conscious and subconscious factors, evitable or inevitable events etc., which may deflect it from its original intentions, or may even alter its conception.

Yet, we believe that the deterministic parameters increase rather than decrease the flexibility of our model, in close interaction with such factors, as for example, the proportion of discretionary income, the type and value of products bought at the first sight, saving habits etc., which, as a whole, determine lifestyle.

On realising the "major investments" the households follow this behavioural pattern to 68–78 per cent, that is, the proportion of pre-planned procurements in the aggregate volume is that much. The share of the planned procurement is 18–34 per cent with medium-valued durables (vacuum-cleaners, hearths, tape-recorders) and with refrigerators this already reaches 55 per cent.

The motives of deviations from the plan are multifarious. Deficiencies in supply occur most frequently among them, though such deviations may also be induced by peculiarities in consumer behaviour, as is illustrated in the next example. Some people – especially provincial people – favour cash purchases and postpone procurement unless they have an adequate sum at their disposal.

Our investigations indicate that the willingness to buy on hire-purchase and the behaviour of family members participating in pre-buying decisions have a bearing on the degree to which procurement plans are realized. The latter factor has a feature, namely, that in households where the mother is playing the major role, plans are realized in higher proportion than on the average.

13. *The pattern of income distribution* is discussed parallely with the problems of the "common purse" or the "pooling of cash incomes" as they are correlative, reciprocally determinant parameters of our model.

Our consumption unit distributes its income by involving earning family members in a way that it creates a "common purse", from which all the persons taking part in the management of the household may draw money to meet specific demands. The "common purse" is divided into sums corresponding to the different types of expenditure already from the outset.

79 per cent of our households has a "common purse", which means that every earner hands over his income to the same family member. These incomes will then be differently allocated and managed. The wife's occupation is a decisive factor in the management of the household or in the pattern of income allocation.

We have found a correlation between the equipment in our households, that is how they are provided with material goods, and the pattern of income allocation. 14–23 per cent of the completely equipped households decide collectively on the incomes, as opposed to the poorly equipped ones, in which the proportion varies between 2–17 per cent. In the less equipped households the mother's personal responsibility is greater. She bears the responsibility for income-spending in 33–38 per cent.

Table 4

Proportion of families with a "common purse" and the pattern of managing it as a function of the wife's occupation (in percent)

Wife's occupation	with a "common purse"			Total	Without a "common purse"	Total
	anyone may draw from it	handled by a pre-determined person	managed in some other way			
Intellectual worker	45	7	–	52	48	100
Administrative employee	73	11	3	87	13	100
Manual worker	69	12	3	84	16	100
Peasant	71	12	1	84	16	100
Inactive	62	12	2	76	24	100
Total	65	12	2	79	21	100

These observations allow us to conclude that the precondition for a good housekeeping is collective responsibility for income-spending, which, it goes without saying, does not exclude the division of cash-managing functions among family members.

15. The nature of pre-buying decisions is closely linked with that described above, that is, with participation in the management of the household and with collective responsibility. The existence of a "common purse" is an expression of democracy in the family; the other (multivariable) parameter is the mechanism of procurement (investment) decisions.

Our research proved that functions and tools in the "submicro" economy can, in the same way, be separated as in productive organizations. The information-level of those participating in management is not the same, and their personality is disparate, as well. In a democratically functioning family their influence asserts itself in as much as they are competent and willing to participate.

In our research we dealt with the tasks of financing, feeding, clothing, home furnishing, procuring household devices (and other high-valued articles), family planning, child education and vocational guidance, holiday-making, entertaining and culture, as functions that can be delimited.

The replies typical of the individual households offer a remarkable distribution.

We also questioned about the motives of meting out the functions to given family members, and we received, in a surprisingly big number, definitive answers to them. The behaviour of the family in the division of the before-mentioned functions is influenced by the educational level, age and profession of the grown-up members of the family. The father's and mother's motivations to influence decisions are cumulatively presented below:

Table 5

Division of family functions in percent of the cases mentioned

Functions	Responsible family member				
	Father	Mother	Collective	Other*	Total
Financial	7.3	62.7	12.2	17.8	100
Feeding	4.4	67.3	6.1	22.2	100
Clothing	3.1	46.1	21.1	29.7	100
Home furnishing	6.1	22.2	34.5	37.2	100
Procuring household devices	16.2	15.2	31.9	36.7	100
Child education	5.6	24.6	13.9	55.9	100
Culture, holiday-making	16.4	8.8	16.4	58.4	100
Family planning	8.4	13.0	57.6	21.0	100

* children, grandparents, no response

Table 6

Justification of undertaking the weightiest functions carried by single persons in percent of the cases mentioned

Motivations to take responsibility	Mother is responsible for				Father is responsible for	
	financial	feeding	clothing	child education	procuring household devices	holiday-making
	FUNCTIONS					
more competent	86.9	90.2	91.1	70.9	51.1	39.9
stays at home	86.2	77.3	84.5	84.0	–	22.2
has a good taste	–	–	58.9	–	–	44.1
better informed	–	25.0	75.0	50.0	–	38.9

Clearly, our households, follow a given behavioural pattern, in which family members fulfil the functions, undertaken either arbitrarily or meted out by the family, in keeping with their competence. The results of the research coincide with international experiences and the expectations of the research workers.

16. *Advertisement-absorbing capacity* is a very important parameter of our model from the aspect of assessing information-releasing tasks prior to decisions in production and trade. It is assumed that families cannot completely escape the influence of mass media, and in their decision-making period they rely on information conveyed through the advertisements. The family is also affected by the opinions of persons and families keeping in touch with them or living in their neighbourhood.

Investigations of the behaviour of the households showed that the effectiveness of our advertising media and advertisements is small. Buyers made their decisions primarily leaning on information offered by the shop-windows, on the advice of sales personnel, and last but not least – on the experiences of the neighbours and acquaintances. The latter factor focuses attention on the fact that the flow of information among consumers has a considerable impact on product image.

Why consumers favoured advisory personnel or media, might be explained by several reasons. If aware of them, advertising companies can send their arguments more effectively to consumers. Buyers regard sales personnel more competent and better informed than themselves. Shop-windows serve to help us choose from among new products, better orientate among them, TV and advertisement "deliver home" information on them.

Advertisement-absorbing capacity plays greater role in impulse-buying than in planned procurements.

★

The parameters in the model of housekeeping form a rather intricate and many-sided system of relations, hence they are definable only by means of a series of models. This fact, however, does not bar its application as a planning tool either in the micro-or in the macrosphere. An analysis of the elements of the model, based on relations rendered probable among them, allowed a "verbal" description of the model, in which parameters influencible by enterprise tools are included as well as indicators estimating the potential market of durable consumer goods.

Finally, we would like to suggest some possible fields of application of our model:

1. Our researches of the management of households may provide one of the empirical sources of the socialist model of consumption.

2. The attention of long-term planning can be drawn upon quantifiable qualitative variables.

3. These researches may also be conceived as preparatory work for a wider economic investigation into the households.

The big weight of analytical work results from the basic research nature of our investigations. The primary task of our analysis was to create – relying on empirical data – a theoretical basis that might serve as a starting-point to reveal and satisfy needs on a higher level – in a way specific to socialist economy.

ХОЗЯЙСТВЕННАЯ МОДЕЛЬ ВЕНГЕРСКИХ ДОМАШНИХ ХОЗЯЙСТВ

М. ГОФМАН

Исследователи будапештского Университета экономических наук им. Карла Маркса в течение трех лет проводили выборочное наблюдение хозяйственной деятельности в домашних хозяйствах Венгрии на совокупности, состоящей из 1650 единиц.

Цель исследования — выявление наиболее характерных черт метода ведения домашнего хозяйства, условий жизни, ранжирования потребностей и т. д.

При исследованиях, которые проводились в три этапа, применялся способ устного опроса. При первом опросе выяснялось наличие и срок службы бытовых предметов длительного пользования, направление и содержание планов по приобретению вещей на ближайшее время, а также критерии, формирующие метод ведения домашнего хозяйства. При следующем опросе выясняли степень реализации или причины откладывания выполнения планов по покупке и собирали информации о количественных и качественных факторах внутреннего механизма домашних хозяйств. На третьем этапе контролировалась надежность ранее собранной информации и вновь собирались сведения о планах по приобретению вещей на ближайшие годы.

Данные, собранные при трех опросах были обработаны с помощью вычислительной техники, в ходе чего были образованы группы факторов, выбранные гипотетически и эмпирически, рассмотрен механизм их взаимодействия, а в итоге было дано словесное описание модели.

Составные элементы модели — это переменные, которые выражают связи на основе большой вероятности:

1. величина семьи,
2. величина доходов,
3. структура расходов,
4. состав и срок службы предметов длительного потребления,
5. величина дохода, подлежащая свободному использованию,
6. величина сбережений суммы,
7. характер и стоимость товаров, купленных с первого взгляда,
8. жилищные условия,
9. готовность к приобретению вещей в рассрочку,
10. наличие легкового автомобиля,
11. метод сбережения,
12. характер планов покупок,
13. способ распределения доходов,
14. метод расходования денежных доходов,
15. характер решений, принимаемых перед приобретением вещей,
16. реакция на рекламу.

Статья анализирует отдельные параметры модели, указывая на взаимодействие количественных и качественных переменных. Автор обращает внимание на возможность воздействия на эти факторы, а также на необходимость этого воздействия. Она делает попытку разграничить функции, имеющиеся в домашнем хозяйстве, и приводит возможные причины разделения труда между

членами семьи, стремление членов семьи, которым поручено выполнение какого-нибудь задания, к демократизму.

Параметры модели составляют разнонаправленную и сложную систему связей, поэтому могут быть описаны только целой серией моделей. Однако, по мнению автора, это не препятствует тому, чтобы использовать их в качестве средств для планирования спроса.

Анализ, проведенный в отношении вероятных связей между элементами модели, позволил создать словесную модель, в которой имеются и параметры, на которые можно воздействовать средствами предприятий, и показатели, которые можно использовать при оценке потенциального рынка товаров длительного пользования.

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STABILIZATION POLICIES – THE EXPERIENCE OF THE FEDERAL REPUBLIC OF GERMANY*

During the last ten years two institutional measures were taken both of which are of great importance for German stabilization efforts: the Law to promote economic stability and growth, enacted in 1967, and the adoption of a system of flexible exchange rates in March 1973.

The stabilization results of these two measures are to be judged differently. The floating, on the whole, was successful. Today, the German public largely supports the flexible rates, but there is also broad consent that a scheme of internationally binding rules on handling the floating is highly desirable. – The Stabilization Act, however, did not come up to the expectations once raised towards it. The numerically fixed targets were not achieved in any year in a satisfactory degree, the accompanying incomes policy which was based on a system of voluntary agreements (Konzertierte Aktion) was rather unsuccessful and fiscal policy was not anti-cyclical during booms.

There are two institutional measures which have a primary long-term importance for understanding stabilization policy in the Federal Republic of Germany:

1. the passing of the "Law to promote economic stability and growth" of June 8, 1967; and
2. the adoption of a system of flexible exchange rates on March 19, 1973.

Any reflection on German stabilization policies has to bear in mind that these two measures are interlinked. By the "stability-law" the official quarters responsible for stabilization policies (Federal Government and Bundesbank) should be equipped with the – supposedly – most advanced monetary and fiscal instruments available in order to counter thus cyclical fluctuations and to secure balanced growth. The substitution of floating exchange rates for "casually" flexible rates should provide the safeguard of domestic economic policy against external influences which the earlier rules of the Bretton Woods system had failed to bring about.

Foreign observers, getting just a glimpse of the German situation, mostly think that the efforts toward stabilization made in the FRG were, in an international comparison, fairly successful. In fact, though German inflationary rates as such have so far been quite noticeable (cf. *Table 1*), they look modest compared to those of other countries; economic growth, though reduced (and in 1975 maybe even negative), remains in the long-run still satisfactory**, and unemployment which

* Since the article was written in early 1975, the data for 1975 are still expected ones.

** According to Table 1, however, in 1975 GNP is estimated to decrease for the first time.

recently has approximated the 5 per cent rate* – measured by German statistical terms – appears less exciting if compared to the U.S. rate that has reached 9 per cent during spring 1975. And finally, except for the last months, the balance of payments has developed very favourably so that the Federal Republic – unlike her European neighbours – could balance her "oil account" without difficulties. Considering all that, concerns about the business cycle more properly seem to be interpreted as an attempt to hide, in a world of unfortunate stabilization policies, the own better fortune from the neighbours in order to avoid being urged to shoulder too heavy a burden for joint rescue operations.

If the German position is judged as relatively favourable by international comparison, one might be inclined to explain such a success, among other things, by the two above-quoted measures, i.e. the "stability-law" and the introduction of floating exchange rates. A more precise analysis, however, does not confirm this presumption. Certainly, as far as floating is concerned, one may admit despite the fierce criticism sometimes uttered against it that, by and large, this floating has been a successful measure for fostering economic stability; the stability-law, however, has hardly come up to the expectations which were originally raised towards it. *Academic* discussion deals with the question of how to "improve" the stability-law. It is asked whether and to what degree formula-bound rules should take the place of the hitherto discretionarily managed policies. The realisation of such proposals would go beyond that law's scope of anti-cyclical policy-making. But the discussion on the appropriate *practical* demand management measures in summer 1975 has largely come to a standstill. The highly optimistic forecasts on the evolution of economic activity to be expected by spring 1975 have been replaced in the meantime by gloomy prophecies. Meanwhile the Federal Government has revised downwards the (target) projection of a real growth rate of 2 per cent which it made as late as January, and some business research institutions now do fear even a decrease of the Gross National Product (GNP) in real terms. Due to the lack of seasonal recovery unemployment remains undiminished, thus supporting estimates of even higher unemployment figures during next winter. Also the price level has regained a slightly rising tendency.

In this situation of continuing recession and inflation, for the moment the number of "optimists" – who still bet on the recovery in autumn is counterbalancing

* Due to the relatively high incomes which the unemployed get from unemployment insurance and due to other benefits (incomes of unemployed are not taxable incomes), the bad social consequences of being unemployed have been reduced to such an extent that the newspapers report more and more frequently on unemployed workers who are not willing to work. How far such news report on single phenomena, is difficult to decide. At any rate, there is no sign of political unrest on the side of the unemployed, such as protest meetings or marches; neither is the picture of unemployed queuing up for jobs typical for German everyday life.

the number of "pessimists" who fear a further decline. While the optimists go in for doing without (expansionary) monetary and fiscal measures in order to avoid renewed inflationary turns, the latter ones plead for a forced deficit spending in order to bring about the long desired boom. It is discussed relatively little that possibly none of these two strategies may lead to success, though there are grave indications that presently the real task in Germany is not to combat a traditional slack demand by using the customary Keynesian instruments, but to fight a structural crisis that requires the application of measures quite different from those provided for within the framework of the governmental ex ante-demand management.

But, as everybody knows, diagnosing the cyclical situation always contains risks, because it is never clear which phase of the cycle the economy is just moving through. The advocates of the stability-law, particularly proud of the new informational tools of the law (annual economic report of the Federal Government, orientation data, special opinion of the Economic Experts' Council), had to learn precisely that fact in the very same year (1967) in which the law had been passed. In that year a second programme to support business recovery was proclaimed and realised at a time when the business cycle's turning point, as was found out later, had already been reached. Consequently, business activity was overheated and then could not be damped down any more sufficiently. Therefore, before entering into the difficult and controversial particulars of the present state of business activity, the necessarily incomplete attempt shall be made to report on some experiences which were gained in connexion with the recent "efforts toward internal and external stabilization" of the economy.

Efforts to secure internal stability

The establishing of the stability-law kind of demand management ("Global-steuerung") means, considering the background of the German scene, the introduction of a fundamentally new style of stabilization policy. The anti-cyclical policy of the fifties and the early sixties, shaped mostly by Ludwig *Erhard* and Alfred *Müller-Armack*, emphasized the irremovable risks and hazards of any attempt to exert a political influence on economic activity. In contrast to that, the *ex-ante* demand management originating from the "New Economics" of the Kennedy-era claims to be able to determine in advance (*ex ante*), by a political decision-making process, what the desirable course of cyclical movement should be. The tools used for such a determination are the target projections. At the same time, the *ex ante* demand management intends to equip the politicians with all the macroeconomic instruments required to realize the quantitatively defined objectives. Hence what

was aimed at was an *anticipating* control of the economy, directed at numerically defined targets and strictly pursued to reach a steadily ongoing business cycle and growth. The set of instruments should consist above all of comprehensively effective means, designed to influence in particular aggregate demand: the instrument of compensatory fiscal policy in the public sector, monetary policy for regulating the money flow, a comprehensive incomes policy for regulating the behaviour of employers and employed in the labour market. Given the specific German situation, that meant to complete the already existing set of instruments of monetary policy*, to introduce fiscal policy in its forms of public expenditure and revenue policy and of reserve and debt management, to provide a legal basis for the newly created incomes policy, and to set up several planning and co-ordinating institutions (business cycle council, financial planning council) which should bring to an end the frequently deplored un-coordinated financial behaviour of the territorial authorities (federal, state and local authorities).

Summing up all that, there results a picture of stabilization policy that differs considerably from an earlier more reactive understanding of such a policy. The Federal Government or, more strictly speaking, the Federal Minister of Economic Affairs determines in advance the (numerical) degree to which the four macro-economic objectives are to be realized. Fiscal and monetary policies are dimensioned according to these degrees of objective realization, and the interest groups of the economy, especially employers' associations and trade unions, support the desired policies by behaving according to the public targets, avoiding to threaten – by autonomous measures – growth, price stability, full employment and equilibrium of the balance of payments.

How successful was the *ex-ante* demand management along Keynesian principles? It is impossible to portrait here in detail the cyclical movements of the last eight years. After the stagnation of 1966/67 the Federal Republic experienced in 1968/69/70 a boom that is described frequently as a "vertical take-off from the abyss". Then, expect for the year 1973, growth decreased considerably. The year 1974 leads to stagnation, for 1975 a zero economic growth is expected. The rapid growth of the years 1968–70 produced, apart from 1970, inflationary rates above the five-percent-level. That is quite an alarming level for a country like Germany that had, due to inflationary war financing, two currency conversions within one generation, (1923, 1948). The phase of stagnation that began in 1974 is reflected by

* These questions are regulated in the Federal Republic by the Bundesbank Act. The stability-law provided just minor supplements to these regulations. Its seemingly little systematical structure containing numerous references follows from the fact that this law completed and amended the already existing legal instruments. Therefore, to the foreign reader the law is possibly difficult to understand. A good introduction into the economic part of the law is to be found in [1].

rising unemployment figures. The absolute number of unemployed in spring 1975 amounts to 1.3 millions*, accompanied by short-time work for 800,000 persons and a reduction of the number of foreign workers from 2.5 to 2.1 million persons**. In view of the stagnation of growth, the inflationary rise of prices and the rate of unemployment, it is only the balance of foreign trade that looks satisfactory. Unlike her European neighbours, in this respect the Federal Republic, thanks to the still continuing surplus of its balance of payments, need not be alarmed immediately.

So the picture of economic activity differs very much from the hopes held out by the advocates of *ex ante* demand management concerning balanced growth and price stability. A comparison of the target projection with what has been really attained clearly demonstrates the striking discrepancy between political aims and actual results. In the period of 1967–69 it was tried to formulate the objectives pursued in terms of precise percentages. The striking discrepancies which in our *Table 1* appear simply as wrong absolute figures***, have provoked since 1970 that the macroeconomic objectives projected were only in terms of intervals or limits of tolerance. Thus, however, the claim set up originally by those target projections has been considerably diminished. But even where the intervals for the projected targets were relatively "broad", the figures effectively realized frequently went far beyond the planned figures.

It might be argued that the evident failures are caused by insufficient techniques of forecasting or by yet incomplete instruments for controlling cyclical fluctuations. These two excuses, however, are not convincing. The *irremovable* difficulty of any business forecast consists in the fact that the relevant economic data are unknown at the time when the forecast is made. For example, in the month of January, the Federal Government presents pursuant to the provisions of the stability-law an annual economic report. This report does not only deal with the economic development that in the next time probably will materialize, but also with the policies to be pursued – which, by the way, provoke as such a feed-back on the result that is expected to turn out. But – owing to the time-span that is indispensable for evaluating the statistics on economic activity – when defining its various targets for the report, the Government has no more but just a fairly rough idea of the economic situation during the preceding year's October/November.

That means that the true present situation is unknown. It only can be supposed that things today are not very much different from those two or three months ago. But

* June, 1975. This corresponds to an unemployment rate of 5.6 per cent, measured by the total number of employees (21.5 millions).

** Beginning with September, 1973, a canvassing stop for foreign workers has been decreed.

*** Another possibility would have been to derive the relative deviation.

Table 1

	Annual projection			Annual projection			Annual projection			Annual projection			Annual projection		
Year	1967			1968			1969			1970			1971		
Policy targets	P	R	A	P	R	A	P	R	A	P	R	A	P	R	A
Gross National Product at constant prices, annual growth rate	2.0	−0.3	+2.3	4.0	7.4	−3.4	4.5	8.1	−3.6	4.0–5.0	5.8	−0.8	3.0–4.0	2.8	+0.2
Annual Increase of the Price Index for NP	2.0	1.1	+0.9	2.1	1.5	+0.6	2.5	3.5	−1.0	4.5–5.5	7.1	−1.6	4.0–5.0	7.7	−2.7
Contribution of foreign balance (Ex-Im) to GNP in percent	2.2	3.3	−1.1	2.7	3.5	−0.8	2.2	2.6	−0.4	1.5–2.0	1.7	–	1.5–2.0	1.6	–
Unemployment in percent	1.5	2.1	−0.6	1.4	1.5	−0.1	1.0	0.8	+0.2	1.0	0.7	+0.3	1.0	0.8	+0.2

	1972			1973			1974			1975	
Gross National Product at constant prices, annual growth rate	2.0–3.0	2.0	–	4.0–5.0	5.5	+0.5	0–2.0	0.6	–	ca.2.0	
Annual Increase of the Price Index for GNP	5.0	6.1	−1.1	rd. 5.5	6.1	+0.6	6.5–7.0	6.5	–	6.0–7.0	
Contribution of foreign balance (Ex-Im) to GNP in percent	1.5–2.0	1.6	–	1.5	2.9	+1.4	1.5–2.0	3.9	+2.9	3.5	
Unemployment in percent	1.0	1.1	−0.1	rd. 1.0	1.2	+0.2	2.0	2.6	+0.6	3.0	

P = Projection, R = Realization, A = difference between projected and realized rates of change

Source: Annual Economic Reports of the Federal Government for the years 1968, 1969, 1970, 1971. Cf. Bundestagsdrucksachen V/2511, V/3786, VI/281, VI/19760, VI/3078, VII/225, VII/1646, and VII/3197. (Some figures differ by several tenth-percentage points in the various annual reports' over time, many of the official actual data were changed repeatedly to a considerable extent.)

such a supposition usually turns out to be lacking a valid foundation precisely when, in the meantime, cyclical changes have occurred. Thus the forecasts fail to accomplish what they were primarily expected, i.e. to indicate *ex-ante* cyclical fluctuations.

If it is agreed that the informational lag between making the forecast and collecting the relevant data cannot be eliminated, the second objection to excusing

the failures of the *ex-ante* demand management loses much of its weight. If a decision has to be made in a situation where the results of action remain uncertain, because the agent has only insufficient knowledge about his (economic) environment, the situation cannot be improved simply by making available further instruments for the acting politician. One may even think that the opposite is true. The greater the number of instruments of which the government disposes, the more the risk may increase that, owing to wrong estimates of the cyclical situation, the instruments are misapplied.

So, as a résumé of the governmental effort to control cyclical movements by an *anticipating* demand management, it may be stated: The irremovable risks connected with influencing business cycle movements have anew become evident by the German experiences gained from the *ex-ante* demand management. The governmental claim to make the economy move on a level of activity fixed in advance, cannot be realized in practice.

A second important element of the stabilization policy started in 1967 is the "easyhanded incomes policy". It differs very much from the techniques practised abroad where also temporary price and wage stops (e.g. in the U.S.A. in August, 1971, or in England under various governments) are defined as incomes policy. The German kind of incomes policy has gone through different phases. The original idea was that the Federal Minister of Economics and the large economic interest groups (employers and trade unions) should, by "concerted action", work out an agreement on what degrees of realization are desirable for the macro-economic objectives. In compensation for being allowed to participate in the shaping of policy, the private groups were expected to show good conduct, on their part i.e. to abstain from inflationary wage agreements.* According to the official versions given on the matter in the years around 1970, the co-ordination of government and groups was realized in the following way: First the Federal Government defined certain desirable values for the macro-economic objectives. Then it presented these values to the groups and tried to convince them by arguments and informations that the chosen policy-mix would further the groups' particular interests, too. In this context, the Government could also present orientation data, i.e. make officially clear what overall wage increase for the whole economy it thought tolerable. It was not intended by this procedure to define explicitly sectoral rates of (adequate) wage increases, neither have such rates ever been fixed in practice.

The "stability-pact" founded on voluntary co-operation showed little success in practice. True, for the years 1967 and 1968 the "concerted action" is held to have

* Cf. to [2] There it is said: "A co-ordination of official economy policy with the decisions of the autonomous groups... indispensable under present and future economic conditions."

been successful, because wage agreements remained low and did not impede the upswing. But due to the fast rise of entrepreneurial profits in consequence of the unexpectedly brisk economic recovery, the trade unions claimed in 1969 to have a backlog demand for wage increase. They heavily blamed the Federal Government for their having been deceived about the true economic situation. But, to be fair, it must be conceded that even the Federal Government itself had trusted the reliability of its earlier made target projections too much and thus was surprised by the speed of business recovery. The conflict between the Federal Government and the trade unions was, among other things, the reason for a change in character of the concerted action so that, instead of being an instrument of co-ordination between Government and economic groups, it became in the subsequent time more and more an informal round-table talk. As a high official said: "The obligatory communiqué-declarations made at the talks of the concerted action that the participants intend to support the stabilizing policies of the Federal Government were, to a great extent, ... just ritual performances" [3]*.

True, in the past it was tried several times to extend the powers of the concerted action, and even to transform it into an economic and social council. In the practice of economic policy, however, the importance of this institution has decreased, as is shown best by the recent economic developments.

Many economic observers agree that the present recession in the Federal Republic is a consequence of excessive increases in real wages in 1974. Without considering the change of the cyclical situation, that was already detectable in 1973, the unions pushed through, under the impression of the high inflationary rates, wage rises which amounted to 12.5 per cent on an average at the beginning of the bargaining round and, came to 11.5 per cent on an annual average**. After deducting the rate of inflation that means an increase of real wages by 4 per cent what – as the Economic Experts' Council stated – [6] "evidently ... is not compatible with maintaining a high rate of employment". "The Council estimated that wage increases nearby 2 per cent would have had a by far less dangerous effect on the value of money. But at a time when full employment is a main goal of public policy, unemployment can hardly be viewed as the result of deliberate political strategy." Therefore, the résumé of the concerted action and of the attempt to achieve a "simultaneously accomplished mutual adjustment of behaviour" of Government and interest groups can only be that stability pacts (or social contracts) based on voluntary regulations of behaviour will not be successful. There is a simple

* Cf. also the articles of [4] Konzertrierte Aktion. Studien zu einem wirtschaftspolitischen Experiment. Stuttgart 1971.

** On details cf. [5].

Table 2
Population, employment and unemployed in the Federal Republic of Germany 1967–1975

Year	Population in 1000	Employment in 1000	Share of non-German workers in the total employment in 1000	Unemployed in 1000	Unemployment in percent
1967	59.286	21.054	1.014	459	2.1
1968	59.500	21.183	1.019	323	1.5
1969	60.067	21.752	1.366	179	0.8
1970	60.651	22.246	1.807	149	0.7
1971	61.284	22.414	2.128	185	0.8
1972	61.669	22.435	2.255	246	1.1
1973	61.974	22.564	2.530	273	1.2
I/1974	62.065	22.420	2.540	431	1.9
II/1974	–	22.230	2.460	529	2.3
III/1974	–	22.030	2.360	662	2.9
IV/1974	–	21.770	2.260	793	3.5
I/1975	–	21.560	2.170	835	3.7
II/1975	–	–	–	1.123	4.9

Source: Report of the Economic Experts' Council 1974/75, p. 222 and Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank (Statistical supplements to the monthly reports of the Bundesbank), series 4. Seasonally adjusted economic figures. July 1975. No. 7, Table 5.

theoretical explanation for this state of affairs: Disregard of a voluntarily signed stability-pact will not produce immediate bad consequences for the participating interest groups. On the other hand, however, it is uncertain whether the mutual adjustment of behaviour will lead to any visible success. For a single interest group, therefore, it is evidently a rational standpoint to participate in a concerted action, if an immediate advantage results from such behaviour. But if the cost-benefit analysis does not clearly prove greater benefits of the "concerted" agreement, diverging from the collective behaviour may be profitable for the single groups participating.

The centre piece of every Keynesian-oriented stabilization policy is to control the business cycle through the budget. This conception is reflected in the stability-law by the fact that more than two thirds of its 33 sections deal with managing the budget in order to control cyclical movements. A survey of the development since 1967 shows, however, that the actual results do not correspond to the expectations of the advocates of fiscal policy. Neither temporary tax rate variations nor the regulation of economic activity by varying budget expenditure, nor public investment activities had a satisfactory anticyclical effect. The best known *temporary* measure to restrain business activity was a repayable stabilization surcharge (Konjunkturzuschlag), decreed on 6 July, 1970, that should have absorbed, according to estimates of the Federal Government, a purchasing power of

5.2 thousand million DM in 1971, and, at the same time, should have brought down the rate of price increase to a level below three percent.* It is widely agreed, however, that the absorbing effect that had been hoped to hit the internal circulation did not come about, not least because of the opinion that, under conditions of a labour shortage, officially guaranteed full employment and elastic money supply, the stabilization surcharge could be shifted without any greater difficulty on prices [7]**.

But more important than diverse single measures are, in the context of stabilization policy, the cyclical stimuli from budget expenditure that influence the national economy. The Economic Experts' Council tries to find out the weight of these stimuli by using the concept of a "cyclically neutral budget". By that it understands a comparison of the actual budget volume with a (hypothetically) calculated budget. Then, from the balances of the actual and the fictitious budget volumes it is deduced whether the given budget is cyclically neutral (or pro- or anti-cyclical, resp.).*** Although the concept of the cyclically neutral budget was still disputed in some details, it permits, on the whole, to judge quite well whether the objectives of fiscal policy have been reached. According to the calculations of the Economic Experts' Council governmental budgets produced in the period 1966–68 no or at best fairly weak economic stimuli, while for the period 1970–1974, i.e. at a time of booming economic activity followed by a cyclical decline, budget effects obviously showed to be expansive and thus pro-cyclical. But the Economic Experts' Council believes that fiscal policy contradicted cyclical needs even in 1974, a year of economic slackening, though, at first sight, expansionary budgets might be considered as useful to combat the decline of activity caused by a fall of employment.

Cyclical stimuli given by government budgets (in 1000 million DM)

1966	1967	1968	1969	1970	1971	1972	1973	1974
–	+0.1	−0.1	−4.1	+9.8	+16.1	+8.5	+4.5	+9.4

Source: Report of the Economic Experts' Council on 1974/75, Table 19, p. 97.

* Actual rise of price level in 1971 = 7.7 per cent.

** For lack of space the investment tax, the interruption of the declining-balance depreciation, the stability surtax and the investment grant (1975) are not treated in detail.

*** [8] defines a cyclically neutral budget volume as follows: "We (The CEED) consider a budget volume as cyclically neutral that... does not cause deviations in the intensity of strain on national production potential from the strain on capacities which may be considered as normal in the medium term. That is the case, if the state as such claims just as large a portion of the overall economic supply possibilities as is suitable for the economy, or to which it can be adjusted by a re-shaping of public revenue rules. If the state diverges from this course e.g. by expanding its demand on the production capacities without restraining, at the same time, private demand to the same extent, we attribute to the state cyclical stimuli to precisely this extent."

The objections of the Economic Experts' Council to the expansionary expenditure policy of the state point out that, under conditions of simultaneous monetary restrictions, the budget management had helped to compete away even more investment resources from private investors. Thus, according to the Council, the demand for private investment was depressed further than it would have been anyway as a consequence of the general decrease of economic activity. By putting into action the special programmes for the construction industry in the second half of 1974, the government budgets, in the Council's view, just helped to counteract the decrease of employment that they had brought about – in combination with other factors –, by their expenditure policy in the beginning of 1974 [9].

The investment activity of the state has still to be separately mentioned. According to the fiscal policy doctrine, it should be slowed down in case of a heavy strain on the economy's production potential, and should be extended in case of less employed capacities. The actual results point in the opposite direction: public investment, over long periods, had a pro-cyclical effect, enhancing thus the strain on economic resources. That could be observed particularly clearly in the way that the construction market was handled. It seems that presently the situation of 1970/71 is going to come back but with a completely reversed sign. At the time the Bundesbank stated quite unmistakably: "Public Authorities... by a pro-cyclical management of their investment activities, have not only left out of hand an instrument for regulating economic activity, but have by the heavy price rise ensueing from such behaviour, also narrowed their scope for enlarging the real share of public investment in the National Product" [10].

Presently, however, the public investment demand is sharply diminishing, just as is the demand of private investors, so that the investment incentives from state activity, which are needed in recession periods, cannot spring up.

The efforts to achieve external equilibrium

With regard to the external stabilization policy, interest in the last decade focussed on two problems, namely, on avoiding the import of inflation by balance-of-payments surpluses, and on warding off "speculative" inflows of capital. The Economic Experts' Council has, in due brevity, expressed in its report of 1966 [11] the basic problem of external stabilization policy for the Federal Republic in the following way: "As long as further increases of foreign prices must be feared, even in the best case only one of two things may be promised: either a constant price level, i.e. a stable value of money..., or constant exchange rates. If a constant internal price level is promised, it has to be admitted that price increases abroad are

compensated by corresponding price reductions of foreign currency, i.e. by rising exchange rates. If constant exchange rates are promised, the public must be informed quite clearly that the goal of a constant internal price level can be approached only to an extent to which also the most important foreign partners strive for this aim, on their own initiative." And the Council continues: "Whoever, in view of this interrelationship, promises both to the German citizen, i.e. constant exchange rates *as well as* a constant internal price level, makes a promise of which it is quite clear from the very outset that it can never be kept."

The conflict between these two objectives has been the main theme of external stabilization policy ever since 1967. The 18th March, 1973 marks then an important turning point. While economic policy in the previous period had been vacillating between revaluations, revaluation-substitutes, short periods of floating and administrative interference with capital flows in order to protect the "external flank" – to say it in the economist's slang – adopting the floating meant to take a measure that, though officially declared to be provisional, promised to be a lasting "provisional" measure.

The stability-law needs just one short section to deal with the safeguarding of domestic economic policy against external influences. According to this section, the protection against "external disturbances to overall economic equilibrium" has to be ensured. This occurred in 1968, when it was generally agreed that under the existing rule of fixed exchange rates an increasing internal price rise had to be feared. The Federal Government at that time introduced a fiscal substitute for revaluation. It put a special charge of 4 per cent on exports and eased, on the other hand, import restrictions by the same amount. This may have been a unique measure in post-war history. Little is known about its actual effects. There is some reason to believe that the exporters could shift the additional tax burden on to their foreign customers, which may not have been too difficult due to the continuing price increases abroad. Import prices, on the other hand, did not fall below the level of the preceding year. That can be explained by the fact that the German price level increased less than prices abroad, thus leaving less potential for raising import prices. It is an open question to what extent the tax relief was passed on to the German consumer. A satisfactory answer could only be given if it were known how the tax advantage was divided between the domestic importer and the foreign exporter.

All in all, this sort of a fiscal substitute for revaluation was a failure, because it did not lead, on the one hand, to diminishing surpluses of foreign trade and hindered, on the other hand, a revaluation to take place in time. The latter did not come before October, 1969. It had been by a politically sterile public discussion on the need to revalue, abrupt speculations on the forthcoming revaluation of the German Mark

and a temporary floating of the DM exchange rate after the general elections in the autumn of 1969.

On medium term, however, revaluation of the DM by 8.5 per cent in all did not show the effect it was desired to have on the influx of foreign currency. Such an influx reappeared, in conformity with the rules of a system of fixed exchange rates, precisely when rumours of another revaluation began to seem plausible. Therefore, the Federal Government decided in a solo-run, though destroying by this measure the planned monetary integration of Western Europe*, to let the exchange rates float. It was not until December, 1971, that it returned according to the Smithonian Agreement, to stable exchange rates, in the sense of the "re-aligment" then fixing a rate that was below the margin** that had resulted from market forces. By that, the Smithonian Agreement was already doomed to failure.

The efforts at external stabilization then were continued by taking additional administrative measures to stop the undesired inflow of foreign currency. The Act on import deposits in cash (Bardepotgesetz) aimed at warding off "detrimental inflows of foreign capital". By means of a reserve held in cash in an account at the Bundesbank, short-term capital imports should become unattractive for domestic business. The experiences gained from this measure are mostly negative, however, because techniques of evading the act were found very soon and this compelled the introduction of infinitely continued interventions.

The introduction of floating rates in the middle of March, 1973, became therefore indispensable, not least due to the failure of the attempts to restrain capital movements. The original scheme planned a joint floating of several EEC Countries (Federal Republic, Belgium, Netherlands, Luxembourg, France, Denmark) and, in addition, Norway and Sweden towards the rest of the national currencies. This system, designated as the "European snake", underwent changes then, in the course of the last two years, by the withdrawal and re-entry of France.

The system of floating as practised by the Federal Republic permits – as in all European Countries – the central bank to intervene in the foreign exchange market by purchasing and selling currency and also, within the European snake, to perform revaluations. The German Mark, for example, was revalued against the other currencies of the "snake" by 5.5 per cent on 29th June, 1973.

* The EEC economic and finance ministers decided on 24/25 April, 1971 to enlarge provisionally the internal fluctuation margin of the exchange rates of EEC-currencies. The public then considered this agreement to be the beginning of the planned European monetary union that has remained uncompleted until now.

** For details cf. [12] The revaluation rate against the countries of the "Club of the Ten" amounted to 4.8 per cent, while the average revaluation in the market settled around 6.3 per cent.

Table 3
Price index for the cost of living of all private households in the Federal Republic
1970 = 100

Year	Total
1967	93
1968	95
1969	97
1970	100
1971	105
1972	111
1973	119
I/1974	124.1
II/1974	126.2
III/1974	128.1
IV/1974	130.1
I/1975	131.5
II/1975	134.0

Source: Cf. Table 2

If a provisional judgement is made for the present on the effects caused by the floating, then, according to the greater part of general opinion, it was – within the limits of what is feasible in principle – a successful political measure*. It allowed to cancel the administrative controls on capital exports – not only in the Federal Republic, by the way [15] – and it permitted to pursue a monetary policy oriented by domestic economic objectives. Furthermore, the floating made it possible for the Federal Republic to manage the so-called oil crisis, i.e. the price increase for mineral import, without facing balance-of-payments problems. Despite the higher prices, imports of goods in 1974 could not only be paid by current exports, but the surplus from foreign trade amounted to as much as 56 thousand million DM [16]. And that in spite of the fact that in 1974 nearly 30,000 million DM had to be spent on imported crude oil and minerals**.

The surplus from foreign trade that, with rising sales, even considerably surpassed in 1974 the surplus of the preceding year is, at the same time, a clear proof that the flexible exchange rates did not exert any detrimental influence on German foreign trade, as had been frequently claimed. Quite on the contrary, this trade continued to expand during 1974 despite a sustained trend of DM—revaluation

* Cf. [13] – The economic experts' council (CEED) in its last report [14] remarks that a general judgement on the floating cannot be made yet by now.

** This "oil account" was exceeded only by the U.S.A. and Japan. [17]

Table 4

Development of GNP in the Federal Republic since 1967, in thousand million DM

Year	GNP nominal	GNP real (at prices of 1962)
1967	495.50	430.80
1968	540.50	462.30
1969	605.20	500.40
1970	685.60	529.40
1971	761.90	545.20
1972	834.60	564.10
1973	930.30	593.80
1974	995.30	596.40
I/1975	252.5	142.9

Source: Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank (Statistical supplements to the monthly reports of the Bundesbank), series 4. Seasonally adjusted economic figures in July, 1975. No. 7, Tables 1 and 2.

(about 7 per cent against the rest of the world) and despite heavy fluctuations in exchange rates.*

At first sight, the evolution of the foreign trade of the Federal Republic seems to contradict all traditional wisdom on the effect of revaluations. According to that wisdom, a revaluing country ought to show a tendency for falling exports and rising imports. But the difference of the German development becomes theoretically understandable, if the higher inflationary rates of many foreign partners are considered. They show that the rise of the DM exchange rate just reflects the different speed of the inflationary process in different countries. As long as these differences are balanced by exchange rate movements *on an average* only, the foreign trade position of the Federal Republic cannot be expected to change fundamentally.**

Present problems of stabilization policy

The lesson taught by the Bretton Woods System can be summarized in the statement that an autonomous business (cycle) policy, monetary convertibility and fixed exchange rates are not simultaneously compatible with each other. If an

* The same holds true for the world trade, too, which, according to the Bundesbank, did not experience any detrimental influence from the flexible exchange rates and which, despite very heavy strains on the balance of payments of many countries, was not shaken by monetary crises or even breakdowns [18].

** Cf. in a similar sense also [19].

autonomous anti-cyclical policy and, at the same time, fixed exchange rates are to be maintained, there is no other solution left but state intervention in the currency markets which will finally endanger the international division of labour. Many western countries have gone this way in the past. In most cases, at first international capital movements were restrained, what subsequently led more or less inevitably to controls of trade and services, to split foreign currency markets for current and financial transactions and to other methods of state interventionism. Even Federal Germany, internationally known as a country having a relatively high degree of convertibility, took steps into this direction.

In a world, however, in which the different countries have reached a large extent of mutual integration and in which the wealth of nations depends decisively on the working of international business relations, all measures that endanger international exchange must be highly problematical for each participating country. State interventions usually take place on a national level and without mutual co-ordination so that the overall result of the national measures may turn out detrimental for the international economic community as a whole, and may be against the intentions of the participating countries. The arguments derived from the theory of international trade according to which a single country can realize advantages by trade restraints or other measures, may be theoretically correct, but if practised by economic policy, national selfishness always endangers the whole.

The international economic authorities, in particular the IMF and the GATT, prove to be by far too weak to prevent the various nation states from taking measures which do harm to the international community as a whole. True, there have not happened, in the more recent past, as heavy breakdowns of the international division of labour as in the thirties. Nevertheless, it cannot be denied that in particular the monetary crises of the late sixties and the early seventies have repeatedly led the world economy into rather threatening situations.

But if the menaces to the international division of labour are to be removed and, at the same time, national stabilization policy is to be continued, the international monetary system can be based only on flexible exchange rates. Since 1973 the more important world traders have already chosen that way, thus clearly violating the rules of the IMF. From the point of view of Federal Germany, such a decision was inevitable. Moreover, most German observers agree that the flexible rates have worked so far, and the Bundesbank in its latest annual report [20] emphatically praises their many advantages. The report says that "without flexible exchange rates vis-a-vis the US-Dollar and other major currencies German monetary policy would hardly have had a chance in the turbulent years (1973 and 1974, being turbulent for the world economy, *Ch. W.*) to protect its efforts to achieve domestic stability against disturbances created by interest-rate-induced and

speculative capital inflows and against the general inflation marasmus in the world economy". But the flexible rates were considered to be a sensible measure not only from a national German point of view. The same holds true also for the world economy as a whole. The flexible exchange rates proved to be sufficiently elastic to overcome the problems caused by the increased oil prices, and the recycling of the extremely high foreign exchange surplus of the OPEC-countries was better managed than expected by most observers of the international economic scene. In addition to that, however, a number of problems known from the thirties to be imminent under conditions of flexible exchange rates, have not made their appearance so far: such as international devaluation races and the application of commercial policy devices for practising a beggar-my-neighbour-policy.

But although the large balance-of-payments deficits faced by many countries mainly in the beginning of 1974 did not lead to devaluation races, it can by no means be concluded that this danger is averted once and for all. A national stabilization policy can only be realized at present within a scheme of flexible exchange rates, and it is the difficult task of international politics to design this scheme in such a way that it makes simultaneously possible national stabilizing efforts and the safeguarding of the international division of labour.

It cannot be denied that the present scheme of flexible rates is still far from securing this. In particular, generally agreed principles on central bank interventions in the respective foreign exchange markets are lacking. Since the introduction of the floating rates, the German Bundesbank has intervened starting with July, 1973, in the foreign exchange market in order to balance heavy fluctuations of the Dollar rate. As it declared itself, these interventions were governed by the idea to maintain "orderly market conditions" without counteracting the basic tendencies of the market. Besides, it was a more long-run intention of these foreign exchange operations to "smooth" the exchange rate of the Deutsche Mark against the Dollar. The foreign exchange operations were performed in co-ordination with the American monetary authorities and with the partners in the European snake. In 1974, this policy was successful. It caused, among other things, a slight reduction of the high German currency reserves.

But bilateral or trilateral agreements are no satisfactory substitute for a multilateral system of rules according to which operations in the foreign exchange market can and have to be performed. In this respect, what is still lacking for the moment is the international consensus. It is a very urgent problem, not least because in the past some important world traders have tried to consider their exchange rates as a matter of national policy and prestige and to support its level against the trend of the market. Though such operations remained, on the whole, without success, it should not be overlooked that they may endanger the international division of

labour. From a political viewpoint, it can be easily argued that the national exchange rate must be protected by import restrictions.

National stabilization policy, therefore, can be realized only within a scheme of international co-ordination. But since even the most liberal world traders are not willing to let float their exchange rates completely freely so that the level of the rates is exclusively determined by the market, but permit instead just a "controlled floating", national stabilization policy can be realised only on the basis of common rules for the international monetary system. Under the conditions of "controlled floating", i. e. with foreign exchange operations of the central banks, an *autonomous* stabilization policy continues to be possible only to a limited extent. It is the advantage of flexible exchange rates, however, to make possible considerably wider autonomous action as compared to the scope for action under conditions of fixed (or occasionally flexible) exchange rates.

During the last two years this could be experienced above all in the Federal Republic. In consequence of the higher valuation of the German Mark provoked by the floating, the rise in oil price (the "oil shock") as well as the inflationary demand pull from abroad affected the German economy only to a minor extent. But presently German stabilizing policies have to find out how to overcome the now existing difficulties. The picture given by business forecasts is changing nearly every week. The German business research institutions which in April still assumed an imminent end of the recession [21] have revised their estimates in the meantime and now fear a continuing decline even after the autumn of this year. Presently the Federal Government prepares a modest spending program of 4–6 thousand million DM to stimulate economic activity. But doubtful remains, for the time being, the effect on the stabilization measures of the public budgets which are estimated to reach an overall deficit of 50–60 thousand million DM in this year.* At least 30 thousand million DM of this amount are presumed to have a stimulating effect on the business cycle. It is disputed, however, whether these strong expansionary forces lead to a revival of the heavily diminished production** or whether they primarily speed up again the increase of prices.

He who shares the opinion of the author of this article that the Federal Republic does not suffer from a traditional lack of overall demand which can be cured by expanding monetary demand, will think the second alternative to be the more likely one. The special characteristic of the present German situation is that inflation

* In 1974, revenues from taxes and other sources amounted to 288,000 million DM, expenditure amounted to 315.5 thousand million DM.

** Compared to the first quarter of the preceeding year, the national product in real terms has fallen by 5 per cent, production of the manufacturing industry declined by 10 per cent (Cf. [22]). In this article the optimistic variant of cyclical diagnosis is maintained according to which the economic slack will come to an end in summer.

remains high according to German standards, although production runs below full capacity and unemployment continues to be considerable.

To countries whose rates of inflation in the last two years amounted to 20 per cent or more, a rate of a price rise below 10 per cent may seem to be a far distant goal. But against the background of two great inflations with subsequent currency reforms within little more than fifty years, an inflationary rate of just 6–7 per cent will already be a serious problem, mainly due to the sensitivity to inflation of the Germans so much more pronounced than is the case in other countries.

At present the special difficulties of German stabilization policy are, however, the fight against the sectoral crisis mainly of the construction industry, the change of international cost relations to the disadvantage of the Federal Republic and the slackened willingness to invest in many sectors.

The crisis of the construction industry is mainly due to the mistakes of stabilization policies in the early seventies. The rise of inflation and the lack of efforts to combat it provoked a flight into material assets, especially into the "Beton-gold" (i.e. the "concrete gold" of the construction industry) that was held to be protected against inflation. The over-expansion of the construction sector thus provoked has led not only to rising flat rents, but meanwhile also to an over-supply of flats presently estimated to amount to 200,000–400,000 dwelling units.

The change in international cost relations to the disadvantage of the Federal Republic is mainly a consequence of standard wage agreements in 1973 and 1974 which caused a considerable increase of the fringe benefit load and, in the course of 1974, an unexpected rise of real wages due to the restrictive monetary policy that was chosen by that time. Some observers declare this development, which by now leads to considerably diminished exports, to be the main reason for the existing unemployment.

It cannot be overlooked that the number of official voices from abroad is growing which urge Federal Germany to cut down her export surplus. Therefore, a declining export demand need not be automatically considered as a national disaster. It is doubtful, however, to what extent a compensating shift of production will be possible. This will only be the case if the enterpreneurial process of searching for new markets and investment opportunities goes on successfully. Particularly in this respect, however, growing problems have to be faced. A superficial journalism meanwhile does not shrink any more from interpreting the lacking propensity to invest as a collective conspiracy of the entrepreneurial side. But the real problems are more fundamental. The deficient propensity to invest originates from economic factors as well as from factors which have to do with the ongoing social order debate.

Among the relevant economic factors, there ranks first the fall of business profits that by now has reached an extent which makes the Federal Chancellor

publicly go in for improved profit conditions of private enterprises. The fall of profits is not, however, just a short-term cyclical phenomenon. The more basic reasons for it are, beside the higher energy prices, also additional duties and certain measures of tax policy [23]. To be sure, the Federal Government has relieved the squeeze on profits by a temporary investment grant of 7.5 per cent, effective as from December, 1974, until June, 1975. But it is still an open question whether an increase of investment was induced by these measures. Arguments that tell against this are that the financial effect of the investment grant won't be felt before next year and that under conditions of unused capacities the propensity to invest is generally low; arguments in favour of such a development are press reports on briskly rising orders of investment goods in the manufacturing industry [24].

But perhaps more important for initiating a fresh upswing is the discussion on social order problems that is going on in Federal Germany. The Federal Minister for Economic Affairs ranked among the reasons for the present economic slack "the permanent criticism of the market economy, the insults to businessmen provoked by sheer envy, the economically foolish and for the existence of freedom dangerous call for investment control or socialization of key industries and banks, which would not be really appropriate means to further the propensity to invest [25]. In fact, it cannot be denied that the consensus on the principles of the economic and social order in the Federal Republic, for a long time given and understood as the consensus on the social market economy, presently does not exist any more. Among the controversial measures which possibly "overcome" ("aufheben") the market economy, there are beside proposals to control investment by social organs – their structure so far remains undetermined – and beside demands for socialization furthermore the proposals to introduce co-determination at parity on the enterprise level and for the economy as a whole, and to establish obligatory funds for the promotion of a widespread capital formation. It cannot be exactly determined what influence these discussions, which in part have been going on for years and decades, exert on the actual investment behaviour. But since the realization of this or that measure was in several cases announced to be imminent, the argument cannot be rejected that the price of these measures to transform the social order may be, among other things, a drying up of investment activities.

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ОПЫТ СТАБИЛИЗАЦИОННОЙ ПОЛИТИКИ ФРГ

Х. ВАТРИН

1. Для понимания политики ФРГ в области стабилизации необходимо знать о двух мероприятиях: первое — это закон об укреплении стабильности и поощрении стабильности и поощрении роста экономики, принятый в 1967 году, второе — переход в марте 1973 года к гибкому курсу валюты.

Между этими двумя мероприятиями имеется внутренняя связь. Задачей первого мероприятия заключалась в предоставлении ответственным за стабилизационную политику органам (федеральному правительству и эмиссионному банку) самых передовых в то время рычагов денежной и фискальной политики, при помощи которых можно предотвратить конъюнктурные колебания и добиться сбалансированного роста. А переход к плавающему курсу валюты быз призван создать такую степень внешней стабильности, которую нельзя было обеспечить при системе Бреттон-Вудса.

2. Стабилизационный эффект этих двух мероприятий различен. В целом переход к плавающему курсу оказался успешным мероприятием. Закон же о стабилизации не оправдал связанных с ним надежд.

3. Переход к «глобальному управлению», согласно закону о стабилизации означал попытку введения нового стиля в стабилизационной политике. Цель заключалась в обеспечении развития всей экономики по направлению к достижению целей (полная занятость, стабильность уровня цен, экономический рост

и внешнеэкономический протекционизм), намеченных в количественном выражении.

4. При осуществлении этой программы возникли следующие затруднения:

а) Цифровых наметок не удалось успешно достичь ни в одном из годов. Одной из важнейших причин этого фиаско были неустранимые изъяны конъюнктурных прогнозов. Данные всегда отстают на два-три месяца от фактического развития. Имевшиеся в распоряжении летом 1975 года данные на самом деле отражали положение на весну 1975 года. Отставание информации между моментом получения данных и моментом действий нельзя ликвидировать.

б) В ФРГ принцип глобального управления был связан с принципом «легкой руки» в политике доходов. Опасный рост заработной платы и цен следовало бы избежать на основе добровольных соглашений. Однако на практике система добровольных соглашений провалилась.

в) Бюджетная политика не носила антицикличного характера ни при принятии отдельных мероприятий, ни с точки зрения глобального управления государственным бюджетом. Более того, в большинстве случаев государственные капиталовложения даже усиливали цикличность.

5. Долгое время политика в области внешней стабилизации пыталась воспрепятствовать импорту инфляции, применяя систему твердого валютного курса. Однако ни проводившиеся время от времени ревальвации, ни временное введение колебания свободного курса валюты, ни административное вмешательство на валютных рынках не были успешными. Облегчение принес только переход к валютному плавающему курсу.

6. В настоящее время общественное мнение ФРГ полностью одобряет плавающие курсы валют. В официальных заявлениях часто подчеркиваются преимущества новой валютной системы для ФРГ. Однако плавающие курсы полезны не только для ФРГ, так как они прекратили поляризацию в области международных валютных отношений. Кроме того, они не препятствовали расширению международной торговли.

7. Однако в обращении с плавающими курсами валют нет обязательных в международном плане правил. Двух- и трехсторонняя политика Федерального Банка ФРГ может послужить исходной точкой для разработки системы регулирования, но в целом положение нельзя считать удовлетворительным.

8. Политика ФРГ в области внутренней стабилизации столкнулась с препятствиями в области экономической и социальной политики. С точки зрения экономики основная проблема заключается в структурной недозанятости, которая пронизана конъюнктурными элементами, а также в довольно высоком темпе инфляции. Усиление склонности к инвестициям скорее всего зависит от явлений, складывающихся в области социальной политики.

INTERVIEW

ECONOMIC POLICY PROBLEMS ON THE EVE OF THE FIFTH FIVE-YEAR PLAN

K. NÉMETH

On the occasion of launching the 1976–1980 five-year plan, Mr. Károly Németh, member of the Political Committee of the Hungarian Socialist Workers' Party, secretary of its Central Committee, answered a few questions about the economic tasks and aims during the plan period just beginning.

Question: In 1975 the 11th Congress of the HSWP adopted a programme that sets out the long-term objectives and tasks of building the economy. Such objectives must be based on long-term planning. What stage has been reached in the planning work: what lessons and conclusion for economic policy may be drawn from the work so far concluded?

Answer: In Hungary long-term planning has been in progress since 1967 under the guidance of the National Planning Office. This activity is an important tool of improving planning. The effects of many economic decisions will materialize over a time horizon longer than that of the annual or five-year plans and their social implications are also essential. Therefore, it is a fundamental task of long-term planning to determine the main economic objectives in harmony with the social processes, to define the economic targets on the basis of long-term requirements and preconditions, to provide guide posts for and to direct topical decisions, first of all for the elaboration of the five-year plans. In long-term planning the substance is not an exact, quantified determination of plan targets, but rather to point out the foreseeable qualitative changes in the economic process, to clarify the relations between social objectives and economic development.

The planning work has now reached an important stage. A proposal for the main lines of development of the economy for the period ending in 1990 has been completed. In order to serve as basis of the direction, rate and pattern of our long-range development, detailed prognoses have been made of the long-term development of manpower resources, employment, skills, and qualifications of the expectable world economic trends, of the tendencies of technical progress that will no doubt influence this country, too, and of the estimated volume of our natural resources.

On the basis of these conditions and endowments planning has determined the economic growth rate required to implement the social targets as defined by the programme. It has also pointed out the requirements, that unavoidably have to be taken into account in the course of our future economic development as a result of changes in productive factors, conditions and endowments. Starting from these objectively given factors of economic development, planning has selected the vital tasks. From among these I should like to stress particularly the following ones.

Substantial efforts will be required to exploit our natural resources that may be efficiently extracted and to develop the supply of energy.

A key task is a selective, dynamic and export-oriented development of the manufacturing industry as it is only by following this path that a dynamic growth of the economy, a constant increase of the living standards, and, simultaneously, a balanced growth can be achieved both in the next period and in the long run.

In economic growth, in satisfying the domestic demand and in exports, agriculture and the food industry will command an essential position also in the future.

In order to implement our social and economic objectives, modernization of the technological foundations of production must be accelerated, the possibilities inherent in the higher level of skills and qualifications and in an essentially better use than at present of the manpower available must be better utilized.

It transpires from the results of planning that under the changing circumstances and conditions, the main efforts in economic work have to be centered on the qualitative components of growth and on the structural changes. The improvement of efficiency is a task that must be observed for a long time to come, as the continual and gradual improvement of the efficiency of social production is going to remain the most important economic task not only in the next five-year plan period but on a longer range as well.

Planning has made it clear to us that when improving the living standards and the conditions of life on a long-term basis, beside raising the level of personal incomes and improving their distribution, a gradually increasing role will be played by the development of services and infrastructure. It is an essential conclusion of planning that within the broad field of infrastructure also in the next fifteen years the improvement of housing and the related public utilities will have to be regarded as the most important task. But this development priority should be allowed to assert itself to such limits only that it shall not cause certain contradictions to aggravate, certain tension to be created in other fields. It is in consideration of this essential principle that the plan makes proposals for the selection of the key directions of further development.

The comprehensive conclusions of planning, the elaborated proposals worked out cannot be regarded as plans in the conventional meaning of the word. There are several reasons for this. In sectors that are working under relatively fast changing technological and economic conditions, it would be incorrect to make development rigid for the next 15 years by setting specific plan targets. In some other sectors, however, which by their very nature require foresight for a long time, our ideas may not take the shape of final plan concepts before consultations with the CMEA countries. In the meantime, planning work should be carried on.

With these limitations, I think the most important feature of the results attained so far in long-term planning is that it made it possible for us to work out the fifth five-year plan by weighing both the present and the farther future. As far as the main directions and proportions of development are concerned, the fifth five-year plan and the concepts formulated in the course of long-term planning are in harmony with each other.

Question: What domestic and world economic circumstances were considered when working out the main objectives of the fifth five-year plan?

Answer: In shaping the main economic policy objectives of the fifth five-year plan, in the process of determining the plan targets expressing these main objectives, i. e., the growth rate of the eocnomy, the proportions of production and distribution, the widening of international economic co-operation, the improvement of the living standards, living conditions of the population, the following circumstances and viewpoints were the subjects of our consideration:

In determining the objective we started from the achievements during the period of the fourth five-year plan (1971–1975). In this period the national economy developed in a basically correct direction and with success. Both production and national income were growing at a rate slightly higher than planned and more evenly than before although there occurred some minor fluctuations in development. The growth of production was substantially a result of higher productivity. A successful implementation of the central development programmes* influenced the structure of production to shift into a more favourable direction. With additions to the fixed capital the technological level of the national economy improved. Hungary's international economic relations became wider, her foreign trade grew dynamically, industrial production co-operation with the socialist countries was enhanced. Economic growth was accompanied by a regular improvement of the living standards.

* There are major programmes approved by government which affect several industries and whose implementation requires usually more than five years. Such are e. g. the bus program, the development of the aluminium industry, etc. – Editorial note.

The results thus achieved prove the realistic nature of the targets of the fourth five-year plan, the correctness of Hungarian economic policy, the industrious and successful work of our people.

In 1974 and 1975 however, economic development was accompanied by negative phenomena that may primarily be explained by external causes but that are also connected with shortcomings of our own work. In the last two years of the plan period the Hungarian national economy sufferred great losses through foreign trade, the main reasons for which were the price explosion primarily of fuel and basic raw materials on the capitalist world market, the escalation of the capitalist inflation, the deepening of the monetary crisis of the capitalist world and the unfavourable effect of all this in our foreign trade. As a result, in 1974–1975 the national income distributable for domestic utilization was substantially less than had been planned. At the same time, the growth rates of domestic consumption and accumulation did not decrease, on the contrary, they continued to grow. Domestic use exceeded the national income produced.

The changed world economic conditions made the shortcomings of our economic work even more strikingly visible, first of all the fact that the modernization of the structure of production has made a slower than necessary and possible progress, the ratio of exportable production has not reached the justifiable extent, export production has not sufficiently adapted itself to the changed conditions in the world market. Insufficient progress has been made in improving the capital investment activities, in workshop and technological organization, in the utilization of fixed assets, in the management of manpower. The realization of the changed conditions were followed with the necessary steps, but after some time lag. An overwhelming part of the losses were shouldered by the state.

In the period of the fifth five-year plan the economic work will have to be carried on under essentially more difficult conditions than before. The national economy must be developed during the next five years under conditions where the domestic supply of the resources of development – viz. manpower, investment, primary energy, raw materials – can be increased to a smaller extent than before. We have to continue to take into account the unfavourable effect on our economy of world economic processes.

All this taken together requires a strengthening of the intensive character of development, a dynamic increase of the productivity of labour, a better utilization of fixed and working assets, a growing production of up-to-date, high quality, competitive goods. To ensure balanced economic development the growth of domestic consumption can be but less than that of the national income.

In view of all this, it may be regarded an objective that calls for greater efforts than before – but a realistic one – to ensure also in the period of the fifth five-year

plan a steady development of the national economy, a continuous growth of consumption and accumulation, a non-ambitious but well-founded improvement of the living conditions of our people.

Question: With regard to the development potential of the Hungarian economy there are views that it is unlikely that the previous growth rate might be maintained, that the development of the national economy is bound to lose its momentum. How do you view the fifth five-year plan from the point of view of growth, under what conditions is it possible to maintain the dynamism of economic development?

Answer: The maintenance and even acceleration of the growth rate of the economy is a permanent feature of our economic policy. It is the rate asserting itself over a longer term that determines the rise in material welfare, in the living standards of the population, in the increase of the national wealth. The essential problem is to appropriately determine the economic growth rate, to safeguard the planned and proportional development.

Considering the possibilities and requirements it was concluded that from 1976 to 1980 the national income can be increased by 30–32 per cent, making an annual average of 5.5–6 per cent. This growth rate is almost identical with the one achieved in the period of the fourth five-year plan and as such it can in no way be classified as a decelerated rate. On the other hand, it is true that its implementation is a greater task than all the previous ones.

The conditions and factors of growth have become modified. The role of the external economy will be growing, extraneous effects will become stronger. This is why in our best economic interest a balanced growth must be ensured. This is one of the fundamental economic policy objectives of the fifth five-year plan.

As has been mentioned, the domestic sources of economic growth cannot be expanded or, at best, to an extent far behind the earlier possibilities.

Due to our demographic situation, the sources of manpower cannot be enlarged to any meaningful extent in the next five years. Employment may increase during the plan period by only 50–60 thousand. Industry must carry out its task with a basically unchanged staff, construction and transportation will have to do that with only a marginal increase of employment. Agriculture will have to implement its envisaged production with its manpower reduced by about 130 thousand. It is by about the same number that the manpower of commerce and the non-productive sectors may grow. In the productive sphere, in the closer sense the manpower requirements to fill new jobs can be satisfied but from internal reorganization only. At the same time, there are essential reserves inherent in a better utilization of the calendar worktime, in deploying the available labour force in ways better adapted to the requirements of efficient management, in better manpower economy. By

exploring and using these reserves such an increase of productivity may be reached that will make possible to implement the planned growth rate of the national economy.

It is an important task to utilize the existing and economically extractable domestic reserves of raw materials. Imports of raw materials and fuel will grow even if we accelerate the extraction and utilization of the available mineral deposits. Therefore, it is a basic task in every segment of economic management to reduce the material and the energy input ratios per unit of product but in a way avoiding deterioration of quality. Also by means of modernizing the production structure and by accelerating technical progress it is necessary to increase the production of exportable goods that reach a higher stage of processing. A significant number of initiatives worth following have already been made in order to improve a parsimonius use of materials and energy. The task before us is to encourage the general application of these methods, while, at the same time, such technical solutions must be elaborated on a larger scale as will help the saving of materials and energy also in a longer perspective.

The investments of the socialist (state and co-operative) sector may grow by 26 per cent. Keeping in mind the qualitative tasks involved by the increase of production, this establishes the hard requirement towards management that the national income per unit of tied-up assets shall not decrease. With a more efficient management, with a better utilization of the means of production, with a more rational and parsimonious use of materials and energy this can be achieved. Simultaneously, in order to improve the efficiency of investment activities, the development and decision-taking processes of the central economic control organizations have to be better planned and founded. The available financial means and the construction capacities have to be primarily concentrated on the continuation of investment in progress, in accordance with the plans. With adequate preparation and true-to-plan implementation, by reducing the time needed for implementation, essential reserves can be used. It is necessary to develop rapidly the construction and the building-engineering (fitting) processes, the utilization of possibilities inherent in the international division of labour. By harmonizing the incentives acting on the designers, investors and executors it is possible to ensure a fast implementation of investments and also more rational and less expensive solutions. In order to consolidate the economic equilibrium, to arrive at a more favourable production structure, the importance will grow of investments increasing exports to the West, and for reducing imports; that are quickly implemented and quickly returned. For such investments, essential loan funds are earmarked in the plan.

The planned rate of growth may be regarded as realistic in view of the resources. At present a rate higher than planned cannot be justified from the angle of efficiency. If a higher rate were to prove possible due to the growth of domestic resources and efficiency, the incremental volume of production must have a structure and quality that can stand up against competition in the world market, thus making the increase of profitable exports possible. The rate of growth is thus determined under the given conditions by the requirement of equilibrium and – closely related to this – by the possibilities of restructuring.

The dynamism of development must gain momentum. The stronger dynamism should become primarily manifest in the restructuring of production, in enhancing the competitiveness of our products in the world market.

Question: You have mentioned that the role of the external economic factors will continue to grow. How do you see our participation in the international division of labour and the related tasks, also keeping it in mind that the size of exports is already as high as the half of our national income?

Answer: In the fifth five-year plan period we will be striving at a wider participation in the international division of labour. It is in our fundamental interest to further intensify economic co-operation with the CMEA member-states, first of all with the Soviet Union. We are actively working on the materialization of the socialist economic integration, of the Comprehensive Programme of the CMEA. We are participants in the elaboration of target-oriented programmes that should for a long time establish the foundations of the supply of the socialist community with raw materials and energy, and – in the engineering industries – co-operation and specialization in production as well. In the field of agriculture we are aiming at such co-operation that will assist through concentration of efforts in satisfying the need of CMEA countries for agricultural produce and for food products.

From 1976 to 1980 Hungarian foreign trade with the CMEA countries will grow by more than 40 per cent, and within this the trade in machinery by 60 per cent. While the imports mostly from the Soviet Union of power and primary energy will increase by 60 per cent, the possibilities of increasing raw material procurement from the CMEA countries will be less than before.

The part of the planned demand for fuel and raw materials that can be covered by domestic production and by imports from socialist countries will be less than previously. The procurement of raw materials and primary energy will become more expensive. In the co-operation, investment activities connected with providing credit facilities as well as with supplies for specific investments will get into the foreground. We are going to participate in the Soviet Union in erecting capacities to produce pulp, asbestos, phosphorite, iron ore concentrates and ferro-alloys as well as in the construction of the Orenburg gas pipeline.

It is in our basic interest to ensure the planned transaction of our foreign trade accounted in Roubels. It is our endeavour to attain a higher turnover in harmony with the requirements of the national economy.

An important task of the plan period is to realize the foreign trade settled in convertible currencies also according to the plan. Owing to the unfavourable terms-of-trade and to expenditure on imports, the exports against convertible currencies must be increased by 60 per cent. Imports may grow by 40 per cent from the same area. Great efforts and co-ordinated work are required to economically produce and sell the products meant for exports to these markets. The primary task is to increase the industrial exports, the exportation of products after a higher stage of processing, with a minimum of raw material content. Also in importation, adherence to the plan must improve. In addition to the traditional forms of commerce, we have to emphasize the more advanced forms of economic co-operation, also in the western relations, a co-operation in the productive sphere that is based on mutual benefits and interests.

Intensified work is required to permit our joining the economic development programmes of the developing countries.

In the competition we can hold to our position only if the quality of the goods and services delivered by us improves, if deliveries are on time. All this calls for a higher level of control in foreign trade, for enhanced activities of the foreign trade companies, co-ordination of operations, improvement of plan-implementation, organization and marketing.

In accordance with the principles of our economic policy, we are aiming at widening also our credit connections both with the socialist and the non-socialist countries on the basis of mutual benefits. Hungary's credit-worthiness on the finance market is good, we have always exactly met our loan servicing obligations and are continuing to do so in the future.

The credits raised will be used to the greatest possible extent for investments aiming at higher technological standards, improving the exportability of goods and that have a fast rate of return and provide for the conditions of repayment themselves. To contribute to the safe satisfaction of our long-term demand for raw materials and power, to establish production capacities abroad, and to assist our exports, we are also offering credit on a wider scale than before.

Question: How do you see the possibilities of further raising the living standards; and what methods of improving the living conditions, what fields of increasing the social welfare will, in your opinion, receive priority in the next plan period?

Answer: Also in living standards policy, we are following the guidance of the 11th party congress. In the directives as approved by the Central Committee our

unchanged endeavour is clearly expressed that building socialism shall also in the future be accompanied by a constant improvement of the living standards.

When determining the material resources available for increasing the living standards account has to be taken of the excess burden on the national economy due to the changed external conditions of development. From this it follows that as far as the degree of the improvement of living standards is concerned some modesty is indicated. Reckoning with our actual possibilities this means that in the five years to come the per capita real income may grow by 18–20 per cent. It must be emphasized that the rise in living standards will not discontinue; standards reached to date will be safeguarded and further developed; it is not the objectives but the measures that undergo modification. It should not be lost from sight either that all increment will be added on top of an already relatively high level. On the other hand, it must be realized that in the first half of the plan period growth will be slower than the average while in its second half it may be faster, having by then created the requisite material conditions.

To secure the conditions of economic development, of the growth of living standards means harder requirements in economic work. Both in control and in execution there is a need for more organized and disciplined work. For this reason, in the coming years priority will be given to those factors in raising the living standards that simultaneously serve the improvement of both economic efficiency and material welfare.

In the period of the fifth five-year plan real wages will increase by 14–16 per cent. This forecast comes very near to the growth rate achieved under the fourth five-year plan and makes it possible for our wages policy objectives to materialize. In wages policy our endeavour is to ever more consistently apply the principle of distribution according to work performance: earnings should become increasingly representative of the quantity and quality of the work done, of the level of skills and qualifications and of the working conditions. Thereby the changes in relative incomes will better stimulate to increase productivity, to improve efficiency, and will promote a manpower mobility desirable from the national economic point of view. For example, it is of important interest to the national economy that expensive means of production should be economically operated in more than one shift. To facilitate this it is our intention to increase the shift supplement of those working in alternate shifts or in a continuous work system. It has also been taken into account that where income inequalities have appeared, these will be diminished by central wage measures.

From a socio-political viewpoint it is an important goal that the incomes of the fundamental classes and layers – primarily the workers and peasants – should rise proportionally. One of the most important conditions for this is to ensure, among

other things by central ways and means, an identical rate of growth of the incomes of the workers and those of the co-operative farmers from the common farm. Special attention will be paid to the wages and incomes of the workers of largescale industries as well as to moderating the unjustified differences of incomes between agricultural co-operatives. We will continue to take care of it that farmers should find it profitable to work on the household plots and in auxiliary farms as the products of such activities will continue to play an important role both in their own supply and as marketable commodities.

The main objective of social policy is to reduce the current differences in the per capita incomes of families. Social support to bringing up children is regarded as a priority task. Social contribution to the cost of raising children will be primarily increased by raising the family allowance and developing the child-care institutions. Care will be taken that also the size of the child-care support* should keep pace with the growth of the average income.

Another central task of social policy is to better the material situation of the aged. Care will be taken to safeguard the real value of pensions. It is also envisaged in our five-year plan to repeatedly revise, as far as our means permit, the amount of pensions that have been fixed at a low rate a long time ago.

In price policies it is an important aim to allow for a better representation in producer prices of costs and changes in world market prices otherwise prices may induce economically irrational action. At the same time, consumer prices must not be separated from production costs, for some longer time relative prices need be improved. All this makes an increase in the consumer price level unavoidable. This is accounted for in the plans and the degree of increase in nominal incomes and nominal wages envisaged is such as will ensure the planned extent of increase in real income and real wages despite the realistically calculated rise in the price level. Good care will be taken to keep the increase of the consumer prices within the planned limits as any deviation from the plan in this respect may lead to tendencies contrary to our plan targets as far as our living standards policy is concerned. Close attention will be paid to making sure that in proportion with incomes more and a wider choice of stable consumer goods should be at the disposal of consumers, that the standard of services should improve and that shopping should become easier.

Investments serving further improvement of the living conditions of the population are planned in harmony with our economic potential. Most of these will be spent on housing and public utilities, development of child-care institutions, improvement of mass transportation, while in other segments but a lower rate of development will become possible. The party considers the improvement of the

* Granted to mothers who stay at home with their child, up to three years. – Editorial note.

housing situation an outstandingly important socio-political, social task. The dynamic growth rate of the construction of flats reached in the past few years will be attempted to carry on in spite of rising building costs. During the plan period the construction of altogether 420–440 thousand flats is planned out of which 150–160 thousand will be state-financed. We will try to better adjust the financial situation of those waiting to be housed. Special attention will be paid to the improvement of the housing conditions of the large-scale industry workers living in industrial centres as well as to satisfying the housing needs of low-income families with three or more children with advanced ranking and as soon as possibilities permit.

Question: What changes will be made in the system of control and management of the national economy during the next plan period?

Answer: It is stated in the resolution of the 11th Congress of our party that the fundamental principles of the economic management system have stood up to the best, these will continue to be applied. The economic development of Hungary proves that these principles efficiently serve the realization of our economic policy; as far as its essential features are concerned, our economic control and management system means the application in practice of the general laws of socialist planned economy under the given Hungarian conditions.

However, in the actual methods, measures and solutions some not negligible changes have been introduced. Essential and lasting changes appear in the internal and external conditions of development, in the factors supporting economic growth; the preconditions of development are becoming harder and are setting more exacting requirements towards economic efficiency. The fifth five-year plan of the national economy is suited to answer these conditions and requirements, and the economic regulatory measures have been devised as an integral part of the plan. Accordingly, the economic regulatory system has to be viewed as a concrete application of the fundamental principles of economic control under our modified conditions, in a period of intensive development of the national economy. Therefore, what is happening is not a step backwards but adaptation to conditions and circumstances.

The 11th Congress of our party stated in its resolution that in order to enforce the principle of democratic centralism central control must be strengthened, also in economic life, and its efficiency must be improved. Simultaneously, reliance on the autonomy and responsibility of companies is necessary.

It is very important that these aims should be interpreted in a uniform way and with precision so that the means providing the most efficient solutions to the economic tasks shall be found. It is beyond doubt that the solution of our economic tasks, the harder requirements facing economic life require a leakproof enforcement

of the interests of the national economy, improvement of the efficiency of central control. However, this improved efficiency does not primarily mean a growing number of instructions nor petty interferences with the autonomy of the companies. It means that central control activity should become more definitive, clearcut and co-ordinated, that central regulations should have more powerful influence on enforcing the national economic plan and the social interests.

This is not an obstacle to but a condition of strengthening the autonomy and responsibility of companies in the course of solving our economic tasks. Also in what we have achieved so far, an essential role was played by the autonomy and initiative of companies. The improvement of efficiency, the modernization of the structure of production require more efficient central control. This, however, does not expect the collectives and the leaders of the companies to mechanically execute their tasks but to seek solutions independently, to be able to identify and apply in practice possibilities within the sphere of rational economic management. Also the responsibility involved by enterprise autonomy must be enforced more consistently.

From all this it logically follows that the strengthening of the efficiency of central control on the one hand and the enforcement of company autonomy and responsibility on the other hand are but two, organically coherent tasks in improving planning and solving our economic problems and they should be enforced together in practice.

Question: The realization of a selective development policy requires a greater degree of differentiation than before. In your opinion, in what ways and with what means is it possible to make sure that as far as this problem is concerned all organizations participating in the management of an enterprise shall more consistently represent the interests of the national economy?

Answer: We are entering an intensive phase of economic development that involves objectively new circumstances and tasks in the control of the economy, in enterprise management and in the political work related to the economy. The heart of the matter is not only that, unlike the previous overwhelmingly quantitative type of tasks we now have to solve qualitative ones requiring substantially more complex work, but also it has to be kept in mind that in this particular development phase an overemphasis and materialization of partial interests contrary to those of the national economy would cause greater losses than previously. For this reason, all control levels should be demanded to conduct a behaviour keeping in mind the national economic interests before everything else.

The selective development policy introduced already in the fourth five-year plan period in order to bring about an efficient economic and production structure did produce results worth of attention. These were primarily achieved on the basis of

central decisions. For example, by modernizing the pattern of sources of primary energy, by eliminating the manufacturing of non-economic types of tractors it became possible to regroup workers in a planned manner, though even in respect of these issues much lack of understanding and erroneous views had to be overcome. However, there is not yet sufficient progress in carrying out selective development policy on company initiatives. The concepts still surviving from the period of extensive development have, no doubt, much to do with this, such as the exaggerated role attributed to quantitative growth, and, in certain places, also the fact that the standard of company management falls short of requirements. Furthermore, it cannot be denied that company initiatives were also hampered by the shortcomings of sectoral control, the worries about supply shortages, the weaknesses of co-operation, the meagre funds available for technological development.

In the next five years, it is necessary to speed up modernization of the product pattern. The production of goods saleable on all markets has to grow essentially faster than the average rate of growth. For this greater selectivity, more resolute central and sectoral control and wider initiatives are required. In view of our relatively scarce resources for development it is no longer permissible to tie up a part of production capacities and manpower at our disposal in outdated and in efficient production while in other units the operation in more than one shift of modern productive machinery is hindered by lack of manpower. This tension will further increase in the period of the fifth five-yar plan, as the problem of producing the envisaged 30–35 per cent increase of production must be solved with an unchanged employment in the industry as a whole. Satisfaction of the manpower requirements of the preferred large investment projects entering production and those of the dynamically growing companies have to be assisted, too. The only way of easing the tension is to introduce measures for the planned regroupment of manpower. It is of necessity an aspect of the materialization of selective development policy to attribute an ever increasing role to the efficient deployment of the labour force.

The measures to be introduced, the liquidation of certain jobs will directly affect individual workers and may cause them personal problems. Therefore, any such measure calls for much responsibility, circumspection and humanity from the organizations and leaders executing them. The regrouping and retraining of workers will have to be carried through purposefully, after thorough preparation, based on regroupment and retraining programmes broken down to individuals and in consultation with those concerned, not losing from sight their realistic aspirations either. In this way socio-political problems may be diminished, and the subjective conditions for the full enforcement at local level of national economic interests may be improved in the circle of both economic managers and social organizations.

In order to accelerate the process of modernizing the structure of production, the conditions of control, development and technology must be improved. Also in the future, the implementation of central development programmes will continue and so will the central support for companies capable of developing the product pattern economically, the utilization to this end of international economic relations – primarily within CMEA – as well as of production co-operations and of purchasing licences. In this work sectoral ministries are to play an increasing role, primarily in working out the longer-term concepts of development, in the settlement of problems having international aspects, in eliminating the shortcomings of intercompany co-operative relations and in controlling and calling to account their companies in respect of their carrying out the tasks of structural development. This is an important condition for unfolding the company initiatives, of creating a unity of views and actions.

Question: In your view, in what way could the economists engaged in scientific research contribute to the successful implementation of the fifth five-year plan?

Answer: The acceptance of the five-year plan amounts to having decided on the most important questions of economic development, to harmonizing the political and economic objectives, to combining these into a united programme for action for a given period. This cannot be otherwise in a socialist planned economy striving at conscious action, dynamic growth and proportional development, which recognizes the objective laws of socialism and applies them in practice. However, if anybody were to conclude from the above that this would narrow down the role of science, and would eliminate the possibility of a really scientific discussion, he would completely misunderstand the role of science in the politics of our party.

The strength of the politics of the party lies in that its aims and decisions are built on the recognition of the objective laws of social development, on fully reckoning with the requirements of such laws, in that they are based on a deep scientific analysis of the development process, on a thorough weighing up of possibilities and circumstances. Its decisions are thus not arbitrary but scientifically founded. Only such politics may be realistic, capable of mobilizing the masses, politics representing the interests of the working class, the society.

Its responsibility for the development of society obliges the party to establish favourable conditions and possibilities for scientific research as well as to use the achievements of scientific research in taking its decisions. I think, it is correct to state that the HSWP has created and is continuing to create such possibilities for sientific research and that the results of scientific work are being used in its policy.

In a certain sense, even a five-year plan may be conceived as a systematized collective product of science. Our plans are social and economic ones and they

contain all that can be known at the time of decision-making about the world, the economic situation and the future tendencies of development, the resource base of the country, about the foreseeable performance, consciousness and reaction of individual members and layers of the society, about the technical progress and the possibilities of its application.

The implementation process of the targets of the five-year plan requires renewed scientific analysis. It requires that our reserves should be better than ever explored, that our possibilities already explored should be completely exploited, that decisions should be taken with better foundation and reckoning with their social effects from all possible angles, that the standard of leadership should be improved at all levels of economic life. All this, obviously, calls both for keen scientific analysis and for widespread social initiative and action. In this sense, the acceptance of the five-year plan does by no means amount to a completion of analyses and scientific discussions serving the better solution of tasks, it rather means the beginning of such in a wide circle.

The stricter requirements of economic development, its changing conditions make it also necessary for scientific research to explore the longer-range tendencies in the changes of these circumstances and conditions. I would emphasize a few of the tasks of economic research in this respect.

Exploration of the longer-range tendencies of the external conditions of economic development in Hungary could be pointed out as one of the main directions of research. From among such conditions special attention should be paid to examining the development trends of the socialist countries, to exploring the possibilities of a better harmonization of economic development of these countries.

We are deeply interested in researches into the changes taking place in the capitalist world, in a scientific analysis of their effect on our economic development, on the shaping of our external economic relations. All this may well provide an important foundation for the elaboration of our future plans and for improving our system of economic control and management.

Also the changes in the internal conditions of development require diversified economic research work. There are quite a few components waiting to be explored regarding the requirements of the intensive phase of development. We have to reach conclusions in respect of the long-term objectives of manpower management, vocational training, technological development and structural policies, that are easier to apply in practice and are scientifically better founded, as well as in respect of the tools serving these aims. Closely related to what has been said, important scientific tasks are the harmonization with all this of the long-term development trends of the domestic price system, and of the long-range increase of wages and personal incomes, as well as improving the efficiency of the decision-taking process.

I think, already this sketchy introduction of problems will prove that it is not only far from our intention to reduce the role of scientific analyses but to use them better and more purposefully in order to found scientifically our economic policy. To this I would only add that when we are intending to improve the scientific foundations of our decisions, in this respect we are reckoning not only with the activities of the scientific researchers but also with those of economists, engineers and practical experts working at various levels of economic life.

In conclusion, I wish to emphasize that the economic policy objectives included in the annual national economic plan for 1976 are vitally important in supporting the fifth five-year plan and in ensuring balanced growth in the next years. In the starting year of the five-year plan the requirements are harder than before towards economic management, in production, at all levels of leadership and management. We have to further strengthen the purposeful co-ordination of economic processes meant to increase efficiency, making sure that necessary measures are brought into action in time and the work in this direction should proceed on the basis of specific action programmes.

BOOK REVIEWS

TINBERGEN, J.: *Income distribution analysis and policies.* Amsterdam–Oxford; New York, 1975. North-Holland Publishing Company – American Elsevier Publishing Company, Inc. IX+167 p.

Income distribution is perhaps one of the most qualitative fields of economic reasoning, theory and decision making as well. There is hardly any other economic phenomenon having closer relation to political, ethical and societal problems. Income distribution can be taken as one of the central issues of past and recent class struggles. At the same time, the development of this qualitative field of economic theory is due to a very high degree to the contribution of mathematical economists. Thus, it is easy to understand the significance of the fact that Professor *Jan Tinbergen* has published the main results of his researches on this field.

Although, the author himself calls for criticism, the very condensed character of the book makes it very difficult even to give a general synopsis. Comparing the book itself and its research background, the book seems to be only the tip of the iceberg. The author's mathematical terseness avoids not only redundancies, but, at the same time, the reader feels a need for further explanations of the postulates and conclusions of the theorems derived.

It is sure, a series of further researches, studies and textbooks on the fields of income distribution, human capital theory, education planning and taxation will be based on or, at least, related to the theorems drawn in this book. Thus, detailed conclusions of Professor Tinbergen's work will be drawn. But there is a real and not underestimable danger that they would be drawn by less competent scholars.

After these preliminary remarks, emphasizing the review maker's difficulties, the best way seems to be to follow the order of the chapters of the book.

The first introductory chapter points out the main subjects covered by the book as follows:

- "How can income inequality in developed countries be explained?
- How can it be reduced?
- What aims should be pursued in reducing it?"

This chapter has been also aimed at to make a distinction between the author's and other scholars' views and approaches and pointing out the differences in methods and the materials used and the differences in conclusions.

In order to make clear the guiding principles followed in his book the author makes a distinction between three different groups of scholars. This distinction has been made according to the ways of pointing out the determinant factors of incomes and their distribution:

- The Human Capital School concentrating on the *supply* side of the market of production factors. (T.P. *Schultz*, T.V. *Schultz*, *Mincer*, *Chiswick*, *Huséns*, *De Wolf* and *Van Slijpe*.)
- The Education Planning School (*Bowles*, *Dougherty* and *Psacharopoulos*) stressing the role of *demand* for different types of labour. Demand derived from production functions.

- The Supply and Demand School (*Freeman* and *Ullman*). The author adheres himself to this group.

The second chapter outlines the trends of income distribution in Western countries. The data analyzed (mainly of the Western European countries and of the United States) show a general trend of decreasing inequalities. As a dramatic counterpoint Indian trends show the existing and increasing tensions in some of the developing countries.

According to the constraints of the scope of the analysis put by himself the data of socialist countries are very rare illustrative examples with no analysis or comments. The data necessary, however, are more available than it is generally thought. (See e.g. "Incomes in postwar Europe" United Nations Geneva 1967.)

The third chapter: "Some price equations" gives information on the author's and other scholars' (*Chiswick, Lydall,* T.P. *Scholtz, Leland, Burns* and *Frech*) efforts for expressing incomes and their inequalities in the regression of market variables.

Incomes are considered to be prices paid for factors of production mainly for labour of different qualifications. (Incomes from capital are given few if any significance in the book.)

Applying the traditions of economic theory both supply and demand factors are considered here as contributing to the formation of prices and their distribution.

Supply factors are represented by enrolment ratios for primary and secondary education as percentages of the age group from 5–19 years and higher education enrolment in per 1000 of aged 20–29.

Demand has been expressed alternatively by factors as follows:

- The percentage of active population in manufacturing.
- The percentage of male labour in agriculture to the total male labour.
- GNP per capita.

Price distribution has been represented also alternatively by averages of incomes or their logs and by various indicators of income inequality.

The analyses are based mostly on cross section calculations for national figures or sub-national areas and, for the Netherlands and Norway, on time series. Regression calculations have been made for the Dutch provinces investigating the impacts of actual and desirable education level. (This latter has been taken from American figures.)

An "incomplete absolute price equation" (consisting only of supply elements assuming that demand factors for each group are similar) investigates the income forming role played by schooling and years of experience. The calculations based on American figures show a very high level of correlation. The same holds true for the analysis based on the data of the Netherlands considering years of schooling as only explanatory variable.

The author himself calls attention to the "striking feature" of comparisons between calculations based on grouped data and those using individuals as their units. As it is expectable regression calculations based on data of individuals can reflect individual characteristics as independence, family size, health and non cognitive capabilities and, on the other hand, the impact of random factors is also of greater intensity. At the same time, there are considerable differences in the evaluation of the impact of schooling on income distribution between analyses of different authors using individual data. Chapter four analyses the supply factors of the market.

The individual's supply behaviour concerning factors of production has been determined by maximization of his utility function under restrictions prevailing.

Defining the elements of the utility or welfare function the author makes a distinction of three types of elements:

Variables are elements changing over time and among individuals. There are choice variables as job or occupation represented by job evaluation or occupational status. The other type of variables being not under the individual's control are those determined by socio-economic environment (changes in wage or salary scale or general price level).

Parameters are quasy constants for the individuals within the time span considered. They characterize individuals, households or groups. There are two types of parameters: those characterizing production capabilities and, on the other hand, those reflecting consumption needs.

Coefficients are the intensities by which parameters and variables affect utility or welfare.

As a simple example for expressing utility serves the equation (4.1)

$$\omega_i = 1n \left\{ x_i - c_o s_i - \frac{1}{2} c_2 / s_i - v_i /^2 \right\}$$

where:

- ω_i is household i's utility
- x_i is income after tax of the household i in thousands of guilders per annum.
- s_i represents the job held by the head of the household expressed by required level of schooling in units of three years.
- u_i is actually attained level of schooling in the same units
- c_o and c_2 are coefficients.

The utility function means the consumable income corrected for two "inconveniencies". Namely:

- The effort required by the job ($c_o s_i$) or the "additional satisfaction" over that of income experienced in the job.
- The inconvenience (or tension) experienced by a possible divergency between actual and required schooling. This tension is supposed to be equal for both positive and negative divergencies of the same size.

A test material for the Netherlands serves as a basis for further analyses. In this material 21 or 19 groups, resp. have been observed each characterized by their s and v. For the estimation of s the upper quantiles of the v distributions are used.

The test is based on the assumption of free competition, in other words, on a free choice of the individuals with the same v. Thus equal utilities of income recipients of the same v are assumed.

As an additional variable W, the degree of independence, has been chosen in order to express the individual's capability to make independent decisions.

Regression analysis has proved the very great role played by W which is interpreted as a capability of giving guidance for other people. Attempts at introducing $(W-v)^2$ have turned unsuccessful. From this the author concludes that W is rather a personal parameter than a job variable to be approached by schooling. From analyses not including W coefficients $c_o = 0.45$ and $\frac{1}{2} c_2 = 0.32$ have been calculated.

Comparisons have been made between the data of the Netherlands and those obtained for Illinois. Both computations referred to values of h (occupation) and h'(education) expressed in years of education and x in thousands of U.S. $.

The utility function for Illinois is as follows:

$$\omega = \ln \left\{ x - 0.146\, h - 0.03\, (h - h') \right\}$$

For the Netherlands the equation (4.4) transformed for the new units is:

$$\omega\, NL = \ln 2 +$$

$$+ \ln \left\{ x - 0.075\, h - 0.018\, (h - h')^2 \right\}$$

The comparison shows significantly smaller disutilities in the Netherlands for both a job requiring one more year education and for "tensions".

The parameters v and W are taken in the author's view as innate capabilities. Thus their impact should be taken as scarcity incomes derived from power: "a case of exploitation by human capital".

In chapter five demand-factors of income distribution are derived from a modified Cobb-Douglas type production function. The role of capital has been neglected so production factors are represented by different kinds of labour.

Following the way used in the definition of supply and utility functions, labour has been represented by a two entry distribution according to the required (s) and actual (v) level of schooling. Scarcity of educated manpower and full employment have been assumed. Thus elements over the

diagonal of the occupation matrice ($v > s$) have been taken as equal to zero. The case $s = 3$, $v = 1$ is also neglected.

In equation (5.3) the author defines the production function as follows:

$$y = C / \Phi_{11} + \Phi_{21}\pi_{21}{}^{/P_1}\Phi_{22} + \Phi_{32}\pi_{32}{}^{/P_2}\Phi_{33}{}^{P_3} \text{ where:}$$

y is the national product per employed person

Φ_{sv} is the relative share of those employed in jobs requiring education level s having the actual education level v taking the total of employed as 1.

π_{sv} represent the productivity ratio between individuals with education v on jobs $s > v$ and $s = v$.

Both π will be > 1 with an upper limit. So the (marginal) productivity of an individual on job s with education $v < s$ will be lower or, at most equal to that of an individual on the same job with education $v = s$.

The sum of the P's equals to the ratio of the contribution of labour to national product. So the role of capital seems to be considered, however, in an implicite and constant way.

The value of C depends on the units chosen for y and on the contribution of capital to national product.

In accordance with the two entry character of the employment variables there is a distinction between two types of substitution and, consequently, two kinds of substitution elasticities:

Education substitution is a substitution of a person on a given job by a person with another type of education. Elasticities of this type of substitution are to be expected negative. With no changes in demand for production and with a rigid mix of persons with different education the organizers of production will increase demand for "cheaper" education categories.

Job substitution is the case when a person of a given education is considered for a job requiring higher level of education than that job he had before. Job substitution elasticities are expected to be positive.

There is another type of distinction between short term and long term elasticities. In long term analyses where s also varies in time education substitution elasticities are not always negative.

A comparison between the author's results and the calculations of Bowles and Dougherty based on American data concludes to the reality of the picture given by his estimations with the aid of the generalized Cobb-Douglas function.

In chapter six the author analyses the main factors contributing to recent trends of income inequalities. Considering the increasing trends of the supply of highly educated manpower and the decreasive trends of their relative income position the author concludes that education will loose the race between technological development and education.

If ever, reading this chapter one feels a need for more detailed deductions and explanations. The more so, since this stands out as one of the most relevant conclusions of the book.

Provided the irrelevance of surplus or shortage of university graduates one feels a need for more explanatory variables expressing the stimuli of the education boom under worsening relative price conditions.

Chapter seven: "Actual, feasible and optimal income distribution" is aimed at uniting both supply and demand points of view.

In order to tackle the impact of the shifts in education, technology and taxation policies both analytical and normative methods have been used.

Applying analytical methods, factual data and model calculations of different versions and subversions have been investigated. The normative approach has been represented by an optimization model maximizing the "sum" of welfare giving equal weights to all groups of labour considered. Both types of calculations are based on the data of the Netherlands around 1962.

The normative calculations have been carried out under two kinds of assumptions. The first approach (Table 7/IV) takes education absorbtion constraints into consideration, while the second one is of unlimited capabilities to absorb higher education. (Table 7/V). In both cases lump sum taxes depending only on education levels are taken as results. The first type of optimization show very small changes in primary incomes and the decrease

of inequalities is due to taxation which turns to be negative in low income (or education) groups. The second type of optimization (without education absorption constraints) results in a substantially decreasing inequality of primary incomes and the (negative) lump sum taxes are practically equal for each level of education, by the author's view the reduction of incomes from capital could serve as sources for the negative taxes.

In section 7.6 results of calculations have been shown for a more detailed job and education classification. Equalizing utilities of the groups considered actual and optimal incomes are shown for the Netherlands (Table 7/VII), for Illinois (Table 7/VIII) and for the average incomes of seven American states. (Table 7/IX).

Chapter eight is of "Equitable income distribution". The problem of equity should not be taken as a merely economic problem. In the author's view the core of the problem is that "equity or justice requires an equal treatment of the equals. What has to be done with the unequals remained in the dark."

The author accepts "inequality of the individuals in a large number of respects, but only when measured". The main contribution of the book to the concept of equality is the statement as follows: "The utility functions of all human beings have the same mathematical shape and the same coefficients."

Professor Tinbergen criticizes the concept of equity applied by the Manchester liberals who consider justice or equity as an equality between the individual's income received and his contribution to the society by making available the factors of production he owns. "The justice of private ownership of land and capital is debatable and, at the same time distribution of capabilities could not be taken equitable either."

Though, his concept of equity, namely, the equal values of welfare function for all individuals is hardly acceptable for those denying cardinal measurability of utilities and welfare, the author is optimistic as to the future development of measurement concepts and methods.

The optimal welfare and it's equitable distribution generally does not coincide, but equity and optimality can be combined at the expense of welfare. In special case of the utility function this sacrifice happens to be zero.

Chapter nine deals with income distribution policies. Income distribution policies are defined as all kinds of intervention into the process of income formation in order to affect their distribution. There is a necessary distinction between direct and indirect ways of intervention. By the author's opinion indirect policies not disturbing but shifting market equilibrium are of higher effectivity. The significance of education policies, technological researches, taxation and social security is stressed here.

Among the means and institutions of income distribution policies trade unions, social security and taxation are mentioned.

Recent inflatory trends make an intervention for reducing prices imperative. The disadvantages of recent inflatory processes are underlined by the fact that a ten per cent rise in prices cannot be taken any more as a lubricant of economic growth. Recent inflation should be taken much more a "cost pushed" one than the "demand pulled" one of the past decade. In the author's opinion there is a real danger that battles between groups of interest for a larger participation will conclude in a greater participation of the speculators holding physical capital.

The author agrees with the great importance of the distribution of wealth in affecting income distribution. He does it "not only because unearned income derives from wealth, but also because wealth constitutes a reserve for his owner and so enhances manoeuvring possibilities". At the same time Professor Tinbergen "does not adhere to the theory that complete socialization is the best way of dealing with even productive capital and that partial solutions are bounded to fail".

The expansion of social security institutions and private insurance companies and schemes prepared by trade unions for the workers' participation in enterprise capital are taken as most likely partial solutions.

At the same time the author expresses, unfortunatelly in a very laconic way, his views on the

need of a reform on inheritance taxes and his adherence to Kaldor's concept on a taxation system linked more to expenditures than incomes.

A thorough critical analysis of the book would demand a painstaking work and theoretical and methodological skills similar or, at least, comparable to those of the author himself. At the same time there is a great temptation (put and fed by Professor Tinbergen himself) for making critical or, to be more exact, sceptical remarks. This holds true even in case if these remarks would restrict themselves to putting additional questions only. One of the greatest virtues of the book is this deliberate challenge for criticism. Professor Tinbergen himself points out the problems which are debatable and to be debated.

In Professor Tinbergen's book it has been very often explained how his results of analysis deviate from the Marxist ones. This remarks have been related, in the majority of the cases, to the analysis of socio-economic processes of the Western countries. As regards the drafting of necessary policies and, first in order, concerning his societal alignment the author's views seem to be more closer to Marxism than it could be guessed from his declared non adherence.

It seems to be worthwhile to point out that the tendencies and trends analysed in the book could be given a consistent Marxist interpretation too. So the following remarks, questions and arguments will be concentrated on these aspects.

Recent western tendencies analysed in the book, namely the decreasing relative share of incomes from capital and the great role played by occupation and education variables in contributing to income inequalities are not inconsistent with the Marxist theory of exploitation by capital. Neither conclude they to the existence of exploitation of human beings by human capital. Without pretending to make a thorough analysis one feels to be inclined to make remarks as follows:

- The decrease of relative shares of incomes from capital have gone together with their considerable absolute growth.
- In some of the Western countries tax evasion has become one of the most prosperous industries. Thus, incomes from capital have very often been registered as costs of production.
- The taxation of incomes from capital, as taxation in a general way, feeds the armament and military expenditures serving the purpose of the perpetruation of the capitalist system.
- Social expenditures of the capitalist countries and private contributions which are very often deducted from the taxable incomes aim at a calming effect on social tensions and, at the same time, they result in the decrease of family expenditures on education determining the value and price of manpower. It should be mentioned too that budget expenditures serve very often the immediate conjunctural interests of groups of capital holders too. This also holds true for the par-exellence welfare expenditures. Subsidized housing schemes, for instance, give gains not only to the explicite beneficiaries but, at the same time, to real estate speculators too.
- Surplus incomes attributed to education level of capabilities can be taken very often as hidden forms of incomes from capital. The factor W discussed by the author can be taken very often (in case of owners of small and medium size enterprises always) as a dummy variable of power from capital.
- The differentiation of incomes according to the education level required by a job is consistent with Marxist views on the evaluation of simple and complicated work.
- Though, it could be hardly stated that all human beings are capable for a higher education even present, higher than ever, enrolment ratios are far below the genetically determined education absorption constraints. The importance of the constraints determined by social environment is much more higher than those due to genetically inherited personal capabilities. This way education generated income differentials may have a camouflage effect on both incomes from capital and, on the other hand, on the perpetuation of the power

structure. The author himself points out the "striking feature" of the differences between the results based on grouped data and those using individuals as their units. The model calculations have been based on grouped data and the group composing characteristics have been the explanatory variables themselves. The data published in the book, unfortunately, do not give facilities to compare the variance of the group averages to the total variance of incomes. Information on the variance of incomes in the highest education groups would help to investigate the perpetuation tendencies too.

- Taking the higher incomes of the more educated as manifesting exploitation of human beings by human capital would lead to peculiar analogies. As it is well known manuals working under hard conditions endangering their lives and health are better paid than the rest of the workers of the same skills. Whether does this mean that these workers by risking their lives and health (their "human capital") exploitate their fellow human beings?
- As it has been mentioned before, incomes from capital are given few if any importance in the book. At the same time, additional taxation of capital incomes has been pointed out by the author as a necessary condition of rising funds for negative lump sum taxes leading to optimal income distribution.
- As a very substantial and at the same time controversial statement can be taken the author's conclusion of the analysis of recent inflatory tendencies. Considering recent inflation a "cost pushed" one the author concludes that even a struggle for a greater participation of (groups of) labour can benefit mainly to the speculators to the holders of "physical capital". Though, this statement can be taken as a call for labour armistice, at the same time, this points out the variety of forms of exploitation interpreted in a marxist way.

In Professor Tinbergen's opinion the decreasing tendencies of the education generated income inequalities have been caused by the fact that the race between technological development and education is being lost by the latter. Without striving for completeness it should be mentioned that these tendencies could be given a marxist interpretation too.

- No doubt, education in the past was far more evaluated than that is in present. This was not for the smaller supply only. It is very important that education expenditures of the past, in the majority of the cases, were individual ones. This fact manifested itself in a higher value and, consequently, higher prices of the educated manpower.
- Technological development increased the demand for more educated manpower. To meet this demand made a higher level of intergenerational social mobility imperative. Thus, an increasive part of education costs have become covered by social or state contribution. This means that the increasing demand for educated manpower has gone together with the relative decrease of individual education costs. This led to a relative decrease of the value and price of the educated manpower too.
- The increasing demand for educated manpower has an effect on prices of less educated manpower too. Rising children does not mean any more to give them an education equal to that of their parents. Therefore the relative decreasing general tendency of that part of education costs covered by households has gone together with another tendency too. Increasing part of the personal education costs has been becoming covered by the households of workers with less education than their children are trained for. Among this costs should be taken into account those cased by the prolongation of the dependant age. This way the value of less educated manpower determined by the costs of it's reproduction (on an increasing scale) has become higher too. This is another plausible Marxist interpretation of the relative worsening of labour incomes of the more educated people.

– Even under worsening relative income conditions education has remained the most possible way for intergenerational social mobility and to attain higher incomes for the young generation. So the relative decrease in prices does not prevent the increase on supply of educated labour.

Among the problems discussed by Marxist economists a very high importance is given to those related to the income distribution of the socialist countries. For in these countries the battle between labour and capital is over these discussions are concentrated on the structure of incomes from labour and social allowances. Professor Tinbergen's approach to optimal and equitable income distribution based on cardinally measurable utility can be hardly taken as adhered to Marxism. At the same time even the mathematical formulation of this utility function consists of two very important elements of the principles of the socialist distribution i. e. the distribution according to the work done. The consideration of the attained level of education and the education necessary for a given job is a very important characteristic of the wage tariff systems of the socialist countries. At the same time, working conditions, the physical hardness of the work done, personal responsibility and outputs are given a high importance too. Thus researches based on the general shape of this function could promote the econometric approach to socialist income distribution. Though, the application of this function does not mean necessarily an adherence to utility theory.

Though, sounds paradoxically perhaps, it might be possible that economists and econometricians of the socialist countries can make more (or, at least equal) use of Professor Tinbergen's results than their western colleagues do.

E. FRIGYES

NEMÉNYI, I.: *A magyar beruházási politika 30 éve* (Thirty years of Hungarian investment policy.) Budapest, 1975. Közgazdasági és Jogi Könyvkiadó. 297 p.

The author who is professor at Karl Marx University of Economics and former director general of the Hungarian Investment Bank is the first in analyzing the trends of investment policy during the past three decades. His work may be divided into two parts. The first part deals with the main characteristics of the investment policy and the management of investments in the period between 1947–1965. The second part is a considerably more detailed review of the period lasting from the preparations for the introduction of the new system of economic control and management till the end of the Fourth five-year plan (1971–1975).

From the first chapter, entitled *"Investment policy under the conditions of a regulated market"* we can get useful information on the conceptual framework of investments; on the role of investment policy in economic policy; on the role of the multiplier effect and the time-factor; on the location problems of investments; on the relation between investment policy and labour economy, on the basic questions of the investment policy of enterprises.

However wide spectrum is covered by the first chapter, it throws light upon interesting interrelations e. g. it analyzes the effect of the distribution of the national income on investment policy. The volume discusses the cyclicality witnessed in the period up to 1970 on the basis of a study by András *Bródy*. The author, regrettably, did not go into a more detailed analysis of this subject, although, as we see it, he could have revealed some deeper interrelations.

The relation between labour economy and investment policy is treated with a special stress. The analysis of the relation between productivity and full employment is very interesting, as well as the conclusion that the contradiction emerging between these goals can only be resolved by an economic policy emphasizing the *raising of productivity on enterprise level, while striving at the solution of employment problems on the national economic level* (p. 40, italics by the author). An analysis of the vocational structure of the available labour (by vocational composition and qualification) in the context of the ability of the economy to absorb investments would have been of great interest within this subject.

The second chapter deals with the investment policy of the years 1947–1965 mostly, by surveying the economic plans national, presenting the goals of the plans and their fulfilment. The chapter deals with such a wide problem complex that would justify a more detailed analysis, although a mere revelation of the mistakes of certain plan periods, of the shortcomings of investment activity provide useful lessons for the future.

The third chapter, *"Main characteristics of the management of investments from 1947–1965"* gives a general account of the legal and institutional framework of the investment activity of this period. The part dealing with the relation between investments and material incentives is especially interesting. In this part after a many-sided analysis, the author arrives at the conclusion that the negative phenomena of the investment activity can be traced back not only to shortcomings of economic policy decisions, and to other, so-called "objective" difficulties, but also to the fact that *"the investor, the construction contractor and the designer are not interested in the minimization of costs"*. (p. 108, italics by the author.)

The investment policy of the Third five-year plan (1966–1970) gets a treatment in a separate chapter (Chapter IV), paying special attention to the preparations for the reform of the system of economic control. The author gives a detailed account of the basic principles of the post-1968 system of investments and the experiences gained. This chapter might be considered as the most valuable part of the book as it draws a number of conclusions that may be important from the aspect of improving the control system.

Chapter VI, aiming at an analysis of investment activity under the Fourth five-year plan treats the main characteristics of the investment policy of the period 1971–1975. Chapter VII of the book deals with investment efficiency computations, gives an historical account of the development of the different computational methods under the conditions of capitalist and socialist economies. It gives a realistic account of the advantages and disadvantages of the different types of investment efficiency indicators approaching the problem from the aspect of the enterprises. He points out that a better correspondence between the interests of the national economy and the enterprises is yet to be realized.

Unproductive investments are discussed in a separate chapter. The author gives an account of the development needs in certain infrastructural branches by relying on the reports of the different long-range planning committees and thus we get a comprehensive picture of the necessary development of unproductive activities in the future.

As a whole, the book provides a good survey of the thirty-year development of this special field of Hungarian economy, it contributes to the knowledge of the nature of the growth of Hungarian economy.

L. FODOR

NYILAS, J.: *A világgazdaság és fejlődésének főbb tendenciái* (World economy and its main development trends.) Budapest, 1975. Közgazdasági és Jogi Könyvkiadó. 521 p.

In this work of his, Professor *Nyilas* sums up in a well-arranged, clear monography the most important results of a more than 15-year research of the world economy. The aim of the book is to clarify, on a sound theoretical basis, what type of socio-economical forces gave rise to the often qualitatively new phenomena and processes in the world economy and the world market after World War II, and what kind of social requirements these new phenomena and processes raised towards the different groups of countries, and within them towards single countries. The author further investigates the means with which the countries of the highly developed capitalist, developing and socialist blocks attempted to adapt themselves to these new requirements and what the results were.

Professor Nyilas introduces the first part of his book by elucidating the concept of world economy, outlining its elements and their specific relational systems. The author's reasoning clearly shows that the world economy and the world market are historically developed, continuously changing and progressing socio-economic forma-

tions. It is typical of their present stage of development that from the aspect of production relations they consist of two opposite parts: of the socialist and capitalist world economy and world market, respectively. At present, the world economy exists only as a specific and antagonistic unity of the two socio-economic systems. Consequently, the character, the possibilities and – to a certain degree – even the forms of the international division of labour are largely affected by the requirements and rules of socialist or capitalist world economy apart from the interests of the directly concerned states and economic units. In addition to them – the author points out – both parts of the world economy are also affected by the specific requirements and rules of the world economy as a whole.

Analysing the main types and determinant factors of the international division of labour the author mentions that the role of the natural endowments of a country and of the inter-sectoral division of labour is decreasing, that of the size of domestic market and of differences in the level of economic development is altering and that of the international division of labour within the sectors is growing, in close correlation with the post-war scientific and technological revolution.

Several factors have contributed to the accelerated post-war development of world trade. From among them the author lays special emphasis on the quickening internationalization of the production and of the technical and scientific progress, indicating at the same time, that there are still many hindering obstacles – of political, economic, security, language etc. character – to be removed in order that international technological and scientific co-operation should extend all over the globe and become deeper.

Otherwise the concept of "world economic relations" is always applied as a collective concept, which unites both the international economic and the international scientific and technological relations. The development of world economic relations reflects that the social character of production is becoming more and more global. The author holds that the process has reached in our age a historical turning point with international industrial co-operation and international economic integrations emerging all over the world.

In the process of the internationalization of production three phases are distinguished:

1. indirect, trade connections among the reproduction processes of individual countries,
2. beginning of direct intertwining in production,
3. gradual "integration" of formerly established integrational units.

Dealing with the role of world economic relations in economic progress, he states that "they provide a form of movement for eliminating the historically deepening contradiction between national separation and the most efficient utilization of the productive forces of individual countries" (p. 117).

The author, while treating of the production relations of the world economy, describes two historically developed basic types of international socio-economic relations – the socialist and the capitalist international production relations – and three transitional conglomerates. To the latter he lists the production relations reflected in the connections of the two systems between each other and between them and the developing nations.

In the second part of his book, J. Nyilas draws such conclusions from the analysis of the post-war development of the world economy as seek to find answer to the practical issues arising during the planned development of the economy in Hungary.

The author points out that parallel with socio-political changes a new phase of machine civilization began to unfold in the post-war period. Simultaneously, it was more and more widely experienced that science was on the way of becoming a direct productive force. The scientific and technological revolution has led to the birth of such scientific and technological accomplishments whose social impacts are simply not yet to be foreseen in their totality. "The new productive forces of our age make real the utopia of a society of abundance for everyone, though only its scientific-technical conditions have been created. The fight for the social conditions is yet a task

of the now living and the immediately following generations" – the author writes (pp. 243–244). He notes that the realization of the new scientific-technological possibilities is not an automatic process, it can be achieved only through complex efforts that also take account of the socio-economic requirements of latest technologies. It is from these requirements that he deduces the necessity of comprehensive, long-term planning and that in the long-run production must be distributed among countries.

The author, differentiating according to the blocks of countries, analyses the main methods and tools applied in adapting to the new requirements of world economy with the starting point that – as he holds – at present only the two world powers – the USA and the U.S.S.R. – are capable of utilizating and improving the whole spectrum of the attainments of the scientific and technological revolution. In all the other countries of the world the problem of how to adapt to new technologies is gaining prominence in various ways.

As far as the highly developed capitalist countries are concerned, the capitalist state is the principal force and executive organ of adaptation. Nevertheless, state interference is not able – under capitalist ownership relations – to eliminate competition among monopolies and states and the effects of spontaneous trends inherent in the capitalist economy. In line with the speeding up of the centralization of capital and production the smaller capitalist countries tried to gain favourable positions by distributing among themselves the production of diverse up-to-date products, by adapting their product pattern to the requirements of international specialization and to profitable production in large series. In spite of this, the chief beneficiaries of the new scientific-technological accomplishments are now as before the largest international monopolies. In the past few years the adaption to the new requirements has been going on with growing difficulties, along with more and more crisis phenomena also within the group of highly developed capitalist countries, which entails the intensification of socio-political contradictions.

The situation of the developing countries is far more grave and is becoming more and more intolerable. In these countries the external and internal conditions for the application of the new scientific and technological accomplishements are either not to be found at all or, if they are, then to a very restricted extent only, and followed by unfavourable additional consequences. The aids of the highly developed countries, in the majority of cases, strengthen the ties of the existing neocolonialist dependence, and only to a meagre degree do they contribute to the efficient exploitation of inner resources. This is well reflected in the fact that the weight of the developing countries in world trade has been constantly decreasing since the second world war up to the last 2–3 years.

The socialist, especially the CMEA countries – as a block – have accomplished in the past two decades a socio-economic progress unparallelled in history. In the sixties, however, significant problems began to show up in their economic development. Unsatisfactory technological progress, and the following insufficiency of material, technological and organizational conditions for the transition to intensive economic development caused most of the hardships in almost all of the countries. In this context, the author dwells on the changes in the methods of economic management and on the factors that determine these alterations, then he investigates the most important issues of the implementation of the socialist economic integration.

J. Nyilas sees the main trends and objectives of scientific and technological co-operation in the optimal development and gradual integration of research and development capacities. On this occasion he outlines the criteria and primary requirements of optimal development and treats the efficiency problems of the common long-term research and development.

In the last chapter of the book the author sketches the chief trends of the prospective development of the world economy. He outlines the expectable tendencies of socio-political factors, the likely expansion of the role of science and of the international co-operation and division of

labour in the field of scientific research, together with the expectable technical progress.

To sum up: in the book mainly the issues and problems concerning the development of productive forces and, within that, the post-war and prospective technological and scientific development in the future have been highlighted, yet the reader is not subject to the feeling of one-sidedness. These problems are, namely, all the while demonstrated by the author in close correlation with their socio-political and ideological bearings.

B. TÁLAS

BECK, B.: *Jugoszlávia gazdasága* (The economy of Yugoslavia.) Budapest, 1975. Közgazdasági és Jogi Könyvkiadó, 261 p.

The book of Béla *Beck* offers the reader a thorough, detailed description of the Yugoslav economy. The author starts from the statement of the Tenth Congress of the Federation of Yugoslav Communists concerning the evaluation of the development, analysis and problems of the economy, economic policy and economic mechanism and does not aim at drawing his own conclusions. He does not confront the economic policy and economic mechanism of Yugoslavia with that of Hungary or any other socialist country, nor does he make comparisons; in his view the differences in the solutions, arrangements applied in different socialist countries reflect the different conditions under which these countries are living. Because of this starting point perhaps interesting opportunities for analysis were thus missed.

Firstly, the book gives a survey of the economic development of socialist Yugoslavia between 1945 and 1973; then in the following chapters it deals with the development of industry, agriculture, with the labour situation and migrant workers, with foreign economic relations, with the principles and system of economic control, then, finally, with the development and problems of Hungarian-Yugoslav economic relations.

The author distinguishes three stages in *economic development* preceding the 1965 economic reform: the first from 1945 to 1952, the second between 1953 and 1960, the third from 1961 to 1965. He makes the distinction on the ground of changes in the economic mechanism (transition from directly planned economy to self-management), the changes in structural policy (abandonment of the forced development of heavy industry) and the development of living standard policies.

The author characterizes the period between 1966–1970 by the transition to a more intensive development, by a more intensive participation in the international division of labour, and by a simultaneous fall in the formerly very high rate of economic growth and its unevenness throughout the period concerned. Beyond the effect of necessary structural transformations, this was also caused by the unsatisfactory preparation of the reform, by the sometimes impatient, extreme measures taken. The reform had a positive effect on the development of the tertiary sector and of the manufacturing industry; however, it caused problems that the development of extracting industries and raw material production did not receive due attention. On the whole, less investment was made than had been envisaged; however, the proportion of up-to-date machines increased within the total machinery installed. With the intensification of production in view, employment had been envisaged to grow relatively slowly, however, the actual growth proved to be even less, thus causing difficulties. At the same time, the productivity of labour increased at a rate which is eminently high even in an international context. Foreign trade with socialist countries grew somewhat slower than had been envisaged as against total foreign trade turnover, especially as concerns imports. This latter fact led to the postponement of introducing the convertibility of the Yugoslav dinar. The political goal of the reform was a faster growth of consumption: this was accomplished, and the increase of consumption was even greater than had been planned. In connection with this, real wages increased rapidly, but the increase of money wages was even faster because of mounting prices; wages became increasingly differentiated. Price proportions were adjusted to approximate the world market prices and inputs; price setting was partially liberalized.

According to the author, the period between 1971–1973 was characterized by the stabilization efforts in order to reach an external and internal economic equilibrium. He reviews the guidelines of economic policy embodied in the plan for 1971–1975. Stabilization measures, their success in improving the external equilibrium and their failure to arrest inflation are related shortly. The principal characteristics and contradictions of economic growth are then surveyed.

The author underlines among the factors characterizing the development of *industry* the increasing concentration and productivity, and structural changes. The fastest growth took place in the chemical, oil, and certain engineering industries. Even new branches were created in the engineering industry which had been in an especially backward position before the war. Among them, car manufacturing and the production of household machines are analyzed in details. He points out that the development of the capital intensive metallurgy and energy production has been unsatisfactory, so that the development plans for the years 1971–1972 were not accomplished. For this reason, these industries are given special attention in the plans for the long-term development of the national economy up to 1985, the elaboration of which began in 1973. A comparison of certain indicators of the Yugoslav and the Hungarian industries gives an interesting insight: the most important fact is that productivity per man-year is about 8–9 per cent higher in the Yugoslav industry (the computations were made jointly by the Statistical Offices of the two countries).

There has been a considerable development in *agriculture* in the last two decades. However, this development was impeded by the import restrictions in force in Common Market countries on the one hand, and the disadvantageous internal economic conditions (prices, available credits) on the other. As a result, the country, which has good natural endowments for increasing agricultural production, has to import a considerable quantity of foodstuffs. As a relative lagging behind of agriculture threatens with impeding overall economic growth, the government elaborated a so-called 'green plan' for the development of the agriculture between 1973–1985 and for providing the conditions necessary for this development. Yugoslavia is proceeding along the socialist way of developing agriculture; however, the methods used are different from those applied in most other socialist countries. Agricultural co-operatives play a minor role in Yugoslavia and only a small part of the agricultural area is held by the agro-industrial combines and social farms, which, in turn, mostly follow up-to-date production methods. Socialist agriculture is developing through the co-operation of the socialist sector and private producers, however, considerable problems are caused by the great number of individual producers and the fragmentation of holdings.

The *labour situation* is characterized by great tensions and labour migration in spite of the fast increase of employment. In the 1970s economic policy made increased efforts to extend employment, thus the scale of labour migration became smaller. The author emphasizes that the government regards employment abroad to be but a temporary solution and also a problem in a political context, but still helps it by organizing it, and tries to make it planned. The government also provides for safeguarding the interests of those entering an employment abroad. Employment abroad brought advantageous economic results: it greatly contributed to the improvement of the foreign exchange position of the country, brought about the material advance of considerable strata of the population and the presence of a purchasing power in foreign exchange stimulates the improvement of the range of choice of internal commodity supply.

In the field of *external economic relations* the growth of commodity turnover grew together with the growth of world trade, and, by the faster grow of imports, Yugoslavia even increased its share. The share of agriculture decreased, and that of industry greatly increased in exports, which grew faster than production. In imports, especially the proportion of materials and semi-finished products increased; the share of machinery is also considerable. The lasting deficit of the balance of trade is being compensated by services (invisible

exports: tourism, passenger transit and goods transport) and by borrowing abroad. According to the author, borrowing abroad had been guided by current payment problems, thus, in earlier years it had been done on a rather *ad hoc* basis; at present, the management of borrowing is better planned.

It is a great merit of the chapter dealing with the *system of the control of the economy* that, as against a number of foreign publications, it draws attention to the shifting of the emphasis in the 1970s in the improvement of the system: the increasing role of planning, the efforts at a more powerful central control of the spontaneous market processes. At the same time, however, the system of control gets considerably less place and fewer details are given than would have been justified. The subdivisions in the chapter dealing with the systems of planning, incomes control and taxation, with the economic power of the federation and the republics, the banking, credit, foreign trade and foreign exchange systems prove an excellent knowledge of the system – however, they convey little of this knowledge to the reader.

There are traditional commercial relations between *Hungary and Yugoslavia:* in the 1970s the spirit of Hungarian-Yugoslav political relations provided a favourable atmosphere for the improvement of economic co-operation, for the solution of problems and difficulties emerging in practice.

In principle, there is no fundamental difference between Hungarian-Yugoslav economic relations and Hungary's relations with other socialist countries, only the mode of payment differs: payments are made in currencies other than the transferable rouble; up to 1973 they had been made in clearing dollars, and since they have been effected in convertible (free market) US dollars. After a temporary setback in 1973, caused by the shift to settling accounts in convertible currency, trade relations between the two countries have developed dynamically. The structure of the commodities exchanged is especially advantageous. About half of the trade in either direction is made up of materials and semi-finished products.

According to experts, the opportunities for co-operation are far from being fully exploited yet. According to the standpoint of the Hungarian partner, the form of settling the accounts in convertible currencies has a number of advantages and disadvantages. These latter should be eliminated by concluding long-term agreements. Such agreements have been made in a number of fields where also the contribution of Hungarian capital fostered the conclusion of a business agreement. Notwithstanding, there is only an insufficient number of co-operation and specialization deals between the two countries.

The possibilities to improve the existing Hungarian-Yugoslav economic relations are related to future developments in the relations between Yugoslavia and the CMEA countries. It is in the interest of Yugoslavia to strengthen its ties with countries of a similar social structure. However, because of the economic structure, relations and other objective reasons, it is likely that the exchange of commodities will continue to be dominated by the proportion of trade with non-socialist countries. It is expectable that the mode of settling accounts in convertible currencies will become more widespread in the relations between Yugoslavia and other socialist countries, thus contributing to the improvement of the conditions of multilateral co-operation.

The relation between Hungary and Yugoslavia as good neighbours is an important factor in the further improvement of economic co-operation, and, as the author points out, the relations between the states and the parties secure the framework for this, thus stimulating progress.

K. A. Soós

FARKAS, R. P.: *Yugoslav economic development and political change. The relationship between economic managers and policy-making elites.* New York, 1975. Praeger Publishers. 133 p.

The book of *Richard P. Farkas* gives an account of a research made into a very interesting, important field. The author examines the economic power and interest structure of the managerial strata of the Yugoslav enterprises, having gained

more importance during the 1960s, as well as their role in political control. Among the books dealing with Yugoslavia, the book is remarkable for the rich field work (interviews with economic and political leaders) and for the fruitful application of sociological analysis.

The general framework of the problem examined is constituted by the main characteristics of the economic and political system: these are dealt with in Chapter I. After the reforms in the 1960s, the well-known characteristics of the Yugoslav economic system have been the self-management and independence of enterprises, the "independent" elaboration of their plans, the active role of the market and money relations, the supervision of the activities of the enterprises by local authorities. However, another important feature of the political system, the existence and operation of *economic councils* ('houses') on every level of the state power organs of popular representation (communes, republics, federation) are less known. The members of these councils are elected by the enterprises, thus the system provides a broad, high-level representation of the economic interests of the enterprises. Besides economic reforms, this is another factor emphasizing the social importance of the strata of the enterprise managers.

The subject of Chapter II is the power of the manager within the enterprises, the distribution of this power among the manager and other persons, organs and institutions within and outside the enterprise.

According to the author, the influence of the Communist party asserts itself not primarily through the party organs of the enterprise. The author approves especially of those views according to which the role of the party has changed so that earlier central control has been replaced by indirect influence through reforms.

Although the participation of workers in the workers' councils is real, it is not them who make the policy of the enterprise. In the 1960s the role of the workers' councils became more important, but the lion's share of decision power was left in the hands of the managers.

To sum up, the author characterizes the development of the enterprise system by the increasing role of the managers, the transition from 'bureaucratic' forms or systems of control to a 'profit-motivated' or 'growth-oriented' management.

Chapter III deals with the system of economic chambers (chambers of commerce), especially with the Federal Economic Chamber. Chambers are the organs for the representation of the economy; their hierarchic structure is based upon the compulsory participation of enterprises. The Federal Economic Chamber influences the economic decisions of the government, especially in the fields of planning, the policy concerning economic structure, and in technological development. However, certain factors limit this influence. One such factor is the principle of making decisions on the basis of agreement, which renders decision-making impossible in the case of confronting interests. Government defends 'social interests' against 'economic interests'; this is another important limiting factor. Finally, the parallel institutions, 'competing' with the Federal Economic Chamber, must also be mentioned: state economic ministries, institutes, which, naturally, take part in the preparation of economic-policy decisions, further, the associations representing common interests, created by enterprises in order to influence economic policy. Such associations have been created in almost every economic branch. Notwithstanding these limiting factors, the role of the Chamber became more important after the reforms.

Chapter IV deals with some further characteristics and changes of the economic and political system. The author pays special attention to the already mentioned associations of the enterprises; in addition to associations created for influencing economic policy, he also mentions such whose aim is to increase profits and to influence the market. He analyzes the mass replacement of managers in 1964–1965 and arrives at the conclusion that these were the consequences of the reform. In general, relatively young, well-trained experts were placed into the

managerial positions of the enterprises, with the task of improving efficiency, and maintaining growth. Although also politically trained, experienced, political activity was for them but a means for securing the growth of their enterprise. The author also deals with the transformation of the ideology; the withering away of the state was envisaged in the foreseeable future, the concepts of direct democracy and self-management of enterprises were launched. The author points out that although the social practice has improved recently along the above lines it is still rather in contrast with the concepts, partly because of economic pragmatism, partly because of the social, economic, and cultural backwardness of the country. The concluding part of the chapter, giving a statistical analysis of the social, economic, political, and cultural conditions and achievements of the country as well as a review of the number and development of publications on political, economic and applied economic subjects enriches the book with a number of remarkable contributions.

The subject of Chapter V is external economic relations. The following conclusions are drawn on the basis of the earlier chapters and the profound knowledge of Yugoslav foreign policy, also witnessed in the author's earlier publications:

Firstly, Yugoslavia emphasizes the extension of international economic relations, and it is considerably dependent on them. Its dependency is diminished by the thorough division of relations among developed capitalist, socialist and developing countries. The economic reforms of the 1960s tend to emphasize the relations with developed capitalist countries. Secondly, the phenomena related to the formalities of international economic activity (negotiations, contracts, financing) show that the personalities negotiating on the Yugoslav side share a number of values with their partners representing the Western economic systems. The foreign economic activity of managers is characterized by the assertion of the immediate interests of their enterprises, i.e. by pragmatic behaviour. Finally, the improvement of foreign economic relations has an important effect on the internal socio-economic system. On the one hand, it brings into it an element of stability, cushions radical changes, for external liabilities and relations prolong the time necessary for implementing changes. On the other, external relations also render the system more open, toward a transition according to the model of other systems.

Chapter VI gives a summary of the contents of the preceding chapters.

The merits of the book have been mentioned in the introduction. They were surveyed in detail by the review given above. However, we have touched some of the shortcomings already. Let us examine the faults now.

Our first objection needs some explanation. Until their recent separation from the Ottoman Empire and the disintegration of the Austro-Hungarian Monarchy, but, to a lesser extent, also until the formation of the new, socialist Yugoslavia, the nations of today's Yugoslavia have lived under the rule of such states to which their relation was characterized by resistence. This is the basic cause why, in general, Yugoslav political and sociological thinking is ready to question the state as such in different senses.

It is not difficult to identify the effect of this approach in Farkas' writing. Although he awards some autonomy to the political and state sphere in his description as against the aspirations and goals of the managers of the enterprises – let us remember his expression that government safe guards the 'social interests' against 'economic interests' – but he finds this autonomy to be decreasing, as the influence of economic interests on policy is growing. At certain places, in some of his formulations, this autonomy of the state and politics, with its peculiar, distinct system of values tends to be described as "overcome", "eliminated" – to be *nil* (e.g. "An economic [at some level »business«] ethos is fast becoming determinant of economic, social, and political relationships in the system." p. 122) If the book is but controversial in the field of the influence of 'economy' on 'politics', and the concept of 'economic absolutism' only appears at certain places, it is much more determined in denying an effect of the latter on the former. Political preferences do not 'distort' the 'good' profit

maximizing tendencies of the enterprise managers. ("For them, ideology is not an adequate guide to meet the challenges which their routine responsibilities broach". p. 123)

How can it be conceived that the political leadership of any country, especially of a socialist one, should be guided exclusively, or even only principally, by 'economic', or straightforwardly 'business' preferences, and not on the basis of a policy securing a certain balance of interests rooting in the structure of the society, on the basis of striving for the political contendedness of the main social strata, or groups? And further, how is it conceivable that, in the wake of an only half accomplished economic reform, having not reached the real extent and scope of the liberalization of price-setting held desirable, having not achieved the desired extent of freedom of the enterprises in deciding on investment alternatives etc., thus far from having been freed from the lead of state decisions – a type of enterprise managers that could only be the typical 'product' of a liberal (in fact, only capitalist) economy, might become widespread and characteristic? Is it not the negation of reality to think that politics would allow the assertion of a system of values greatly differing from its own one in an economy largely and manifoldedly determined by it, and would even submit itself to those values?

If we accepted this reasoning, we should be unable to explain a great number of important facts in Yugoslav society and economy. For instance, the fact that a great number of unprofitable, undoubtedly not profit-motivated investments are effected even in the manufacturing industries; that money-losing enterprises are supported in great numbers by different kinds of subsidies; that, mainly as a result of these two factors, the economy periodically faces serious insolvencies threatening with paralyzing the circulation of money – which is impossible to take place under the conditions of the 'business ethos'; or the fact that economically less developed regions are being developed out of central funds. Thus, the author grossly over-emphasizes an existing tendency of the Yugoslav socio-economic development: the fact that after the economic reform, a small part of the enterprises operating at a high profitability – let us add, mostly unproductive enterprises, trading companies, insurance companies etc. – acquired considerable independence from central and local state organs, operating increasingly on the basis of business considerations and also asserting a political influence. Of course, the other, greater part of the enterprises also had and have a political role – but these enterprises, following precisely from their position, are the representants of a political rather than a business system of values.

Our other objection relates to a rather less important problem. R. Farkas studied the increasing independence of the managerial strata of Yugoslav enterprises, the increase of its social influence in 1968–1972, these were described as present in his book but in the years to follow this was no longer justified. In the Party letter in October, 1972 and at the Tenth congress of the Federation of Yugoslav Communists in 1974 the liberal, technocratic tendencies of earlier years were sharply criticized and a widespread political action was launched against the 'autonomous power summits'. In itself, it is not unforgivable that the conclusions of the author promise a continuation of earlier tendencies as he has made a brilliant scientific analysis of the inner logic of a reform process, for an understanding of the working of its cumulative processes. As much should have been pointed out, though, that the actual development of Yugoslav society has taken an entirely different direction.

K. A. Soós

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