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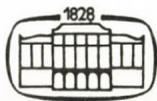
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R. NYERS

SOURCES OF ECONOMIC GROWTH IN HUNGARY

Beside the basically favourable development tendencies some consequences of past development cause some difficulties, connected first of all with the production structure of the industry, the efficiency of investments and utilization of live labour.

The new world economic situation has brought about new conditions for the CMEA-countries, especially for Hungary. When determining the development goals, both the exports and the imports must be increased in the interest of a more intensive participation in the international division of labour.

Examining the role of investments and of research and development in economic growth the author points out that the problem of research and development does not lie in the scarcity of available resources but in the efficiency of their utilization. This gains more importance in the future by the fact that in the next five years nearly the same growth rate of national income must be attained as in the period 1971-1975, but with a considerably smaller increase in investments.

In the closing part of the study the author deals with the manpower situation, pointing out that the main means of eliminating labour shortage is a labour-saving development policy.

Economic growth is a great problem that affects and interests the whole of humanity. It is a primary subject of scientific research, it changes living conditions continually, and challenges man's adaptability. Its effect reaches far beyond the economy in the strict sense, and its many aspects play an important role in political life as well.

Since our economic present is the social "product" of a long growth process, I feel it necessary here to refer to certain determining processes that extend from the past to the present. I feel this all the less negligible, since I consider the thirty years' past of today's order an initial period of a foundation character determinant for our economic future. It is therefore, necessary to be acquainted with it even if many changes are taking place as a result of economic development and initial solutions are replaced by more advanced ones.

Lessons of the past

Between the two World Wars national income grew in Hungary in 25 years by a yearly 1.5 per cent on average, consumption was slowly increasing, and the rate of accumulation within the rather low national income was only 9-10 per cent. Insufficient economic growth reflected the grave contradiction that capitalistic

production conditions in the country hindered a general and extensive development of the forces of production: beside certain dynamically developing areas of the economy there were many backward, stagnating or hardly advancing ones. It was therefore not mere chance that those striving for building up a new Hungary set a double aim in their program: the socialist transformation of production relations and acceleration of the economic growth rate.

In 1950, at the end of the successful restoration period, the level of national income reached that of pre-war years. Meanwhile, the economic growth rate speeded up spectacularly and, although it slowed down after the restoration period, it has always much exceeded that of pre-war years. In the twenty-five years between 1950 and 1975 national income grew at the yearly average rate of 5.7 per cent, i. e. four times as fast as before the War. This average hides certain fluctuations. Between 1961 and 1965 the growth rate slowed down to yearly 4.1 per cent, then, following the reform of economic control and management it speeded up again as a result of a better utilization of resources to rise over 6 per cent in the period of the 3rd (1966–1970) and of the 4th Five-Year Plan (1971–1975), when agriculture also became a source of growth beside industry.

The twenty-five years' growth of the Hungarian national economy going the way of socialism is such positive process as has proved to be the carrier of general social progress:

– The rate of employment has reached in Hungary a high level by world standards: the ratio of economically active population reaches 48.6 per cent, which corresponds to the level of the German Democratic Republic and Czechoslovakia among the socialist countries; among the capitalist countries a similar rate is found only in Denmark. There is no need nor a possibility to raise the employment level to any considerable extent in the future.

– As a result of the industrialization process Hungary has become an industrial country: at present 43.5 per cent of total employment is in industry and in construction, which puts Hungary at the sixth place in Europe.

– The share of agriculture diminished both in employment and in the production of national income: at present 22 per cent of the economically active are in agriculture. Yet agriculture keeps pace increasingly with European development and remains – in spite of its reduced share – a factor of basic importance in the Hungarian national economy.

– Particularly after 1957 a considerable raising of personal consumption and an improvement of living conditions became possible. This development is demonstrated by the fact that between 1960 and 1975 the per capita real income doubled and one million flats were built.

A few characteristics of the country's past development have come increasingly into conflict with changing relations; part of them are still working and causing difficulties among the changed conditions. These do not alter the positive evaluation of the earlier stage of development, yet they hinder present and future development. The causes and

circumstances of their formation must be observed if we wish to overcome the difficulties. The following are involved:

– In shaping the country's industrial structure in the 1950s we orientated ourselves – because of the serious commodity shortage on the home market as well as on the CMEA-market – necessarily towards the satisfaction of current needs and not towards prognosticating the future's market. In the 1960s the importance of technical progress was recognized and the situation improved, yet the problem was not solved. While certain industrial fields were modernized and developed dynamically, a considerable part of production became outdated, was not economical, development resources proved to be insufficient for technological development in the given structure, and this urges to transform the industrial structure of the country.

– Central planning and control in the 1950s set a low standard for investment efficiency as a social requirement, while the market mechanism, due to its primitive state, could not drive investments towards higher efficiency either; in the period of chronic shortage of goods this was of secondary importance. In the 1960s the social standard became somewhat more exact and stricter, yet this was not enough for a correct synthesis of technological and economic viewpoints. In development decisions the alternative of whether "to import or produce at home" was not set for a long time with the emphasis it deserves, and it is not yet set even now. This is why industrial-technological interests gained advantage over the importance of establishing a structure that would be economical in the long run. While due attention was paid in the economic and political life to the problem of implementing investments, it seems that the even more important questions of *selecting development targets* were unduly neglected. Reform of the planning and management system brought favourable changes also in this field, but these proved to be still unsatisfactory for lending a greater role to efficiency in investment decisions.

– While labour resources have been running out since the mid-sixties in the Hungarian national economy, development methods have been adapted to this process belatedly and insufficiently. While in agriculture demand for labour is decreasing, in industry labour-intensive development is continuing, although no labour resource outside industry can be counted upon. Since there are few investments aiming at modernization, the liquidation of low-efficiency activities is slow – though it is true that former conditions were not so as to urge it –, labour scarcity is greater today than what would be in fact justified by the Hungarian situation and development conditions.

It is also characteristic of the past twenty-five years that the problems of equilibrium necessarily appearing in the course of growth sometimes became more acute. The methods of reaction – sudden changes in the rate of investment and in foreign trade – may have seemed fully justified at the time, but they brought special changes in the rhythm of economic growth, which could have been certainly avoided. A sudden change in the growth rate works against efficiency, leading to forced growth in certain cases, and to forced restraint in other cases in some parts of the economy,

which must be paid for by repeated breaks in the process of improving efficiency I do not think that such solutions could be entirely eliminated from the incessant reproduction process of national economic equilibrium, but it seems that we are too much given to the practice of "forcing both ways". What is more, we have inherited a certain bent for trying to realize important development targets by forced growth and to restore an upset equilibrium by forced restraint. Otherwise this problem must not by any means be mixed up with the scope of authority of government control: "forced or rhythmical rate" are alternatives in applying tactics of economic policy.

To sum up, the statement can be made that Hungarian national economy utilized well its growth potentials within the framework of socialist planned economy. It attained a growth rate higher than that of advanced capitalist countries. In the socialist part of the world it belongs to the economies growing at a relatively lower rate, while in the past twenty years growth has become more even.

In the early 1970s the situation of the country was such that she had a considerable energy for growth, and the general equilibrium situation was favourable for smooth development. Although the above-mentioned negative phenomena accompanying the progress of Hungarian economy increasingly pressed for solution, it seemed possible to find it gradually, by a more efficient use of the available armory.

However, at the beginning of 1974 a new world economic situation emerged: the capitalist world economy slipped into a growth crisis, which created new conditions in important matters for the CMEA countries, and particularly for Hungary. Almost simultaneously with the appearance of the new world economic effects also a new international intellectual trend emerged in connexion with the world phenomenon of economic growth. Both changes raise for us a question to which an answer must be found. *In the new world economic situation the Hungarian economic strategy must be reconsidered*, new tasks have to be solved, and new methods introduced into economic practice. Also as regards the intellectual formulation of the world problem of growth we shall have to weigh carefully the new situation and to make clear our position. Let us start with the latter.

Critique of the theory of zero growth

Few scientific works have raised so much interest and reaction in a short time as has "The limits of growth", the study published by the Club of Rome, in which a group of researchers informed readers about the results of the first phase of examinations concerned with growth on a global scale. This unofficial team of natural scientists and economists questions whether the economic growth of the world can continue in the long run. The fame of the publication is due to the importance of the subject, the novel method of approach, the drawing of important conclusions and, in addition, to the fact that the message of the study is highly controversial. Discussions are still going on in the whole world, and the second volume concerned with regional effects has also been published in the meantime. Many share the views of the scientists

of the Club of Rome, and many are opposed to them. Discussions have gone far beyond the original subject and now a number of such important aspects are considered – in their majority from practical and political points of view – as were not dealt with, or only touched upon, in the original train of thought.

The question originally raised was whether humanity's future was endangered by exponential growth. The researches of the Club of Rome examined the interaction of five factors: birth-rate, food production, industrialization, extraction of mineral resources and environmental pollution and they came to the conclusion that growth may, if continued in the way as it has been up to now, reach its natural limits within the closed system of the Earth already in the next century. Therefore, the world ought to be led as soon as possible to a state of equilibrium without growth, where population would stop growing, and the utilization of natural resources would not upset the ecological balance.

It is our duty to weigh what we can accept and what not from this passionate call on humanity. It is a lesson to be learned that the growth process has to be examined in a more complex way than before: by considering the interaction of the main factors. The effect of exponential growth – of a regular doubling of the economy – on social conditions and on the natural environment must be thoroughly studied on national economic level as well as in international regions. Greater attention must be paid to difficulties caused by growth.

Yet in some questions raised by the Club of Rome we cannot share their opinion. We cannot accept the global (Earth-Humanity) handling of the growth problem as the single and main method, much less as a practical one, because the *world economy exists and develops in its parts*, so that from a global analysis no conclusions can be drawn either for national or for international regional tasks. The ideal of a world without growth cannot be accepted either, because it is not realistic: it does not take social problems into account. Therefore, no alternative for growth exists for us today; what we question is not growth, we want to raise its qualitative value, and therefore we ask: how can economic growth be made more rational?

The question is very timely as put by Marxists: is rational growth realizable under capitalistic social conditions? This question is repeatedly raised by life in capitalist society, while the number of those is growing who find an interrelation between the irrational phenomena of spontaneous growth and the capitalistic order of society, and who think that the former cannot be eliminated alone, but only together with the latter. In the countries where the socialist alternative is not sought with much intensity, it is recognized ever more clearly that balanced growth requires efficient central economic policy, and it is not enough to control the economy solely by monetary policy. Although the economic growth of socialist countries is not free from contradictions and deficiencies, it gives society an incomparably larger amount of human values than can be provided by the growth taking place under capitalistic market conditions. Therefore, it must be added to the analysis of the Club of Rome that the value and quality of growth is not independent of the type of social relations.

Since in our age two principles and practices are opposed to each other in the world: on the one side the capitalistic scale of values based on interests of private ownership, and on the other side the socialist scale of values based on the principles of economic democracy, sooner or later peoples will have to make their choice in the knowledge that socialist planned economy is able to produce a growth more rational also from the point of view of world interrelations than the system based on private enterprise.

To make an end to world economic growth would be an absurdity also because in large regions of the world the majority of world population is in an initial period of economic growth as a consequence of a largely backward state of development. So far only a few of the developing countries could realize a continuous dynamic growth. To these belong the developing countries with a socialist system of society and, lately, the large mineral oil producing and exporting countries. Because of the unchanged reproduction of differences in development, the spontaneous and little planned character of growth, and the insufficiency of institutional forms stimulating development, the previous way of global development must be condemned. The developing countries unable to advance unaided need a certain international regrouping of capital and technology, technological and cultural aid, and safer sales possibilities for their products. It seems correct to continue and improve the aid given by socialist countries in the technological and cultural fields, as well as in increasing market security. On the other hand, their large-scale participation in the regrouping of material resources is not justified, partly because they are mostly medium-developed countries themselves, suffering from scarcity of resources, and partly because it is the duty of those enjoying the fruits of two centuries of colonization to give back the resources they had taken away.

The qualitative aspect of growth

From the fierce intellectual criticism of the harms of growth two practical lessons can be learned in my opinion. Firstly, that the material intensity of production must be further reduced by a more reasonable utilization of energetic, industrial and agricultural materials, and the system of managements must be improved so that material supply to production should be smooth, since this is in fact the most economical solution. Secondly, that the growth rate must be made much more dependent on *qualitative factors*, which change in place and time. A higher growth rate should be encouraged if efficiency improves, if living- as well as working conditions are more favourable, if social and commercial services can be developed along with production, if the quality of goods is improving and environmental harms can be avoided. It must be recognised that growth has at all times an optimum rate that can be calculated by planners, and if growth is forced beyond that, its advantages for society will decrease, while difficulties caused by it will be growing.

Central, council, and enterprise planning will have to pay more attention to the "quality" of growth in the future. Also in political life the growth realized by

observing quality conditions or even by improving quality must be seen and made to be looked upon as more valuable. To promote this, such comprehensive measurement and evaluation system must be found as adapts itself to the given development phase and is expressive of the relations of growth to the quality of both work and living conditions.

Yet a qualitative change on a social scale infers quantitative growth. Therefore, continuous economic growth at a satisfactory rate is one of the basic conditions of the development of social conditions. Our long-range objective: economic foundation of an advanced socialist society and of the socialist way of life, demands that Hungarian economy should be characterised by highly developed forces of production instead of today's medium-developed ones, and that resources should be utilized with a high degree of efficiency. That is to say, advanced technology as well as a high degree of work organization and high productivity should be general, and the per capita national income in real terms should be twice as much as today. In order to achieve this the long-term growth rate of national income must remain a yearly 5.7 per cent as has been the trend so far. If this is achieved along with an improvement of certain quality factors, it will mean that this generation has well fulfilled its historical task.

What can be given to the population by a future economy more than double its present size? It can guarantee that the long-range objectives of socialism shall increasingly materialize.

— Consumption of material goods shall grow in proportion with production, and to such extent that the "respectable poverty" of a part of the population as is meant today shall also cease, and the general consumption level shall be expressive of a higher and more complete welfare than today;

— material growth shall provide more fertile soil for cultural advance, which is one of the conditions that cultural activity have a greater role in shaping the way of life, and that the material life processes take place under more cultural conditions;

— more highly developed public service institutes shall cover Hungarian society, to enable families and individuals to lead a better way of life with less time spent;

— by extending international relations the Hungarian population shall have an increasing share in other nations' material and intellectual products, the international position of the Hungarian national economy shall strengthen together with the development of the CMEA cooperation, and the reproduction process shall be smooth.

Scientific as well as practical experience in regard of growth rate warn us that growth by all means, i. e. the highest possible rate, must not be striven after even in the interest of a good purpose. It seems that under the conditions of planned economy the planning of e. g. a 5 per cent growth rate may prove more valuable if well founded materially and technologically than that of a 6 or 7 per cent rate not founded safely, which could bring acceleration but temporarily. In the long perspective a comparatively even rate is more favourable, where the zone of yearly changes in the rate is not large, because in such cases spontaneous changes in proportions, bottlenecks, obvious and latent disequilibrium can hardly occur. And, what holds for the national economy holds, I think, also for enterprise planning.

Changes in the national economy's growth conditions

Economic growth takes place everywhere among continual changes: the proportion of live labour to physical assets changes, and so do the pattern of demand, the terms of delivery and turnover, as well as the sphere of activity and mobility of man in both production and in leisure time. Changes within the economy set people new tasks and cause changes in living conditions even if macro-economic conditions do not or hardly change.

In Hungary growth can be dynamical if greater changes are made in the structure of production than has been hitherto the case and a gradual change occurs in the consumption pattern, while the changes in production and consumption are differing in structure from each other, and this difference must be bridged over by foreign trade. It is necessary therefore, that development should upset to a certain extent the earlier equilibrium conditions, and the creation of a new balance without reducing growth is only possible if there is a harmony between enterprise and personal interests. Foreign economic conditions will be subject to more frequent changes, which is another factor causing difficulty. It is the task of economists to reduce such difficulties of growth to a minimum — by recognising the situation in time —, but not infrequently also the ability of public opinion to face and bear difficulties is necessary and will be needed in the future as well.

From 1974, the Hungarian national economy has been under the "cross-fire" of world economic effects and inner growth difficulties so that the changed world economic background much aggravated our inner problems. Deterioration of the terms of trade played a determinant role in changing the foreign financial balance for the worse; two-thirds of the foreign trade deficit were caused by the large-scale price losses, which could be counterbalanced by improving efficiency only to a small extent in the short run. National income did not cover the growing consumption and accumulation in 1974–75, and more expensive imports could be counterbalanced by increasing exports only to a limited extent, so that the deficit of foreign trade had to be covered by considerable foreign credits. During the drafting of the fifth Five-Year Plan (1976–1980) it became clear that the situation that had established itself would affect the whole of the five-year period.

Although the fifth Five-Year Plan moderates somewhat the growth rate of industrial and agricultural net output, it sets it at 5.5 per cent in accordance with the long-term trend of growth. It is a new feature of the plan that only about 75 per cent of the increment of national income will be used for home production and consumption, while 25 per cent will be spent on creating such additional exports as would restore balance of the foreign trade by 1980. Until then, the deficit will be covered by further foreign credits. The foreign trade deficit of 1974–75 is much worse than any earlier periodical one had been, so that it can be counterbalanced only with much difficulty and serious efforts even in five years. Could not a better solution have been found? It is my conviction, that it couldn't have been, because the planned improvement of

efficiency is such an upward revised target above which none can be planned realistically for a faster elimination of the deficit, or, if foreign credits were raised beyond the planned figures, this would amount already to breaking with the principle of steady economic policy: a risky way which we are not to follow. Theoretically also the "zero growth" of accumulation and consumption is a possible version. It would, however, create more and higher tensions than it would solve, mainly by hindering the soonest possible adaptation of the Hungarian national economy to the changing world economy.

Many facts seem to prove that in today's world economy it is not merely a temporary slowing down of the growth process we have to do with but *the beginning of a new era*, which entails a change in the growth conditions of countries sensitive to foreign trade, such as Hungary. This fact necessitates a reconsideration of our long-term foreign trade and growth strategy. The Hungarian party and government organs have started work on it already but, since the future of the world economy is not at all clear, thorough analyses are required to reveal the direction and main line of changes, and a long-term strategy can be worked out only afterwards. Our Five-Year Plan must be considered as one intended to serve, beyond five-year targets, also a preparation of the country for the coming era of world economy. In the course of plan implementation important progress must be made in areas that surely correspond to the emerging long-term strategy.

In the intensive period of development the future of the Hungarian national economy depends not on the quantitative growth of resources but *on the efficiency of their utilization*, i. e. on the qualitative factor taken in the most general sense. This is namely what determines whether we can satisfy the demands of growth of the Hungarian national economy in the long run or, arriving into a permanent state of comparative insufficiency of resources, we are forced to slow down growth.

It is therefore not by chance that we centre attention on the changes in the resources of economic growth, and particularly on the roles of labour resources, development, investment, and of the international division of labour, these being key questions of our five-year and long-range development.

Increased utilization of the international division of labour

Foreign trade has always played an important role in Hungarian economy, yet this role is judged differently for the present and for the future. Earlier it was adjusted to extensive development: abundance of labour as well as the dynamic expansion of home and CMEA markets have been for long sources of growth, while the lively demand on the world market acted also as a favourable factor. At that time imports wanted for production played a determinant role in foreign trade: export targets were set accordingly, and in production the substitution of imports by home products was

extensively supported. Foreign trade was rather separated from production, in order that the problems of selling should not disturb the continuous growth of production.

Now, as well as in the future when development cannot be but intensive, *foreign trade is and will be an important mediator and stimulator not only in the exchange of goods but also in the permanent and organized division of labour*. It helps to use comparative advantages, thus revealing a new source of growth. As a result, we shall become regular suppliers of an increasing number of articles on foreign markets, and continuous importers in others. International specialization and cooperation has begun to develop; the international division of labour brings researchers, developers, producers and businessmen into ever closer relationship. When setting down development aims in economic policy exports are to be augmented no longer on the grounds of imports, but with a view to a more intensive participation in the international division of labour both exports and imports are expanded. In exports selectivity is increased, while the range of imported goods is also extended. It is almost self-evident that in this period the raising of foreign trade efficiency becomes topical and, in this context, production and foreign trade are shifting from the earlier exaggerated separation to a permanently strengthening organic relationship. We are therefore entirely justified in urging, in accordance with the logic of the reform of economic control, a further gradual expansion of direct relations; it would be wrong to stop on this way and even worse to revert to earlier practice.

It can be said that at present Hungary's foreign trade relations are quite extensive, yet by West-European standards our participation in the permanent international division of labour is low. We take first place among the CMEA countries as regards the weight of foreign trade in national economy, but in comparison with countries of similar size, such as Austria, Belgium, Denmark, Finland, the Netherlands, foreign trade still plays with us a small role. Our situation and foreign experience lead to the conclusion that the ratio of foreign trade to production must be increased and Hungarian economic growth will thus become even more dependent on the extension of a lasting international division of labour in the future. This must not be feared but well utilized as a potential.

The export development programme of the fifth Five-Year Plan demands increased efforts from economic and foreign trading enterprises already in 1976 as well as in the coming years, not only because of the size of quantitative targets but also because the present special conditions that necessitate a qualitative leap in the improvement of foreign trade efficiency. The conditions of such leap must be created in production, while trade can promote solution of the task by active market research and realization.

From the aspect of growth, development of cooperation with CMEA countries is of primary importance. To a certain extent a new situation is establishing itself in cooperation, partly as a consequence of changes in world market prices, and partly because, getting now into the phase of intensive development, requirements towards the quality and price of foreign products become higher on the CMEA markets. In this

situation the development of integration forms is even more important than before. Fulfilment of socialist interstate agreements is satisfactory also in 1976, yet it is characteristic of the insufficiency of earlier forms of cooperation that the supply of parts and, generally, servicing, are not up to requirements either in exports or in imports, although turnover is increasing at the previous rate. Our relations with the CMEA countries must be developed in the knowledge that the success of cooperation with the non-socialist world is largely depending on the former.

It must be observed that in 1975 a change took place in the conditions of East-West trade. While in previous years the flow of goods to and fro was more or less balanced, in 1975 an important growth occurred only in the flow from West to East — according to EEC data this amounted to 40 per cent — while the flow of goods from East to West grew only by 7 per cent, mainly because of the reduced absorptive capacity of Western countries. In 1976 sales possibilities are a little better in the West, but harder sales conditions are expected for the coming years. Western inflation — whose slowing down but not its end may be expected — is a factor promoting our exports, though to a smaller extent than has been so far the case, because in the future we shall pursue a more active exchange rate policy: the shift between the home and foreign price levels will be bridged over by more frequent adjustments of the rates of exchange, which will reduce the attraction of inflated markets for Hungarian enterprises. This will be done because it would not be right to adjust exchange rates only to export increasing objectives. Wider interests, mainly economic stability and equilibrium, must be observed in adjusting them.

The period of sudden deterioration in the terms of trade is over, but the consequences are still here. In 1976 the terms of trade do not deteriorate further in our trade accounted in dollars but — because of the delayed adaptation to the world market price-level — they do in our trade accounted in roubles. Fortunately, this latter factor has been taken into account so that its effect can be counterbalanced to a certain extent by improving the export structure. However, it is still before us to bear the resource-restricting effect of the past and present deterioration in the terms of trade, manifesting itself mainly in that with the new price relations the balancing of a unit of imports requires 20 to 30 per cent more exports if the product pattern remains unchanged. On the other side, we can gradually improve the terms of trade by developing a more profitable product pattern than that of today. This may be the main method, beside raising labour productivity of a relative reduction of inputs. As a consequence of the high share of foreign trade in the national economy improvement of the export pattern must play a leading role in the whole modernization process of production structure. This is thus not only an important question but a central problem of the present period.

In this situation enterprise management in industry and agriculture has the task to explore possibilities for augmenting profitable exports and for improving the export pattern. Export orientation as an approach and behaviour is gaining ground and there are many initiatives, yet at many places not enough attention is centred on this task

and not too well, either. More and better initiatives are needed: joint efforts of production and foreign trade and, where the relations between the enterprises of the two spheres are not intensive enough, a way must be sought to establish more direct relations.

Central organs stress nowadays the special importance of producing convertible goods, and this is done with special emphasis. The reason is that, as a result of our situation, it is often necessary to regroup part of the exports between the rouble- and the dollar zones. This is expressive of the fact that in the present international conditions economic relations with both spheres are very important for Hungary and, although we did not prepare earlier for such a situation, it does not follow from our socialist principles that our attention and efforts ought to be centred exclusively on the rouble market, while the dollar market would be a kind of "reserve path" on which our remaining forces can be used. The interests of Hungary as well as the international interests of socialism require that we should hold our own in world market competition. The question remains whether this special "two-market export strategy" has become consciously and generally accepted, whether it has sufficiently penetrated the minds.

In the fifth Five-Year Plan a 45 thousand million Ft separate investment credit limit was earmarked for augmenting convertible commodity stocks. Up to early May 1976 the National Bank of Hungary received applications for credits amounting to 52 thousand million Ft, of which 25 per cent was accepted after thorough investigations and 28 per cent are still under examination. 47 per cent were rejected. The credits granted are promising because industrial investments will be repaid in two years, other investments, in three years from net foreign exchange earnings, while the rate of building is hardly 20 per cent and no government subsidy is claimed. It seems that there still are ample such possibilities in the Hungarian national economy and it is worth stimulating enterprises for similar investment initiatives. But it is equally important that the Bank select applications with as much rigour as before, in order that the 45 thousand million Ft investment should bring the largest possible gain for the national economy.

Research, development and investment activity

In the five-year period lying ahead of us material development resources will be further growing in Hungary, yet at a lower rate than in the preceding ten years, so that we shall have to approach our aims under conditions of a relative scarcity of means. It is true that actual possibilities were behind development requirements also in earlier periods, and we have almost got accustomed to this form of scarcity. Nevertheless, we are now faced with a new type of scarcity, because now the growth rate of development resources will slow down relative to the increase of production, and this will create a more difficult situation and demand higher self-discipline. What is the way of utilizing scarce resources so as to make them sufficient for the plan targets? The

only way is to try to increase simultaneously efficiency in development, investment, production and trade, i. e. in the whole of economic life. This is not an unrealistic though an extremely difficult task.

Even if available resources are scarce, we are not in a desperate situation, it is by no means tiny amounts that are available for research, development and investment.

The rate of investments into research and development will not be reduced, if for no other reason because if we saved on these, it would cause us more future damage than the immediate advantages. Financial resources for research and development will reach 3 per cent of the national income also in the average of the coming five years, which is a considerable amount by international standards. Expressed in money terms, 81 thousand million Ft can be used in five years, of which 40 thousand million for enterprise development, 20 thousand million for central technological development and 21 thousand million for scientific research. In research and development it is not the scarcity of available means that causes concern but the efficiency of utilization, which can be improved.

The only good solution is to carry on the main line followed up to now, where the technical progress of the country, i. e. the course of innovation draws on three sources: domestic research and development, technological experiences of socialist countries, and techniques and technologies bought from advanced Western countries. From an examination of the utilization of resources it appears that in the greater part of production the best way is probably to adopt and utilize foreign development experience; in this respect more is involved than the truism that "we cannot do all research by ourselves". The predominant part of our production is "following technology" by world standards and only in a very narrow field is it "creating technology". To follow world development is to import techniques and technologies, and this is not at all an easy thing to do well and economically. Adoption of techniques and technologies guarantees keeping in step mostly only in the case of active domestic development. All this does not lessen at all the importance of domestic research and development, since its importance is not due to sizes but to the fact that it supplies ever new methods to the "technology-creating" part of our production, including also the part in which it remains perhaps a question whether in the long-range technological development we shall be among the followers or the creators. In the fields where we play an important part from the technological or qualitative points of view both in the CMEA and on the world market, i. e. in the so-called carrier branches, in other words in the small number of advanced posts of export development, it is particularly important that production should be in direct and close relationship with research and the home market. Further progress must be made in developing these relations; this is a strengthening line also in the socialist world.

Development of the technological and scientific division of labour is a world phenomenon. This is indicated by the fact that the exchange of research and development results has been growing three times faster during the last few years than that of goods. According to calculations of the World Economic Research Institute in

Moscow the world export of licences amounted to \$1 thousand million in 1960, to \$2.4 thousand million in 1970, and will reach 7 to 8 thousand million by 1980. It is remarkable that in the past 5 to 6 years also the East-West exchange of licences has been developing fast: in the socialist countries three times as many licences coming from capitalistic countries have been registered in 1976 than were in 1969. Licences are sold also from the East to the West in increasing quantities. Although CMEA countries are net importers in this field, their yearly income from the sale of licences is estimated at \$30 million.

As regards investments, the pressure of circumstances is greater than in research and development. More efficient utilization of investment resources is not merely a theoretically important objective in this five-year period, but a practical need rooted in a difficult situation. The plan target can be reached only if this difficult situation is not merely felt in every sector and at every level of the economy, but also action is taken accordingly in investment practice.

The size and difficulty of the task laid down in the five-year plan is expressed by the following: the growth of national income is almost of the same rate as in the preceding five years, while investment growth is essentially lower. While in 1970-75 a 35 per cent growth of national income was attained with a yearly 6.2 per cent growth rate of investment, a growth of 32 per cent is planned for 1975-80 with a yearly 3.9 per cent increase of investments. It is expected that the ratio of building to machinery within investment will not further improve in the coming years, because with a slower growth the weight of non-material branches in investment will be growing.

In industrial policy the main objective is to increase contribution to the national income, to cover growth from increased productivity, to reduce material intensity, to expand profitable exports and to increase the number of international productive co-operation ventures. With all these in view the principle of selective development must be increasingly applied separating more definitely from each other the fields of production to be developed, to be maintained and to be reduced. In selective development distinction must be made between state and enterprise tasks; the principle must be asserted at both levels, although not in the same way: it would be harmful e. g. if state organs tried to assert selective development by making decisions instead of the enterprise managers at the level of products.

The aim of agricultural policy is to ensure that production grows in accordance with home consumption needs and export possibilities; plant production will grow by 3.6 to 3.8 per cent on yearly average, live-stock breeding by 3 per cent, an increasing share of investments must be spent on enlarging the machine stock; in building preference must be given to profitable enlargements of a size and technology involving smaller costs. The main carriers of development are state farms and cooperatives with good and medium potentials, while in farms working under unfavourable conditions the most important task is to establish a more profitable production structure. The activities of small farms must also be encouraged and assisted, strengthening the security of production.

Contradictory character of the labour situation

Our economic conditions are changed from the outside by the world economic situation and from the inside by the labour situation. Economic growth had found a considerable source in the increasing economically active population for a long time: up to 1970. During the third Five-Year Plan (1966–1970) employment still increased by 7 per cent. Under the fourth Five-Year Plan (1971–1975) a dramatic change occurred: while the number of jobs was growing almost at the earlier rate, the growth rate of employment went down to 1.8 per cent. For the coming five years an even lower growth rate is expected in the national plan: the “zero growth” of employment is approached.

Labour shortage was brought about by two objective social processes: one is economic and the other demographic. The economic process may be called a necessity: the earlier open and then latent labour reserve got absorbed in the course of the 25 years development. Thus the changing proportions concomitant with growth can be solved only by regrouping of labour, within the economy. The demographic process, however, can hardly be called a historical necessity, though it is a given fact: from the late 1950s the population increase slowed down, and around 1970 the number of new labour was much reduced. To a certain extent also a third social factor exerts its effect: with the growing of average age and the extension of the old-age pension system the number of those living on pension has increased. These reasons are practically outside the economy.

To these must be added a reason within the economy already mentioned, namely, that the number of jobs has been growing, with the exception of agriculture, even after 1970; the tendency of reducing labour intensity did not assert itself to a satisfactory extent in the growth process. The weight of the problem is demonstrated by the computation made at the end of 1975 by the Economic Research Institute, in which the number of vacancies in sectors of the economy outside agriculture was estimated at 150 to 200 thousand, while employment may grow only by 40 to 50 thousand in the next five years. Therefore, even if the number of jobs did not grow in the future, which is improbable, over one hundred thousand jobs would still remain vacant.

If it is examined, where the vacancies are according to the above-mentioned investigation, it is found that there are 60 to 80 thousand in services in the broad sense (transport, communications, commerce, the health organization, education), and 80 to 120 thousand in industry and the building industry. Since the staff requirements of services will necessarily grow in the long run, their share may rise from today's 30 per cent to 40 per cent. In this sphere an exaggerated increase of the number of jobs is not characteristic; it is rather the rational employment of the given manpower that may be the weak point. The future labour demand of services may be satisfied from two sources: those taking their first job (the young generation), and the slow flow of agricultural labour (depending on technical progress in agriculture). In any case, reduction of the number of jobs is not practicable in services.

The situation is more complicated in industry, because it is a general opinion that beside labour shortage also a latent excess of labour must be taken into account. The excess is rather dispersed, in most cases incorporated in economic processes so well that it cannot be pointed out "from above". The management of enterprises can reveal it only by separate examinations, and eliminate it with well organized measures.

One of the apparent symptoms of the excess is the unduly increased administration accompanying the preparation, management and accounting of production as well as its complementary processes. This fact has been called to attention by the government stop on administrative staff, which obliges economic management to look into the matter seriously. The general stop is hardly suited to solve the problems, it can be but a transitory measure: the final solution can be only rationalization of enterprise administration.

A considerable amount of labour can be released in industry if the elimination of less efficient production obtains impetus. According to estimations of the Economic Research Institute 50 to 100 thousand jobs could be abolished in this way, i. e. such amount of labour would be released as could considerably ease the labour shortage. It must be also taken into account that the starting of such a process has investment-, financial, home- and foreign trade conditions, that is, it requires a certain input from the national economy.

The situation is made more difficult not only in industry but in the whole economy by the fact that labour regrouping within institutions proceeds slowly or not at all. Thus, labour shortage and excess labour present themselves simultaneously at many enterprises and organizations. At many places there are still too many periodical work peaks and spasmodic stresses rooted in poor cooperation among enterprises. Important reserves of labour and business organization may be found in these fields.

I must stress the point that a permanent solution of the labour problem — by which I mean reaching a state of bearable labour shortage, a much smaller one than that of today — can be attained only by a radical switch to a labour-saving development policy, in which mere enlargement would play an even lesser role than today, and labour-saving reconstruction would play a more important one. This practice would probably require that the development resources of enterprises should be augmented, and their interest in the matter should grow.

Economic control and the new circumstances

Under the present new conditions there are also transitory effects which will sooner or later cease, such as the world "price explosion", the standstill in the growth of world trade, as well as the actual position of various product groups on the world market. Yet a few other conditions must be considered as lasting ones for the Hungarian national economy. According to the prognosis of the Research Institute for World Economy a more changeable capitalistic world economy may be expected in the

long run: perhaps slower but permanent inflation, and cyclically changing – now easy, now pressed – market conditions. On the international market of the CMEA further favourable perspectives are expected, though demands will not only increase but also change. Our export structure will have to adjust itself faster and better to foreign markets. As regards home resources, we can expect that the relative scarcity of labour and investments will continue.

Is our economic control system suited, in the given circumstances, to solve the tasks facing us? We can safely state that, taken as a whole, as a system, it is, since it has the necessary means at its disposal, and it has the advantage of linking central control organically with enterprises autonomy. As regards the constituting elements of the system, they all have to be developed and adjusted to new conditions. This holds for national economic planning and economic regulation, sectoral control and council coordination, for the interestedness and initiative of enterprises and cooperatives, for the permanent recreation of harmony between economic and legal rules, and for the more rational control of economic processes.

It is certain that, as a consequence of more changeable external conditions, a higher degree of adaptability is now required. Greater complexity and foresight will be demanded from central decisions. Enterprise decisions are to be based on a more thorough consideration of the national economic situation, a better knowledge of the market, and a more precise organization of cooperation relations.

Efficiency requirements can be asserted in a way that the state puts, through economic regulators, an increased “efficiency pressure” on the enterprise sphere, taking care that its force should be adjusted to the potential of the majority of enterprises. It is also important to maintain such a balance of material and commodity supply with which users and consumers put a certain amount of incentive “pressure” on the production pattern and on the quality of products and services.

It would be, however, wrong to draw the conclusion from the new conditions that extensive and fast enterprise reorganizations could promote improvement of economic efficiency. It would hardly bring any considerable development if, by a reorganization, a certain form of enterprise were made general in the national economy, or if the decision-making right of enterprises were restricted. It is still right to allow organizational development of enterprises, but any campaign organized “from above” and any organizational uncertainties should be avoided.

From the above-said it becomes clear that the smoothness and adequate pace of economic growth necessitate the following main lines of action:

– The whole of the national economy as well as the enterprises have to adjust themselves flexibly to the new world economic situation, both the development within the CMEA and to the changing capitalistic market, striving to augment profitable exports.

– The relative narrowing of internal resources of growth must be compensated by a more marked improvement of efficiency, and the restrictive force of new regulators must be counterbalanced not by exceptional preferences but by better work.

— The system and method of economic control should be based on the principle that efficiency of central control should grow, but matters that can be decided at enterprise level should not come into the central decision sphere; enterprise initiative should be promoted also in this way.

— Organizational development of industrial and agricultural enterprises must be allowed where justified by practical reasons, but today no comprehensive organizational change is necessary: the enterprise organization as a whole is suited for realizing the five-year plan targets.

— In the productive sphere of the national economy acceleration of changes in the production structure, and transition to labour-saving methods are requirements of outstanding importance.

It is characteristic of our economic present that it is difficult as well as hopeful: difficult because new economic resources must be revealed while adjusting to new conditions, and hopeful because in possession of our ideological and political resources we are capable of solving the task.

РЕСУРСЫ ЭКОНОМИЧЕСКОГО РОСТА

Р. НЬЕРШ

В Венгрии в 1950–1975 гг. среднегодовой рост национального дохода составлял 5,7%, причем этот средний темп явился результатом определенных колебаний. Хотя в прошлом развитие венгерской экономики происходило в основном в благоприятном направлении, его некоторые последствия причиняют также и трудности, которые связаны прежде всего с производственной структурой промышленности, с экономической эффективностью капитальных вложений и с использованием живого труда.

С начала 1974 года в мировом хозяйстве складывается новая ситуация, что создает новые условия для стран-членов СЭВ и, в частности, для Венгрии. В экономической политике при определении целей развития впредь следует планировать экспорт, исходя не из импортных нужд, а из интересов более интенсивного участия в международном разделении труда, требующих расширения как экспорта, так и импорта товаров. Что касается роли капитальных вложений и научных исследований и разработок в экономическом росте, здесь корень затруднений кроется не в ограниченности имеющихся ресурсов, а в эффективности их использования. В будущем это обстоятельство станет еще важнее, так как в последующие пять лет следует достичь приблизительно такого же темпа роста национального дохода, как и в период 1971–1975 гг., но при гораздо меньшем росте капиталовложений.

В отношении трудовых ресурсов следует отметить, что нехватка рабочей силы может быть устранена при развитии, носящим трудосберегающий характер.

B. SZIKSZAY

LIVING STANDARD POLICY AND PRICE POLICY IN HUNGARY

In his article the author reviews first of all the principles and requirements of living standards policy enforced also in practice, then discusses factors affecting the development of price level in Hungary in detail. The situation developed is compared with requirements for consumer prices and conclusions are drawn concerning the development of the system of consumer prices. Furthermore, the main characteristics of Hungarian living standards policy in the fourth and fifth five-year-plan periods, respectively, are analyzed in the article.

Factors influencing the price level

There are important political and economic interests attached to the stability of the domestic price level. Our society assesses the stability of our economic situation, the standards of management as well as the superiority of planned economy over the capitalist economic system pregnant with inflationary processes to a considerable extent precisely through the stability of the price level. Also the rise in the living standards can be judged more unambiguously and tangibly if it takes place with stable price relations. In case of stable prices spontaneous income regrouping among the individual layers or groups of the population (which often hurts the objectives of central income policy) occurs less frequently.

Beyond all this there are also important economic reasons speaking in favour of a stable price level. With stable price relations harmony between the physical and financial estimates of the national economic plan can be better ensured, realization of planned targets, observance of central distribution proportions, planned distribution among the main income-holders (the state, the enterprises and the population) can be attained more safely, the judgement of profitability and efficiency as well as economic computations are more reliable. Enforcement of the stability of the price level is therefore a socio-economic requirement of fundamental importance.

However, ensuring the stability of the price level is not merely a matter of decision. The trend of prices is influenced in the production and consumption processes by diversified, mostly objective factors and changes. If they are neglected, prices will lose their role in stimulating rational economic decisions as well as rational behaviour on the part of producers and consumers. Therefore, the requirement of price stability is not an absolute one. Our experiences indicate that only the requirement of *relative price stability* can be set as a realistic aim in the planned development of our national economy. This was expressed in the past, relatively longer period by a yearly price

increase of about 2 per cent. The rise of the price level is brought about by the joint effect of internal and external factors in our developing national economy which is subject to the effects of foreign markets to a great extent. From among these factors the most important ones are the following:

Price rises on the world market

The rises in world market prices raise the domestic price level, especially if they affect materials of fundamental importance imported in large quantities, which are widely used in several products of manufacturing (e. g. fuel, metallurgical products, primary materials for the clothing industry, wood, certain chemical products, etc.). The effect of world market prices on the increase of domestic prices becomes especially strong if foreign prices increase abruptly and considerably and price proportions change like an explosion. (At the end of 1973 and the beginning of 1974 the world market price of oil increased to five-fold in ten months and has gone down only to a small extent ever since. In 1974, in a single year, the price level of our western imports increased by 39.5 per cent, in the first half of 1975 by a further 12 per cent, while that of the imports from socialist countries was by about 20 per cent higher than a year earlier).

Our socialist system of economic control and management is not helpless against the price-level-raising effect of the rises in world market prices and we were not passive, either. The rise in import prices can be moderated by fiscal means (price support for imports); the effect of external inflation raising the domestic price level can be partly eliminated by changing the rates of exchange; the increase of import prices can be compensated by raising export prices. These methods were applied also in practice, nevertheless they cannot result, either by their joint effect or even because of the aim of a rational economic behaviour, in domestic price relations becoming independent of the effects of changes in external market prices.

For example, the fiscal means of price support for imports has been and is being used to a considerable extent in Hungary. This is an efficient and justified means when the effect of temporary price increases should be kept off the domestic price system. However, if the price change is permanent, the price support for imports breaks up the organic unity of domestic and foreign prices, makes cost accounting sooner or later unreal (since it shows imports to be cheaper than they are in reality), disorients judging profitability and choosing the directions of development. Moreover, it makes the realization of a rational and economical management more difficult. In addition, if the price support for imports is of a considerable extent this means great burdens for the budget, necessitating either an increased drawing away of enterprise resources (that will also have a price increasing effect) or a reduction of budgetary expenses in such fields (e.g. investments, social policy) where this might endanger the realization of other important economic and political objectives.

Modification of the rate of exchange has also been applied and an elastic exchange rate policy will be required in the future even to a greater extent than up to now. However, in this way only the domestic price-level-raising effect of the increase in the average import price level can be compensated — which is, of course, no trifle —, but it is no remedy against an above-average increase in prices of certain products or against a modification in relative prices. These should be enforced in the domestic price system in the interest of promoting rational decisions and economical management.

Hungary exports a considerable part of her final output; therefore it is also possible to revert the effect of an increase in the import price level onto the export. However, this could be achieved only partly in 1974–75 because of the established level of economic efficiency, the given structure of our economy and the inadequate competitiveness of a part of our products: in 1974 the Hungarian economy suffered a 7.5 per cent deterioration in the terms of trade (in western relations), i. e. the rise in the export price level failed to cover the rise in the import price level to such an extent, and also in 1975 a similar loss can be reckoned with (already developing partly in socialist relations as well).

To sum up, it can be stated that price increases taking place on the world market cannot be permanently and fully excluded from our economy and the price increases on foreign markets raise also the domestic price level if only to a restrained extent. The changes in price proportions and price level to be felt through the foreign trade processes affect the producer prices directly and only through them, indirectly, the consumer prices. By utilizing the tools mentioned above the state on the whole “protected” a considerable part of consumer prices from the effects of changes in foreign market prices. However, consumer prices not adjusted to inputs disorientate consumers and result in tensions accumulating in the sphere of consumer prices; their solution imposes a considerable burden on the state budget. From the point of view of a planned easing of this tension it is a further important circumstance that price increases on the external markets took place with great intensity and within a short time. In the present stage of our development it is the rapid rise in world market prices and the considerable regrouping of relative prices that have the most powerful effects on the increase of the domestic price level.

Rising costs of production

The rise in the level of production and consumption, respectively, as well as their becoming more complicated result in their totality in various cost-increasing effects.

The material costs amounting to about two thirds of total production costs increase more rapidly than the volume of output. In the industry this is not the consequence of an increasing volume of material inputs, but partly of rising world market prices and the increasing import contents of production and partly of such circumstances that for a more advanced technology better materials of exactly prescribed quality, for a more up-to-date product pattern more complicated material composition are required,

specialized production demands more cooperation and all this leads, after all, to an increase of material costs. Other branches of the national economy (e. g. agriculture) reached such a stage in their development, when the material input per unit of product considerably increases even independently of the changes in cost prices and together with them, of course, even more. In the present stage of our economic development capital intensity increases in the important spheres of the economy, meaning that the total labour input per unit of product does not decrease at all or if so, this decrease is smaller than would be otherwise allowed by the increase in live labour productivity in the given field. All this works jointly towards an increase of production costs.

Application of advanced technology is expensive and because of rapid technical progress the method of an accelerated writing off of capital cost must be often used. However, this would increase the share of depreciation allowance in the costs only to a small extent. But, if the utilization of modern techniques is not optimal (few shifts, no harmony between the standards of the machines and of the products manufactured with them, the level of business and work organization lags behind that required by technology, etc.) this considerably increases the depreciation costs per unit of product. In other cases up-to-date and developed techniques must be applied even if this raises costs (and thus also prices) either because increasing demands cannot be satisfied otherwise (e. g. "house-factories")* or because there are only few people willing to undertake some difficult work harmful to health and human labour must be replaced by more expensive mechanized solutions. Creation of more civilized, secure and healthy conditions — which we are striving for — has a cost-increasing effect. Under our conditions production costs were also raised by the elimination of production disproportions and disturbances in material supply which had previously developed and repeatedly emerged in the past, moreover by the more intensive development of the servicing sphere and infrastructure. Development of an up-to-date production structure, widening of the assortment of goods, acceleration of the change of products and their stimulation also had cost-increasing effects. All these combined raise the price level.

Greater independence, responsibility and initiative of the enterprises increased demand for information needed for the foundation of enterprise decisions; the sphere of activity of the enterprises became wider (marketing, foreign trading activity, etc.). The claims of the employees increased with regard to the social, cultural and welfare functions of the enterprises. All this resulted in a considerable increase of the overhead costs.

The decisive means for raising living standards is to increase wages. In Hungary the yearly average increase of the national income is 5–6 per cent, which is almost completely based on the increase of labour productivity. Stimulation for the increase of performances and elimination of disproportions in earnings require that wages should increase nearly to the same extent as do national income and productivity.

* This is the Hungarian term for the factories where large prefabricated building elements are produced which are mostly used in residential construction.

However, to increase wages at such a rate is a requirement not only in fields with high productivity, but also where productivity is lower than the national average and in the non-productive sphere as well. All this entails a certain surplus outflow of wages. Thus a higher productivity cannot properly decrease costs, since wages costs per unit of product usually remain unchanged despite increased productivity. Even if wages costs per unit of product decrease to some extent in most cases this cannot completely compensate for the increase in the majority of other costs factors.

To sum up, it may be stated that, under the prevailing external and inner circumstances as well as at the present level of our development, relative stability of the domestic price level can be set as a well-founded aim. It is an empirical fact that a limited increase of the price level with stable prices of basic consumer goods ensured for a longer period, the permission of justified price movements amount mostly to an expression of relations objectively changing with the development of productive forces and can not only be well adapted to the system of planned control of economic processes, but even promote their effective realization and the stimulation of planned development. With such a rise of the price level also the objectives of living standards policy can be realized as planned. With a moderate and systematically controlled rise of the price level technical progress can be accelerated, disproportions within the production process can be eliminated, a widening of the range of goods and balanced development of supply can be realized. Furthermore, such negative concomitant phenomena of a forced and rigid price stability can be restrained as for example, the wide range of "shortage" goods, deterioration of quality and various forms of concealed price increase. At the same time, everything must be done in order that the elasticity of the price system promoting economic development should not be used for making illegal profit, speculation, redistribution of incomes, for making use of the sellers' market thus for unjustified price increases. Several such measures have been taken in the last year.

There may, however, be such periods in the economic life of the country when changes in the conditions of development, the easing of tensions formerly developed might justify — among several other measures — a more significant rise in the price level than before. The Hungarian economy is in such a situation at present.

The joint effect of several — mostly objective — factors contributed to the development of this situation. In consequence of the rapid rise in world market prices taking place with considerable changes in relative prices the Hungarian domestic price system was put under heavy pressure from the import side. In the coming years capital intensity of development will increase in important fields of the economy. At the same time the increase of economic efficiency is lagging behind the necessary and possible extent and it could neutralize the external pressure on the economy coming from foreign markets only to a small extent up to now. Nor did the system of economic regulators consistently transmit the increased economic requirements towards the productive and other economic units.

The Fifth Five-Year Plan of the national economy covering the period 1976–1980 comprises the conception that will ensure unbroken development of the economy by means of adaptation to the changed conditions and increased requirements also in the forthcoming years. The attainment of this objective will be jointly ensured by a considerable increase of economic effectiveness, transformation of the production structure, by increased returns on production resources (labour, machines, materials), and improvement of the efficiency of investment activity. Realization of the above tasks requires that all means of economic control and management – among them also prices – should be used in harmony for a considerable increase of economic efficiency.

Prices may adequately serve the increase of economic efficiency if they truly reflect real inputs and thus stimulate for rational economic decisions in production, consumption and development as well. It is necessary, therefore, that producer prices should be consistently adjusted to changed input relations (among them also to import prices). The adjustments of producer prices carried out in January 1975 and 1976, respectively, served this purpose. As a result of the price adjustments, producer prices increased by 6.7 per cent in 1975 and will increase by about 6.5 per cent in 1976. Enterprises cannot charge users with total price increase, a part will diminish their profits. Such wide-range and considerable changes in producer prices (as well as the connected decrease of enterprise profits and other tightening requirements raised by the economic regulators) should prompt several measures in the enterprise management aimed at increasing efficiency. Such wide-range and considerable changes in producer prices cannot leave the sphere of consumer prices unaffected for some longer time, either.

Requirements concerning consumer prices

The Hungarian price system handles consumer and producer in different manner. As a general principle we can say that also consumer prices (relative prices) are adjusted to the input relations, but in the consumer prices official price prescriptions and deliberate deviations from the real inputs are widely enforced. Hungarian economic policy considers consumer prices as a part of living standards policy and formulates it in harmony with the latter. The main economic policy requirements concerning consumer prices can be summarized as follows:

- relative stability of the consumer price level must be ensured together with planned price development;
- relative consumer prices should gradually approach the relative input proportions;
- the price movements should result – through better coordination of demand and supply and their interaction – in an improvement of commodity supply;
- changes in consumer prices should take place in such a way that the rise in the price level be perceptibly lower than that of the wages level (and of incomes, in general);

— prices of a part of consumer goods and basic services should be deliberately diverted from the input relations, in the interest of furthering and preferring their utilization.

From among these requirements ensuring the relative stability of the consumer price level has been predominant in practice over some years already. The level of consumer prices increased by about 17 per cent between 1967 and 1975, meaning a yearly 2 per cent on the average. A greater part of the price increase is to be attributed to central price measures, while less than half of it resulted from market price increases. The prevailing price mechanism had a decisive role in the relative stability of the consumer price level. The prices of products having a fundamental importance in personal consumption (first of all those of basic food products) are officially fixed and have thus remained mostly unchanged or if not, their raising was combined with income supplementes, i. e. compensation. The measures of recent years aimed at increased price-control, legal regulation and sanctioning of illegal profits, more severe prescriptions for price calculations, development of the contractual system and extension of the obligation of preliminary reporting on price modifications have had an important part in the relative price stability.

At the same time, all this also means that during the last eight years we have made little progress in developing a system of consumer prices better approaching the input proportions and on the whole the relative prices rather further removed from the input proportions than approached them. This is obviously shown by the fact that while consumer prices increased by a yearly 2 per cent on the average between 1967 and 1975, the level of industrial producer prices and agricultural state purchase prices increased by about a yearly 3.5 per cent. Also a powerful increase of government subsidies for consumer prices is an indication of this. As a consequence, not only that the budgetary revenue from turnover taxes is no resource for accumulation, it does not even cover the financing of subsidies for consumer prices.

However, we cannot give up the long-term objective of gradually creating a system of consumer prices (relative prices) approaching the input proportions. There are important economic arguments and social interests speaking in favour of the realization of this objective. Two of them deserve special attention.

A system of consumer prices approaching input proportions furthers a more consistent practical realization of distribution according to work. If personal incomes express more and more the quantity, quality, difficulty and complexity of the work performed, this will be better expressed also in the proportions of real wages and real incomes, if also consumer prices are mostly formed as a function of labour contents (input). In an opposite case consumer prices have a considerable redistributing role and incomes will become real wages and real incomes in a revalued form. The real values of the earnings proportions developed according to work will be modified depending, namely, on the extent one buys consumer goods subsidized or taxed, respectively. Though it is true that the proportion of goods with higher turnover taxes is usually greater in the consumption of those with higher income and this diminishes income

differences after all, this is not consequently realized, because, for example, those with high earnings buy more meat (which is strongly subsidized) than the average and avail themselves of services considerably subsidized by the state to a greater extent. At the present level of development there is no justification for consumer prices having a considerable role in income redistribution.

In the approaching of prices to input proportions it is also an important point of view that prices should stimulate personal consumption for the development of a rational and realistic consumption pattern in harmony with the level of development. Consumer prices may promote this by relying mostly on the inputs and even in case of basic consumer utility goods at least by indicating what is the real cost of the given product for society. For example, if the state gives a subsidy of 7–8 forints on each 10 forints of the price of sugar, this will not properly inform consumers about the real inputs and thus will finally stimulate a much greater sugar consumption than the effective income relations of society would really allow. The nearly 50 per cent government subsidy in the present consumer price of meat does not properly further a rational increase of consumption, but raises demands on central commodity funds to a greater extent than justified, does not promote the introduction of multi-channel selling (that would have an important part in improving the supply of villages with meat) and occasionally works against our export interests. Therefore, development of a rational consumption pattern better corresponding to our economic development level, production structure and possibilities also requires that consumer prices should better approach the socially necessary inputs.

However, a system of consumer prices better approaching the inputs can be developed only gradually, in harmony with the planned raising of living standards. Besides, for social reasons the low prices of products and services (i. e. low relative to inputs) serving the satisfaction of basic cultural, health and social needs as well as the preferential prices of basic food products, moreover, the consumer price preferences for rent, passenger transport tariffs and a part of communal service charges will be maintained also in the long run.

Main characteristics of living standards policy in 1971–1975

In the period of the last five-year plan the living standards of the population developed according to our general principles and practice implemented for almost two decades. The most important tasks of the living standards policy set as objectives have been successfully carried out. Personal consumption has increased by about 28 per cent during the last five years. The quantitative increase of consumption was accompanied also by a considerable improvement in quality. Appearance of new products, widening of the range of products and services and, in general, an increasing share of modern, more valuable products have promoted an adequate satisfaction of differentiated demands.

The plan targets of the Five-Year Plan for 1971–75 concerning real income and real wages were realized. The real value of per capita total income increased by 26 per cent (the planned increase was 25–27 per cent), while the per capita real wages of workers and employees were by about 18 per cent higher in 1975 than in 1970 as against the planned 16–18 per cent. According to the political objectives the real wage-increase of industrial and building workers was greater than the average. The social policy objectives laid down in the plan have been realized, infrastructural supply influencing the living conditions (housing, supply with public utilities, etc.) has considerably improved.

The planned increase of these indicators was realized under such circumstances when the national economy suffered considerable losses in foreign economic relations. A considerable part of the increment of the national income – being among other things also the main source of raising living standards – was lost as a consequence of the deterioration in the terms of trade. This indicates that the government was ready to ensure an unbroken development of living standards even at the price of national economic sacrifices and by utilizing external resources. This, too, is an evidence for the fact that the planned development of living standards has a distinguished place in the central control of the economy, its development is analyzed and planned even for shorter periods and the central leadership keeps a firm hand on those factors by means of which the planned development and increase of the indicators characterizing living standards can be adequately ensured.

The increase of real income and real wages showing a high degree of correlation with planned figures took place with higher nominal values than planned. The about 14 per cent increase of the consumer price level during five years was greater than had been reckoned with in the plan, thus also the nominal incomes increased more rapidly than planned, partly as a consequence of central measures.

In the productive sphere, with workers, employees and the peasantry the increase of wages and earnings depending on performance had a decisive part in the increase of personal incomes. Besides, also the effect of wages- and social policy measures taken in recent years and affecting almost all layers of the population was considerable. Even among them the central raising of workers' wages in the state industry and building industry in 1973 and in other productive branches in 1974, respectively, was of outstanding importance. But also the wages of employees in primary and secondary education, the public health service, the armed forces, jurisdiction, research institutes, theatres as well as of the local and other administrative bodies increased to a considerable extent. In the sphere of social policy measures a regular yearly increase of pensions, differentiated increase of formerly fixed pensions, raising of mothercraft and maternity allowances as well as rent subsidies and other supplementary allowances paid to compensate the increase of prices of certain basic consumer goods have jointly ensured that the incomes of the population developed in harmony with our living-standards-policy objectives.

Real wages and real incomes in 1971-75

	1971	1972	1973	1974	1975
Per capita total nominal money income of the population*	106.8	106.2	108.6	108.3	107.7
Net average wages of workers and employees**	104.6	105.1	106.3	107.4	107.9
Total increase of consumer prices	102.0	102.9	103.3	101.8	103.8
Consumer price index of workers and employees	102.2	102.8	103.4	101.7	103.8
Per capita total real income of the population	104.5	103.1	105.0	106.4	104.0
Real wages of workers and employees	102.3	102.2	102.8	105.6	103.9

* In the total nominal income of the population beside earnings also the incomes corresponding to the consumption of own-produced products (self-consumption) and the incomes resulting from social benefits in kind are included. The price indices of these two factors deviate from the average consumer price index, thus deflation of nominal incomes by the consumer price index will not exactly show the index number of real income.

** The net average wage of workers and employees includes, beside earnings (salaries, premia, profit shares), also the amounts of sick-pay, rent subsidy and wage supplement serving to compensate for the increase of fuel prices, reduced by the amount of the contribution to retirement pensions and payments of those exempted from military service.

The data of the table indicate that the increase of the personal incomes considerably exceeded that of consumer prices and, although the rise in the consumer price level diminished the real value of the income-increment, the real incomes and real wages of the population developed as planned despite this circumstance.

The increase of the consumer prices was greater than the average in respect of foodstuffs with seasonal prices (e. g. vegetables, fruits), drinks and tobacco, certain clothing products as well as services. Although the consumer price indices do not indicate any considerable deviation if broken down according to the main layers of the population, nevertheless price increases were disadvantageous in the given composition for pensioners and large families.

Main targets of living standards policy in the Fifth Five-Year Plan for 1976-1980

It is a fundamental principle and practice of Hungarian living standards policy that the material basis necessary for a systematic and tangible improvement of the living conditions of the population must be ensured by the development of the economy.

The measures aimed at raising the living standards must be in harmony with economic achievements and possibilities. The living standards policy of the Fifth Five-Year Plan has been based on this principle, too.

Fulfilment of the targets of the Five-Year Plan will create the material basis for raising the living standards. At the same time, changing circumstances and growing difficulties of development requires that those factors should be given special emphasis which serve the material welfare and the increase of economic efficiency as well as which promote simultaneously an improvement of the balance of the national economy. Accordingly, the material basis of raising living standards is to develop almost at the same rate as the national income for domestic use; during five years the per capita real income will increase by 18–20 per cent and personal consumption by 23 per cent.

One of the basic tasks of incomes policy is to promote the increase of efficiency. This requires that wages should better stimulate for the increase of productivity and the improvement of efficiency than before; relative earnings should better reflect greater performances and promote the migration of labour to more effective fields of the national economy.

It will remain an important principle of living standards policy that the incomes of various social layers increase proportionately and no layer should be left out from the increase of incomes for any longer period. It is especially important that the incomes of workers and peasants should increase in parallel. In the interest of a balanced development of worker and peasant incomes, the Five-Year Plan sets as an aim that the earnings of the cooperative peasants – derived from large-scale farming – should increase at the same rate as those of the workers and employees; income differences among cooperatives should diminish and incomes derived from household- and complementary farm plots should further increase though at a slower rate than the earnings.

Social benefits have an important part in the incomes of the population. Differences in the incomes of families should be moderated first of all by increasing social benefits, and even among them by increasing social contribution to the bringing up of children, as well as by means of maintaining the real value of pensions and improving the situation of pensioners with low income.

An important requirement of living standards policy is that consumption should increase with the improvement of the material situation of the population, its pattern should become more up-to-date and the supply of staple consumer goods should be of a better quality and a wider range.

For the coming plan-period the plan allocates to investments aimed at the improvement of living conditions by about 40 per cent more than in the previous five years. Within this the building of at least 430 thousand new flats can be found among the targets. Improvement of supply with kindergartens and of the conditions of primary education and vocational training is also an important task.

Consumer price policy is an important element of living standards policy. It continues to be a fundamental requirement that consumer prices should develop in

harmony with the objectives of living standards policy. During the period of the Fifth Five-Year Plan what we can realistically reckon with is that an increase of the prices of a part of consumer goods is unavoidable. This will be implemented under centrally strictly regulated circumstances and with a differentiated compensation. The national economic plan reckons with a 19 per cent rise in the consumer price level during five years.

The plan provides only for the realization of the most important price measures. Their purpose is that in the productive sphere inputs should decrease and the effectiveness of production increase at an accelerating rate, while the population should better feel the changes in social inputs when deciding on the pattern of their consumption and should also reckon with them, that is, the goods which have become more expensive should be used rationally and in harmony with our level of development.

ПОЛИТИКА ЖИЗНЕННОГО УРОВНЯ И ЦЕН В ВЕНГРИИ

Б. СИКСАИ

В начале статьи автор вкратце излагает принципы и требования политики жизненного уровня в Венгрии, действительные и на практике. Основные требования — это систематическое и осязаемое улучшение жизненных условий населения; рост жизненного уровня соразмерный с результатами совокупного общественного труда и пропорциональный для основных слоев населения; сближение низких и высоких доходов, однако таким образом, чтобы для каждого работника они зависели в основном от его труда; сокращение различий в доходах семей как основная цель социальной политики; способствование развитию личности и развертыванию индивидуальных способностей; формирование розничных цен в соответствии с целями политики жизненного уровня.

Динамика основных показателей жизненного уровня за период 1971–1975 гг. отвечает этим основным принципам и требованиям. Потребление населения увеличилось за пять лет на 28%, реальный доход в расчете на душу населения — на 26%, реальная заработная плата в расчете на работника — на 18% (при 44 процентах роста совокупного номинального дохода населения и 14 процентах роста уровня розничных цен). Социалистические принципы и требования политики жизненного уровня характерны и для наметок пятого пятилетнего плана на 1976–1980 годы.

Автор детально анализирует факторы, воздействующие на формирование цен в Венгрии. Он констатирует, что на повышение уровня цен внутреннего рынка первичное влияние оказывает неблагоприятное для страны формирование цен внешнего рынка цен. Однако при данных условиях венгерской экономики на рост издержек производства влияют и прочие факторы (техническое развитие, интенсификация развития отдельных отраслей народного хозяйства и т.д.). При таких обстоятельствах в отношении розничных цен нужно (и можно) соблюдать такие требования, как относительная устойчивость уровня розничных цен, приближение ценовых пропорций цен к пропорциям затрат, улучшение товарного снабжения населения и, таким образом, в конечном счете — планомерное формирование розничных цен, в соответствии с зафиксированными в народнохозяйственном плане целями политики жизненного уровня.

F. DONÁTH

SOME PHENOMENA OF THE INDUSTRIALIZATION OF COLLECTIVIZED HUNGARIAN AGRICULTURE

The study deals with relevant characteristics and problems of the industrialization of collectivized Hungarian agriculture. The change-over to up-to-date large-scale farming is characterized first of all by the fact that the use of materials of industrial origin rapidly increases. With the amalgamation of farms the average area of farms is rapidly extended, although farms with larger area are usually not more rentable. Specialization of production is going on at a slow rate and is not closely connected with rapid concentration. Industrialization creates new organizational forms of farming and for certain important products industry-like production systems have developed. Despite large-scale frameworks a more rapid modernization is impeded especially by two circumstances, namely, the capital shortage of farms and of the whole country, in general, and that the structure of labour force does not fully correspond to requirements raised by up-to-date production either with regard to qualification, age or sex.

The industrialization of agriculture – the establishment of up-to-date mechanized, large-scale and specialized production – have accelerated in Hungary after the completion of collectivization in the early 1960s and especially following the 1968 reform of economic control and management. The achievements of the scientific- and technological revolution allowed, while the large-scale frameworks already developed furthered this process.

The process was accelerated mostly by the fast decrease of labour. This stimulated both the government and the leaders of farms to replace human labour by machines and materials (i. e. embodied labour). Industrialization was accelerated also by the decrease of cultivable land as well as by the fact that all these circumstances arose simultaneously with increasing demands of the national economy. The decrease in labour and cultivable land could be replaced only by means of production obtained from the industry. Beside growing skills also the weight and role of the means of production have increased in agriculture.

Industrialization is going on in various forms.

Its most comprehensive form is a rapidly increasing quantity and proportion of the means of production of industrial origin. In a few years the energy basis of Hungarian agriculture was exchanged, namely, animal draught power was replaced on the big farms by mechanical. In 1960 the ratio of mechanical to animal tractive power was about 50 : 50, while in 1975 99 : 1. Agriculture has lost its primary productive and natural character. Its commodity relations have multiplied and dependence on industry

and transport rapidly increased. In the production of agricultural products industrial work has a rapidly increasing, sometimes even decisive part.

Thus, the use of materials of industrial origin increased about fourfold after the completion of collectivization and has amounted already to more than half of the total after 1970.

Table 1

Material consumption in agricultural production and its composition according to origin
(at 1968 prices)

Year	Agricultural origin	Industrial origin	Total consumption	Agricultural origin	Industrial origin
	1960 = 100		Total consumption = 100		
1960	100.0	100.0	100.0	75.8	24.2
1965	96.2	234.5	116.9	61.2	38.8
1970	100.4	416.5	152.6	49.9	50.1
1974	114.4	514.8	178.6	48.5	51.5

Source: Publications and computations of the Central Statistical Office.

Industrialization has been going on in such a form that certain phases of production have been changed into an activity of industrial character. (Such examples are, recently, the use of aeroplanes for strewing pesticides, production of mixed fodder, etc.)

A new and very important form of industrialization began in Hungary in the 1960s, namely, *entire production processes of certain products took on an industrial character*.

The scientific-technological revolution extends also to the most important force of production, i. e. human labour, and transforms it.

Development, functional separation, and numerical increase of the directing-managing layer have been going on also in the cooperatives and have been accompanied by a steadily rising qualification level. This is an unavoidable consequence of increased farm sizes, of the multiplication and complexity of economic relations. The percentage of leaders with university or college degree in the cooperatives increased from 24.6 per cent (1968) to 32.6 per cent (1975). In 1975 40.6 per cent of the chairmen of cooperatives and 83.6 per cent of chief agronomists had a degree.

The spread of new techniques and technology has transformed the labour structure of cooperative production. The proportion of non-manual work places and of the more complicated manual work places requiring greater skill, respectively, has dynamically increased. In large-scale farms less and less can be found of agricultural activities in the traditional sense. In the cooperatives the number of leaders, technical staff and administrative employees performing non-manual work increased at a rapid rate to 80

thousand. From the about 520 thousand manual workers of working age to be found in the cooperatives in 1975 the percentage of skilled workers was 22 per cent, that of semi-skilled workers 65 per cent and of unskilled workers 13 per cent on the basis of their qualification and the actual work done, respectively. The qualification of manual workers still lags behind the requirements of production despite the progress achieved and is one of the obstacles to faster industrialization.

It is also a consequence of industrialization that the previously "closed" agriculture has *turned into an "open" production branch* with regard to labour migration and replacement, as well. This is shown by the powerful labour migration in 1971–1975. Movement within the agriculture amounted altogether to 20 per cent, while the overwhelming part of migration took place between agriculture and other branches of the national economy. An explanation for this phenomenon is that in 1975 about 70 per cent of the labour of working age of the cooperatives might be classified as mobile labour on the basis of their age, qualification, family status and the labour situation. They were people (and not peasants any more) who considered the cooperative as a work place and social community to be only one of possible choices.

Industrialization is an elementary, irreversible process necessarily resulting from the development of the entire economy. While transforming agricultural production it raises new economic and social problems. It transforms human labour and productive man and later on, unavoidably, also the ownership relations.

In the present study the phenomena and connections of industrialization are examined only with regard to cooperative big farms. In the state and individual sectors of agriculture the problems of industrialization are partly different and the deviations will not be dealt with here.

Concentration and specialization

Concentration and specialization are *concomitant phenomena* of the industrialization of agriculture to be observed all over the world. The modern food industry requiring large quantities of raw materials throughout the year also stimulates this trend. The development of productive forces, the great and increasing efficiency of the means of production of industrial origin, first of all of machines provide the basis for concentration and specialization. It is more and more the technical element that determines the rational size, and structure of farms. Better utilization of machinery and equipment as well as of buildings, moreover, the effect of large-scale production reducing the costs of a unit of product, promote concentration of production.

It is remarkable, however, that concentration of farms is going on in collectivized agricultures much more rapidly than in the capitalist ones. Cultivable land, means of production and labour force per farm rapidly increase even after completion of the amalgamation of small farms. Especially the increase of cultivable land of farms is dynamical.

Table 2
Average area of cultivable land of farms
(in hectares)

	1950	1956	1961	1965	1970	1974
State farms	1269	2077	3869	4615	5444	6607
Cooperatives	205	322	1083	1421	1984	2559
Index numbers (1961 = 100,0)						
State farms	32.8	53.7	100.0	119.3	140.7	170.7
Cooperatives	18.9	29.7	100.0	131.2	183.2	236.2

What stimulates this rapid increase of the average area of farms? Is it the material-technological development of production? Or the efficient utilization of the means of production requiring the extension of cultivable land?

Undoubtedly, the increasing technological equipment of production permanently requires an extension of the farm area.

It is obvious, however, that if the territorial concentration of farms is brought about only by efforts aimed at a more efficient utilization of the means of production, then also the standards of production and farming, respectively, should improve parallel with the increase of area. That is to say, on larger farms the value of output, efficiency of assets, the productivity of live labour and also profits should be greater and costs lower per unit of area than on farms with smaller area.

However, this is not proved by the figures*

Thus: 1. The value of output per hectare does not increase with the growing size of cultivable land, but decreases to some extent.

2. The fixed assets are not more efficient in the group of bigger cooperatives what is more, with the increase of the area the value produced by one unit of fixed assets even decreases to some extent.

3. The production costs of a unit value of output do not decrease in the cooperatives with large area, but are about the same as in the cooperatives with smaller area.

4. In the cooperatives with large area profits computed for one hectare are not higher, accumulation is not more, nor are the workers and employees better paid on the average than in the smaller ones.

* Also the data of cooperatives with an area under 1000 ha are presented, but they are not taken into consideration when making comparisons and drawing conclusions, since their outstanding results have special reasons (very favourable market or transport possibilities, much higher proportion of more profitable auxiliary branches than on the average). There is a special reason also for the relatively better results of a small number of farms with an area over 6000 ha, last but not least that they are large-scale farms partly established long ago and are given preferences.

Table 3

Production of cooperatives by the size of cultivable land in 1974
(1001-1500 ha = 100)

Production indicator	Groups of cooperatives according to the size of cultivable land								
	Under 1000 ha	1001-1500	1501-2000	2001-2500	2501-3000	3001-4000	4001-5000	5001-6000	Over 6000 ha
Non-cumulated value of output per 1 ha of cultivable land	153.6	100.0	89.7	89.3	81.6	79.6	84.2	76.2	92.3
Non-cumulated value of output per 1000 Ft gross value of fixed assets	121.6	100.0	91.1	95.0	84.6	84.4	87.2	83.0	89.4
Production costs per 1000 Ft of cumulated value of output	98.6	100.0	100.2	101.0	100.4	100.9	100.7	103.3	99.0
Profits per 1 ha cultivable land	152.0	100.0	88.1	83.9	82.8	75.1	75.1	65.0	88.7
Distribution of cultivable land (total = 100.0)	3.1	7.2	11.8	13.5	13.2	22.5	14.9	6.5	7.2
Distribution of the number of cooperatives (total = 100.0)	10.9	14.6	17.1	15.1	12.1	16.3	8.5	3.0	2.5

Only the productivity of live labour shows a moderate, but a definitely improving tendency with the increase of the area of cooperatives.

For an assessment of the economic results of forced territorial concentration also the fact – very remarkable even from socio-political point of view – should be taken into consideration that *larger cooperatives pay lower tax per unit of area and receive more state subsidy even in relative-terms*. Therefore, the entire society contributes more to the achievement of the worse than average results of cooperatives with large area.

It is a striking and important circumstance that bigger cooperatives *receive much more state subsidy* for the increase of fixed assets which considerably promote economic expansion than do smaller ones. Though it is true, that smaller cooperatives receive more support for their current operations, the total support given to them is still smaller per unit of area than that received by bigger ones. This discrimination is even more striking with taxation.

Do these phenomena appear only in the data of a single year? The Statistical Office computed average data of 5 years (1968–1972) and these figures show the *same tendency* (just as the data for 1973).

Therefore, in the average of five years and also in 1973 the value per unit of area was smaller in cooperatives with an area of 2–6000 ha than in those with 1–2000 ha.

Thus, amalgamation of cooperatives will not lead in itself to an improvement of production and farming results. There are cooperatives with good or bad results both among smaller and bigger ones.

However, a close relationship can be shown between the level of production and the *volume of fixed and circulating assets per unit of land*.

The more fixed and circulating assets fall to a unit of area in a cooperative, the higher will be the value of output and the gross income of the cooperative.

It also turns out from the computations made by the Statistical Office that the more capital a cooperative has, the more state subsidies and credit it will receive for investment (calculated per unit of area). This circumstance increases the differentiation of cooperative production and incomes.

Concentration of means of production is thus of primary importance. Concentration of area will increase the efficiency of management only in so far as it is in harmony with a more efficient utilization of means of production and other important factors of production.

Cooperative farms of appropriate size did not develop at once in the course of collectivization. Settlement and population relations also contributed that independent small cooperatives were formed in many near-by villages with small fields. On the other hand, it often occurred in bigger villages that several cooperatives were established. It can be said, in general, that more favourable conditions of large-scale farming were created by amalgamating small cooperatives, bringing about more favourable proportions between area and labour and also when amalgamation was aimed at providing experienced management for a badly run cooperative. *However, if the increase of area does not further the development of optimum proportions, the*

Table 4

Comparison of state subsidies and taxation by the size of cultivable land of cooperative farms in 1974
(1001–1500 ha = 100)

<i>Groups of farms</i>	Under 1000 ha	1001– 1500	1501– 2000	2001– 2500	2501– 3000	3001– 4000	4001– 5000	5001– 6000	Over 6000 ha
Per 1 ha of cultivable land									
State subsidies	128.5	100.0	103.5	103.1	113.6	99.0	103.0	105.8	132.3
State subsidies for investment	122.3	100.0	124.9	103.6	126.7	121.8	142.8	135.6	172.4
Taxes	167.0	100.0	80.5	70.8	63.2	62.7	66.2	60.0	61.2

Table 5

Non-cumulated value of output per 1 hectare of cultivable land by area of cooperatives
(1001–1500 ha = 100)

	Under 1000 ha	1001– 1500	1501– 2000	2001– 2500	2501– 3000	3001– 4000	4001– 5000	5001– 6000	Over 6000 ha
average of 1968 to 1973	138.6 139.6	100.0 100.0	102.9 101.5	92.2 94.5	94.7 93.8	92.7 90.0	88.2 88.9	89.1 89.0	103.1 112.8

cooperative will not achieve better results. The optimum size of a cooperative should be established on the basis of an optimum harmony of all factors important from the point of view of production. Until this can be realized at higher level on a larger area, both the value of output and profitability per unit of area will increase. However, in socialist large-scale agriculture concentration and profitability are not so closely connected in time as they are in capitalist agriculture.

From the point of view of production efficiency usually the sown area of certain plants (wheat, maize, etc.) should be extended and only exceptionally that of the whole cooperative.

What is it then that promotes the concentration of cultivable land and the continuous increase and amalgamation of the area of cooperatives in a collectivized agriculture?

First of all the expansion of the entire national economy obviously works in this direction as does the development of forces of production within and outside agriculture.

The rapid rate of territorial concentration is, however, determined not only and not even primarily by technology and the internal development of cooperatives, but partly by economic considerations and partly by others that are outside the economy. This circumstance gives a *special character* to the concentration process of Hungarian (and not only the Hungarian) agriculture and results in specific problems.

a) Territorial concentration is accelerated by the conviction of leading organs according to which an increase of the area of cooperatives, i.e. concentration of more cultivable land, labour and means of production in the framework of a cooperative, will necessarily lead in itself to a reduction of production costs and an increase of incomes and accumulation.

This is the same assumption that had a part also in choosing the way and rate of collectivization. Amalgamation of big farms is similar to that of small farms also in that respect that changes in production — farming — relations are given priority and they are only followed by the development of forces of production.

As is shown by data, the drawbacks of upsetting already developed proportions neutralize or even deteriorate for years the positive effects of production and work organization that had become more rational as a consequence of amalgamation as well as of the rising live labour productivity.

b) The rate of territorial concentration is accelerated also by the assumption that the fusion of cooperative farms strengthens the socialist character of production relations. There are even two considerations of ideological character which contributed to the emergence of this assumption.

Amalgamation reduces the differences in production and income levels between cooperatives. Therefore, it furthers a better enforcement of the principle of distribution according to work by moderating differences in earnings of cooperative works. No doubt, territorial concentration does have such an effect, but it does not cut off the deeper sources of differentiation.

Amalgamation of cooperatives furthers the development of uniform ownership relations, because socialization of work accelerates in bigger cooperatives.

c) A non-economic point of view is the endeavour of medium- and lower-grade administrative organs, persisting even after the reform of the system of control and management, aimed at extending their authority and at restoring the relations of super- and subordination with the cooperatives in their form before the reform, as well as at exercising the rights of owners. Enforcement of this tendency is facilitated by a reduction of the number and autonomy of cooperatives.

It is also a standpoint of medium- and lower-grade regional administrative organs to liquidate cooperatives with a deficit by means of amalgamation. Namely, such cooperatives not only cause additional tasks and troubles for administration, but also darken the picture developed by higher authorities about the activity of regional organs.

Another striking phenomenon is that in the development of cooperative big farms *there is no close connection between* the territorial expansion of cooperatives, i.e. *concentration* and the *specialization* of production, respectively. However, up-to-date large-scale production is characterized first of all by an increase in the volume and changes in the technology of production of particular products and not by an increase of the total area of a cooperative. From the economic point of view it is the large-scale, up-to-date and profitable production of certain products that might justify an increase of the area of a cooperative.

In the 1960s the average area of cooperatives had increased at a rapid rate, but specialization of production started only later and advanced more slowly. The situation is not much more favourable with state farms, either. Even in the second half of the 1960s 50 per cent of cooperatives and 40 per cent of state farms produced 16–20 kinds of plants. In one third of large-scale farms even more than twenty kinds were grown. Wheat, maize, lucerne and sunflower were grown on almost each farm. The majority of cooperatives were engaged in fruit-growing and half of them in vine-growing, too. Cattle- and pig-breeding belonged to the sphere of activity of almost each big farm. Specialization was characteristic only of some outstanding farms. *Thus, in the majority of big farms with increasing area the traditional structure of production was preserved.* Even where production of certain groups of products became predominant, the results of “specialized” farms did not show any special improvement.

The process of specialization has become more powerful after 1968. This is due to the technical progress extending the crop land of a product on farms. Depending on the use of machines of varying capacity under the industrial production system, the minimum of cultivable land of maize increased to 4–800 hectares and that of sugar-beet to 150 hectares. Division of labour among farms accelerated. In the early 1970s organization in *inter-enterprise* forms of activities exceeding the possibilities of a single farm became more wide-spread: certain activities were taken from individual farms and special joint enterprises were established.

Following poultry-husbandry also porker and beef cattle breeding became more and more concentrated on specialized farms, but results have not yet been satisfactory for

the time being, except for poultry. Moreover, not only the proportion of certain branches will be higher within one farm, but a certain division of labour is also developing *among farms*, they will specialize on certain phases of meat production (raising of breedstock, young animals, fattening).

In plant cultivation the spreading of industrial production systems gives an impetus to specialization. Utilization of mechanic systems and high-capacity basic machines works in the direction of large-scale, specialized production of only a few plants. However, specialization is lagging behind the territorial increase of farms also in the 1970s. There is little relationship between the amalgamation of farms and the progress of specialization.

Why is the specialization of collectivized agriculture slow? The main reasons may be summarized as follows:

1. Step-by-step mechanization did not make large-scale specialized production profitable; complex mechanization of the production of some plants has been realized only in recent years. Complex mechanization and thus also specialization are impeded by the circumstance that a great part of farms do not possess the necessary financial resources and technical conditions.

2. There are also some special reasons for the fact that cooperatives preserve their mixed commodity production for some longer time.

As a consequence of the backwardness of supply in villages partly the joint enterprises have been supplying their members with various food products.

With production of lower technical standards the risk of dependence on weather is lower if it is divided among several products.

The main reason for the slow pace of specialization is, however, that cooperatives have to provide employment for their members. The labour released as a consequence of specialization cannot properly be employed by every cooperative. Specialization will be limited by the fact that cooperatives must maintain the income level already attained by employing their members.

Cooperation and integration

Industrialization of agriculture as well as concentration and specialization of production have *changed and multiplied the production relations of agriculture*. Autarkic agriculture of a closed character has been replaced by a kind of agriculture characterized by a network of various relations. The new system of production and trading relations has *created new organizational forms of production* which can be accounted and assessed from various aspects. These emerging and strengthening relationships and their organizational appearance will be examined here, however, from a single aspect and even so only in passing. Namely, the effect of these relations having economic, technical, and organizational character on the production and ownership relations of cooperatives.

In Hungary, in the middle of the 1970s new organizational forms of production relations have emerged, such *associations* which do not affect the autonomy and separate existence of the associated economic units basically. The associated cooperatives have maintained their previous cooperative character, no matter whether they have established cooperation with each other or with farms and enterprises in state ownership, with the purpose of realizing various production objectives or providing services. Association is initiated by the cooperatives and it will serve the interests of the associated cooperatives either directly or indirectly (by means of the income obtained from the association). Whether cooperation is of horizontal or of vertical nature, in both cases we are facing a phenomenon of production concentration and specialization evoked by the great material and mental demands of highly efficient means of production and technology.

The main forms of association are the *simple association* and the *joint enterprise*, the latter being independent legal entity (acquiring rights and undertaking obligations autonomously). However, no matter in which form a given association operates, the legal status of its workers and employees is similar to that of workers and employees of state enterprises and not to that of cooperative members. Also the means of production (wealth) given to the association is controlled and decided upon by the membership of the founding or associated cooperatives in an indirect and limited way. Production relations of the new economic organizations created through the association of cooperatives are less of a cooperative character than those of the founding organizations. Enforcement of cooperative autonomy is a complicated task in the organization.

In 1973 there were about 300 cooperative associations in Hungarian agriculture. One third of them were engaged in building activity. Their development is slow, usually because of capital shortage, but there are also legal obstacles to cooperation between cooperatives and state enterprises.

A consequence of the multiplication of relations established between agriculture and industry is that food has become such a joint product in which industry and activities of industrial nature have an increasing weight. The social division of labour deepens and with this the necessity and importance of establishing harmony among individual parts of the social production process are growing. This is an objective tendency of development. How can this harmony be ensured?

According to the standpoint of representatives of economic administration coordination of economic processes must be centralized to a greater extent than has been the case until now. Just as in the planning of economic processes it is correct to take into account the agricultural-industrial complex or the food economy — as it is called in Hungary — as a special sector of the national economy, it is considered similarly desirable and unavoidable to integrate industrial and agricultural production processes going on in various enterprises into an enterprise-complex under uniform control. Amalgamation or integration of industrial enterprises in state ownership and agricultural ones in cooperative ownership raises, however, immediately the problem of how to make uniform deviating production and ownership relations. As distinct from

open or concealed endeavours which are aimed at promoting a generalization of the production relations of enterprises in state ownership — that is, nationalization of cooperatives — also through integration, the programme declaration approved at the XIth Congress of the Hungarian Socialist Workers' Party in 1975 states:

“At a later stage of our development a more advanced national communist ownership of means of production and other public goods will emerge through the development of both forms of socialist ownership mutually enriching each other”.

Industry-like production systems

In Hungary the traditional forms of large-scale production where human labour still has a relatively great part, are gradually replaced by production systems with complex mechanization of the whole production process and with machines and engines of great capacity and where efficient chemicals are used in great quantities. As a consequence, production technology undergoes radical changes. In a favourable case new plant and animal species of higher productivity, well adapting to mass treatment provide the biological basis for the transformation of production already at the introduction of the system.

Production systems developed firstly in those branch of agriculture which can be most easily mechanized and which are least dependent on climate and fertility of the soil also in Hungary: the process began in the mid-1960s with up-to-date large-scale chicken and egg production. Their success induced modernization of meat production in pig-breeding — among other factors — at the end of the decade. Industry-like production of pork and beef has started on specialized mechanized animal farms with great capacity but for the time being, results are still unsatisfactory.

The spreading of industry-like production systems in field growing of plants began in the 1970s. Utilizing also the organizational and technological experience obtained in the United States and partly with machine-systems imported from there the new system was firstly and most successfully applied in maize growing. In 1974 15 per cent of the arable area of big farms was cultivated already in industry-like production systems; about half of maize and almost one third of sugar-beet was produced in an industry-like way. Also the industry-like production of potato, rice, soya, lucerne, sunflower and even of garden products has been elaborated and applied already in practice.

The essence of these systems is optimum mix of production factors.

In the interest of raising output not only the effect of one or another factor influencing yields is improved — as it happened previously — but all are taken into consideration: a *scientifically better supported harmony is created among the biological, technological, chemical and human factors of production*. Improvement of the elements of the system and a greater harmony between them are permanently striven after by utilizing the scientific and technological achievements and production experience obtained from all over the world. Thus, conditions necessary for a more

efficient performance of each operation are combined in production systems by planned work organization in a uniform system. The working process organized in this way is similar to that in industrial plants. As distinct from traditional large-scale production, closed technologies are determined for individual products which are then adapted to individual farms and their observance is considered as the basic condition of success.

The spreading of industry-like production systems has created a *system of new relations among farms*. Namely, the overwhelming majority of large-scale farms cannot elaborate such a system yet. Continuous perfection of the system will remain a task concentrated on one farm or institution presumably also in the future. A part of the farms are ready for the adoption of the system since they dispose of enough cultivable land, own the capital required for investments and also possess the professional skill necessary for operating the system. Therefore, special forms and conditions have developed for the production of certain products in such a system.

The centre of the system is the large-scale farm that initiated and elaborated a new technology for the industry-like production of some product. It is called system centre or "gestor". In principle any large-scale farm may elaborate the production system of a product, state approval is, however, a precondition of the development of the system.

It is apparent at the first sight that production systems have *established a new type of division of labour among large-scale farms*. The system centre *participates in the organization* of production in the farms affected (it trains specialists, ensures the material and technological conditions of production) and *controls* production of the given product, with some deviations by systems. (It elaborates and adapts the technology to the given farm and checks its observance.) This circumstance resulted in frictions between system centre and the leaders of fellow-farms already at the beginning.

There are not technical but first of all material obstacles to changing-over to industry-like production of main plants at a more rapid rate in Hungary. Complex mechanization and chemization squeeze manual workers out of production. Machines with big capacity make superfluous also the work of a great part of tractor- and combine-harvester drivers, mechanics and machine-operators in the production of maize. It is a more and more frequent phenomenon that a cooperative participates in several systems with various plants. To what extent will the leading specialists of cooperatives be needed, if specialists of system centres take over the direction of production of main plants?

Some state farms created such systems in which they are interested as system centres (*gestors*) only in the *increase of yields*. They establish contractual relationship with customer cooperatives as entrepreneurs even if they create a joint enterprise with the associated farms. Their undertaking will be the more successful for them the more yields increase, a determined part of which belongs to the entrepreneur. However, production in the system and the increase of yields will be profitable for the associated farms only if increasing costs do not neutralize or even make deficitous the increase of

yields. The system centre is interested in the increase of yields even if this means a decrease of profitability for the associated farms. These are remarkable but not inevitable phenomena of the change-over to industry-like production.

Fortunately, elaboration and propagation of production systems are *not monopolies of one or another farm but several systems are competing with each other* in Hungary. Cooperatives have established such a production association for the production system of maize and other plants where the equal rights of associated farms and principles of cooperation are better enforced. The general development trend of the national economy will decide whether the change-over to industry-like production will take place in an organizational form where economic units maintain their independence and present cooperative character for a long time yet or whether these characteristics will weaken.

The few years passed since the introduction of industry-like systems of plant growing and the measure of their spreading already provide some experience for drawing some conclusions.

1. In 1974 124 state farms on a total area of 188 thousand hectares and 605 cooperatives on a total area of 412 thousand hectares, i. e. on 15 per cent of the total arable land of large-scale farms carried on industry-like production within some system. The arable land of farms — covering 3000 hectares on the average — exceeded the national average of the arable land of large-scale farms by more than 30 per cent. Let us add here that these farms are well above the national average with regard to productive assets, net wealth and production standards, too.

2. In 1974 the yield of maize grown in a system was 55 q per hectare as against the national average of 45.5 q. This is a surplus of 20 per cent. Average sugar-beet yield exceeded the national average only by 5 per cent (393 and 372 q/ha, respectively).

3. This relatively low surplus hides *great yield differences by farms*. In one sixth of farms more than 75 q of maize were produced per hectare while in others much less than the average. There are considerable differences in the per unit of area utilization of chemical fertilizers and other materials as well.

4. With products produced in a system the utilization of chemical fertilizers per hectare was double the national average. In a part of farms joining the system costs increased faster than yields. However, in the majority of farms industry-like production has brought about considerable economic results.

5. The principles and methods of industry-like production system had favourable effects also on farms outside the system, and promoted the raising of production standards outside the system as well.

6. The rapid increase of wheat yields in Hungary indicates that farms can produce very efficiently also outside systems by relying on certain principles and if conditions are ensured. A perspective advantage of producing in a system is that the associated farms *maintain an intellectual centre*, which is regularly and continuously perfecting technology by making use the production experience of associated farms as well as of the achievements of scientific and technological progress. This is perhaps the most

progressive feature of the introduction of systems and it will sooner or later allow the achievement of outstanding results.

7. The introduction of production systems furthers specialization of farms and concentration of production.

Main problems of modernization

There are two main problems impeding the modernization of agriculture in Hungary, namely, a) the labour available in cooperatives does not answer the requirements raised by modern production and b) the low efficiency of productive assets (capital) and shortage of capital.

Industrialization raises new requirements towards the size, composition and quality of labour. On the whole much fewer, but better qualified and more younger male workers are required than at present. The manpower to be found in cooperatives does not answer this requirement satisfactorily.

In the new stage of industrialization much labour is released as it becomes superfluous from the point of view of rational production. Much less live labour is needed for the production of a unit of product mainly in plant growing but also in the branches of animal husbandry. We should like only to indicate through some examples to what great extent labour productivity increased in certain important branches of production.

In the first half of the 1950s in small cooperatives 31, on large-scale farms in 1973 6.5 and in case of industry-like production technology 4 and 1.4 manual work-days were spent on average on the cultivation of 1 hectare of maize. Since average yields per hectare show great differences (21, 45, 47.4 and 56.8 q respectively) in small cooperatives 14.8, while on large-scale farms (in 1973) 1.43 and with industry-like production only 0.84 and 0.25 manual working hours were spent on the production of one quintal of maize, respectively.

Demand for manual work in sugar-beet production decreased also to a great extent and can be even further reduced. For the same years in the production of 1 q of sugar-beet 4.2 manual working hours were necessary in small cooperatives, while only 1.6 in large-scale production and in case of industry-like production 0.4 and 0.3, respectively. Therefore, in case of a general application of industry-like production technology manual work necessary for the production of a unit of product of most labour-intensive field crops can be decreased to one fourth, one fifth or even more. This statement is valid also for other plants and sooner or later also for the production of vegetables.

Manual work needed for animal products shows a similar tendency. In small cooperatives 17, on large-scale farms 9.35 and in an industry-like system only 4.6 manual working hours are needed, respectively, to produce 100 litres of milk; for the production of 1 q of beef 53.6, 40.4 and 18.2; for the production of 1 q of pork 25, 11 and 3.7 working hours are required, respectively.

These approximate data properly indicate that in agriculture, and especially in cooperatives, manual work or the labour force could be very considerably decreased already at present, if material and personal conditions of the generalization of modern production (those of changes in labour staff) were ensured.

Labour force migrated from agriculture at a rapid rate until the middle of the 1960s, but this migration has slowed down and become more even in recent years.

Table 6
Number and proportion of active earners in agriculture

	1960	1965	1970	1973
Number of active earners in agriculture, in 1000	1784.1	1274.2	1193.7	1110.0
As percentage of the total economically active population	37.7	27.4	24.0	21.9

Despite the modernization of production employments in cooperatives decreased only by 10 per cent in 6 years (1968–1973), i.e. by 1.7 per cent on annual average. It is characteristic of the labour situation of cooperatives that the number of members of working age and family members employed decreased considerably, while that of retired members and pensioners employed significantly increased. The number of full-time employees increased to a smaller extent.

The composition of cooperative workers by age and sex does not follow the requirements of modernizing production fast enough. Both in 1968 and in 1974 more than 3/4 of members were aged over 40. The proportion of female members (nearly 40 per cent) does not show any change either. Replacement of cooperative membership from village youth improved only to a minimum extent despite increasing earnings. Only a small part of village youth choose an agricultural profession. Even considerable part of those who do, leave the cooperative after a few years. Between 1966 and 1970 only one third of 150 thousand workers aged under 27 remained permanently in cooperatives. There is only a small part of cooperatives which can ensure such earnings and working conditions for the young that make them competitive with industrial enterprises.

Modernizing production requires skilled labour to an increasing extent. However, even in 1972 less than 4 per cent of those performing manual work in cooperatives (24.000) were agricultural skilled workers by qualification and not quite 10 per cent (60.000) industrial skilled workers. The number of qualified people hardly changes, although one of the main conditions of industrialization is an adequate number of qualified labour. However, the situation is such also here that a part of skilled workers trained find a job outside cooperatives and agriculture.

What are the reasons for the fact that the manpower of cooperatives does not elastically follow the requirements of production?

The reform of economic control and management made the external relations (to state administration and enterprises) and also the inner ones of cooperatives in several respects suitable for accelerating the modernization of production. Rational farming was furthered by various measures which are, however, in conflict with the *obligation of cooperatives* to employ *their members* since the latter impedes the establishment of optimum proportions between labour and other factors of production.

As a matter of fact the legal rule providing for the obligation of cooperatives to ensure employment for their members has no sanction. However, since leaders are elected by cooperative members and also leaders – similarly to members – prefer certain moral principles to the unconditional enforcement of profitability, there are tens of thousands employed in cooperatives whose knowledge and skills have been devalued by technical progress and whose livelihood is not ensured by pension either.

In cooperatives the *labour becomes divided* parallel with technical progress. From the point of view of employment a part of the labour available is characterized by the fact that they cannot take any job in other branches of the national economy because of their age, qualification and living conditions. This is the *so-called immobile staff*. For existential reasons they are forced to household farming as cooperative members and to find employment and earnings, also in the cooperative to some extent.

Those belonging to the *mobile staff* are readily employed also in other branches of the economy. They are persons mostly in the full vigour of their working ability, partly having some qualification and continuously employed in the large-scale, industrial or industry-like activities of the cooperative. On large-scale farms of cooperatives 75 per cent of men-hours are performed by those belonging to the mobile layer.

This division of the labour staff is characterized also by the fact that those belonging to the mobile layer receive about 80 per cent of the personal incomes paid by cooperatives. In the personal income of this layer the share of income obtained from household farming is low (20 per cent), while the latter amounts to 70–80 per cent of the total personal income of the immobile layer.

It is a characteristic circumstance as well that the continuous reduction in numbers affects mostly the mobile staff (80 per cent), and even here especially men, while in the immobile labour staff changes are brought about only by retirements and deaths. As to those newly joining cooperatives they prefer choosing a non-member employment status which ensures greater mobility than does cooperative membership.

These circumstances clearly indicate that with the progress of industrialization in agriculture cooperatives can keep the labour doing the lion's share of work and can ensure replacement, only if they become and remain competitive with other branches of the economy as regards working conditions (income, working time, working place).

With the modernization of production the labour staff of cooperatives is becoming *polarized*. Almost one third of those employed worked less than 100 work-days on the cooperative farm in 1970 and about 44 per cent of them worked less than 150

work-days. They are the so-called *underemployed* obtaining only a smaller part of their income from cooperative farming.

Since the underemployed belong, at the same time, to the group of immobile staff – their majority being old members, women and family members, respectively – they make use of their working ability mainly in intensive household farming. This is an explanation for the fact that *on household plots the same quantity of work-days are performed as on cooperative farms*. The immobile labour derives a greater part of income from their developing small-holdings producing for the market. Naturally, this circumstance inevitably influences their relationship with the cooperatives. On the other hand, *another one third* of those employed are overemployed, working even more than 250 (10-hour) work-days.

However, it would be wrong to draw such conclusion from the above that the immobile labour is completely superfluous from the point of view of large-scale production. On the one hand, modernization of production is going on only gradually and a part of products will be produced by traditional technology requiring also unskilled labour for a long time yet. The rate of modernization much differs by cooperatives as well. On the other hand, even a large-scale farm producing in a most up-to-date way needs easily mobilizable marginal labour in consequence of the periodicity of production and the pressure of work caused by weather.

However, the better technical and material conditions of up-to-date production are ensured the more will the obligation to provide employment for superfluous immobile labour restrain progress.

Another main obstacle to the industrialization of agriculture is *its being very expensive*. It raises production costs at a rate with which the increase of production can hardly keep pace and much less that of incomes.

Table 7

Value of output and material consumption of non-agricultural origin in cooperative farms, at prices 1968 (1961 = 100)

	1965	1973
Gross value of output	125.3	186.0
Material consumption of non-agricultural origin	164.4	339.8
Net output	117.7	148.1

As a consequence, in the course of reproduction cooperatives have to spend an increasing share of agricultural products on materials, mainly of industrial origin. Therefore, the new value produced, the *share* contributed to national income and also that of the gross income of cooperative farms will diminish. In consequence of industrialization agricultural output increases, but per units costs are rising, too. Thus

profitability of agriculture is deteriorating. This is the main problem of the development of Hungarian large-scale agriculture.

What is the explanation for the fact that there is no permanently positive correlation between *modernization and profitability* in the Hungarian agriculture? There are many reasons for it, but only the more relevant ones will be referred to here.

The capital requirements of agricultural production strongly increase in the course of modernizing production relative to other branches of the economy, and not only in socialist agriculture. The periodical nature and the extensive area of agricultural production work in this direction both in the East and the West.

However, it is a *special East-European factor* of the high capital-intensity of production that in socialist countries modernization of production and the structural transformation of agriculture coincided. This circumstance had an effect even after completion of collectivization, since modernization of production showed unavoidably a *certain forced character* in consequence of the rapid migration of labour from agriculture and the pressing necessity of replacing small farm-buildings. In the interest of continuous production labour had to be replaced by machines and buildings required by large-scale farming had to be erected regardless of costs. The point of view of profitability became of secondary importance.

Mainly this circumstance explains the fact while *capital-intensity increased, efficiency of the utilization of assets decreased*. According to computations of the Statistical Office the creation of a unit of national income required in agriculture by 50 per cent more fixed assets in 1969 than in 1960. National income per unit of material consumption shows a decreasing tendency: the value of net output per 100 Ft of material costs amounted to 116 Ft in 1960, to 98 in 1965 and to 74 in 1973, respectively.

In the first half of the 1960s the overwhelming part of investments served only to replace the means of small-scale production falling out from production, the decreasing labour and the reduced arable land. Even in the second half of the decade a considerable part of investments still served production expansion only to a small extent, since previous investments, which had been almost unavoidably mistaken and rapidly becoming obsolete in consequence of accelerated structural transformation, had to be replaced by new ones.

There is another important reason for the fact that the costs of modernizing production are rising at a faster rate than the output and the income of cooperatives, respectively. Namely, that the *industrial background of modernization* is not adequately developed. The engineering and chemical industries manufacture modern means of production for agriculture expensively and also a great part of them must be imported.

In agriculture accumulation is slow and its extent highly differs by cooperatives. Even the income of successful cooperatives is not enough to cover the costs of modernizing production from own resources. This is not enabled by price and income

relations. Therefore, the government contributes to the modernization of agriculture by credits and subsidies. But this method of financing modernization is not very favourable for either profitability or the efficiency of investments. Besides, government subsidies and credits are rather limited by the *capital shortage of the country* and relative scantiness of investment to agriculture. First of all these are the circumstances restraining the modernization of Hungarian agriculture which otherwise offers favourable large-scale conditions for the development of production at a faster rate.

НЕКОТОРЫЕ ЯВЛЕНИЯ ИНДУСТРИАЛИЗАЦИИ КОЛЛЕКТИВИЗИРОВАННОГО СЕЛЬСКОГО ХОЗЯЙСТВА ВЕНГРИИ

Ф. ДОНАТ

Индустриализация венгерского сельского хозяйства ускорилась после завершения его коллективизации (1961 г.). Важнейшим стимулятором этого процесса оказалась быстрая и значительная миграция рабочей силы из сельского хозяйства. Это побуждало государственные органы способствовать замене человеческого труда машинами. В течение нескольких лет была перестроена энергетическая база сельского хозяйства — животная тяга была заменена машинной. Потребление сельским хозяйством материалов промышленного происхождения возросло в 1960—1974 годах в пять раз; а после 1970 года оно составляет уже большую часть общего потребления материалов сельскохозяйственным производством.

Индустриализация и в Венгрии сопровождалась концентрацией и специализацией производства. Однако бросается в глаза, что рост земельной площади крупных хозяйств происходит быстрее, чем в сельском хозяйстве западных стран. В 1961—1974 годы средняя площадь государственных хозяйств возросла с 3869 до 6607 гектаров, а производственных кооперативов — с 1083 до 2559 гектаров. Территориальная концентрация продолжалась быстрыми темпами и за прошедшие с тех пор два года, хотя рентабельность хозяйственной деятельности, как правило, не повышается с увеличением земельной площади хозяйств, а несколько понижается, несмотря на то, что большие по величине хозяйства получают от государства в расчете на единицу земельной площади больше субсидий и платят меньше налогов. Специализация производства развивается медленно и не имеет тесной связи с территориальной концентрацией.

В Венгрии, начиная с шестидесятых годов, традиционное крупное производство постепенно сменяется производственными системами, комплексно механизующими производственные процессы выращивания и уборки отдельных культур, применяющими мощные машины и эффективные химикаты. Биологической основой преобразования производства служат новые, высокоурожайные и высокопродуктивные, хорошо приспособленные к массовому производству виды растений и животных. Суть производственных систем — оптимальное сочетание производственных факторов. До сих пор особенно примечательные результаты достигнуты в выращивании кукурузы и в птицеводстве.

В индустриализирующемся современном сельском хозяйстве быстро растет потребление покупных материалов. Однако недостаток капитальных ресурсов у хозяйств и государства ограничивает возможности удовлетворения этих потребностей. Другой важной проблемой индустриализации венгерского сельского хозяйства является несоответствие состава рабочей силы хозяйств требованиям современного хозяйствования.

GY. KOVÁCS

ROLE OF INTERNATIONAL COOPERATION IN HUNGARIAN ECONOMIC GROWTH

Efficient participation in the international division of labour is in itself a growth factor. If in exports such products come into predominance whose home production is comparatively advantageous, and such products are imported as cannot be advantageously manufactured at home, distributable national income will grow.

If exports are not compared to national income but to value added, the role of Hungarian foreign trade will not seem so extremely big.

Export-oriented development which infers a sufficient level of industrial background and services is not identical with tactical measures aimed at improving the balance of payments, but it is an economic strategy corresponding to the requirements of intensive development.

Finally the author treats the conditions of a better utilization of potentials in the CMEA integration, and the forms of permanent cooperation to be established with non-socialist countries.

The nature of economic growth and foreign trade

In formulating an international economic cooperation policy for Hungary the starting point usually is that Hungarian economy is open, which means that she is linked through many threads (by imports and exports) to the world economy i. e. to foreign market conditions. Because of the actual and potential scarcity of production resources the utilization of neither the operating nor the newly entering capacities, nor the employment of labour can be realized by relying exclusively on the growth of the home market. In other words, the importing of raw materials, and means of production necessary for extended reproduction in the Hungarian economy and of consumer goods as well becomes possible only by exporting a considerable part of the output.

It follows from the open character of the economy that the rate, direction and forms of growth are largely influenced by processes in the world economy. And that means that the Hungarian economy must function in a way oriented towards the world economy, that is, in economic development and in shaping the production structure the conditions of international realization have not only to be considered but also given prominence.

In the case of Hungary, however, interpretation of "openness" is not identical with that of the same word when applied to small and medium-sized Western countries. In their case openness means a much more direct assertion of foreign market effects on home processes. In Hungary the wide sphere of plan-controlled and influenced

economic processes, the socialist character of price- and income policies, and the government control of investment decisions allow – openness notwithstanding – a less direct, restricted and delayed infiltration of foreign influences. (Yet the open character does manifest itself, as was shown by the deterioration in our terms of trade and in the worsening of our equilibrium situation under the effect of world market changes in 1974 and 1975.)

The first phase of socialist industrialization in Hungary was characterized by an *extensive development* based on the maximum increase of employment. In that period *the fast rate of economic growth was not limited by realization possibilities*. This was manifest in the following facts:

– Quantitative demand on the home market surpassed supply, thus no sales difficulties arose on the home market. Profitability had to be provided for by the internal system of prices.

– In that phase other socialist countries' markets provided unlimited realization possibilities even for products not fully satisfying international technical parameters.

– Non-socialist market relations mediating the value judgement on the international market were of a marginal importance for the Hungarian economy.

The following facts promoted extensive economic growth on the side of production factors:

– the labour reserve available at the beginning of socialist industrialization (labour released from agriculture and households);

– the growing raw material and primary energy needs of the economy were satisfied by imports from socialist countries, mainly from the Soviet Union (in exchange for industrial products resulting from extensive industrial development);

– since the fixed assets and technological requirements of quantitative growth were not in the first place determined by criteria of realization on a competitive market, capacity expansion was possible in many cases with the not most up-to-date fixed assets and technologies coming from home production or from the socialist countries.

After the Second World War, in the period when the socialist economic community was taking shape, this economic policy asserted itself in a specific way: the Hungarian economy was export-oriented in its relations with socialist, while it followed mostly an import-substituting policy in its relations with non-socialist countries as a consequence partly of the embargo policy and partly of its weak export potential.

Interpretation of the function of foreign trade was accordingly limited: within the socialist community it transacted the exchange of products as determined by national economic planning and sectoral cooperation. In non-socialist relations the task of foreign trade was regarded to be exploitation of temporary capacity reserves on the one hand, and permanent or temporary satisfaction of the raw material-, semi-finished and finished product needs of the economy on the other hand.

Openness of the Hungarian economy

Just as the judgement on the openness, i. e. dependence on foreign economy, of the Hungarian economy has been and still is subject to discussion, so are valuations different regarding the degree of Hungarian participation in the international division of labour and the role of foreign trade in the national economy. The differences in views are centred around the question whether our dependence on foreign markets can be considered already too large by international comparison, or, in relation to our home and foreign conditions, it is to be further promoted.

In everyday practice the extent of dependence on foreign markets is in most cases expressed by the ratio of exports to national income. This comparison presents, however, different problems:

– If the extent of openness of an economy expresses the degree of intensity with which the domestic reproduction process is linked to the world market, from this point of view national income is not the best grounds for comparison. Foreign trade is not in such functional relationship with it as would make its role in the reproduction process tangible by this comparison. (Theoretically, also such objects may figure among export articles as do not enter the national income computation, while also the depreciation of fixed assets and non-material services may influence the development of foreign trade.)

– In the computation of national income there are essential international differences in methods. That also renders comparison more difficult.

– Even after elimination of contentual differences comparison would be realistic only if the accounts were made by some international “yardstick”. In Hungarian practice national income is calculated at the domestic price level, and the value of exports measured at the commercial rate of exchange is compared to the former.

– Also, the national income is a “net” value, while exports figure with a “gross” value.

The structure of the origin of national income: the ratios contributed by each sector have changed. This has influenced both the structure and the growth rate of foreign trade. When examining the extent or efficiency of participation in the international division of labour these changes ought to be measured. It would be important, e. g., to know the role of import consumption in each country (foreign trade plays a different role if exports have 25 per cent import contents than if they have only 10 per cent.)

In international comparison an important role is played also by the items of the balance of payments that are outside the foreign trade balance. Their permanently positive or negative balance – depending upon the country’s endowments – influences the volume of commodity exports.

In international comparisons either the GDP, or the GNP might be taken for basis, i. e. the ratio of exports to these. *Upon such basis the role of foreign trade in the Hungarian economy does not seem to be outstanding.*

If the share of exports in final output or in final consumption is measured, the conclusion will be the same.

*Export ratio in the final consumption
of some countries (1974)
(per cent)*

Hungary	27
Belgium	43
Finland	33
The Netherlands	47
Norway	30

In Hungarian economy the growth rate of foreign trade turnover between 1950 and 1975 always surpassed the dynamics of national income, yet the extent of Hungarian participation in the international division of labour is not large in comparison with that of advanced Western countries of similar size. There is a smaller difference in per capita national income – which is an indicator approximately demonstrating economic development level – between Hungary and a few small West-European advanced industrial countries than there is in the volume of per capita foreign trade turnover. In the early 1970s in Belgium the per capita national income was 2.2 times more and the per capita foreign trade turnover 4.8 times more than in Hungary, while the same figures for the Netherlands were 2.1 and 3.6, and for Switzerland 2.4 and 3.5.

Changing role of international cooperation

The late 1960s and the early 1970s brought new phenomena into our international relations. Extensive development meets with difficulties from the side of production factors: labour shortage almost renders impossible to follow the extensive way of economic growth.

The sale of products not coming up to world market standards has by now become increasingly difficult on the markets of socialist countries and within the country itself, which used to provide unlimited possibilities. At the same time, the import-intensity of production does not decrease or is even increasing in some dynamically growing sectors. Part of our constantly increasing demand for raw materials, primary energy, investment goods and technology have to be covered from convertible currency for markets. Therefore, in Hungary realization, including sales on socialist markets, becomes increasingly a determinant element of economic growth. However, as opposed to the quantitative growth of earlier years, now qualitative requirements are in the foreground: the establishment of a more up-to-date product pattern more flexibly adjusted to market requirements is a condition of an efficient functioning of the economy. Nor can sales to the socialist countries be made independent of relations

with non-socialist countries: in exports accounted in Roubles the import contents of non-socialist origin is rising. At the same time, in a few sectors it is the large home- and CMEA-market basis that creates the possibility for exports to Western countries.

Changes in the internal and external conditions of economic growth assert their effect on the framework and forms of international economic cooperation. *The pressure for realization appearing as a condition for economic growth requires effective activities from foreign trade, that will influence production.* This is because foreign trade has market information, and it connects producers with foreign markets, thus facilitating the shaping of an up-to-date product pattern.

Therefore, an economic policy oriented towards international cooperation solves the contradiction between diversification of the demand pattern and integration of the supply pattern, so that by a better exploitation of resources it promotes economic growth.

Moreover, a development policy oriented towards international cooperation considers imports as a competitive factor of equal rank with home production: in order to increase efficiency it selects also home production, and substitutes by imports such activities as cannot be rendered profitable. It counterbalances the increasing import needs of the economy by exporting a considerable share of domestic output. It depends first of all on the exporting ability of the economy, what extent of import liberalization or restriction is held possible or desirable by economic policy. On the other side, export ability depends, regarding home conditions, on the possibility of establishing such product pattern as will allow profitable realization without meeting obstacles.

Development oriented towards exports is called in Hungarian practice selective development policy. (As an expression, selective development policy is a tautology. If not selective, it cannot be considered development policy at all.) Selective development policy may be also the stressed and fast development of a few specific sectors. If today the necessity of selective development policy is underlined, what is meant is not stressing of a few sectors of investment allocation of such character. *Selectivity means choice among various development targets: it is the contradiction between the large number of different development targets and the limited accumulation capacity of the national economy that necessitates selection from among development objectives.*

Two elements of selective development must be emphasized. On the one hand, a fast-rate development of products by means of up-to-date technology, on the other hand, adequate proportions between productive and servicing sectors demanded by a general up-to-date product pattern. Without satisfactory industrial background and infrastructural services an efficient operation of the up-to-date, export-oriented final product capacity is not conceivable. Priority development of certain groups of products and creation of their background necessitate concentration of means, which may entail a sudden reduction of other, less profitable production activities and at the same time may be capital-intensive and entailing increased costs.

It is also an important requirement to create such organizational framework as will help a fast and flexible adjustment of industrial capacities. Beside organizational flexibility, adjustability also requires to build up reserves.

On export-oriented development

In the functioning of economic policy oriented towards international cooperation equilibrium requirements are of outstanding importance. World economic phenomena that appeared in the 1970s have an unfavourable effect on the Hungarian economy. At the turn of 1973 and 1974 important changes of price level and price proportions took place that caused a deterioration in the terms of trade, i.e. the same export- and import volumes that had attained a balance earlier, now resulted in a foreign trade deficit. (Over three-quarters of the deficit of our balance of trade with Western countries were due to price losses.) On the other side, recessions in the world economy made exports to Western countries more difficult.

Improvement of the balance of payments position, and a dynamical increase of convertible export commodity funds are important objectives of the Fifth Five-Year Plan covering the years 1976 to 1980. This explains why development possibilities larger than those of previous years have been granted for expansion of capacities contributing to convertible commodity stocks through enterprise initiatives (for such aims 45 thousand million Ft were earmarked from the investment appropriation available for the Fifth Five-Year Plan period), and also, other export stimulating methods are at our disposal which promote the increase of exports to convertible currency markets.

While stressing the justification of such measures, *to increase foreign trade interestedness torn out of the context of the production background cannot be the only and final solution.* In my opinion, it is not possible to restrict the comparatively higher demands of convertible-currency markets permanently to a few actions only and to stimulate exclusively the exporters of the final products. Also the lasting maintenance by special means of the hot-house protection of export production will distort the necessary orientation. *Export-oriented development can be carried out successfully only with comparatively satisfactory industrial standards, industrial background and services, on the grounds of respecting contracts, and within the limits of generally applied regulations.*

Of course, distinction must be made between the various motives for export orientation. In my opinion *a development policy satisfying the requirement of intensive development is a permanent strategy of economic policy.* At the same time, under the given economic conditions occasional or yearly measures directed at improving the balance of payments position must be considered as tactical elements of economic policy. This distinction is needed because in the given economic situation it may be useful to stimulate the export even of such articles as do not necessarily correspond to

our structural policy objectives in the long perspective. In other words, *exploitation of certain current export possibilities is not to be identified with potential structural policy*. Namely, with strategic aims the structural regroupment processes among the different fields of world economy must be taken into consideration.

An economic policy oriented towards international cooperation is concomitant with an economy sensitively reacting to market fluctuations. It is inconvenient that the appearance of requirement rooted in the intensive period of Hungarian economic development coincided with the stagnation of world economy, with the troubles of its monetary and institutional system and the sudden changes in price relations. Thus, *economic policy is now faced with the dilemma that both the assertion of world economic effects and, led by the interest of economic stability, the isolation of large market fluctuations are necessities*. The demand for stability of economic conditions is also justified by the fact that under the conditions of extensive economic development Hungarian economic organizations had not the flexibility required by market demands. Thus, the everyday practice of economic policy must find the reasonable proportions in which it will allow the world market value relations to assert themselves and it must state, in what fields and by what methods these effects should be eliminated.

In the foregoing it has been proved that the potentials of the open Hungarian economy demand that the aspects of foreign trade orientation be asserted in the elaboration of economic tactics and strategy. Also, it is a recognized necessity that efficiency of participation in the international division of labour should be increased. Within these limits an extremely important role is played by the development of the forms of international production and commercial cooperation.

Within the CMEA as well as in non-socialist relations Hungary has taken important steps in order that the productive forces of the country, including intellectual and physical capacities, should be better utilized than before.

The countries united in the CMEA were given the chance to develop mainly those of their sectors that suit best national conditions and potentials. *The specialization agreements already concluded allow optimum scales of production and guarantee steady markets for Hungarian products.*

In the international cooperation activity of Hungary a fundamental role is played by the realization of the integration programme of the CMEA countries. Production cooperation activity is determined by the implementation of the tasks envisaged in the Comprehensive Programme. The integration plan laid down for 15 to 20 years includes projects to be built by common efforts, perspective development tasks of engineering products and a number of other complex tasks ranging from research to sales. Subjects that have recently come to the foreground such as long-range target-oriented programmes and collated planning can provide larger and more secure fields also in production cooperation.

Activities related to production specialization and cooperation with socialist countries have various forms: technological and scientific cooperation, multilateral and bilateral cooperation agreements, international enterprises and coordination organi-

zations, agreements on common investments. Production cooperations among socialist countries allow Hungary a more efficient exploitation of her natural and national potentials: through adequate product series a more profitable production is promoted; specialization and cooperation activities contributes to a better exploitation of available labour and to the establishment of a more efficient employment structure.

In order to make the most of the above-mentioned advantages efforts must be made to solve the problems that are hindering the progress of integration internationally as well as at home. The following of these can be mentioned:

– The international division of labour is often subordinated to equilibrium factors. This tendency is strengthened by the fact that in the current system of international conditions a comparative method that would realistically evaluate the efficiency of each country cannot even objectively exist.

– The final product approach still prevails in specialization and cooperation, and the share of specialization in parts and components in the international division of labour shows a downward tendency in spite of the fact that this represents the most progressive trend.

– The practical contradiction existing between the requirement of entering into *long-range obligations* (and the development projects attached thereto), and the criterion of *efficiency* i. e. profitability that can be interpreted only in the short run has not been fully clarified, and has become even more acute with the introduction of the sliding price basis.

The basic requirements of a balanced economic growth of Hungary are to transform the production structure, to increase the efficiency of production, and to raise the technological standards of our production. In tackling these tasks we also have to exploit possibilities inherent in our relations maintained on the basis of mutual advantages with *non-socialist countries*. In these relations production cooperations play an important role.

The forms and fields of cooperation are highly varied, while demands made on cooperation activities are comparatively uniform:

– They should raise technical and technological standards and increase the efficiency of production;

– They should enable production of articles competitive on any market;

– They should promote, factually in the form of creating a market, the expansion of Hungarian exports;

– The relationship should be lasting and provide for the adaptation of results of technical progress taking place in the course of cooperation.

Since 1965 226 cooperation contracts have been signed with Western firms that involved actual delivery of goods. 43 per cent of the agreements signed aim at buying intellectual products, or joint development, or the acquisition of technologies. From among the classical cooperation forms 29 per cent are made up of production specialization and 21 per cent of product specialization.

The effect of cooperations with Western firms much surpasses the 4 to 5 per cent they take in Hungarian exports to advanced capitalist countries. Beyond the taking over of advanced technologies their importance consists in that cooperation activities help in strengthening the general organizational and technological discipline of the given factory and in improving the quality of its products. Cooperation partners are useful for the building up of our export positions; in a few sectors important cooperations on enterprise level enabled considerable developments in the entire subsector (e. g. introduction of the manufacturing of NC machine-tools, and of the production of hydraulic and pneumatic machinery).

РОЛЬ МЕЖДУНАРОДНОГО ПРОИЗВОДСТВЕННОГО И ТОРГОВОГО СОТРУДНИЧЕСТВА В ЭКОНОМИЧЕСКОМ РОСТЕ

Д. КОВАЧ

Участие в международном разделении труда уже само по себе является фактором роста, если структура экспорта и импорта отражает реализацию относительных преимуществ экономики в отношении экономической эффективности. Если экономическая политика учитывает это, то возможно усиление динамики роста. Трактующее в узком смысле слова кооперирование может способствовать повышению темпа экономического развития тоже лишь при этом условии.

Венгерская экономика очень чувствительна к внешней торговле, однако из-за методических и иных проблем это трудно отразить в международном сопоставлении. И все же представляется правомерным констатировать, что роль внешней торговли в венгерской экономике не особенно высока: если сопоставить национальный доход в расчете на душу населения и внешнеторговый оборот в расчете на душу населения, то окажется, что в Венгрии внешняя торговля имеет меньший вес, чем этого следовало бы ожидать на основе международного сопоставления среднерушевого национального дохода.

С конца шестидесятых — начала семидесятых годов возможности экстенсивного развития в Венгрии ограничиваются со стороны факторов производства, поэтому внешняя реализация, включая сбыт на несоциалистических рынках, становится определяющим элементом экономического роста. Этот факт требует от внешней торговли активного поведения, влияющего на производство, а то экономической политики — селективную политику развития, ориентирующуюся на экспорт, оценочными критериями которой являются устранение противоречия между множественностью различных целей развития и ограниченностью капитальных ресурсов народного хозяйства, а также повышение экспортной способности. Увеличение гибкости приспособления к внешним рынкам является для Венгрии более важным фактором, чем для стран менее чувствительно реагирующей на внешнюю торговлю.

Нынешняя обстановка усугубляется тем, что переход Венгрии на этап интенсивного экономического развития совпадает по времени со стагнацией мирового хозяйства, с расстройством его финансовой и институциональной системы. Поэтому наша экономическая политика должны решить дилемму: усиливать ли внутри народного хозяйства влияние внешних импульсов, чтобы позволить проявление эффектов мирового хозяйства, в то время как интересы стабильности венгерской экономики требуют изоляции резких конъюнктурных колебаний. Практика должна нащупать целосообразные соотношения между допущением влияния стоимостных сдвигов мирового рынка и их исключением, а также найти для этого соответствующие методы.

Важными средствами повышения экономической эффективности участия в международном разделении труда являются соглашения по специализации в рамках СЭВ, обуславливающие создание оптимальных производственных мощностей и обеспечивающие устойчивые рынки. В этой области необходимо предотвратить возобладание интересов краткосрочного выравнивания балансов, добиться усиления специализации в производстве узлов и деталей и устранить противоречие между потребностью принятия долгосрочных обязательств и критерием экономической эффективности, трактуемой лишь на близкую перспективу.

Производственное кооперирование играет важную роль и во взаимоотношениях с несоциалистическими странами. Оно может осуществляться в самых разнообразных формах. Но по отношению ко всем формам предъявляются относительно единые требования: они должны способствовать повышению технологического уровня и экономической эффективности производства, расширению производства конкурентоспособной продукции, увеличению экспорта — причем на базе устойчивых связей. В этом отношении заключенные венгерскими предприятиями с 1965 года 226 кооперационных договоров имеют гораздо большее значение, чем те 4–5 процентов венгерского экспорта в развитые капиталистические страны, который осуществляется на основе этих договоров.

A. INOTAI

SOME ASPECTS OF THE ECONOMIC RELATIONS BETWEEN THE FEDERAL REPUBLIC OF GERMANY AND THE CMEA COUNTRIES

The article analyses the main features of the economic relations between the CMEA countries and the FRG. Indicating the basic data and trends in the trade relations and the trade deficit of the socialist countries, the author points out that the fundamental reasons for both the changing shares of the individual socialist countries in the total CMEA trade with the FRG, and the socialist deficit can be found in the changing commodity pattern of the exports of the socialist countries to the FRG. In the light of the structural adjustment process taking place in the economy of the Federal Republic of Germany, the article argues for a better export structure of the socialist countries, as the main dynamic factor in the future expansion and a better balance of the CMEA-FRG trade.

Even prior to the improvement of the East-West political atmosphere the Federal Republic of Germany was one of the most important Western partners of the socialist countries and her role has only increased since 1969, following the signing of the treaties with the Soviet Union and Poland, respectively, and of the four-power agreement on Berlin. Supplies by West-Germany are by far the most important within the imports from the West of each of the socialist countries and the West-German market has a major role in exports of CMEA countries to the West. In the latter respect the picture became homogeneous precisely in 1975 when, under the effect of the crisis in the world economy, demand fell in countries which had been earlier main export markets of the Soviet Union and, in some years, of Bulgaria (Japan and Finland, and Italy respectively) and the greater absorptive capacity of the West-German import market came to the fore in stabilizing world trade.

Objective conditions and environment of developing economic relations

Beside the improving political atmosphere changes in the world economy in the last 4-5 years have also enhanced the importance of economic cooperation between the CMEA countries and the Federal Republic.

The increased role of the West-German economy in the world economy is expressed not so much by her 11.7 per cent share in the gross national product of the capitalist world or her 12.5 per cent share in industrial output, but rather by her growing

participation in the world-wide division of labour. In 1974 the Federal Republic contributed 11.6 per cent of world exports, almost one fourth of the exports of machinery, and proved to be the second most important import market after the USA. Her weight in foreign trade is particularly stressed by the fact that within the group of medium-size developed countries (Japan, Federal Republic of Germany, France, UK, Italy) it is the Federal Republic where the greatest portion of the national product is realized on external markets (more than 23 per cent), approaching the degree of participation in the world economic division of labour of some small developed Western countries. In certain industries and specialized branches features expressly characteristic of smaller countries may be discovered: Some of the engineering industries sell 50–70 per cent of their output abroad, in vehicle and shipbuilding, in electrotechnics and optics this amounts to 35–50 per cent. The advanced technology of West-Germany is explained by the need to hold one's own in ever keener international competition. The dynamics of development of foreign economic relations are certainly not threatened by balance-of-payments problems. West-Germany possesses more than 40 per cent of world currency reserves and is rapidly making up for any time lag in respect of investments abroad and multinational corporations.

Changes taking place and recently accelerating in the West-German industrial structure make themselves increasingly felt in the international division of labour and provide new export opportunities for fast industrializing countries, partly because the Federal Republic requires massive imports and also because her role in world imports is important. It is owing to this internal economic restructuring that the commodity pattern of the country's imports is more favourable, and "more advanced" than that of many other developed Western countries.

Beside the improved political atmosphere, traditions of economic relations, similarities in the technical and technological environment and geographical proximity explain why new types of cooperation, above all cooperation between enterprises, emerging in the foreign economic policies of the socialist countries in the last five years have developed most advantageously with West-German firms. These, affected by the restructuring, have found a possibility, among other things, in cooperation agreements with enterprises in socialist countries to accelerate the process of adjustment. It is characteristic for the strengthening of this process that, while in 1969 a major section of German firms believed that cooperation agreements provided one-sided advantages for the socialist countries, in 1973 their decisive majority already stressed the mutual advantages.

The increasing purchases of the socialist countries became important stabilizers of West-German exports particularly at the time of the world economic recession. This was acknowledged even by official opinion in the country.

The raw material crisis emerging in recent years has also increased the interest of the Federal Republic in the socialist market, and has led to the signing of several long-term agreements which are important also from the point of view of the future of trade, and promise, in general, a dynamic expansion of commodity exchanges.

West-German supplies being of advanced technology, as well as the import market of the country showing a more favourable pattern and volume than in most of the Western countries, this may create far from negligible, favourable environmental conditions for a successful implementation of the export-oriented foreign economic strategies of the socialist countries which is, in general, characteristic of the 1976–1980 period.

Quantitative aspects

Our computations include – contrary to West-German practice – also trade between the Federal Republic and the GDR, since this represents a considerable proportion in trade with the CMEA countries. The need for a wider international comparison justified the conversion of DM-values into dollar-values. West-German exports to the socialist countries developed dynamically between 1970 and 1975. But the 309 per cent increase of the West-German exports to the CMEA countries, against an average increase of 163 per cent hides rather wide dispersions. Beside the more dynamic markets (Soviet Union, Poland, Bulgaria), imports of the two most developed socialist countries from the Federal Republic did not reach the average rate of the CMEA countries, or even the growth rate of total West-German exports.

The behaviour of West-German exports during the recession provides interesting lessons. While total exports increased by 1 per cent both at current prices and in

Table I
*Exports of the Federal Republic of Germany to the countries of the Council
for Mutual Economic Assistance*

	1970	1974	1975	1975 (1970 = 100)	Share by countries per cent		
	million dollars				1970	1975	Average of 1971–1975
CMEA countries, total	1958	6991	8016	409	100.0	100.0	100.0
Soviet Union	422	1856	2824	669	21.5	35.2	28.0
GDR	662	1428	1559	235	33.8	19.4	22.4
Poland	180	1403	1302	723	9.2	16.2	17.4
Czechoslovakia	289	691	680	235	14.8	8.5	10.7
Hungary	142	602	573	404	7.2	7.2	8.1
Romania	197	713	662	336	10.1	8.3	9.2
Bulgaria	66	298	416	630	3.4	5.2	4.2

Source: OECD Foreign Trade Statistics, various issues of Series A, and: Statistisches Bundesamt, Aussenhandel, Reihe 1.

dollars, the 14.7 per cent expansion of exports to the CMEA indeed proved to be a stabilizing factor. This expansion occurred in such a way that several small CMEA countries reduced their imports, while Soviet and Bulgarian purchases increased powerfully. The latter balanced the drop on the Czechoslovak, Hungarian and Romanian markets, the rise in turnover with the GDR neutralized the Polish decline, so that the sizeable increase in West-German exports was finally due to a 52.2 per cent increase of supplies to the Soviet Union.

It however, took longer to rearrange West-German exports within the CMEA. The orientation towards the GDR, still determining in 1970, ceased and turned into a much greater Soviet orientation by 1975, and the diminishing share of the GDR was approached also by the dynamic Polish market. There was a rather surprising drop in the importance of the Czechoslovak market. The fact, that the Soviet Union has come to be among the first ten markets of the Federal Republic, plays a great role in the growing weight of CMEA countries in West-German exports. Both the 8.7 per cent share in 1975 and the average of 7.5 per cent for 1971-75, more realistical from the point of view of long-term prospects, considerably surpassed the CMEA share in the trade of developed Western countries comparable in economic size to West-Germany, but with the exception of Austria and Finland, also the corresponding indicators of smaller ones.

West-Germany imports from socialist countries raise several problems which affect not only bilateral economic relations. At first sight the picture is favourable: Exports of CMEA countries to the Federal Republic developed faster than the West-German imports on average: 175 per cent and 149 per cent, resp., but the difference is not by a long way as important as in the corresponding case of West-German exports. It is worth noting that, against the world-wide decline in demand in 1975, the imports of the Federal Republic increased by 7.5 per cent at current prices, but this favourable trend could be exploited by the socialist countries only in an under-average way (6.5 per cent increase). Not even the raw material exporting Soviet Union was an exception (5.9 per cent), nor the GDR, otherwise enjoying important advantages, (4.9 per cent), and much less so Hungary (4.3 per cent), which otherwise has the most developed export pattern.

The problem becomes particularly conspicuous if five-year growth indices of exports from socialist countries to the Federal Republic are examined. The average of the CMEA countries was essentially exceeded, mainly because of price rises on the world market, only by the Soviet supplies, those of Polish, Romanian and Hungarian origin moved around the average. It cannot, however, be neglected that in the dynamics of Hungarian exports a break occurred after 1973, that is, precisely when the West-German restructuring process accelerated, and when, though for different reasons, the Czechoslovak, Polish and Soviet exports started to increase rapidly.

It demands fuller explanation why the dynamics of GDR, Czechoslovak and Bulgarian exports could not even keep up with the general expansion of West-German imports. It might have been assumed first of all about the two most advanced socialist

Table 2

Imports of the Federal Republic of Germany from the CMEA countries

	1970	1974	1975	1975 (1970 = 100)	Share by countries per cent		
	million dollars				1970	1975	Average of 1971-1975
CMEA countries, total	1649	4260	4539	275	100.0	100.0	100.0
Soviet Union	342	1223	1295	379	20.7	28.5	24.8
GDR	547	1266	1328	243	33.2	29.2	30.2
Poland	203	553	582	287	12.3	12.8	13.1
Czechoslovakia	199	402	470	236	12.1	10.4	10.9
Hungary	134	351	366	273	8.1	8.1	8.6
Romania	159	374	404	254	9.6	8.9	9.7
Bulgaria	65	91	94	145	4.0	2.1	2.7

Source: as for Table 1.

countries that they could have utilized the particular advantages offered by the West-German market which has a more advanced import pattern, and is oriented to a greater extent towards manufactured products. The reasons for this development deviating from the expected one are revealed by examination of the commodity pattern.

As regards the country by country share of exports to the Federal Republic, a restructuring process similar to but more moderate than the one in West-German exports took place. Between 1970 and 1975 the Soviet Union closely approached the share of the GDR which, though declining, still occupied first place. The weight of the other countries did not change substantially – apart from the Bulgarian figures which are not relevant.

The CMEA countries increased their share within total West-German imports only moderately (from 5.4 per cent to 6 per cent). Two conclusions follow: 1) The difference between the dynamics of West-German exports and imports has strongly increased, therefore a dynamic expansion of *trade* (total turnover) between the Federal Republic and the CMEA countries can be established only in a restricted sense, since it is basically a consequence of the dynamics of West-German supplies. 2) The growing difference between the growth rates of exports and imports further increased the deficit in the trade balance of the socialist countries, existing already in 1970, and the ability of CMEA exports to pay for corresponding imports declined. The latter fact is indicated by Table 3, which shows for comparison also the deficit of the socialist countries with the OECD countries.

The *imports–exports* balance of trade with the Federal Republic between 1971–1975 is – considering the cumulative deficit – much worse than in the trade

Table 3

Trade deficit of the CMEA-countries, as percentage of the import coverage

	OECD			FRG			FRG deficit as percentage of total deficit towards the OECD		
	1974	1975	Average of 1971-1975	1974	1975	Average of 1971-1975	1974	1975	Average of 1971-1975
CMEA countries, total	87.5	70.2	82.5	60.9	56.6	64.5	104.1*	42.3	62.4
Soviet Union	111.4	70.6	89.7	65.9	45.9	57.1	-**	21.6	90.7
GDR	91.5	88.0	88.0	88.7	85.2	87.1	78.3	71.7	63.1
Poland	62.7	57.7	68.1	39.4	44.7	48.5	49.6	31.0	44.1
Czechoslovakia	88.1	87.2	90.4	58.2	69.1	65.6	138.9*	87.1	140.7*
Hungary	75.1	68.0	80.3	58.3	63.9	68.2	56.2	35.2	52.1
Romania	76.9	83.1	80.5	52.5	61.0	67.9	71.5	76.1	53.2
Bulgaria	49.0	35.6	54.5	30.5	22.6	41.4	47.9	45.4	43.2

*Deficit with West-Germany is higher than with the OECD as a whole

**As against a deficit with West-Germany there is a surplus with the OECD

Source: as for Table 1.

with the OECD. This is true for every socialist country. A relatively balanced state can be found only with the GDR, last but not least because the GDR enjoys a number of advantages. At the same time, the Soviet Union, Poland and Bulgaria show ratios much below the average, while the Hungarian, Romanian and Bulgarian ratios are somewhat above the average, the Hungarian one being second best after the GDR. This differs from the ranking observable in the corresponding ratios computed for the OECD, where Hungary's indicator seems to be better only than those of Bulgaria and Poland, lagging even behind the CMEA average. Thus, for Hungary, the trade deficit with West-Germany is relatively smaller than in most of the CMEA countries.

The better position in trade with the OECD is explained in the case of the Soviet Union by raw material deliveries, in that of the GDR by the determining weight of trading privileges enjoyed in the Federal Republic and in that of the CSSR by the slow expansion of trade. But for the trade with the Federal Republic these causes do not hold:

- even the slow expansion of turnover is not sufficient to forestall the increasing deficit (Czechoslovakia and partly Bulgaria),
- even a fast expansion of trade does not necessarily lead to below-average ratios, because it also creates additional export commodity funds (Romania and Hungary);
- even the unprecedented boom due to the world-market situation of raw materials is unsuited to secure more balanced trade with the Federal Republic (Soviet Union).
- the relatively greatest trade deficit (i. e. exports being least able to pay for imports from the same source) may result from the relatively lowest volume of trade, (Bulgaria).

Table 3 helps to clarify a frequent misunderstanding: the main reason why the CMEA trade deficit suddenly increased in 1975 is not the lack of balance with the greatest Western partner, the Federal Republic of Germany, but rather the re-channelling of socialist imports characteristic in recent years, justified by the unfavourable balance of exports to and imports from the Federal Republic in the average of recent years. True, under the effect of measures restricting imports from West-Germany the import-coverage of the CMEA showed only a moderate deterioration, but the indicator much worsened for the OECD as a whole. While the deficit in trade with the OECD in 1974, amounting to 2,623 million dollars was exceeded by the deficit with West-Germany (2,731 million dollars), meaning that - had trade been balanced with that country - the CMEA could have shown a surplus in trade with developed capitalist countries, in 1975 the deficit with the OECD increased to 8,214 million dollars and of this the deficit with the Federal Republic was, though slightly increasing, responsible for only 42.3 per cent, that is 3,477 million. Thus, the re-channelling of trade proved to be a rather costly measure, since the socialist countries bought to an increased extent from those advanced capitalist countries where sales could not be proportionately increased, either because they did not know the market or - and this was true most of the time - because the objective conditions of the economies of those countries were not really suited to absorb socialist exports, which frequently

competed with the products of the same countries to which they had been directed. A major reason is that the process of economic change has not yet sufficiently advanced to exert any major effect on the commodity pattern of their imports.

It is, however, invariably valid that the deficit in trade with the Federal Republic within OECD is much greater than the West-German share in OECD trade with the socialist countries. Simultaneously, the West-German trade surplus with the CMEA countries is a much greater percentage of the total West-German trade surplus than what would follow from the weight of this group of countries.

Table 4

Share of the Federal Republic of Germany in the trade of the CMEA countries

	Total ex- port = 100	Exports to OECD = 100		Total im- port = 100	Imports from OECD = 100	
	1975	1975	Average of 1971-1975	1975	1975	Average of 1971-1975
CMEA countries, total	...	23.5	24.1	...	29.1	30.8
Soviet Union	3.7	14.6	13.8	8.2	22.5	21.7
GDR	12.6	56.1	57.7	16.8	58.0	58.3
Poland	5.8	18.3	19.5	11.7	23.7	27.4
Czechoslovakia	5.7	28.7	28.3	8.9	36.2	39.1
Hungary	6.3	29.3	27.4	8.4	31.2	32.3
Romania	8.4	24.2	27.2	14.3	33.0	32.3
Bulgaria	2.3	24.0	25.4	8.7	37.7	33.5

Source: as for Table 1, and own computations based on *Rocznik Statystyczny Handlu Zagranicznego 1975*, *Mały rocznik statystyczny, 1976*, Warszawa, Główny Urząd Statystyczny.

Table 4 examines the role of the Federal Republic within the trade of the socialist countries with the OECD and in their total trade. West-Germany takes first place both in the Western exports and imports of the socialist countries. This role in socialist exports changed too little between 1970 and 1975 to allow long-term conclusions to be drawn. It can be established though that, as opposed to several Mediterranean and fast industrializing countries, we did not succeed in increasing our share in the exports to the West-German market, which is structurally more advanced than that of other West-European countries. It is likely that behind that we find both the efforts of the socialist countries to diversify trade with the West, and a not sufficiently fast or flexible adaptation to the changing market situation. The share of the West-German market in Hungarian exports to the OECD developed differently from the CMEA average, indicating that among the socialist countries it was the Hungarian economy that best adapted itself to the needs of the structurally more developed West-German market. This hypothesis will have to be confirmed by an examination of changes in the commodity pattern.

No doubt, a cause of the change is also that — as was the case with several other countries — the share of developed capitalist countries in Hungarian exports continuously fell from 1970, but within that the West-German ratio diminished to a relatively smaller extent.

Beside Hungary, a falling market share is characteristic also of Bulgaria and Romania, while those of the CSSR and GDR remained unchanged. At the same time, the weight of the Federal Republic has increased within the total of Soviet and Polish exports.

In the imports of socialist countries from the OECD the West-German share showed a sizeable increase on the average over the years 1971–75, in spite of a general decline in 1975. The latter was related not to problems of competitiveness of West-German exports, but to deliberate efforts by the socialist countries at rechanneling imports and to increasing balance-of-payments difficulties in their relationship with the Federal Republic.

Characteristics of the commodity pattern*

Comparing the general pattern of West-German exports and imports with the corresponding data of trade by that country with the CMEA countries, special features emerge particularly in exports to the socialist countries. A comparison of this general export pattern with that of exports to the CMEA countries makes the preponderance of parallel tendencies conspicuous. It seems natural that in the exports to the CMEA countries finished goods play a somewhat greater role than on average, but it is worth while reflecting that within that the share of intermediary products is too high at the expense of end products, and showing an increasing trend instead of the slightly decreasing general one. The sudden increase in the percentual share of end products in 1975 may be attributed basically to purchases of machinery by the Soviet Union and Poland. It is a well-known fact that the share of machines in total West-German exports is higher than in exports to the CMEA. The high and in 1974 conspicuous share of intermediary products is explicable by the considerable share of certain kinds of chemical industry products. This jump is also reflected in general West-German exports, but to a much smaller extent and shows well the importance of these products in the purchases of the socialist countries. If the 1975 trend in the pattern of trade continues in the future, the pattern of West-German exports to the CMEA countries will further approach that of total exports.

Development of the import pattern shows numerous deviations and requires more intensive analysis, also in order to clarify the problems formulated above that await solution. After the higher CMEA figures of 1965 and 1970 the present share of agriculture already agrees with the ratio typical of West-German imports as a whole,

*In this chapter the author relied on the commodity classification of West-German statistics and, therefore, the terms used in the text have meanings slightly different from what is used in either UN or US or British statistics. They are explained in some detail in the notes to Table 5.

Table 5
Characteristics of the commodity pattern¹, in percentages

	Total exports of the Fed. Rep. of Germany				Exports to the CMEA ²			
	1965	1970	1974	1975	1965	1970	1974	1975
Agricultural and food products	2.8	3.5	4.3	4.7	3.4	7.1	3.8	1.6
Raw materials (other than agricultural)	3.6	2.6	2.4	2.4	1.9	1.2	0.8	0.6
Semi-finished products ³	8.7	7.7	8.9	7.3	10.9	6.8	6.7	6.0
Finished products	4.5 84.5	85.8	84.0	85.0	83.3	84.5	89.4	91.6
of which:								
Intermediary products ⁴	18.6	18.4	22.2	18.2	27.9	31.0	39.0	31.7
End products ⁵	65.9	67.4	61.8	66.8	55.4	53.5	49.4	59.9
	Total imports of the Fed. Rep. of Germany				Imports from the CMEA ²			
Agricultural and food products	23.9	19.1	16.3	16.9	29.5	24.2	16.7	16.3
Raw materials (other than agricultural)	16.2	13.5	19.3	16.4	24.1	18.6	19.9	19.3
Semi-finished products ³	15.3	16.1	16.9	15.0	34.6	28.8	34.5	31.6
Finished products	4.5 43.5	50.0	46.3	50.4	9.9	26.1	27.4	30.5
of which:								
Intermediary products ⁴	14.8	15.5	14.3	13.7	4.4	9.5	8.8	9.5
End products ⁵	28.7	34.5	32.0	36.8	5.5	16.6	18.6	21.0

¹ Figures do not add up to 100, since the exchange of commodities elsewhere not classified and of non-commercial goods is not shown

² Without the GDR, because figures for the latter are of a breakdown not compatible with the above classification

³ In West-German statistics: Halbwaren, including products which underwent but a minimum of processing, such as raw cotton, wool, flax, hemp, fibres made from them, timber and sawnwood, rubber, glass cement, metals, coke, fuels, fertilizers etc.

^{4,5} West-German statistics divide finished products (Fertigwaren) into intermediary products (Vor erzeugnisse) and end-products (Enderzeugnisse). The first includes products which, though finished in themselves, may be used for further processing, such as fabrics, fur, skins and hides, paper, veneer sheet glass, synthetics, plastics, paints, rolled goods, most of chemicals, etc. etc. The rest, which cannot undergo any further processing, are end-products.

Source: Statistisches Bundesamt, Aussenhandel, Reihe 1 and 3 various issues.

which can be explained by the discriminatory effect of the agricultural provisions of the EEC and by measures on the part of CMEA to mitigate their effect by changing the production pattern to help diversify exports. Two stages can be distinguished in the structural transformation of CMEA exports to the Federal Republic: between 1965 and 1970, in harmony with structural changes in the total West-German imports, the share of finished products showed a strongly growing tendency, against declining shares of agricultural products, raw materials and semi-finished products. In the latter both intermediary products and end products had a role, while in total West-German imports it was basically the increasing share of end products that released a similar trend. This process did not continue in CMEA exports after 1970. Though the shares of finished goods and, within that, of end products continued to increase, growth was only moderate and the share of semi-finished goods grew with similar intensity. At the same time, in total West-German imports end products increased their share slightly, and finished products as a group hardly if at all, which can be obviously attributed to the distorting effect deriving from the deviating price trends of commodities traded on the world market. The growth in the share of the otherwise vigorously increasing imports of finished goods was held back by the huge rise of raw material prices. In the total West-German imports within finished products an opposed tendency is observable in respect of the two sub-groups (which is in harmony with the requirements of the international division of labour corresponding to a more advanced stage of structural adjustment), this movement could only partially be followed by the pattern of imports from CMEA (the share of intermediary products of a lower stage of processing did not diminish). The most decisive difference between the two patterns is that in socialist exports the weight of semi-finished goods is highest (and, at the same time, lowest in total West-German imports), and the share of finished products still lags behind the average of the imports, though a closing up has started already.

Examining the pattern of West-German imports originating from particular socialist countries, indicators showing a wide dispersion around the CMEA average will be found. This also answers questions arising in the course of analysing turnover. The highest share of end products is shown by Hungary (45.4 per cent in 1975), indicating the relatively flexible adaptation of the Hungarian economy. The fact that the growth of exports from the GDR and CSSR is lagging even behind the West-German average, may be attributed to the low degree of adaptability to structural changes of the two most developed CMEA countries. As distinct from the world-wide general trend, the share of end products requiring the most advanced technology fell between 1965 and 1975 from 52.5 per cent to 41.7 per cent in the GDR exports, and from 30 (in 1970) to 27.9 per cent (in 1975) in those of Czechoslovakia.

A dynamic and smooth development throughout the ten years could be observed only in the Polish and Hungarian export patterns. The fast growth of finished products between 1965 and 1970 became considerably moderated by 1970-75 in Romania and Bulgaria, and stopped in the Soviet Union where it anyway had a low share (11.5 per cent for finished products and 4.9 per cent for end products).

A more reliable picture will be obtained about the exports of end products from CMEA countries, if the analysis is extended to the main groups of commodities and also a few general West-German indicators as well as some countries that appeared in recent years on the West-German market, which are near to the development level of the socialist countries are included. Only a few important interrelations of the survey, carried out in a detailed breakdown by industries, can be here reviewed. Four major groups were formed: metallurgy, light industry (textiles, garments, leather and shoes), engineering (machine-tools, other equipment, vehicles) and electro-technical, optical and precision engineering products. The eleven countries included in the survey will be mentioned henceforth as "the 11" (Yugoslavia, Spain, Portugal, Greece, Turkey, Brasil, South-Korea, Taiwan, Malaysia, Singapore, and Hongkong).

The share of finished products in the CMEA exports hardly improved between 1970 and 1975 (inclusive of the GDR), while, starting from a similar level in 1970, "the 11" attained by 1975 a very high level, exceeding even the corresponding indicator of total West-German imports. This unfavourable development of the socialist exports was largely due to the CSSR and GDR, which, with the most considerable exports in machinery, could less and less maintain their competitive position on the West-German market. While in 1970 machinery from CMEA countries still amounted to almost 20 per cent of West-German manufactured goods imports from the socialist countries, this ratio fell below 10 per cent by 1975. Although there is sharp competition on the West-German machinery market, and the competitiveness of West-German products caused a slight decline also in the group of "the 11", the dynamics of their machine exports no doubt persisted and even improved. In this way the share of machinery came on the whole to the same level in the exports of finished goods of both the CMEA and "the 11", while in 1970 the share of the CMEA was still double that of the latter group. To compensate for the declining share of machinery, the GDR and the CSSR increased their share of light-industry products, in harmony with the international trend, and that of metallurgical intermediary goods, which was against this trend. This latter process which might be called "negative specialization" has deeper causes which call for a more comprehensive investigation than is here possible. It is anyway worth reflecting why traditionally advanced industrial socialist countries could not keep up with a process which has been creating favourable environmental conditions for an international division of labour better suited to their development level, and why they have increasingly become exporters of products with a lower degree of processing and requiring fewer skills and modern technology.

It is highly important that within the finished goods exports of the socialist countries a late and distorted specialization may be observed. Rigidity, the lack of elasticity or a late recognition of various world economic impulses played a role in that the share of the light industry increases dynamically when the leading role of this industry in stimulating industrial development and the exports of finished goods is not the most outstanding and much less exclusive. In the second half of the sixties the share of light industry goods was already high in the industrial exports of "the 11" and only

Table 6
Commodity pattern of the finished product exports of the CMEA countries to the FRG
 (in percentages)

	Metallurgical		Light industry		Machinery		Electrotechnical, optical, precision engineering products		Share of manu- factured pro- ducts in total exports	
	products						1970	1975	1970	1975
	1970	1975	1970	1975	1970	1975				
CMEA countries, total	16.3	14.8	28.3	40.1	19.5	9.8	7.5	8.2	35.4	36.6
Soviet Union	0.3	2.1	4.5	7.5	43.6	31.6	5.1	3.0	10.9	9.7
GDR	18.5	20.8	33.0	42.2	17.7	5.8	8.8	10.0	51.9	50.8
Poland	14.3	8.2	29.8	40.7	11.9	12.7	8.7	11.0	20.3	36.3
Czechoslovakia	14.8	20.4	20.4	31.3	32.9	13.6	3.7	5.5	46.0	49.3
Hungary	13.5	7.7	23.1	49.0	12.6	6.6	13.9	11.3	35.0	54.2
Romania	24.1	10.6	27.0	51.1	7.1	5.7	3.2	2.4	39.1	47.1
Bulgaria	7.5	9.5	56.2	59.7	8.0	5.4	5.5	7.3	31.1	39.3
"the 11"	5.3	2.2	43.3	51.7	10.3	9.3	9.1	13.9	36.9	57.6

Source: author's computations based on Statistisches Bundesamt, Aussenhandel, Reihe 1 and 3.

moderately increased up to 1975, while the similar share of the socialist countries increased powerfully only after 1970 and thus compensated, as a matter of course, for the drop in machine exports.

The leading role of light industry in the growth of finished product exports of the socialist countries was perhaps promoted not only by West-German import needs but also by import liberalization related to structural adaptation. The liberalization of textile and leather products for the socialist countries which appeared late allowed good export opportunities and relatively easy foreign exchange earnings more efficiently than on average. It seems, however, that this West-German liberalization — still only partial — proved to be a double-edged weapon: it shifted the efforts of the socialist countries towards easier sales in areas offering the least resistance. It indicates incorrect adaptation, as well as the heritage of the economic development of the CMEA countries that, as against the general trend; the weight of metallurgical products is too high and shows only a slightly diminishing tendency over the CMEA average. It is particularly strange that this share shows an increasing tendency in the two socialist countries with the most advanced industry, as against the strongly falling share within the West-German demand for finished products.

While the above illustrate the lateness of specialization, its distorted nature is proved by the fact that the share within industrial exports of electrotechnical, precision-engineering and optical products with long-standing traditions in several socialist countries has hardly increased, while their share has been dynamically growing in international dimensions, as well within West-German imports. Late arrival thus turns into a qualitative difference manifesting itself in structural distortion. The fast industrializing countries whose textile exports did well on the markets of the advanced capitalist countries as a rule successfully changed over after 1970 and made advances in industries requiring higher skills, allowing the introduction of more developed technologies, but located, in general, in an environment without any domestic traditions. At the same time, in the exports of Hungary, which adapted herself relatively most successfully among the socialist countries, and had considerable traditions, the share of electrotechnical products diminished. While in 1970 this share was far above the CMEA average and even above that of "the 11", by 1975 some CMEA countries caught up with Hungary and "the 11" even overtook her.

Most likely this phenomenon can be sufficiently explained — together with the diminishing share of machinery — only after a more careful analysis of the relations between the export pattern and the corresponding framework of international economic cooperation. It can perhaps be assumed that for exports of a different commodity pattern cooperation frameworks of different type are needed as well.

It is conspicuous that after 1970 a break occurred in the dynamics of the industrial exports of CMEA countries which is not only opposed to the international trend but which makes them less suited to play the stimulating role in socialist trade directed to the Federal Republic. The counter-argument cannot be accepted that the import of finished products was not dynamic even within West-German imports between 1970

and 75, since the two were increasing together. It is true that in this changes in world market raw material prices had a role whose distorting effect will be eliminated within a few years; on the other hand, the socialist countries – with the exception of the Soviet Union – are not suppliers of oil. Thus the price changes explain the declining trend of West-German imports, but not those in the pattern of socialist exports. Thirdly, “the 11” could not defend themselves against the distorting world market price effects either, yet their share increased in the period examined together with the dynamics of exports of finished products.

Table 7

Export dynamics of some major groups of products
(for 1970: 1965 = 100; for 1975: 1970 = 100)

	CMEA countries		“the 11”		FRG imports	
	1970*	1975	1970	1975	1970	1975
Total exports	181	249	178	325	170	245
Export of finished products	357	286	271	506	195	247
Metallurgical products	1090	260	286	209	193	177
Light industry products	276	405	242	605	186	290
Machinery	354	144	412	458	235	215
Electrotechnical, optical, precision engineering products	292	314	521	777	267	272

*for the GDR: 1964

Source: as for Table 6 and own computations.

The structural dynamics worked out by aggregating industries shows that the propelling force of finished product exports of the CMEA countries was metallurgy between 1965 and 1970, and light industry between 1970 and 1975. In 1965 this did not coincide at all with the dynamic sectors in the finished product imports of West-Germany (electrotechnical goods and machinery). Between 1970 and 1975 some correlation can be found, but it must not be forgotten that the imports of electro-technical and optical products also increased well above the average. In the finished product exports of “the 11” the most dynamic group are electrotechnical and precision engineering products (in a more detailed structural breakdown this would be even more conspicuous), and this is coupled with an above-average growth of light industry products, in full harmony with the two sectors in West-German finished product imports showing above-average development. Even here there is an essential difference: while in the last five years West-German demand was most dynamic for products of the light industry, “the 11” have already prepared to satisfy demand in

the next period for electrotechnical goods which will be predictably the leading ones. It is worth noting that the dynamics of the machinery exports of "the 11" have accelerated as well, against the conspicuously diminishing index of the CMEA.

Considering the time lag between the West-German structural process and the taking of decisions on corresponding production and export lines following the perception of changes and, finally, between the actual starting of production and exports, the commodity pattern indicators shown respond to changes in the structure of West-German industry in the early seventies. It is well-known that the transformation process of the industrial structure considerably accelerated after 1972 and became even more forceful in the course of the economic crisis of the capitalist world. The effects of these changes are likely to show in the sphere of foreign trade around 1976–1978.

It is probable that these phenomena even more will push to the fore the necessity to mitigate the present unfavourable trend, and even its reversal in the long run in the CMEA countries, nor can one escape the problem of establishing forms of cooperation better suited for producing more advanced products in exportable quality and volume.

Forms of economic cooperation

The present forms of cooperation show two basic types: compensation deals and industrial co-operations depending on the nature of the commodities traded.

Compensation agreements have been concluded mainly in the extraction of raw materials and fit into West-German long-term energy and raw material supply plans. The strategic importance of these products (oil, gas, copper) explains why more advantageous credit terms could be attained for these deals.

At the same time mostly industrial cooperation agreements have been concluded with the majority of the socialist countries which are poor in raw materials and interested in the export of finished products. The agreements with the Federal Republic make up the majority of cooperation agreements of socialist countries with advanced capitalist ones, and this is due to a large extent to the fact that, on the given level of structural development, this form of cooperation is advantageous to the former. It must be indicated that, beside wage advantages and the acquisition of markets as two pivotal points in the inclination to cooperation of West-German firms, geographical proximity and technological traditions as well have a role. It is, however, more important – and this fact must not be neglected even in the economic policies of the socialist countries if long-term trends are reckoned with –, that the transformation of the West-German industrial structure requires the deepening of the international division of labour increasingly in industries where production is linked to more advanced technology and better qualified labour. While production in large series of some light industrial products and electro-technical basic units can be mostly performed with a minimum of skill, in several branches of engineering, precision engineering and electronics an advanced technological infrastructure is essential. West-German economic interests, therefore, gradually concentrate on the numerically small

group of countries whose economy may be classified as being medium-developed, those that have an adequate technological background (the Mediterranean countries, some South-East-Asian and Latin-American countries). In this respect the socialist countries have important competitive advantages. It is, obviously, not easy to find an institutional and organizational framework which brings out this objective endowment while observing mutual interests.

For the time being established cooperation agreements play a modest role in turnover (9 per cent in Hungarian exports and about 5–6 per cent in those of Poland). In general, neither party is satisfied with the scale of this form of cooperation (with the average trade induced by one cooperation agreement), and does not consider it as a tool suited for maintaining long-term dynamics of trade. The usually short period of agreed cooperation does not favour long-term ideas either. It is likely that the above problems – and those related to the size of the participating companies – cannot be separated from the question in what branch and for the production of what products cooperation has been established. It may be assumed that the industries and groups of products with different characteristics (differing technological components and different ratios of labour and raw materials) also need different forms of cooperation if the objective endowments of cooperation are to be used most effectively.

It seems as if in this field the most suitable forms could not be found in every case. Beside the difficulties encountered in the export of finished products, certain surveys support this assumption. It is characteristic that while 50–60 per cent of cooperation agreements have come about in engineering, in the trade induced capital goods have a share of only 10 per cent. Thus the hypothesis is becoming firmer that some of the cooperation agreements do not develop exports to the West but try to satisfy either the domestic needs or those of the CMEA countries.

No doubt, the existing cooperation practice was in many cases suited for cooperation in light industry, mainly sub-contracting, but – according to certain views – this tended to conserve the general production, technological and export pattern of the socialist countries. Not as if essential progress had not been made in the given sector and cooperation had not correspond to short-term objectives. It did expand exports and earned foreign exchange. At the same time, the costs of this development idea had to be paid by industries with substantial production potential and long established technological and research basis in the form of reduced investment and development possibilities, as well diminishing export capacity.

Diversified efforts at creating more suitable forms for cooperation can be observed (joint enterprises in third countries, socialist enterprises in the Federal Republic, though the prominent place of firms engaged in selling metallurgical products is again conspicuous). The buying and selling of licences is increasing, yet, for the time being it still lags behind the share of commodity turnover (license purchases by the Federal Republic from the CMEA amounted to 3.1 per cent of all licenses purchased, while only 0.1 per cent of West-German sales of licences were to the CMEA, which is a surprisingly low figure in view of the technological development of the country). One

of the basic West-German efforts is to increase trade in licenses, since she is greatly interested in the large-scale application of licenses based on patents developed in the CMEA countries.

Particular attention should be paid to the flow of working capital frequently related to the mixed companies established in the Federal Republic. Because of the well known regulations of the socialist countries, the West-German capital exports, which dynamically increase on a world scale, to the CMEA countries amounted between 1973 and 1975 to 5.6 million DM, and the stock was 6.4 million DM at the end of the year (meaning 0.015 per cent of all her foreign direct investments). The socialist countries, above all the Soviet Union, used relatively sizeable resources for creating companies realizing various forms of cooperation in the Federal Republic. The stock of the resources of CMEA countries operative in the Federal Republic was DM 89.2 million at the end of 1975, and three quarter of this accumulated since 1973. One of the main factors was the placing of Soviet assets, to the tune of DM 43.4 million in this period and the stock was DM 53.4 million at the end of 1975. With this the Soviet Union preceded several European capitalist countries, including Norway, Portugal, Finland, and several non-European countries, as Mexico, Brazil and South-Africa. (By way of comparison: the total foreign direct investment of West-German capital operating in the CMEA region was, at the end of 1975, equal to the that in Togo, Salvador, Ethiopia or Costa-Rica.)

The development of cooperation and further increase in trade could be promoted by greater and more favourable West-German credits granted to the socialist countries. The Federal government, thinking of the stability of the economy, refuses in principle to grant favourable government credits. It argues that the credit institutions set the rates of interest always according to the prevailing market conditions and these could be converted into government credits with favourable terms only if the central budget financed the difference between the two rates of interest. But this principle is not always enforced in practice, nor is the economic argument meant to support the principle particularly convincing.

A practice deviating from the principles of credit policy is basically governed by considerations of political or economic strategy. A considerable export surplus is a factor that by itself pushes up prices, thus part of the balance of payments surplus must be placed abroad. (This in part explains also the intensified export of West-German capital.) In practice this appears in a form that while the Federal Republic manifests towards the socialist countries – apart from a few conspicuous credit grants – attitude of restraint, credits granted for terms longer than 12 months exceeded the volume of credits raised precisely after 1974. Against the excess of credits raised between 1970–1973 and amounting to 2–8 billion DM annually (within this sum the net credit granting fluctuated between 5.5 and 6.3 billion DM, annually), in 1974 the excess of credits granted attained 2.4 billion, and in 1975 already 11.4 billion, within which net credits were 10 billion in 1974 and the record figure of 24.3 billion DM, in 1975.

While a part of this increase may be explained by business policy, it is not difficult to discover behind it the worldwide intensified movement of West-German financial interests (Italy, Portugal, Poland), and, in asserting them, credits are one of the most important weapons of differentiation.

It is, at the same time, worth pointing out that the Federal Republic granted credit at favourable terms to socialist countries only if warranted by certain political or economic interests (raw material supply), and this attitude was not modified even by growing competition on the part of other developed Western countries. A considerable part of the machines and chemicals having a determining role in West-German exports cannot be procured from other countries, and if they could, the additional costs would generally exceed the disadvantages of credits obtainable at "normal" terms on the West-German credit market, as against the sales efforts of the British, Italian and French industry which are struggling with increased marketing difficulties in spite of government support and preferential credits.

Prospects

After the highly dynamic increase of West-German exports to the CMEA countries in recent years, some relaxation is expected in the Federal Republic, since economic upswing favourably influences total exports. It is likely that the 8.5 per cent share of the CMEA countries in 1975 will somewhat diminish and become stabilized in the second half of the seventies at about 8 per cent. Both a trade equilibrium approach and the success of the export-increasing strategy of the socialist countries assume that the socialist countries steeply increase their share in West-German imports. Considering, however, the restricting factors (amongst which the present inadequate or unsatisfactory forms of cooperation must also be reckoned) even with an otherwise successful export drive on the part of the socialist countries, their share cannot be expected to rise above 6.5 per cent on the average in the second half of the seventies.

Economic relations with the Federal Republic will continue to show a basic lack of equilibrium, and, expectably, this will not be changed essentially even by Soviet raw material supplies at the end of the seventies. There will still be a change, in that the Soviet Union will replace the GDR within the CMEA countries as the most important socialist supplier of the Federal Republic.

West-German discriminatory practices towards the CMEA countries will continue in strength led by both economic and political interests, which derive in some cases from a recognition of the deviating objective economic conditions of particular socialist countries in certain fields. It coincides with the export development strategy of every socialist country to use extensively the combined economic power of the CMEA, advantages deriving from a uniform approach, as well as the opportunities that derive from their own special situations — while enforcing the requirement of mutual information to an increased degree.

It can be expected, and to some extent it is part of the extrapolation of existing trends, that the Soviet Union will take full advantage of her rich raw material deposits, that Poland expects favourable effects from the latest credits obtained and from joint projects, and the GDR will further enjoy — though in a somewhat more limited form — the preferences due to her special situation. Romania expects impulses stimulating her exports of manufactured goods from her status as a “developing country”, and will make efforts, together with Bulgaria, to mitigate the deficit in the balance of trade with the aid of growing tourist income. At the first sight, Hungary and Czechoslovakia are in a more disadvantageous starting position but their relatively developed manufacturing industries, and satisfactory technological bases offer several possibilities for using the advantages offered by the structural development of the West-German economy and the favourable possibilities of the international division of labour influenced by it.

Since it is a basic objective of the socialist countries to increase export capacities, the West-German import market, which is expanding more dynamically than most of those of the West-European countries and which has a more advantageous commodity pattern, creates better than average environmental conditions. This can be exploited, of course, only by showing great flexibility and elasticity of adaptation to such processes, and the working out of new forms of cooperation (in this latter respect the delayed effects of the international economic recession also modify the interests of the West-German firms). It is vital for the socialist countries, that participate in the industrial division of labour and join this form of the international division of labour, to improve the stability characteristic of the socialist economic system, and simultaneously bettering the competitiveness of their products on the world market, as well as coordinating such requirements with a flexibility, which is of determining importance from the point of view of securing the domestic development resources, within the framework of a suitable system of regulation.

НЕКОТОРЫЕ СПЕЦИФИЧЕСКИЕ ЧЕРТЫ РАЗВИТИЯ ЭКОНОМИЧЕСКИХ СВЯЗЕЙ МЕЖДУ СТРАНАМИ-ЧЛЕНАМИ СЭВ И ФРГ

А. ИНОТАИ

Развитие экономических связей между странами-членами СЭВ и ФРГ за последнее пятилетие характеризовалось не только быстрым ростом оборота в обоих направлениях и ростом пассива торгового баланса для социалистических стран в целом, но и некоторым сдвигом в позициях отдельных социалистических стран. В западногерманском экспорте на первое место вышел СССР, и к ГДР приблизился динамично развивающийся рынок Польши. В отношении импорта до сих пор наиболее значительным партнером ФРГ является ГДР, однако по объему поставок к ней весьма близок Советский Союз. В торговле между странами-членами СЭВ и ФРГ в период 1970–1975 гг. несколько уменьшилась доля Чехословакии и Румынии и осталась неизменной доля Венгрии.

Из-за значительного дефицита большинство социалистических стран в 1971–1975 гг. стремились переориентировать свой импорт в направлении других западных стран. В резуль-

тате этого, однако, дефицитность торговых балансов стран-членов СЭВ с развитыми капиталистическими странами лишь возросла, а не сократилась. Причины этого кроются большей частью в товарной структуре, причем в основном — в составе экспорта стран-членов СЭВ и ФРГ. Импортные нужды западногерманской экономики, являющейся передовой в отношении внутренних структурных сдвигов, концентрируются не изделиях обрабатывающей промышленности в гораздо большей мере, чем спрос других западноевропейских стран, что улучшает возможности сбыта готовой продукции социалистическими странами. В период 1970—1975 гг. доля готовой продукции значительно возросла среди вывозимых в ФРГ товаров Польши, Венгрии, Румынии и Болгарии, в то время как эта доля уменьшилась или почти не изменилась в экспорте индустриально наиболее развитых ГДР и Чехословакии. Однако международные сопоставления показывают, что группа быстро индустриализирующихся развивающихся стран успешно приспосабливалась в структурным изменениям западногерманской экономики.

Экспорт машин и оборудования из ГДР и Чехословакии сократился, что компенсировалось повышением удельного веса экспорта металлургических изделий. Остальные малые страны СЭВ увеличили экспорт товаров легкой промышленности, в то время как изделия машиностроения составляли в 1975 году меньшую долю, чем в 1970 году. В отличие от этого развивающиеся страны увеличили на западногерманской рынке предложение не только своей легкой промышленности, но и ряда трудоемких и вместе с тем технически развитых отраслей, в то время как в их экспорте в ФРГ продолжал сокращаться удельный вес материало- и энергоемкой продукции.

Что касается перспектив, видимо, за быстрым увеличением оборота последних лет последует определенный „период консолидации”, для которого характерна приблизительно 6,5 процентная доля стран-членов СЭВ в импорте ФРГ (включая торговлю между ГДР и ФРГ). Основной целью является достижение более развитой экспортной структуры, отвечающей требованиям импортного рынка ФРГ и в результате этого сокращение дефицитности торгового баланса, что в свою очередь является одним из условий развития импорта социалистических стран из ФРГ.

REVIEWS

J. ÖRI

PRICING OF AGRICULTURAL PRODUCTS AND FOODSTUFFS IN HUNGARY

General principles governing the price system

The basic function of prices in the Hungarian system of economic control and management is to properly orientate and stimulate producers and consumers in making their economic decisions. Prices should promote a rational utilization of economic resources, adaptation of production to effective demand, development of an economical pattern of consumption and the balance of demand and supply.

Prices may fulfil their desirable role in economic policy if they are formed under the joint effect of 1. production costs, 2. value judgements of the markets (users) and 3. state preferences. A joint enforcement of this treble requirement in pricing is a very complicated task that cannot be solved without contradictions and compromises.

As a matter of fact, the Hungarian price system is grouped according to which of the three above requirements is given predominance. Mainly from this point of view industrial producer, agricultural producer (state purchase) and consumer price systems are distinguished within the overall price system. This specific grouping resulted first of all from the differentiated application of state preferences. Thus, in the sphere of consumer prices preferences (and dispreferences) are enforced to a much greater extent than in that of producer prices and even within the latter preferences are more widely applied in respect of agricultural prices than industrial producer prices.

The more determinant the role of state preferences (dispreferences) in pricing, the greater will be the deviation of the national price system from world market prices. The Hungarian system of pricing creates a direct relationship between domestic producer prices and external market prices by the fact that returns from export sales are determined for producers basically by the export prices obtained in foreign exchange while purchase prices of import goods for consumers by the import prices paid in foreign exchange. Beside this general pricing principle state preferences resulting from the economic policy conception deliberately restrain international competition in a certain sphere of products for some shorter or longer period.

In Hungary the economic policy of the state conspicuously forms demand and supply, and influences market conditions in general. By means of regulators affecting production, distribution, wages and finances an *indirect price regulation* is preponderant.

Indirect price regulation is not always (and not in all fields) enough to meet social requirements raised towards price policy. Price policy is, therefore, enforced partly by *official price regulation*. In this way it can be ensured namely, that preferences should be enjoyed by consumers in those fields where it is justified by the economic policy of the state.

Social requirements towards price policy are rendered concrete first of all in the principle of *relative price stability*. When the government controls incomes while keeping in view relative stability of the currency, it is incomes policy that basically determines official price regulation. In the interest of controlling the trend of prices the government applies price restrictions maintaining, in the meantime, also such prices for shorter or longer periods which do not correspond to the criteria of equilibrium price. In principle it is correct if this state is only of a transitional character and maintained only until a state of equilibrium is achieved through economic-policy means, through a proportionate development of the forces of production and the economy as a whole. Establishment of conditions necessary for this requires a longer time. It is thus expedient to promote the restoration of equilibrium also by an elastic price policy; consequently, development of the market situation should be taken into consideration also in official price regulation and restrictions.

In Hungary a *mixed price mechanism* is enforced, since officially fixed or maximized prices, prices moving within officially determined limits as well as free and free market prices, respectively, are simultaneously existing. In the individual spheres of prices (industrial producer, agricultural producer and consumer prices, respectively) the proportions among various price forms considerably differ in consequence of adjustment to changing conditions.

The requirement of price stability is, in general, stronger in the sphere of consumer prices, and even within them especially in respect of basic foodstuffs. In this sphere fixed or maximized prices apply to more than half of total turnover. The overall requirement raised towards the price system that prices should react to changes in production and market conditions can be thus enforced mostly in the sphere of industrial producer prices.

The mixed price mechanism is characterized by the following:

Products further processed within the industry have, in general, free prices that is, a greater part of commodities belongs to the free price form or to the sphere of prices moving within rather loose officially established limits.

— However, prices of basic raw materials are officially fixed in the interest of maintaining relative stability of the price level.

— In the sphere of final products leaving industry a different price mechanism is enforced because of the deviating character of products. The sphere (proportion) of application of the various price forms is varying and the possibilities of price movements are differentiated by the particular groups of products.

— Profit margins have an important function in influencing supply and in shaping demand. Fixed, guiding and free profit margins are applied in harmony with price

policy and price forms valid for individual products and groups of products. Trade has thus, within certain limits, the possibility to pay to industrial producers and importers prices deviating from those established on the basis of officially determined consumer prices.

Main characteristics of the agricultural price system

Two decades of agricultural price policy

With the introduction of the new system of economic control and management in 1968 no overall reform agricultural price formation and price mechanism was carried out. This was not necessary, because agricultural policy had made use of price and financial policies as well as material incentives for the realization of economic policy objectives to an ever increasing extent and with growing success already from the late 1950s. Administrative means and methods previously applied in production and trade (state purchase) were more and more pushed into the background and then eliminated.

By the early 1960s the organizational frameworks of large-scale farming became predominant in Hungarian agriculture, but the material, technical price- and financial, personnel, etc. conditions were but rudimentary. In this period the requirement towards agricultural price- and financial policy was that price and financial conditions for an independent management of the established large-scale farms should be gradually ensured.

Development of the large-scale farms, that had started with backward, mostly small-scale peasant methods, at a previously unknown rapid rate required also considerable "costs of transition". To cover these from prices would not have been correct even in principle, since this would have brought about unrealistically high agricultural prices relative to the internationally established inputs. On the other hand, from practical, economic policy (living standards policy) viewpoint it was not possible to develop an agricultural price level corresponding to social costs because of the price policy on food prices.

To ensure the price and financial conditions for independent management required thus a highly diversified approach (measures). On the one hand, agricultural prices were raised by repeated gradual price increases, while, on the other hand, certain costs of the change-over to up-to-date socialist large-scale farming were covered (partly temporarily) by financial measures other than price (special credits, non-repayable state subsidies, price reductions, etc.).

Gradual but, at the same time, complex further development of agricultural price- and financial policies enabled a better adjustment of agriculture to changes in demand on domestic and foreign markets already at that time than was the case in industry. Beside smaller yearly price corrections from the mid-60s on price- and financial measures having significant effect on a wider range of products have been taken every 3-4 years, naturally with a view to changes in profitability as well as on domestic and

foreign markets having occurred by that time or expected in coming years. In this way the agricultural price- and financial policies developing gradually and relatively elastically already provided certain promising experience for the further development of the economic reform of 1968 and, within this, of industrial price formation as well.

Three price spheres of the food economy

There are several peculiarities of price formation in agriculture and food industry within the general principles and frameworks of price policy. These peculiarities are partly identical and partly differing in the three price spheres of the food economy. Thus the following distinction can be made:

1. *Producer price* of agricultural products is the price producers obtain through various sales channels for their products. Producer prices are determined mainly by contractual and free *purchase prices* applied by state and cooperative purchasing organs. However, with certain products so-called *free market prices* assert themselves in the trade between those living on wages and salaries as well as in that of producers among each other, which also influence producer prices.

2. By *industrial producer prices* of foodstuffs the sales prices of the processing industry are meant.

3. By *consumer prices* of foodstuffs the prices in state and cooperative retail trade as well as in private trade are meant.

There is a close connection and interaction between these three price spheres whose consideration and harmonization is one of the greatest problems for Hungarian price policy at the present stage of economic development.

In Hungary the level of *agricultural producer prices* is lower than domestic social costs despite the fact that the agricultural price level has increased nearly to the same extent as that of industrial producer prices during the last 25 years. The main reasons for this lie partly in the historically developed proportions between the agricultural and industrial price levels and partly in the *very low consumer price level* as compared to the social inputs of basic foodstuffs. From this price policy results that consumer and market value judgements may be expressed in the consumer prices of foodstuffs only to a very limited extent and mostly be means of official measures. Direct market effects may assert themselves only in respect of the relative prices of commodity groups comprising a wide range of assortments, and even there within narrow limits.

Industrial producer prices however, generally more or less follow the social costs of production, among them prices of materials and means of production as well as changes (usually increase) in wages. In principle such changes – if they are permanent and significant – should be consequently enforced also in agricultural producer prices, so much the more because industrial materials and means of production are increasingly used in agriculture and the level of agricultural wages has already reached or at least approached that of industrial wages. However, if these costs and the

proportionate social net income necessary for covering overall social needs were consequently and fully realized in agricultural producer prices — with the present level and effectiveness of production — they would exceed the consumer prices of basic foodstuffs. With such high agricultural producer prices maintenance of the given consumer price level of foodstuffs would require consumer price subsidies from the state budget in much greater amounts and in a wider range than even at present.

In principle, this could be compensated because in case of a higher level of agricultural prices more income could and should be drawn away from agriculture. But, such price relations would result in much more serious overall social burdens — mostly for the state budget — unbearable even in the medium run because even that part of agricultural commodity production would be “channelled” to state and cooperative purchases, the processing industry as well as to wholesale and retail trade, respectively, which is now directly sold by agricultural producers to those living on wages and salaries on the free market, or even the one used up by themselves at present. This would require a further increase of capacities and investment both in wholesale- and retail trade of foodstuffs, as well as in the processing industry and raise demand for their activities, in general.

It cannot be doubted that this is a necessarily developing socio-economic tendency. However, if the tension (disproportionateness, if you like) between producer and purchase prices of agricultural products as well as consumer prices of foodstuffs is too great — by which is meant that the former are much higher than could be covered by the latter — this necessitates such developments in the given period which hamper the effectiveness of social activity and draw away resources from the development of branches producing more efficiently.

This is why in Hungary the view has become prevalent that the agricultural price level should be kept and developed, respectively, within the limits determined by low consumer prices of foodstuffs. Consumer prices directly limit the prices of agricultural raw materials used for the production of foodstuffs, but practically also those of other agricultural products and thus the price level, in general. Namely, in an opposite case such disproportions would develop in prices and profitability which would endanger supply precisely with basic foodstuffs.

One of the main consequences of the agricultural price level being lower than social inputs is that less social net income is drawn away for global social purposes. Another consequence is that prices of industrial materials and means of production used in agriculture (e. g. chemicals, agricultural machines and equipments, buildings, etc.) had to be set for agriculture (in the following such prices are called agricultural cost prices) proportionately to the level of agricultural prices, i. e. lower as compared with industrial producer prices and import prices. The difference between the industrial producer and the lower agricultural cost prices of these articles is refunded to producers and the trade, respectively, in the form of state price complements. The average percentual measure of state price complements approaches — according to approximate computations — the extent by which the agricultural price level is lower than that of

industrial producer prices. The measure of price complement for industrial materials and means of production is differentiated by groups of articles in the interest of economic or production policy objectives. For example, support is generally greater for investment goods — in the interest of stimulating development — and within this there is a differentiation according to production objectives and branches, too, (e.g. the price complement is higher in branches requiring much capital with slow returns, but judged for export production as profitable in the long run).

Influencing prices through market methods

In Hungary there are no obligation prescriptions for farms concerning either agricultural production or selling. State control is enforced by regulating the material conditions and financial interestedness as well as through the organizing activity of state and cooperative organs. This is one of the reasons why prices have a great — according to some experts even the greatest — part in our system of economic control and management.

Since domestic demands and exports to CMEA countries can be rather safely planned in five-year plans, this fact provides favourable possibilities for the stability and government regulation of prices. On the basis of such circumstances and considerations officially fixed prices are in force about 60 per cent of the volume of agricultural purchases (by state or cooperative organs), officially strictly limited prices for about 10 per cent, officially loosely limited prices for about 10 per cent, while free (officially non-regulated) prices for about 20 per cent of agricultural purchases, respectively.

Industrial producer prices of foodstuffs involving about 90 per cent of the volume of production belong to the free price form. But, this is rather formal in consequence of the official price regulation affecting a wide range of consumer prices. Namely, basic foodstuffs have officially fixed or maximized consumer prices and about 70 per cent of retail trade belong to such price forms, while for the remaining 30 per cent officially limited or free prices are in force, in a proportion of about fifty-fifty per cent.

Articles produced exclusively for export and not fundamental or important from the point of view of domestic supply belong to free or officially loosely limited price forms. Thus their domestic prices may, as a matter of fact, freely change as a function of foreign trade prices.

In consequence of fluctuations in agricultural production resulting from weather conditions there appears, from time to time, excess supply or demand on the market of certain products. In Hungary the government intervenes in such cases with purchases and sales, respectively, in the interest of market equilibrium. The financial burdens of this activity are covered by the state budget to an extent and under conditions determined in advance. Supporting purchases take place in case of excess supply

usually at so-called protective prices which are higher than prices developed (or which might develop) under the given market conditions, but lower than those developing under balanced market conditions. Supporting sales are usually aimed at reducing high prices developed on the market in consequence of excess demand by increasing supply from state and enterprise reserves, respectively, and thus promoting re-establishment of market equilibrium. Experience shows that influencing of prices can be more rationally ensured by such and similar market methods than by direct official price regulation. The effects of all too sudden market fluctuations disturbing even production and supply can be thus eliminated or at least moderated. In the interest of making the market situation more balanced supporting purchases and sales have been used in Hungary mostly with young animals (piglets, calves, young heifers) as well as with vegetables and fruits in recent years.

Connections between domestic and foreign trade prices

In the connections between domestic and foreign trade prices a considerable change took place with January 1st, 1968. From that date on exporters have obtained prices converted into forints by using two different "price multipliers" separately determined for both main relations, i. e. for socialist and capitalist trade, respectively, and similarly calculated prices (i. e. converted into forints also by using one of the price multipliers) have been paid by users for imports. The system mentioned above has established, on the whole, direct connections between domestic and foreign trade prices. Simplification of the exchange rate system introduced on January 1st, 1976 further strengthened the *de facto* exchange rate function of the price multiplier that had existed also previously and thus also connections between domestic and foreign trade prices. Since price multipliers (and now the commercial rates of exchange) reflect average inputs expressed in forints necessary for obtaining a unit of foreign exchange, and in export also enterprises producing under conditions less favourable and usually more expensively than the average should be made interested, this is realized by means of the system of state export-refunds. In this system a part of taxes paid after products exported is repaid by the state to producers. Exceptionally, extra incomes are moderated by special skimming export taxes or production taxes.

This system is applied also to the export and import of agricultural products and foodstuffs, but here the direct effect of foreign trade prices on the development of domestic prices is limited by official prices, namely, a decisive part of domestic inputs and thus also the relation of domestic prices to those on export markets (i. e. their competitiveness) are determined, as a matter of fact, already when state purchase prices are established. Consequently, it is usually decided as well whether there will be any need for state refunds (and if so, to what extent). Therefore, the expected trend of export prices is mostly taken into consideration in setting the purchase prices of products exported in significant volume. However, if export prices considerably deviate

from the expected ones, purchase prices are changed. With the yearly correction of purchase prices the export prices are one of the most important factors. However, since price stability is a basic requirement in Hungary, considerable permanent changes in foreign market prices are not enforced in domestic price formation to a sufficient extent and mainly not in due time. Although in recent years such changes in foreign market prices have been better taken into consideration in price formation, our pricing system needs further development also in this direction. It must be emphasized, however, that enforcement in domestic prices of price fluctuations on foreign markets brought about by speculative market manipulations would have a disturbing effect on the domestic market, production and supply as well.

World market prices have fluctuated to such a great extent in recent years (they have usually increased) that their automatic enforcement in the domestic price system was impossible. They could not be harmonized either with the price policy conception or the national economic plan and within this with the plan on prices. Therefore, on the basis of special examinations the principles were determined which should influence and limit the enforcement of foreign market prices in our price formation. This is all the more justified since prices valid in the trade among CMEA countries also follow the trend of world market prices.

In the trade among CMEA countries up to 1975 inter-state agreements were concluded on foreign trade prices usually for the period of a five-year plan concerning prices of important articles (such prices are, therefore, called "contractual prices"), or the method of price calculation was established for certain commodity groups. Contractual prices were established on the basis of world market prices (those on the main market), eliminating distortions caused by speculative market manipulations. Up to now the main market prices of the previous five-year plan period have been taken as basis for the establishment of contractual prices valid for the forthcoming five-year plan period. A consequence of this method was that contractual prices deviated from the main market prices in a relatively wide sphere and to considerable extent in the period of their validity. Since in recent years considerable changes have taken place in world market prices even from one year to another, CMEA countries agreed that from 1976 on prices would be corrected yearly on the basis of the main market prices of the preceding five years.

The practice of contractual prices as applied until now meant great price stability, but also resulted in that prices valid in the trade among CMEA countries did not properly reflect changes in the development of world market prices. By means of the "sliding price clause" to be applied from now on, the deviation of contractual prices from world market prices will diminish, but price fluctuations might better distort contractual prices than earlier. Therefore, importance of the practical application of the "elimination principle" has increased.

After all it is correct that for contractual prices valid in the trade among CMEA countries world market prices are taken for basis. However, from this also results that historically developed price proportions and disproportions, respectively, of the world

market will be felt in the sphere of contractual prices, too. It has been a well-known characteristic feature of world trade for several decades that in a wide range of agricultural products and foodstuffs a great part of exports derive partly from developing (previously colonial) and partly from the most developed capitalist countries. Because of low living standards and economic pressure the former were forced to agricultural and food exports even at low prices since this was the only way for them to obtain industrial goods, some capital for the maintenance and modest development of their economies. On the other hand, in developed capitalist countries labour productivity reached such a high level also in the food economy that led to considerable surpluses. These two groups of countries increased exports in agricultural products and foodstuffs to such a great extent that world market prices were even lower than social inputs, while a very considerable part of world population was starving but could not be buyers because they were unable to pay (and are so, unfortunately, for the most part even today). Disproportions resulting from this historical inheritance could not be eliminated yet, in the sphere of contractual prices, either, but this remains a task still to be solved in the future.

NEWS ABOUT THE HUNGARIAN ECONOMIC SCIENCE

Elections at the Academy of Sciences

The elected bodies of the Hungarian Academy of Sciences have mandate for three years periods. The last such cycle run out in 1976 and therefore the annual meeting held in May, 1976 covered beside the usual survey of the state of the Hungarian scientific life and public scientific sessions also the election of its functionaries as well as its new full and corresponding members.

The Section of Economic and Legal Sciences of the Hungarian Academy of Sciences was enlarged by the elections at the annual meeting with the following corresponding members from the ranks of economists Mrs. Katalin *Falus Szikra*, Professor of political economy at Karl Marx University of Economics, Professor János *Kornai*, scientific adviser at the Institute of Economics, Hung. Acad. Sci., Mihály *Simai*, Professor of world economics at the Karl Marx University of Economics and deputy director of the Institute of World Economics, Hung. Acad. Sci., Aladár *Sipos*, professor of political economy at the Faculty of Law Eötvös Loránd University; professor and head of department at the School for Political Sciences.

The *Economic Science Committee* of the Hung. Acad. Sci. was also newly elected. Chairman Mátyás *Timár*, doctor of economic sciences, President of the National Bank of Hungary, vice-chairman István *Hetényi*, State secretary, first deputy-president of the National Planning Office and secretary Tamás *Földi*, Director of the Economic Information Unit of the Hung. Acad. Sci. were reelected and Róbert *Hoch*, doctor of economic sciences, head of department of the Institute of Economics, Hung. Acad. Sci. was elected as new vice-chairman.

The Section for Economic and Legal Sciences has elected the editorial boards of the *economic journals* of the Academy of Sciences. István *Friss*, member of the Presidium of the Academy, chairman of the editorial board of the monthly "Közgazdasági Szemle" (Economic Review) has resigned and Rezső *Nyers*, Director of the Institute of Economics, Hung. Acad. Sci. was elected to this post. Sándor *Zsarnóczay*, professor of political economy at the University of Veterinary Sciences has remained the Editor-in-Chief.

New editorial board of *Acta Oeconomica*

József *Bognár*, full member of the Acad. Sci. and chairman of the editorial board since 1971 has resigned because of other duties and so have Mrs. K. *Falus Szikra*, I. *Gönczi* and Mrs. J. *Zala*. Professor I. Gönczi had been member since the foundation.

Other members of the old Editorial Board were reelected and supplemented by new members too, as:

Tibor *Erdős*, doctor of econ. sci. university professor and head of department at the Institute of Economics, Hung. Acad. Sci.

István *Friss*, full member of the Academy, scientific adviser of the Institute of Economics, Hung. Acad. Sci.

István *Hagelmayer*, cand. of econ. sci. university professor and director of the Institute of Financial Research,

Péter *Mándi*, cand. of econ. sci. secretary of the Scientific Council for World Economy,

Tibor *Palánkay*, cand. of econ. sci. associate professor of world economics, Karl Marx University of Economics,

Gábor *Pármiczky*, cand. of econ. sci. associate professor of statistics at the Karl Marx University of Economics,

Antal *Stark*, doctor of econ. sci. professor and scientific pro-rector, Karl Marx University of Economics.

Professor Mihály *Simai* has been elected as new *chairman of the editorial board*. There was no change in the post of the *editor*.

BOOK REVIEWS

ERDŐS, P.: *Bér, profit, adóztatás* (Wages, profit, taxation.) Budapest, 1976. Közgazdasági és Jogi Könyvkiadó. 550 p. (To be published in English by Akadémiai Kiadó in 1977.)

Péter Erdős' writings do not make for easy reading for at least two reasons. *Firstly*, Erdős makes a determined effort at disclosing the deeper interrelations concealed by surface phenomena. To follow such reasoning always demands greater intellectual effort on part of the reader. *Secondly*, relying on the analysis of deeper interrelations the author does not refrain from establishing – if necessary – theorems “unusual” from the point of view of conventional economics. He also examines the consequences of these “unusual” theorems for other ones which are part of Marxist economic theory. That is, if Erdős reaches a new conclusion he does not rest satisfied with communicating it to us, but shows how it fits into the whole theoretical system and what changes or modifications are induced in the latter by what is new. In conformity with *Marx's* theoretical heritage Professor Erdős handles the Marxist political economy not as a collection of immutable theorems, but as a science which continuously changes, transforms and develops together with a better knowledge of reality, and with changes in this reality.

The book under review does not make for easy reading either. In scientific value it stands out even among works on political economy which attain the highest standards. The achievements of the book can be most succinctly described as follows: It discusses the basic

categories of capitalism, e. g. variable capital and surplus value, not separated from, but in close connection with, the capitalist reproduction process. In his analysis of capitalism he devotes considerable space to the critique of non-Marxist economic theories related to the subject examined, while critically and creatively utilizing the achievements of modern non-Marxist economics. He analyses both the macro- and the micro-sphere of the capitalist economy with distinguished attention, pointing out the mutually contradicting phenomena of these two spheres, as well as the fact that the conclusions to be drawn from an examination of the micro-sphere are frequently invalid in the macro-sphere and conversely. Because Erdős discusses the basic categories in the context of the reproduction process, making sharp distinction between macro and micro-interrelations, he can excellently present the real production processes behind the financial and income movements on the surface. His way of tackling the real-processes facilitates an understanding of changes in money-income as well as of those taking place in the capitalist economy as a whole. Finally he examines the interrelations characterizing capitalism first in their pure form – in pure capitalism – assuming free competition, and then goes on to analyse modifications in the original statements made imperative by changes that occurred in the meantime, (e. g. the advance of the unproductive economic sphere or the emergence of state monopoly capitalism).

The first part of the book discusses *the theory of value*. Here Erdős answers questions

raised by non-Marxist economists. Meanwhile and also when treating *Ricardo's* labour theory of value he emphasizes that the laws governing the price movements must be explained by considering not only the competition between sellers but also that between buyers. Under the conditions of commodity production needs appear in the form of demand and inputs in supply. Supply implies competition between sellers, demand that between buyers. If the production of commodity A requires twice as many inputs as that of B, competition between sellers will ensure that the price of A should be on the whole only twice as high as that of B, and not three or four times as high. But, for the price of commodity A to be indeed twice as high *competition between buyers is needed* as well, which will keep the price of commodity A on a level twice as high as that of B. Labour input into A would uselessly be twice that needed for B if buyers were not willing to pay twice as much for it. More is paid, however, for some commodity if its utility is greater, if – in our example – the *relative utility* of commodity A is greater on the social average. With Erdős relative utility is a function of the satisfaction of needs and the relative utility of a given commodity diminishes with a growing satisfaction of needs. (As distinct from those who argue in terms of marginal utility theory, he handles this relationship as a statistical law of an objective nature, that asserts itself on a social level.) However great the absolute utility of commodity B in the above example may be, its relative utility could still be smaller in comparison to that of commodity A because of growing production and consumption. Erdős calls attention to the fact that *as regards the actual result* society objectively confronts with one another the capacity of various goods to satisfy needs – their relative utilities – and per unit input necessary for the production of particular goods and decides in the meantime how much to produce of what. Under the circumstances of anarchical production society can do this only through the objective mass effect of the spontaneous behaviour of individuals.

For the purposes of the argument against the marginal utility theory Peter Erdős assumes

that in a state of equilibrium the ratios of relative prices agree with those of the relative utilities of commodities, and, at the same times, relative prices also conform to relative inputs.

With this also the question arises whether the centres around which prices oscillate are determined by relative utilities or relative inputs. The answer is given with the aid of a witty mental experiment and in its course Erdős also presents a model-like verification for the Marxian law of value.

First he assumes that the utility functions belonging to the individual kinds of products change – e.g. as a consequence of changes in fashion or in the composition of the population – the utility of commodity A will be e.g. higher and that of B lower than heretofore. This assumption is justified. As a consequence, the price of A will rise and that of B fall, since the price of commodity A will be pushed up by buyers, while they will be willing to give only less than before for B. But the change in relative prices will be only transitional. More will be produced of commodity A and its relative utility will diminish with growing output. Less will be produced of B and thus its relative utility will increase. At the end of the process the old relative utility ratios will emerge again, that is, such ratios as will correspond to input ratios. Since relative utility changes in inverse direction with the output of the good in question, there must exist some volumes of outputs – and of consumption – with which the relative utility ratios necessarily correspond to the relative input ratios. (It is a different question whether utility ratios are measurable.) Relative output ratios must change once a discrepancy appears between utility ratios and input ratios. Therefore, it cannot be established whether “if the utility function of some product becomes higher (or, conversely, lower) along the whole path than earlier, the price of the product will increase or fall” (p. 79). Accordingly, because of a change on the social scale of preferences only the ratios of production must necessarily change, the relative ratios of the *equilibrium prices* may remain the same.

In the further part of the mental experiment the labour costs of the particular kinds of com-

modities change. If the labour input into commodity A falls to half of the earlier one, output will increase and the price fall – this will be taken care of by competition between sellers. With rising production the relative utility of commodity A also diminishes. Thus, the ratio of the various kinds of commodities within total production will change as long as the difference between relative utility ratios and relative input ratios is not eliminated, *until the former do not adjust to the latter*. The starting point was a change in relative labour input, it was not utility functions that changed. “That is, in the final analysis it is the new labour ratios, Marxian value ratios that determine also the ratios of prices and simultaneously the actual ratios of marginal utilities – and this is what had to be demonstrated.” (p. 80) With this the author has proven the Marxian labour law of value and that not by excluding the competition of buyers but by taking it into account. He has proven *in this manner* that the ratios of natural prices are determined not by the marginal utility ratios but by the ratios of labour inputs. After all that the statement of the author becomes fully intelligible that: “if on closer investigation it still turns out that in the *natural* price, as distinct from the actual market price, *only* the competition of sellers is of importance, this fact must be explained not by excluding the competition of buyers, but by fully taking it into account.” (p. 28)

Everyone knows that the concrete ratios of prices do not correspond to the ratios of labour inputs and that the former may deviate from the latter even over some longer period – both in capitalism and in socialism. But many “demand” from the law of value that it should produce prices or price centres agreeing with value. Peter Erdős considers as value only the socially necessary average labour crystallized in the commodity. I agree. When prices deviate from this magnitude – over any length of time – he speaks merely of a deviation of price from value. He treats this deviation as a phenomenon only *seemingly* contradicting the law of value. Assertion of the law of value is influenced, by such factors which have important roles under concrete economic conditions, but which are not indispensable requisites of *commodity*

production. These other factors necessarily modify the way in which the law of value asserts itself, and make it impossible that relative prices should agree with relative values. If someone tried to force an explanation – either for the short or the long term – for concrete price ratios by value ratios alone, he would become like one who “would correctly state the law of free fall, that is, that a freely falling body approaches the earth with an acceleration of *g*, but would simultaneously describe the movement of objects into the atmosphere of the earth as free fall.” (p. 95) Erdős writes this in connection with Ricardo’s labour theory arguments, but it should be clear that the idea quoted is important not only from the point of view of Ricardo’s theory of value. While writing about Ricardo, he presumably also has current debates on the theory of value in mind.

Attention is called to the fact that when Marx elaborated the theory of value he took into account only the factors absolutely necessary for the existence of commodity production, “without which there is no commodity. The interrelations of these categories... lead to prices proportionate to the labour inputs. Therefore Marx calls that – and only that – natural price by the name of value, which is indeed determined by labour alone.” (p. 98) And then the author remarks that every other centre around which price fluctuates is *not value*, thus the price of production is not value either, in the Marxian system. Erdős holds this argument by Marx to be correct since “the fact that every commodity is a product of labour, specially related to human activity, that is, precisely what appears in the disguise of value, is a uniquely important aspect of the commodity, an aspect which, as *substance*, differs from the *forms* – in which... itself... directly appears.” (pp. 96–97) With this Peter Erdős does not contend that analysis of centres of price movements corresponding to the concrete forms of commodity production is not important. On the contrary: he believes it is highly important. But all that *does not amount to analysing value*, but belongs to the concrete *assertion of the law of value, and to price theory and price policy*.

The second and third parts of Peter Erdős' new book discuss wages theory and profit theory. Particularly great attention should be claimed for his ideas related to the theory of profit which also in several respects comprise considerable developments of Marxist political economy.

He advances the theory of surplus value and profit-utilizing the relevant achievements of *Kalecki* and, from among non-Marxist economists, those of John Maynard *Keynes*, Joan *Robinson* and Nicholas *Kaldor* – mainly by examining the arising of profit considering not only micro-interrelations but also the macrosphere, handling thus the emergence of profit as a part of the *whole reproduction process*. It is characteristic in Hungary that the theories of surplus value and profit are taught in our very days by the textbooks presenting the growth of profit as a *direct consequence* of the growth of production and productivity, without examining the market-conditions for the realization of their growth. The laws governing the movement of profit are viewed there through the prism of micro-interrelations – as was done by *Marx* in Volume I of the *Capital* – and the conclusions drawn are obvious for this examination only on micro-level. Thus it is generally accepted and taught, among other things, that: if productivity increases, the rate of surplus value and, together with it, the degree of exploitation, will grow. The purchases of the capitalist class depend of the size of realized profit. If the capitalist class spends less than its realized profit, a part will be saved, and remain unspent. If the production of consumer goods increases, profits will rise. Erdős, however, points out that these theses may hold for an *individual capitalist or a particular capitalist enterprise*, but it is not certain that they apply, or they cannot apply if the *whole capitalist class and macro-interrelations* are meant.

The greatest interest may be claimed by those arguments which deduce the *profit of the capitalist class* from the *purchases of this class*. The size of the profit depends on the sum of

the consumption and accumulation of the capitalist class while v – that is the real wages – is treated by the author as a residual in a certain sense. This idea may be found also in an earlier book by the same author,* where he deduced the accumulation and consumption of capitalists not from an *a priori* size of surplus value, but the other way round, he deduced the size of surplus value from the former. The author calls attention to the fact that this relationship was only rediscovered by him since, anticipating him, the dependence of profit on the purchases by the capitalist class had been already pointed out by *Kalecki* and *Joan Robinson*. This theory is not generally known, let alone acknowledged, in Hungary. But the theory is sound, and what is more, an understanding of many other interrelations depends on the recognition of its correctness. *Realized profit assumes purchase*. But this purchase cannot be purchase by the working class, because on the macro-level the latter is equal to v . What is bought and consumed by those living on wages is, as regards use values, the natural form of v and the value of these goods is the value of v . Thus, on a social level profit can only depend on the outlays of the *capitalist* class on consumption and accumulation. If the capitalist class wishes to increase these outlays, it can do so by means of its monetary reserves or because it can essentially always obtain credit. Wage earners cannot do this, since their purchases depend, *precisely* the other way round, essentially on their money incomes. But even more is true than that. The income of the capitalist class depends on its purchases. This is not so in the case of the working class. The purchases of the working class change depending on its income. True, workers may extort a rise in nominal (money) wages e.g. by wage struggles. But if the production of consumer goods does not increase, their purchases will grow faster only in nominal terms, but not at unchanged prices, since the capitalists carve out from the national income that part which they intended to use

*Contributions to the theory of capitalist money, business fluctuations and crises. Budapest, 1971. Akadémiai Kiadó. 466 p.

for accumulation and consumption at any rate. If so viewed, v appears at the same time as residual against profit, and it is not profit that counts as residual. But, as described by Peter Erdős, v is not always and not in every respect residual. "If... from certain macroeconomic points of view of I describe wages as a residual, it does not mean that I wish to describe wages as residual for dynamic development, that is, for the whole of reality. The amount of wages affects, through the purchasing power secured by it the future volume of products and also the rate of investment determining profit. If in the former relationship its effect nature came to the fore, in the latter it is its cause character that becomes manifest." (Footnote to p. 222)

The author calls attention to the fact that the dependence of profit on the purchases of the capitalist class does not appear natural to common sense. The productivity of this perplexing relation between employees and profit can be understood only on the basis of the macro-interrelations which are – seemingly – contradicted by the micro-interrelations. The individual is immediately concerned only with the phenomena of the microeconomy. What he takes for granted is only what may be experienced by an enterprise, an individual capitalist or worker. But, on the other hand, "man – capitalist as well as worker – is a part of the economic society, for him society is primarily given: macroeconomic interrelations cannot be understood by a simple summation of the very real microeconomic interrelations, while the phenomena of the microeconomy can move only in such a framework and with such a degree of freedom as are determined by the former... It consciousness; this consciousness perceives primarily the phenomena of the medium directly in touch with him, that is, of the microeconomy, and therefore for him microeconomic interrelations and laws are familiar, transparent, and natural. "Common sense", the everyday, practical consciousness is reasoning in terms of the microeconomy." (p. 221)

Erdős lists one by one what "inverted truths" appear in the macroeconomy as against the microeconomy. He thus proves e.g. that while the individual capitalist does not increase his profits by his purchases, a rise in the total

purchases of the *capitalist class* increases total profit. If the individual capitalist leads a wasteful life, he does so at the expense of his own income, but if this waste is carried on by the whole capitalist class, the profit of the class increases with waste. As opposed to that: if a capitalist restricts his personal consumption, the size and ratio of profit that can be accumulated from his given income increases, but if the capitalist class lives more modestly, total profit will diminish, and the profit that can be accumulated does not increase at all. If the nominal (money) wages of the workers of only a single enterprise increase, their real wages also will grow, independently of whether the output of Department II has increased or not. If the money wages of the whole working class have risen and the output of Department II has remained unchanged, prices will rise, that's all. If an enterprise producing consumer goods increases its output and sells the commodities produced, it also increases realized profits. Increases in the output in Department II do not, in themselves, increase profits on a social scale – apart from a possible increase in the personal consumption of capitalists. Relying on the analysis of macro-interrelations, the author also calls attention to the fact that changes in the ratios to each other of Departments I and II within the final product affect not only technico-economic relations, but are closely connected also with the qualitative characteristics of capitalism, with the categories expressing capitalist ownership relations. Since profit depends on purchases by the capitalists, and since the latter may increase first of all depending on their investment (accumulation) activities, – as their personal consumption is inelastic – profits will grow fast if the conditions of reproduction demand a fast growth of Department I, their ratio will increase, if that of Department I increases. Also the rate of profit depends on changes in the ratios of the two Departments, meaning that without taking into account changes in the relative ratios of the two Departments within the final product, such questions as the cyclical nature of capitalist reproduction, the contradiction between production and consumption, the development perspectives of the capitalist

economy, whether fast or slow economic growth can be expected etc. cannot be understood either.

Among these problems particularly great attention is devoted by Peter Erdős to the development perspectives of capitalism. The problem whether there is a tendency in capitalism for economic stagnation is examined from several aspects. He claims to discover such a tendency for stagnation when examining the development perspectives of capitalist economy in the model of the so-called pure capitalism. (i. e. of capitalism where only capitalists and productive workers exist) According to the author this tendency prevails because, with economic growth, both the profit margin (quotient) and the rate of profit tend to decline. The profit quotient cannot fall below a minimum level, while the falling rate of profit "slows down investment activity and... also the growth of production and, within that, also that of consumer goods. This is so because a permanently low rate of average profit and large-scale investment activity are not compatible in the realm of uncertain future. If the average rate of profit is low, the expected individual profit can easily prove to be a real loss." (p. 262)

In Erdős' book the profit margin (quotient) and the rate of profit are not categories with an identical content. The profit margin (quotient) is the ratio of surplus value or of profit to cost, while the rate of profit is the percentual ratio of profit to capital engaged. The profit margin (quotient) is nearer to the rate of surplus value since in both formulae two flow quantities are related to each other. The author examines both in the context of the reproduction processes and writes the formulae for them accordingly. The macroeconomic formula for the rate of surplus value is with Erdős - in the model of pure capitalism $s' = (s_c + s_k)/(II - s_k)$ since the spending by the capitalist class can be, beyond the replacement of means of production used up, only $s_c = s_k$ - that is accumulation and personal consumption - in value terms, and the value of v can be only the values II of the consumer articles produced less personal consumption by capitalists, that is, $II - s_k$. And the formula for the profit margin (quotient) is: $p'c =$

$(s_c + s_k)/(c + II - s_k)$ where c is the value of the means of production used up. The rate of surplus value may be also denoted by the fraction s/v , and the profit quotient by $s/(c + v)$. The latter may be also written in the form of $s' \cdot v/(c + v)$ and, by dividing it by v , we get $s' \cdot 1/(c + 1)$. Considering the latter, it must be always kept in mind that $s' = (s_c + s_k)/(II - s_k)$ and that c/v is not the organic composition of capital, but means on macro-level the ratio of total material cost increased by depreciation to $II - s_k$, that is: $c/(II - s_k)$.

Relying on the formula obtained and on the reproduction relationships backing it Peter Erdős reaches the conclusion that over some longer period the profit margin (quotient) necessarily diminishes because of the falling ratio of s_k . (The author devotes a separate section to proving that the personal consumption of the capitalist class is inelastic.)

As Erdős sees it, there is a level for the profit margin quotient that is "considered as minimum under the given conditions". The formulation is cautious because it may interpreted also to mean that under different conditions the minimum level may be even lower. Yet he treats the minimum of profit margin (quotient) as a lower limit which may at most be approached by the actual profit margin (quotient) but below which it cannot sink. It follows that under the conditions of pure capitalism production must sooner or later reach a state of stagnation. If, there is a profit margin (quotient) to be considered as a minimum, it will be necessarily reached by the falling profit margin (quotient) because of the relative decline in personal consumption of the capitalist class. After that production can increase at most if the rate of accumulation increased and its increase were of an extent to balance the profit margin (quotient) reducing effect of the falling ratio of s_k .

Part Four of the book discusses the effect of the unproductive economic sphere and of the state budget, mainly on prices, income distribution and economic growth. This is perhaps the most interesting and best worked out part of the book. Peter Erdős first examines the effect of merchants' trading capital on the

general level of prices. He sets out from the assumption that the ratio of such capital within total capital and the ratio of merchants within the capitalist class is increasing. This is a justified assumption if only because the effect of the growth of other unproductive economic spheres is similar to the growing ratio of trade and, while examining the latter, the author thinks simultaneously about the effect of the growing weight of the whole unproductive sector on the economy. (Like Marx, Erdős neglects the productive activity of commerce, for the sake of the argument.)

According to Peter Erdős the growing ratio of merchants' trading capital raises — *ceteris paribus* — the general price level. If the weight of capital tied up in commerce, is growing, while the ratio of output relative to the capital engaged in the productive sphere remains unchanged, — that is, if the capital/output ratio remains unchanged — the ratio of the personal consumption of the capitalist class relative to the output of consumer goods will increase. This is so because the capitalists of the productive sphere will not reduce their consumption merely because the ratio of consumption of the commercial capitalists increases. Their personal consumption remains as before, and to this will be added the proportionate increase in the personal consumption of the commercial capitalists whose numbers are increasing. Within the production of consumer articles the proportion of s_k will increase and, following from the relationship $p_{II} = W/(II - s_k)$ this leads to a rising price level. (In the above formula p_{II} stands for the price level of consumer articles and W for money wages.) The exchange value of money will deteriorate. Of course, the personal consumption of capitalists is inelastic, and thus the ratio of s_k within the consumer articles regularly diminishes. Thus, an increase in the ratio of capital tied up in commerce is not likely to increase the ratio of s_k within II . But Erdős' theory must be understood other things remaining equal. The growing share of merchants' trading capital creates *on its part* an inflationary tendency by raising the share of s_k in comparison to a situation that would prevail otherwise. But Erdős is right also when real events are con-

sidered! The structure of present-day capitalism is such that average nominal wages are growing *at least* at the same rate as productivity and as the per capita volume of consumer goods. It is on account of this that the price level at least *does not decline* if the share of capital used in trade does not increase. If, however, the latter increases, the growth in the consumption of commercial capitalists already *releases an actual rise of the price level*.

The author also considers the pure turnover costs of trade to be price-raising factors. The growing ratio of pure turnover costs usually does not reduce the consumption of capitalists, nor their accumulation activity, but the commercial wages paid increase the sum of money wages and the pure turnover costs of a material nature diminish the weight within total output of the consumer goods produced — because the elements of these material costs must also be produced. Therefore, the value of $W/(II - s_k)$ undergoes a modification in the sense that W includes in addition to the wages of those producing means of production and consumer goods also the wages of commercial employees and that of workers turning out the material elements of the pure turnover costs. Earlier the latter were engaged in producing consumer goods. The size of s_k in the denominator is increased by the personal consumption of commercial capitalists and the volume of the consumer goods II is reduced relative to W in the numerator by the fact that not only means of production but also the material elements of pure turnover costs must be turned out. (On this account the ratio of W relative to II will thus be greater.) The result will be a rising price level of consumer goods, and, together with it, of the general price level. It is highly important that the price level is raised both by a proportionate increase in the personal consumption of commercial capitalists and by that in pure turnover costs, either of material or of a wage nature. Thus, the relative growth of the commercial sphere and the rise in pure turnover costs does not take place at the expense of capitalists' profit. It does not, since the consumption and the accumulation activity of the capitalists are not restricted by the growth in productive capital or unproductive costs. The

volume of net profit does not diminish but may even rise at the usual rate. However, in the case of extended reproduction their growth restricts the rise of average real wages, and in the case of simple reproduction it reduces real wages. Therefore, a rise in the ratio of merchants' trading capital *increases the rate of surplus value*.

Péter Erdős also shows in what assumed case the growing ratio of commercial capital does not release a general rise in prices. This may happen if the capitalists reduce the ratio of their personal consumption and accumulation outlays in an adequate manner, or if the workers put up with an adequate reduction of their nominal wages. In such cases the value of $W/(II - s_k)$ could remain unchanged. The author writes about these that they are unlikely to occur.

Next the price-raising effect of growing taxation is presented. He gives a very witty and convincing answer to the question which class has to bear the tax burden. He sets out from the case that the state levies the taxes on the profit of the capitalist enterprises. This does not essentially reduce the outlays of the capitalist class on consumption and accumulation. The higher tax may be paid from monetary reserves, credit may be raised for accumulation purposes and thus there will be money left for tax payments. If the state pays wages to its employees from its revenues, this will create demand for articles of consumption. But the workers also spend their wages on consumer goods. Demand for the consumer goods left to the workers, that is for $II - s_k$ will increase by the sum of the taxes denoted by the author by A - and thus the price of consumer goods will rise. The volume of consumer goods will not be greater than earlier. Their price will grow. The volume $II - s_k$ of consumer goods left to the workers will now be sold not for W but for a sum of money $W + A$, which is by A higher than $II - s_k$ that is, $(II - s_k + A)$. If the prices of consumer goods increase, so do the prices of means of production. But the capitalists buy them from each other; what is an additional cost for one, is additional revenue for the other, that is, the *real* size of profit will not be affected by higher prices, though in money

terms it will grow. Let now the higher price of s_k be s_k^* and the price of s_c be s_c^* ; the profit in money terms will be $s_k^* + s_c^* + A^*$, then, instead of the earlier $s_k + s_c$.

Taxes, and together with them budgetary outlays, may raise the prices of consumer articles and means of production and also the value of profit in money terms to such an extent that the *volume* of the capitalists' outlays on consumption and accumulation may remain unchanged in spite of rising prices. In the final analysis, the situation is the same if the taxes are levied on wages. It follows from the author's argument that the rise in taxes on wages is sooner or later followed by an increase in nominal wages and after the deduction of taxes the remaining net nominal wages may be in the end of the same size as the earlier untaxed nominal wages. If wages are paid out of tax revenues, these will put up demand for the consumer goods together with the net nominal wages of the private sector and the consumer goods purchases of the capitalists. The volume of consumer goods $II - s_k$ is faced also now by a money sum of $W + A$, because now W is the sum of net nominal wages paid in the private sector, and wages paid out of the budget agree with the sum of tax revenues. The author proves that whatever the nature of the tax - taxes on wages, on profits, on consumption and so on - if the capitalist state spends its revenues not on productive purposes, *and mainly not on the production of consumer articles*, a raising of the tax and, together with it, of budgetary outlays, will raise prices but will not be a burden on the profit of the capitalist class. "Tax is a part of surplus value. . . The state *takes* a part of surplus value accruing to capitalists, but such a part which has come about only by the fact that the state takes it (and then spends it); if the state did not take (and spend) it, it would not exist at all. . . The tax is thus in any event paid by the workers, by the working people. . . They pay it with their work." (p. 433) That is, like the increase in pure turnover costs, growing taxes *are covered out of surplus value, but they do not diminish capitalists' true spendable surplus value*.

In Part Four of his book Péter Erdős examines contemporary capitalism, usually called state monopoly which is no longer pure capitalism. Under the conditions of pure capitalism he discovered a growing inclination towards stagnation in capitalist production, but in modern capitalism the inclination towards stagnation ceases and a chronic inflationary price rise must be reckoned with instead. Chapter 25 of the book: "Inflation instead of secular stagnation" is one of the most interesting and simultaneously most difficult chapters.

It is no exaggeration to say that for a long time past no book like this has been published within international Marxist economic literature, one that answers so many novel and basic questions. A thorough acquaintance with its contents is indispensable to all students of a really modern political economy.

T. ERDŐS

HOÓS, J.: *Műszaki fejlődés – struktúráváltás – gazdaságirányítás* (Technological development, structural transformation, economic control) Budapest, 1967. Kossuth Könyvkiadó. 245 p.

The primary objective of the book is to reveal that changes in the structure of production are necessarily involved by technical progress, and the two together require transformation and development of economic control.

The book surveys technological development beginning with the industrial revolution of the 18th and 19th centuries, the subsequent structural transformation, and the corresponding changes in economic control up to the contemporary revolution of science and technology, to the present-day problems of the Hungarian economic structure and economic control. The richness of the subject is tempting for generalizations and to give descriptions of the history of economy and statistics. However, this risk is luckily avoided by János Hoós, that is, he avails himself of these "background" informations only to an extent that even the historic descriptions help in understanding the problems of the present.

The book consists of four parts. Part one describes the history of technological development and its contemporary features. Part two is an analysis of the effect of the latest technological achievements on the mechanism of capitalist economy. In part three the author analyses the effects of technological progress on socialist economy. Finally, in part four the author attempts to answer the question how the international experiences of technological development have affected the Hungarian development policies.

The part of the book in which the author surveys the latest features of technological development is really captivating. He describes absolutely convincingly that "the given system and mechanism of economic control is substantially determined by the changes in production technology having a revolutionary impetus". It is clear that the building of say a sailing boat or a Polaris submarine require different mechanisms of economic control. For the latter, 10 million parts must be designed, manufactured, assembled, and the work of 11,000 sub-contractors coordinated.

The author states about the effects of science: "The changes in production and in the economic structure manifest themselves as a rule mainly in that the so-called science-based branches assume the role of booster of production and of economic growth in general." Such branches are, for instance, the chemical industry, machine building, the nuclear industries, and rocket engineering industries.

Thus, science plays a role in that "The growth of production and structural transformations of countries are less and less depending on the quantity of available manpower, on the traditional resources of energy and raw materials, or on their geographic location."

Acceleration of scientific and technological development is a significant factor of economic growth and of the increase of productivity as well. The author proves this with statistical data, quoting the relevant statistical results of the research work of S. Kuznets.

An important chapter of the book is the one analyzing the effects of technological development on capitalist economy. The author presents development and the contemporary

capitalist reality in its complexity and diversity, and derives his conclusions from that. E. g. he opines that the big industrial enterprises are necessary products of development, while of smaller countries "strongly specialized small and medium-sized enterprises" are more characteristic. Specialization is required by development by any means, whether in the form of small, medium-sized or big enterprises, and this in turn necessitates expansion of the international division of labour.

The economic policies of socialist planned economy are surveyed in the part of the book dealing with the general relationships of technological development and socialist economy.

In the fourth part of the book the author analyses the Hungarian development policies in the light of the international experiences of technological development. We perfectly agree with the point of the author that "the sectoral structure of Hungarian industry is more similar to that of the advanced big capitalist countries than to that of the smaller ones of our size". For instance he considers the proportions of metallurgy and coal mining to be exaggerated, while he holds that the share of food industry is comparatively low relative to our opportunities and by international comparison. He is right in criticizing e. g. the engineering industry because the proportion of goods produced in cooperation is extremely low. Hoós gives an example worth reflecting: the parts of the 2000 HP Diesel engine purchased from Sweden had been purchased by the Swedish factory from eight different world enterprises and countries.

The author reiterates: "The recent energy crisis notwithstanding, it is expedient and reasonable to carry on with the transformation of our energy structure, to reduce the share of coal. . ." because "the conditions of local coal production are so inferior that we are incapable of approaching the European countries even by a major rationalization of production."

Finally Hoós deals with three more problems: improvement of the system of investment decisions, further differentiation of the system of economic control, and the requisites of developing the engineering industry.

The book thus gives a summary of what is to be done partly in order that the structure and mechanism of our economy should adopt usefully and correctly the latest achievements of the scientific and technological revolution, and partly that it should further develop through this revolution.

A. NYILAS

RADÓ, L.: *Külkereskedelmi elméletek* (Theories of foreign trade) Budapest, 1976. Közgazdasági és Jogi Könyvkiadó. 231 p.

The author presents chiefly non-Marxist theories of foreign trade, intelligently samples from the numerous theories, and goes into details of theories by classic theoreticians and their followers which are suitable for studying important features of the capitalist economy.

Chapter one gives an outline of the historic precedents to the international division of labour, some basic notions, the motives and forms of development of the division of labour, and the rest (Chapters 2 to 5) follows up the development of foreign trade theories from mercantilism to the foreign trading concept of theories of growth, to the analysis of concepts relevant to international economic integration.

Mercantilism, the theory of the active balance of trade, was the first to emphasize the importance and significance of foreign trade. While disclosing their deficiencies, the author stresses the progressive historical role of mercantilism and protectionism in the acceleration of capitalist development. Analysing the different theories he exposes the correlation between their errors and the stage of development of the forces of production and the given conditions of society.

With the progress of capitalist development, protectionism began to hamper the flourishing of the mechanized large-scale industry in Britain, and the struggle started for free trade. The free-trade ideas of the British bourgeoisie were formulated by the classics Adam Smith, David Ricardo and their followers.

Ricardo's theory of comparative costs was a landmark in the history of economic science.

He assumed that each country might save social labour if in return for its exports it imported goods that would require more labour input if manufactured locally than the exported item. The author also writes about John Stuart Mill, the most renowned modifier and critic of Ricardo's concept. Mill went beyond Ricardo's ideas in many respects, e. g. he pointed out the roles of demand and freight in international exchange, the correlation between comparative costs and international payments as well as between the volume of trade and the balance of payments conditions of a country, etc., but as he assumed that foreign trade was fundamentally determined by the rule of demand and supply, his theoretical concept is a backward step compared to Ricardo's.

The concepts of foreign trade advanced by the neoclassic theories that prevailed in the first half of the 20th century were generally based on the assumption that Ricardo's theory of comparative costs was valid also for a modern economy if his theses were properly applied to the given conditions. The author stresses that the neo-classical theories of foreign trade were best formulated in the theory of Eli Heckscher and Bertil Ohlin based on the supply with factors of production. According to it a country with a relative excess of capital exports capital-absorbing products and imports labour-absorbing products, while a country having a relative surplus of labour does the reverse. Thereby a country with a relative excess of capital saves labour, and a country with relative excess of labour saves capital. This theory is a considerable advance over Ricardo's concept. The Heckscher-Ohlin theory is dynamic to a certain extent inasmuch as it already considers exports to be an intensive factor in the enrichment of the exporting country. Another advancement is that the thesis is also valid if two countries trade in more than two items. Like Ricardo's theory this concept is only suitable for the analysis of bilateral trade relations.

The rather weak point in both Ricardo's theory of comparative costs and in the Heckscher-Ohlin one of disregarding the absolute differences in productivity between the

countries, is also pointed out by László Radó. The closely interrelated anomalies existing in the production structures of the advanced and the developing states cause grave commercial difficulties to the developing countries.

Complementary barter was predominant in the 19th century, thus in the case of Ricardo the said deficiency derived from the objective economic realities of his age. However, in the 20th century and particularly in the second half of it, the substituting commodity pattern has increasingly become the main precondition of realizing comparative benefits. Thus there is increased emphasis on that type of division of labour where each partner country could manufacture the items participating in the exchange, yet "a specialization is created between them on basis of the profits of foreign trade gained from the exchange at different price and costs levels. This is the artificially created, so-called induced complementarity which has *ab ovo* been the basis of realizing comparative advantages." (p. 144)

As compared to the classical and neo-classical theories, of growth are a major progress also in the judgement of the international division of labour and of the role of foreign trade. In these theories foreign trade is analysed as an important factor of growth. The question to be answered is what type of positive effect the relations maintained with world economy have on the economic growth of a given country.

Certain advocates of the theories of growth have revealed important relationships between specialization, economic growth, and foreign trade. The work of Paul Samuelson is prominent among them. His concept of foreign trade is actually an improvement of the so-called productivity theory. The basis of the theory is that the optimum or minimum plant (factory) sizes of the different branches of industry differ depending on the size of the country. Consequently, for productivity reasons, from the point of view of exporting the surplus capacities, the smaller countries are comparatively "stronger", that is, foreign trade is more essential for them, states László Radó (pp. 188-189).

According to the modern theories of growth in the age of the scientific and technological revolution rapid economic growth is guaranteed by international economic integrations. The author presents the theories of integration of Jan Tinbergen and Gunnar Myrdal. He states that, according to Jan Tinbergen, the participation of countries with roughly the same levels of development in the regional integrations is a precondition of balanced economic growth, but he also deems necessary to help accelerating growth in the developing countries. The neo-liberal integration theory of Gunnar Myrdal goes even farther than that. He assumes that the different countries develop unevenly and this necessarily results in integration under the conditions of scientific and technological revolution. By accepting the uneven development of international economy, Gunnar Myrdal gives a more realistic analysis than Western economic science usually does.

László Radó deals sporadically and very briefly also with the socialist international division of labour. He writes about the role of investigating the turnover proportions in socialist foreign trade, and about the path of the socialist countries to economic integration. He gives a good formulation of the tasks of the socialist theory of foreign trade: "The essence of the socialist foreign trade theory is to fill the acquisition of comparative advantage with socialist contents. There ought to be a theory, perhaps a theoretical model, that could be used for the planned organization of the international division of labour set up on basis of comparative advantages, in a way that each socialist country might find its own comparative advantage, and that would at the same time guarantee the undisturbed development and steady expansion of the whole socialist world economic system." (p. 203)

The author notes in the introduction that the classics of Marxism did not elaborate a comprehensive system for the theory of foreign trade. However, it would have been useful to refer to more recent Marxist authors who have contributed to the accomplishment of the said task.

J. FACSÁDY

MARER, P. (ed): *US financing of East-West trade. The political economy of government credits and the national interest*. Bloomington, Indiana, 1975. International Development Research Center. XIV - 442 p.

The economic debates held in late 1974 and early 1975 about theoretical and practical problems of the activity of the Export-Import Bank of the United States which are described in the book, were topical because the Act regulating the activity of the Eximbank was discussed and amended by Congress in 1974. It is also known that the most important amendment was not the one increasing the Bank's overall lending authority from \$20 billions to \$25 billions (against the originally proposed sum of \$30 billions), but that various prohibitive and restricting provisions were introduced in the financing of East-West trade by the Bank. These limitations, together with the discriminating measures of the Trade Reform Act, ultimately prompted the Soviet Union to annulate in January 1975 the Soviet-American trade agreement concluded three years earlier but not yet in force. Consequently, the role of the Eximbank in financing East-West trade has not only failed to increase as - sometimes exaggeratedly - anticipated, but has, on the contrary, remarkably decreased. Today only two CMEA countries, namely, Poland and Romania enjoy the possibility of receiving Eximbank credits in their trade with the United States. American credit and customs discriminations are maintained against the Soviet Union and the other CMEA countries.

We are naturally influenced by this unfavourable situation when reading the volume in question. Of course, the debate of academic research workers, economists of the Bank and of other government institutions and of congressmen about the various aspects of the Eximbank's activity is very interesting in itself. It is most instructive to learn the different, often strongly confronting views and research conclusions about the Eximbank credits being subsidized or not, about the manifold reasons of subsidizing it and, in this context, about the role of the export sector in US economy.

Similarly interesting is the strongly disputed question whether the Eximbank credits delectably encourage exports in general. Even more exciting is the problem that can be judged only in the context of the latest tendencies of world economic development, i. e., whether the US should or should not face the challenge of the other leading capitalist countries in government subsidizing of export credits, or how the role of government promotion of exports is modified by the floating exchange rates.

As shown by the papers published in the volume, there are many a reasons why the Eximbank problem's coming to the stage induced so heavy disputes in 1974. The point is not only that the Bank became from a rather modest monetary institute an important instrument of American export policies by the early 70's, nor that, unlike other instruments of foreign economic policies, the Eximbank does not provide limits or general terms for backing the exports but it backs or refuses to back *individual* export transactions, that is, it *ab ovo* exercises discrimination against all exporters who aren't beneficiaries of its credits and guarantees. The reasons in the foreground are far more weighty. The Watergate affair evoked such a confidence crisis in which Congress believed to exercise increased control over the executive power by trimming also the Eximbank's opportunities of development, and in doing so it could count on the sympathy of public opinion. The galloping inflation, the economic backlog, the grave problem of energy supply following the oil crisis, the overall hardening of credit conditions after the earlier unprecedented extension of credits – all had a role in that the grounds, direction and methods of export incentives *via* favourable government credits were challenged by so many people just in 1974. Yet there is an obvious relation between the evolving East-West trade and the general problem of the Eximbank credits: most of the different criticisms against the Eximbank were directly or indirectly connected with the criticism of the Bank's role in East-West trade, while the opinions supporting the activity of the Bank also deemed necessary that it should increase its participation in financing the trade of the US with the East.

1974 was, namely, the first year when the Eximbank really came into action in financing East-West trade. Although only 4% of the Eximbank's total outstanding credit commitments were allotted to the CMEA countries, \$634 million, in the fiscal year 1974 the Soviet Union became the second biggest beneficiary of Eximbank credits and it was presumed that – had the Congress not effected restrictive sanctions – it could have got further credits of \$300 to 400 million in the fiscal year 1975, and som 1.2 to 1.4 billion in 1977. The controversies regarding East-West trade mobilized in 1974 for disputes also about the Eximbank.

From the above it is understandable that even such questions that come for the American economists in the form whether the Eximbank is at all needed (or in the terms of Professor Kindleberger: whether they should or shouldn't like “the essentially mercantilist purposes of the Eximbank”) and if it is, whether it is necessary to modify the general trends of the Bank's activity and how, are examined by economists working east of the river Elbe according to the direction in which the role of the Eximbank in financing the trade with the CMEA countries would be influenced.

The problem of East-West trade is of course extremely complex; the rate and trends of its development depend on numerous economic and non-economic factors. The problem of the Eximbank credits is *only one* of the important questions which have great bearing on the development of this trade. The credit restrictions limit first of all the increase of trade between the US and the CMEA countries, and especially the exports of American manufactured products. It would be too hard to try to estimate the quantitative effects of the late-1974 Congress resolutions on the whole of East-West trade, or the extent to which they contributed to sharpening the already considerable difficulties of its development. Yet it should by no means be disregarded that the tendency of rapid and relatively steady development of East-West trade that used to be characteristic of the previous 10 years and within that mainly of the first half of the 70's was broken precisely at the end of 1974 and at the beginning of 1975. This trend was greeted

both in the East and the West by many economists as a process that could help solving the very important and sometimes central problems of economic development: such as acceleration of technological development, modernization of production, better supply of the population in the socialist countries. In 1975 there was a decrease not only in the share of the advanced capitalist countries in the CMEA countries' foreign trade, but also the exports of the latter to the West decreased in value terms and the widening gap between the values of imports and exports has consequently worsened the difficulties of financing.

At any rate, the fact that the break of the trend more or less coincided with the actions taken by the US Congress hints that it is not unbased to consider the latter also in correlation with certain general problems of East-West trade.

There namely exist such general trends covering the whole of East-West economic relations whose emergence or strengthening was illustrated exactly by the debate about the Eximbank amendments and the Trade Reform Act which have ever since marked the trade between East and West. For instance, since the development of the detente since 1971, it was questioned for the first time during these debates whether the development of East-West trade has an effect that indeed contributes to international relaxation. The revival of the aspiration to attach some political conditions not only to the extending of credits, the abolition of customs duties and other discriminations, but generally to development of trade, was also connected with that question. The approach deriving from Bernard *Baruch* and

Adenauer has gained ground which qualified the development of economic relations directly harmful for the West since any article may be considered as "strategic", i. e., trade in general "strengthens the strategic potentials of the Soviet Union". Already in the course of the Eximbank debates it was quoted as an argument against extending credits that indebtedness might become a political weapon in the hand of the Soviet Union (or the CMEA countries) against the creditor. (This argument was paradoxically used at that time against *Kissinger* who had urged American participation in the Siberian energy projects – to be availed by the Secretary himself one and a half year later, this time warning Italy and the FRG not to let themselves be caught by their lendings to CMEA countries.) All that have created a political atmosphere which is far from being favourable for solving the really acute economic problems of East-West trade.

It may be seen from the above that the negative outcomes of the Eximbank amendments are found mainly in their indirect consequences affecting the whole East-West trade. Yet it also belongs here that the refusing of American government credits is the first important event in the chain showing that the sources of credit are shrinking and the availability of credits is becoming more difficult in East-West trade. Nevertheless, together with the improvement of political conditions, to solve the problems of financing is the most important thing if we want to avoid a lasting stagnation or even a regression of East-West trade in the coming years.

A. KÖVES

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*We acknowledge the receipt of the enlisted books. No obligation to review them is involved.

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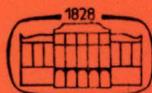
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J. DRECIN

TECHNOLOGICAL PROGRESS AND ECONOMIC GROWTH

Hungarian industry attains world standards only in a few fields. This situation cannot be changed by spontaneous development processes or, in a better case, by means of stimulation mechanisms alone. In the process of technological development a harmonious unity of overall central decisions and activities based on enterprise interests should be created.

The author also deals with the questions of concentration of research and development and the widening of international relations pointing out the importance of research and development that ensures fast adaptation.

In the last quarter of a century the Hungarian economy has not only developed her industry, economic processes have also become more complex and "science-intensive". These changes also explain in general terms why, of the various conditions for economic progress, technical skills and technological development have become so important and when examining tasks ahead one may safely state that they have become the most comprehensive condition of the same.

When looking at the role of technological growth including its conditions and ways of guiding it as well as sometimes links with concrete development objectives, a diversity of opinion is often met with and this, in some cases, causes difficulties when taking action. As is usually the case with complex phenomena, here as well it is social reality, that is, technological development activity that is complicated. Though technological development is related to science, in the final instance relying on the latter, it cannot, nevertheless, be identified with it. Its aim and purpose are subordinated to economic criteria, yet in a long run it also shapes the same. It is implemented in separate streams and yet it increasingly becomes an integrated, interdisciplinary process: beside autonomous enterprise activities it also appears as a comprehensive system controlled on a higher level. What I wish to call attention to here, as my title shows, are these aspects of technical and technological progress which are related to economic growth (and economic policy).

Controlled technological progress is a characteristic feature of our age

An investigation of the consequences of technological progress requires a certain conceptual clarification. Essentially, one can agree with those who describe the links in the chain of technological development with the aid of five (or six) interrelated definitions, something like this:

First link: research, within it basic researches which may be again divided into pure basic research and task-directed basic research;

second link: applied research, including research aimed at adaptation;

third link: inventions, patents;

fourth link: experimental development;

fifth link: innovation. That is, industrial (economic) application guided by criteria of efficiency. This includes the spread of innovations within the economy and even internationally. The latter comprises many special features and systems of institutions.

Nobody doubts today that technological progress is an important source of economic growth. Differences of opinion arise at most in connection with emphasis and the methods of measuring the limits of growth. None are of a kind justifying much effort in discussion, if only because for many years there is not much hope that economics will reach a uniform standpoint in clarifying these problems for practice.

But the interrelation of technological progress with economic growth offers to both those engaged in research and to economic policy-makers many other problems that can be more quickly clarified and have practical application. I believe this is important also in view of Hungarian conditions, where labour, energy and raw materials are all scarce. Thus, a basic task of future economic policies will be to improve the exploitation of resources and to work out new combinations for their use in the interest of economic growth. This can be attained only with the aid of a more intensive technological development policy. Therefore, priority must be accorded to *government control of technological development* ensuring an appropriate choice of its tools and institutions. It can hardly be challenged that at the present stage of development of science and the economy, and given changed social relations, responsibility for controlling technological progress devolves on the government.

The first task is thus a sound choice of *the tools of control*. Can we trust technical progress merely to the automatic effects of interests influenced by economic mechanisms? There is no doubt that in themselves the latter cannot solve the problems of control though they have a major effect on the intensity of the processes. Therefore, in the control of technical progress a harmonic unity of comprehensive central decisions and enterprise activities based on interests must be developed. One cannot leave out of account that in the 20th century, and, particularly, in its second half, science-based industries established themselves and quickly developed (the pharmaceutical industry, heavy chemical industry, aircraft production, electronics, telecommunication equipment industry etc.). Not even their traces could be found in some cases in the 19th century. The appearance of these industries and their development brought about new combinations of resources in the material and intellectual conditions of production and science and had a far from uniform influence on the quality of life as well. Everyday realities also affected the quality of life in a diversified manner.

One of the consequences of changing technologies is that an ever growing proportion of national income is used for scientific purposes. Before the turn of the century the US spent only 0,1 per cent of the gross national product on science, while at present this ratio exceeds 2 per cent. In the advanced industrial countries unprecedented *organized* innovation activity emerged and even in countries favouring autonomous entrepreneurial decisions increasing numbers demand a more organized control of technological development.

In the socialist countries great attention is paid to government influence on technological growth, on the organization of action affecting whole sectors and their economic and industrial structures. These are long-term, and centrally controlled (or influenced). Organized control assumes coordination of the points of development and the emergence of adequate faculties – specific human talents and organizations – necessary for the organization of the process of technological development. Autonomous enterprise innovations, as exemplified in Hungary by the development program of bus production, industrialized construction work, production system in agriculture, development of computer technology etc. can go on more efficiently with the help of these controlling powers.

Control is exercised by the state (functionally), but many combinations of institutions and methods are possible, and it can certainly not be stated that we have found the methods best suited for the purpose. We already know that government functions controlling technological development must not be mechanical or one-sided. Control may be more direct in planning and controlling power lines demanding great concentration of forces and more indirect in the case of smaller programs, when the mechanism of stimulation can be relied upon. Under Hungarian conditions if the functions of government control are to be carried out, one must

a/ mark out the lines of scientific research of national importance, coordinating such research in the various places where it is done, (the subjects must be determined through a combined analysis of scientific progress and concrete economic needs as well as by weighing up research capacities);

b/ work out action programs and guidelines for technological development serving the foundation of the national economic plan (technological development targets and ways of solution on a macrolevel).

c/ assess, control and influence international relations involved in technological development, in the interest of a rational utilization of available capacities;

d/ establish a system producing dynamic behaviour in enterprises with respect to technological development and other organizations that are in a *quasi*-infrastructure position related to technological progress.

Hungarian industry attains world standards only in a few fields. This is apparent in the productivity of labour and in the commodity pattern of exports, and their technological and cost parameters. The lag is not equal in all industries, nor are its causes identical. It is impossible to effect a break-through from this situation by relying on spontaneous development processes or merely on stimulating mechanisms.

This is so first of all because resources are limited and this requires the formulation of points of emphasis and, secondly, because the technological and economic conditions require coordination at so many points that sometimes control and organizational solutions reaching over the limits of interests and even modifying them become necessary. Institutional control and autonomy based on interests must thus be applied in harmony.

In decisions on controlled technological development policy it must be made clear which products or industries are best suited under given domestic conditions for striving after world standards, further, the development of which can be based on domestic assets and talents and which on foreign results (imported licences and equipment).

On the level of macro-planning the possibilities for planning and controlling technological development differ from those in individual industries or even within enterprises. The trends of technological progress and the costs of development are recognizable in rough outlines even on a macrolevel with the aid of international analyses and computations. But in the case of concrete processes requiring more complicated scientific research in order to draw up programs, it will turn out that the organization of these research projects and the assessment of the time needed is a rather difficult task, in view of the need to assess non-quantifiable intellectual talents. The difficulties are further increased by the fact that in the course of technological progress – precisely with the application of new scientific results – new disciplines are emerging and becoming of decisive importance. Planning cannot thus rest satisfied with designing tasks based on the *present structure* of science and technology, as if projecting available knowledge into the future, it must reckon with changes in the structure of science itself. Of course, this is not a problem to be solved in planning, the development tendencies must be recognized in the individual centres of scientific research. It will, therefore, be worth while to examine how the work of organizations exploring the main tendencies of scientific and technological progress can be made more efficient, and that not only in research but in coordination involving development activities as well.

Owing to their long-term character and the need for synthesis, the phenomena explored can be transformed into technological concepts only in scientific control centres capable of such an overview. Most of these concepts may stay within the framework of industries, but a considerable part of them consist of “intersectoral” subjects, and in these cases the system approach may prove useful.

Another important cross section of technological progress is the technological development activity of *enterprises*. While the result of work appears in national economic planning in the form of guidelines, recommendations or major government programs, in the life of enterprises technological development is directly linked to the activity of the enterprises (its possibilities and results), in other words, mostly to the competence and everyday interests of a given collective. It follows that the behaviour of the enterprises is decided by the general economic environment (needs, export

competition, prices, incentives, legal and other regulations). Because of their diversified nature, every enterprise activity, understandably, cannot come under the scope of control centralized at a national level and is directly interlinked with the centralized sphere of decisions only occasionally, when decisions of major importance are at stake – e.g. when claiming state support. That decisions are made, and control is exercised, at different levels must therefore be taken into account also in the process of technological progress and, accordingly, efficient but closely interlinked methods corresponding to each level must be worked out, together with the necessary conditions. Today's practice does not as yet correspond to this need in every respect. The control tasks cannot be solved in a sufficiently discriminating manner – partly for organizational reasons and partly because of those inherent in the system of decisions – nor can sufficient weight be given to long-term interests in the circumstances motivating enterprise behaviour.

The role of economic motivation

Decision on technological development is simultaneously always an *economic decision* as well, or else an important part, a foundation, of such decisions. Behind good decisions on technological development we find, as a matter of course, economically motivated research and development. Its general feature is that it produces new products or/and new technologies. Theoretically, changes in technology may be described both by physical and by value indicators. In practice, however, there is no reliable quantifiable value system for economic motivation on the macrolevel. This has many causes which may be traced back to the national accounting systems of different countries and, as a result, the consequences of certain changes for development cannot be measured exactly (e.g. certain social advantages).

As against the difficulties of aggregated measurement, the usefulness of individual action may be better felt. In individual action it is highly important to interpret correctly the "world standard" or "world level" used in economic life. (This is sometimes the most generally formulated technological development objective.) This notion expresses that we wish to attain such technological and production standards which allow us to sell advantageously also in the long run, in other words, the products will be competitive on world markets. In the long run these criteria are valid also for the home market, but not necessarily everywhere and *not necessarily concurrently* with the requirements of the external markets. *The dividing line can be drawn by starting with the relation between costs and effective demand.*

Thus, in respect of some given activity or product it is not correct to describe the world standard merely by technological parameters, but it must be conceived of as a "norm" for present and future market competition, in other words, as a competitive technology for producing on a large scale products at competitive prices, and with such technological parameters, as an economically justifiable quality of basic materials used

in production, adequate qualifications and discipline of workers, as well as sound organization of production, a satisfactory sales network etc.

The "world standard" is thus not a technological category but one in which *technological and economic* parameters are amalgamated and their particular (nonschematic) combination provides an evaluation for economic motivation. The individual technological and economic measurements assigned to the notion are of approximative exactness, but there is no obstacle to measurement even if it cannot be expressed with the aid of a single unit of measurement (e.g. the number of trucks taking part in traffic, or that of tractors in agriculture does not tell us much without combining the horse-powers or reference to changed agricultural processes).

Under competitive conditions technological progress also demands time economics. The time factor in technological progress is partly of an economic and partly of a technological nature and it is subject to objective laws (to economic competition and to the state of social progress). Two important time factors are the time of obsolescence and the time of development as two closely interrelated time elements of the uniform technological development process, which are also important criteria of economic motivation.

The "time of obsolescence" certainly differs by industry, and it changes all the time. Therefore, in order to select the targets of research & development, and to formulate the tasks it is everywhere important to study this time in concrete terms. Depending on circumstances, the enterprise may be interested in either accelerating or slowing down the time of obsolescence and therefore the period of depreciation. The high price of new equipment, the costs of tools and development sometimes stimulate deprecation. In some cases it may be observed that even modern foreign large enterprises operate technologically no longer up-to-date equipment (touching the lower limit of technological requirements) which still produce saleable products but are already written off. Such behaviour is regulated by market competition and the changes in efficiency as well as by central control. Today, in possession of much experience, we already know that a wrongly regulated stimulation or a price system insensitive to technological progress can misguide enterprise behaviour and foster illusions about up-to-dateness. A solution might be found in such a combination of the system of incentives and central control elements as will provide approximately correct information to enterprises about the time of depreciation.

In practice, the question is, of course, when innovation becomes due, when depreciation will occur, and whether this can be felt a few years before. That is, the time required for technological development must also be taken into account and even the time needed to implement the innovation itself. All that depends also on the different properties of the various industries and trades. It is not immaterial whether in some industry or trade technology can be innovated relatively fast (it being less science-intensive) or whether innovation demands a long time. In such cases also a special investigation of the "development time" will be of major importance.

The "development time" (as regards its contents: essentially research & development) means the time needed, beginning with the determination of the technico-economic objective, before the start of serial production, and includes the time for modernizing technology and/or the product. The more complicated the product or the technology, the greater the inputs it requires, the longer the development time required. The development so far of Hungarian industry has shown that both the time of depreciation and that of development are, in general, long. The objective and justifiable depreciation and development times can be used in the interest of accelerating economic development only in rare cases. That is, we produce out-of-date goods for too long, and, in addition, make efforts to organize their production "efficiently" with large inputs, making it an end in itself, and separate it from the complex goal of the technological development of society. This has several reasons which are also related to the quantity of resources and to technological standards, which cannot be eliminated overnight, but also many factors which, in my opinion, could be eliminated. I will mention only two of the latter. One is the force of the obsolete elements of our own national value system that draw us back (the quantitative approach, outdated prices), and the other is that research & development had, for a long time, weak links only with the producing enterprises. This also meant that research & development tasks were often too large.

In Hungary a further important motivation for technical progress is the *structure of industry* and, in this context, the optimal degree of the international division of labour. This problem is related also to the question of autarky, since in developing the structure of industry we necessarily have to face two highly important questions: on the one hand, when to exceed the limits of domestic needs in order to be competitive (this is the problem of scale), and, on the other, to what extent the technological knowledge necessary for a "more valuable" structure should be based on the purchase of technological know-how.

Experience and planning work for the future verify that in the majority of industries competitiveness demands a greater scale of production than required by domestic use. This makes it seem that the correct practice is to formulate points of emphasis when optimizing sizes and not to adopt the standpoint everywhere that "somewhat more" should be produced. Therefore, branches of production should be preferred where the sensitivity to technological development does not set unsolvable tasks and where the foreign market promises economic results.

It is also obvious, knowing the technological conditions of today's complicated production standards, that the elements of technical progress must be prepared at several points (in some cases at some distance from each other), and then these must be integrated in an action program in the interest of attaining the given objective. All that also means that the production pattern must be established within the framework of international cooperation. In this respect good chances are offered to every socialist country by cooperation within CMEA, but — if we set out from the world business

situation — we have acceptable chances also to expand cooperation with the industrial powers of the capitalist world.

Of the many marks of the production structure it is particularly important for us that a technologically higher standard may well be the basis of a more valuable structure as well. In the final analysis, therefore, efforts at developing a favourable production and industrial pattern act as the guideline for technological development as well. In this context the danger is not that we do not know our own interests, but that we do not coordinate programs with reality and believe that we can improve every activity over a broad range. It may well be that our interests demand efforts to develop an industrial structure representing a narrower range of production, since *this would secure a higher efficiency*. In making efforts at implementing this we have to face the living, operating “wide” structure which stands in the way of a narrowing. Conventions are involved, and antiquated organizations, which wish to survive within the given framework, but there may be external objective conditions as well, such as the undeveloped state of international specialization and much else. This means that — being a small country — structural transformation can be optimally determined in Hungary with difficulty, even on the level of economic policy, if technological policy is not properly considered.

In many fields domestic forces cannot be satisfactorily concentrated on technological progress. There is as yet no adequate harmony between the human resources and assets, or if there is, the material conditions are absent for an introduction of the research results. Realities thus produce many dilemmas for industrial policy. The needs of an ever diversifying structure have to be harmonized with a much more confined pattern of production, since successful innovation and technological progress can be hoped for only on this basis.

Of the economic motivations of technical progress, in addition to what has been said, the *saving of labour and the improvement of quality are particularly timely* (the quality of life and of production).

The saving of labour involves many contradictions which cannot always be easily solved; e.g. technological development saving labour in relative terms and increasing productivity might seem very costly if compared to the saving in wages. In some cases it even raises total costs, if the costs of operating assets are undervalued (a problem of the price system), or obsolete, less valuable products are turned out with more costly new assets (disharmony between technology and product).

More productive technology results not only in wage savings, even on an enterprise level. This is important to note. *Under conditions of full employment* the question must be correctly put by asking how much of national income society forgoes owing to superfluously engaged labour, or, how much additional national income can be produced with the released labour. Thus the “countervalue” of the technological cost must be looked for in the increased potential of labour to produce national income. It follows that the “sacrifices” of labour-saving technological development are efficient if they open the way for potentially maximum national income-increasing

capacity. But this statement can be checked with great difficulty at the place of the development, in some cases this is impossible, because improvements in efficiency can be felt mostly in fields a long way from the object of development.

In these questions, lacking a clear approach and correct computational procedures, the development of some special industries or plants could be evaluated in different ways. Discussions helping to clarify views have disclosed ordering principles which are most useful in many respects:

a) Technological development aimed at saving labour promises great, even the greatest, results at the Hungarian development level – not only in the case of new capacities, but also in that of existing ones, if this is not reckoned in terms of wages, but as the possibility of increasing national income, that is, typically as a source of growth. The costs of labour-saving technology are most likely to be covered by releasing qualified labour.

b) Putting into operation modern equipment is only one aspect of technological development. The other aspect is to develop such a product pattern as can bear the costs of modern technology. Therefore, the value and competitive price of the products cannot be immaterial in the course of technological development.

c) The new technology penetrating the economy in ever greater volume and, in general, the technological trends of the age render the production processes “more organization-intensive”. Therefore, reasoning in terms of the categories of economic gain or loss, organization must be handled as a necessary component of technological solutions, both in plants and outside them. We know from experience that incongruous, backward organization always takes from the value of modern technological solutions. This can be verified by Hungarian examples: modern factories with obsolete material handling methods, or modern plant technologies and products combined with a disorganized supply of materials and cooperation background, inadequate marketing and inadequate forms of wage payments etc.

The effect of technological progress on quality must be stressed. The notion of quality is rather wide, yet three points may be mentioned where it immediately touches on economic growth: the effect of technological progress *on the quality of work and on the quality of life*, (on the pattern of consumption), which stimulates economic growth through growing needs, and, finally, *on the value-increasing processes of production*, whose general trend points from the simple to the complicated and thus introduces new value-increasing factors into growth.

Concentration in research and development

The weight of the two sources of technological development – adaptation of technological results attained in other countries and own scientific achievements – differs from industry to industry, and from trade to trade as well.

In general, under present conditions it is expedient to make efforts to strengthen the work of the industrial and agricultural research & development, and of organizations which secure a quick adaptation ability. The emphasis is of course on development, though the "pure" research element is always present even in adaptation. Given Hungarian endowments, the possibilities of adaptation research have not been exhausted by far from the aspect of effects to be exercised on growth.

I believe that an objective analysis of the international tendencies is a neglected aspect of controlling, organizing and financing national research & development in many countries. Analysis of the post-World War II situation discloses many interesting elements in the international aspects of technological progress. A few data only: between 1955 and 1969 the growth of international trade was 8 per cent p.a. with trade in industrial goods expanding at a rate of 10 per cent p.a. The share of industrial articles in total trade rose above 60 per cent. Within the trade in manufactures that of research-intensive products is rising fastest. It was an important feature of development that the share of engineering products increased.

On the whole, the dependence of many countries on the import of industrial goods increased to the same extent, particularly of small countries, though their exports also rapidly increased. This increasing dependence is a consequence of specialization.

The flow of technology shows similar dynamic features. The new products and technologies are first used in the countries where they have been discovered, mainly because of easy communication with consumers and producers, as well as prices and cost relations which promise extra profit. The transfer of technological results takes place with a certain time lag, but it is a clearly observable process. It is promoted not only by the consideration that there are few technological achievements which secure lasting advantages for a longer period, but also by the interest in recovering a part of the development costs and in expanding the sources of innovation.

The more complex background means that there is transfer not only of technological knowledge, but also of management and organizational know-how. The number and value of international transactions is continuously growing in the wake of the trade in patents and know-how.

It is general that the "balance of payments of technology" is in the red even in the case of highly industrialized countries. Innovation activity thus largely depends on the purchase of technological know-how, exchange of knowledge between nations being given a primary role. All that contributes to the acceleration of technical progress all over the world. Of course, many conclusions can be drawn. If, however, one narrows down the problem to organization and subsidies policy of Hungarian research & development activity, it must be stated that

a) it is worth importing technological knowledge if, for financial or intellectual reasons, Hungary cannot hold its place in the "time race" of research & development. It must be considered natural that the "balance of payments of technology" should show a deficit.

b) It is expedient to strengthen applied research (partly development), because the adaptation of progressive technological knowledge must be accelerated and, where possible, we must stay competitive starting from the purchased foundations.

c) Sensitivity of Hungarian foreign trade compels us to concentrate technological knowledge on export industries and to link research & development activities to export production and to the production of the tools needed for the most decisive innovations.

Neither must the importance of non-adaptive research be belittled. Where, having carefully assessed our position, we can expect success in the "time race" also with own researches (that is, research is not only good and purposeful, but fast as well), material and intellectual forces must be concentrated in the interest of approaching the optimum of concentration and reach industrial results, that is economic profitability, as soon as possible. This requirement necessitates assets, or a more rational allocation of assets between research in the narrow sense and the costs of capacities needed for experimentation and implementation. It is my conviction that, if we carefully analyse the Hungarian research basis that can be put at the service of industrial or agricultural development, it may be perhaps considered as a deficiency that of the possibilities of research and implementation on a plant level the capacity needed for experiments and control (necessitating different assets and different specialists) within a plant is missing and much time is lost on this account. It is not mere chance that the major firms engaged in industrial research all possess some kind of capacity suited for exploring technologies and experimenting. With the Hungarian factory sizes this solution can be rarely linked to a single plant, but it could be organized in a form serving several research places in the same industry. Only the implementation of those research results should be experimented with which have good chances if utilized within the Hungarian economy. (Research workers cannot decide this on their own, and this is why the planning and coordination of scientific research — relying on economic motivation cannot be dispensed with.)

*

Finally, it must be established that it is detrimental to the efficiency of research if there are too many research subjects, if too many incompetent people are engaged in research, or, finally, if the number of research places is greater than necessary. The resources mobilized for the development of research are not negligible. In Hungary about 3 per cent of the national income is used for this purpose. All in all, this means more than Ft 80 billion in the years of the fifth five-year plan (1976–1980). Up to now "extensive" development took place for many years. Between 1967–1970 the number of research workers increased by 8 per cent annually (very fast, in spite of the known deficiencies of statistical classification), but even if the whole period between 1967–1973 is considered, the increase was 50 per cent in staff and 60 per cent in inputs. Also it is worth investigating why according to Hungarian statistical

surveys, among the 1443 research places active in 1973, only 189 were in productive enterprises. Fragmentation, the large number of subjects, the distance from the producing enterprise — needless to say — make it rather doubtful that this activity could contribute to economic growth with satisfactory efficiency. In the last resort, efficiency of research depends on the correct choice of forms of control. Control, however, must be exercised realistically based, so that two premises are enforced: 1. the returns on inputs must be used as a more efficient yardstick in evaluating research, 2. in the development plans independent subjects must be restricted (more knowledge should be bought and cooperation established) and researches must be more closely linked to the problems of real processes of production.

РОЛЬ ТЕХНИЧЕСКОГО РАЗВИТИЯ В ЭКОНОМИЧЕСКОМ РОСТЕ

Й. ДРЕЦИН

В настоящее время венгерская промышленность лишь в некоторых областях достигает мирового уровня технического развития. Степень ее отставания однако, неодинакова в различных отраслях производства, и причины этого также различны. Преодолеть это отставание путем стихийных процессов развития, или с помощью стимулирующих механизмов невозможно. Дело в том, во-первых, что ограниченность ресурсов развития требует их концентрации, во-вторых, потому что необходимо взаимно согласовывать массу технических и экономических условий. Из всего этого следует, что в процессе технического развития необходимо найти гармоническое слетание крупномасштабных централизованных решений с действиями предприятий, базирующимися на их интересах.

Автор в дальнейшем останавливается на экономической мотивации, исходя из того, что решения по техническому развитию являются одновременно и хозяйственными решениями. Мировой уровень развития — это не техническая категория, а категория, имеющая технические и экономические параметры.

В заключительной части статьи автор обсуждает вопросы концентрации исследований и разработок и расширения международных связей, подчеркивая важность таких направлений в исследованиях и разработках, которые обеспечивают способность к быстрой адаптации.

J. TIMÁR

EMPLOYMENT POLICY AND LABOUR ECONOMY IN HUNGARY

The study outlines how labour supply can be increased and demand maintained at the level of expected labour supply when harmonizing demand for and supply of labour and establishing allover equilibrium in employment. The author analyses the role of economic policy in the development of demand for labour. The methods applied up to now by the Hungarian employment policy are critically reviewed and the possibilities of a different one outlined. The role and importance of the socialist labour market are explained and the tools and methods of a corresponding manpower policy reviewed, separately dealing with the importance of measures aimed at securing the free movement of labour.

Employment policy and labour economy is today at the focus of attention in Hungary. The increased attention is fully understandable. Relative scarcity of labour, the basic source of economic growth, renders economically efficient and socially important developments and utilization of existing capacities more and more difficult in various spheres of the national economy: *labour shortage has become general*. In this situation enterprises and other organizations compete for labour with growing intensity. This in itself would not cause problems, if enterprise activities were sufficiently regulated by requirements of profitability and efficiency. Failing this, however, competition for labour augments demand unrealistically and aggravates labour shortage.

The general and intensifying labour shortage influences relative wages, labour discipline and, as a reaction, also an efficient and rational utilization of labour unfavourably. As a matter of fact, it is a vital question of today's economic development, and thus also *the actual and future main task of employment policy that labour productivity and efficiency of employment should be increased permanently and at a much quicker pace than previously*. Achievement of this strategic aim is, however, hampered by labour shortage and the lack of a balanced employment. These difficulties subsist also if the scarcity of labour – this diminished resource – now forces us to take such reasonable measures, from which we have long refrained, because of the difficulties involved. It is, however, justified to ask the question, how much more successful these measures would be, and how much more freely we could act in effectively transforming the structure if it were not hindered by the increasing labour shortage.

We are, therefore, faced with two closely intertwined tasks, since one of the conditions of a faster increase of labour productivity and efficiency is restoration of the balance of employment. It follows from two aspects of the task that the balance

can be restored most easily if, on the one hand, an *enlivened labour supply* can ease the pressure on enterprises* caused by today's labour shortage and if, on the other hand, by selective economic development and by asserting the efficiency requirements demand for labour can be kept at the level of attainable labour supply. It is mainly the possibilities and conditions of these that will be treated here-under.

I have mentioned balanced employment, the relative harmony of demand for and supply of labour as if labour were a homogeneous resource. Yet, equality of the volumes of demand for and supply of labour measured in terms of numbers (heads), does not express a state of equilibrium, just as the identity of commodity supply with consumer's demand measured in amounts of money does not. Therefore, also the *structural problems of balanced employment* will be treated in the following.

Finally, the interrelations of labour fluctuation with balanced employment and efficient labour utilization will be treated in detail with particular reference to the special characteristics of the socialist labour market**[1].

Balanced employment and the increasing of labour supply

In the long period of the socialist development of this country, up to the 1970s employment in the national economy increased considerably (by more than 25 per cent between January 1st 1950 and 1970).

In this way Hungarian employment policy totally eliminated unemployment, promoted the social equality of women and created *real* full employment.

Beside these important social results the contribution of the increased number of the employed to economic growth is not to be underestimated.***

Yet labour prognoses for the long perspective demonstrated already fifteen years ago that in the late 1970s the period of a relative abundance of labour would end [3, 4]. The latest long-range prognoses [5, 6, 7] prepared a few years ago have already started from the fact that the employment rate of men is at the "demographic" maximum in Hungary, and that of women at the "social" maximum; though the economic activity of each age group will somewhat change in various directions and to different extent, these changes will more or less offset each other. In the final analysis, considering also the growth of population, the employment in the national economy may grow by about 50 to 60 thousand between 1st January 1975 and 1980 and by a further 100 to 120 thousand in the following ten years.

*Enterprise means here and in what follows any employing organization, such as enterprises, cooperative and budget-financed institutions.

**The concept of labour market is interpreted as an expression of commodity character of labour.

***Between 1948 and 1968 about one-seventh of economic growth came from increased employment[2].

These prognoses give grounds for today's general opinion that there is no possibility for increasing labour supply, and therefore, the labour shortage cannot be eased in this way, nor can an equilibrium of employment be established. This position is further strengthened by a special pejorative interpretation of the "extensive development method". Many object to any effort at increasing employment, since this would necessitate the "creation of new jobs". It is shown, however, by facts that the main difference between the extensive and intensive period of economic development does not consist – from the quantitative aspect of employment – but in the changes of the employment structure.*

Not even faultless prognoses remain for ever valid: they have to be continuously amended and kept up-to-date. Processes determining the result of computations may change otherwise than had been assumed, or it is a change in circumstances that requires amendment of factors belonging to the decision spheres. It is thus a timely task to revise earlier prognoses and their system of conditions, particularly if they were subject to discussion already in their time.

Relying on an investigation of economic activity by age and sex *I see a possibility for intensifying labour supply in three groups of the population: 1. women under thirty, 2. some age groups before 3. and some age groups beyond the retirement.*

I estimate the labour that could be drawn into work by taking certain also socially favourable measures – not described here – at 50 to 100 thousand over the number prognosed officially earlier. This is, of course, a negligible amount if compared to the total employment in Hungary, which is over 5 millions. If, however, we were to say that in this way the total increase envisaged for the current five-year plan period could be doubled or even tripled, this would be an exaggeration in the opposite direction. The importance of augmenting labour supply would not be described correctly by any such comparison. Its importance does not consist at all in that the economic activity of the population and employment would be further increased. This is because in the given case an augmenting of the labour supply is *rational only* if it is connected with a more effective regulation of demand for labour and a control of its growth.

Efficient labour utilization, regulation of demand for labour and balanced employment

A *direct* cause of the disequilibrium of employment and of the general labour shortage is that the labour resources got exhausted for *demographic reasons* and, therefore, labour supply is diminishing. Yet the basic and primary cause of the growing and increasingly general labour shortage is not the change in the demographical

*In this connexion it is worth calling attention repeatedly to the fact that in the majority of the economically most advanced countries showing a typically "intensive way of development" (e.g. the USA and the FRG) the economically active population was growing very fast up to the 1970s, so that a much bigger share of their economic growth came from increased employment – i.e. from an expressly "extensive source" – than in Hungary.

situation but *the developments in labour utilization and labour supply* i.e. the economic policy determining them[8]. No essential or unexpected event has taken place so far in the development of labour resources: the actual processes were, on the whole, correctly prognosticated by the long-range manpower balances worked out one and a half decade ago. However, Hungarian economic policy could not adapt itself in time and adequately to the foreseeable labour situation: *it was unable to regulate and control the demand for labour satisfactorily.*

The problem is not a new one and according to experience, it is not connected with economic control methods in the strict sense. The experience of the period of central plan-instructions in Hungary is already lost in the mists of time for today's younger generations. This supports the illusion appearing now and again that the reason for today's contradictions is our having abandoned the method of plan instructions, i.e. the economic reform. The data show, however, that it was exactly in the early 1950s, the period of the most consequent application of the "classical" methods of plan instructions, that enterprises most often exceeded planned staff limits. In that really extensive period of industrialization productivity was not growing at a satisfactory rate: profitability and efficiency were suppressed. The system of plan instructions — certain advantages notwithstanding — was not favourable for an efficient utilization of resources, labour included.

The results of the new system of economic control and management are contradictory in the field of employment. With a view to an unconditional job security and full employment a number of such "safety brakes" were built into the regulation system as rendered even the risk of unemployment avoidable. Besides, in the early years, a general reduction of the work week, as well as some social measures strongly increased demand for labour, independently of each other, yet simultaneously. In the past two or three years the increase of labour productivity considerably accelerated in comparison with the preceding period; under the fourth five-year plan (1971–1975) the production plan was fulfilled with a much lower employment than had been planned, particularly in industry.*

*For an evaluation of the complicated processes of economic development the "plan" is, of course, not the best standard, since the measure of plan fulfilment reflects not only the results of activities, but also the "quality" of plans. E.g., it would require separate investigation how the "overfulfilment" of the industrial manpower targets of the third five-year plan covering the years 1966 to 1970, and the underfulfilment of the fourth five-year plan's targets (in the late 1960s industry engaged much more manpower than had been planned and in the early 1970s much less: a rare exception in a socialist country) are connected with the results of planning activity. This is because targets laid down for different fields or periods are not in all cases of equal value contentually. This is attributable not only to inaccuracies of information and computation methods necessary for plan calculations or to their time lags but, in my opinion, much more to the fact that the effects of the interest relations and the institutional system of the Hungarian structured society assert themselves in a special way in the planning process. Little experience has been gathered as yet about these effects: their scientific exploration would require investigation of the sociology of the planning process, if such investigation were at all possible.

In addition to the improving standards of management and control as well as of other factors, a role must have been played in this also by the compelling force of an increasing labour shortage. However, a separation of these different effects is hardly possible.

Old and new experience alike show that *management and control methods in themselves do not explain* the increasing contradictions of the employment balance. At the same time, on basis of Hungarian as well as other countries' experience, there are clearly perceptible intensive efforts in the economic policies of today's European socialist countries to achieve *the fastest possible economic growth*, which leads not only to "shortage of capital", but also to "labour shortage".

This is partly connected — in one part only — with the essential feature of employment policy that it is related equally to economic policy and social policy. From the side of social policy employment policy had the important task — as has been indicated earlier — to eliminate unemployment, to increase the economic activity of women, to reduce regional differences in employment, that is, to serve security of existence and social equalization. Therefore, Hungarian employment policy has striven from the beginning intensively at a maximum utilization of labour resources, even at the expense of efficiency. This tendency *was asserted through the mediation of manpower planning and direct social influence on enterprise management*. Thus the acceleration of economic growth and the concomitant "appetite for labour" coincided with social and employment policy aims directed at expanding employment. This had not caused any important contradictions in employment as long as the mobilization of free labour resources was easy, and the increase of labour supply preceded in most cases demand for labour.

Recognizing the situation established in the recent past as well as what is to be expected in the future, in the formulation of economic and employment policy aims the necessity of efficient employment and selective development was laid down, correctly and *clearly*, as early as the mid-1960s. In the final analysis, however, economic policy is not characterized by its declared aims but by its results, and the latter lagged much behind requirements. This is because for the realization of the employment objectives not only a much faster growing labour productivity than earlier would have been needed, but also a more definite assertion of efficiency, and economic development, i.e. the concomitant demand for labour would have to be kept at a level corresponding to the available labour supply.

In the increase of productivity favourable results have been achieved in recent years, particularly in industry. Serious efforts are still needed to render favourable tendencies general and firm, first of all in the field of *plant- and work organization and of technological development*.

It would require a separate analysis, how much the backwardness in this field is caused by today's interest relations, the selection of leaders, and social forces influencing management. I do not count among the presumable causes of backwardness the knowledge and experience of workers, or technological equipment, although they are

undoubtedly of great importance in the long run. However, the latest empirical investigations have also confirmed that the wide spreading and stabilization of results so far achieved necessitate mainly an *improvement of interest relations, of the related regulation, and the selection of leaders*, as well as coordination of social factors affecting economic activity with economic policy aims. This last point could play a particularly important role in that *enterprises should dismiss labour that does not suit them or is superfluous*, thereby augmenting labour supply, which would allow satisfaction of the demand for labour in activities to be developed.

Results so far achieved in the improvement of efficiency are not clear enough and their criteria are rather uncertain. Yet, there can be no doubt that the *largest "labour reserve" today and in the future is in what can be released by reducing non-efficient or less efficient production*. However, a consequent and strict assertion of efficiency requirements reaches even farther beyond the limits of employment policy and labour economy, insofar as it requires repeated analyses and further development of Hungarian economic policy and economic control, as well as of the related social policy practice. Also the methods of wage control have to be examined within these programmes, since they can have a favourable effect on labour utilization only if they contribute to the assertion of efficiency requirements within the framework of the general development of the market tools of Hungarian socialist planned economy, as part of the whole regulation system.

Experiences of recent years have made it clear to everybody that this would be a further strengthening of socialist planned economy. Large new projects to be realized from central resources, as well as the development of non-economic institutions and organizations were even previously laid down in the national economy plan.

However, *the plan – as a means of scientifically elaborating economic policy* and a reflection of its practice – does not and cannot determine details and inner relations of the activities in enterprises and institutions; it does not and cannot prescribe, what production and service might be considered efficient or non-efficient.

The everyday requirements of profitability and efficiency assert themselves in the large and complicated system of the economy through the market, in a way allowed or demanded by our control and regulation system. Accordingly, the main method of efficient labour utilization cannot be a central "labour regroupment" [7] – correct otherwise, though applicable only in exceptional cases –, *but merely a continuous "regrouping" of labour from socially less efficient activities to more efficient fields*. One of the main problems today is exactly that the Hungarian economic policy and the regulatory system allows also less efficient activities to survive, instead of stimulating or enforcing their suppression. These retain the labour whose lack hinders development of other, much more efficient and socially more important fields of activity.

It is in consideration of the preceding that the question of "internal labour reserve" must be investigated. By this reserve the work time [9] is lost for production i.e. because of deficiencies of enterprise (institution) management and control, disorganization of work, irregular supply of materials and tools, lack of a smooth and regular work supply

and finally, related to the preceding, also because of a lax labour discipline is generally meant. (To this "reserve" are added part-time absences and unjustified absences.) According to various estimations this lost work time amounts to about 5–25 per cent of the work time fund of those employed. The responsible leaders of labour management in Hungary put this reserve at 10 to 15 per cent on national average, sometimes even at 20 to 25 per cent [10, 11]. This is undoubtedly an immense volume which, expressed in numbers, would make out no less than about half to one million. Yet there are quite a number of exaggerations and mistaken views about the development, role, and importance of this statically interpreted "internal reserve".

Recently the opinion has often been expressed that the emergence and even a possible increase of the "internal reserve" is related to the changes in the labour situation; labour shortage is partly a reason for it and partly its consequence. Nevertheless, every sign indicates *that these "reserves" had been there even earlier* when labour supply still surpassed demand, and they do exist today in those socialist countries where labour shortage has not yet emerged. It would be difficult to measure objectively, when these reserves were larger in the Hungarian industry: e.g. in the 1950s or today. In any case, it is likely that in most recent years – forced by intensifying labour shortage and on the warning of labour management – work time losses that can be influenced by enterprise management and organization have been reduced, while the effect of other, well measurable factors (e.g. work time lost due to sickness) has grown.

Anyway, the formation of internal "reserves" is not the cause of the present labour shortage, but *there is now an interaction between these reserves and labour shortage*. Under certain conditions and within quite narrow limits *mobilization of the internal labour reserve may ease the labour shortage*. And, conversely, efforts directed at efficiency of employment, productivity of labour and, *within this*, at mobilization of inner reserves may bring better result if the pressure originating in labour shortage and weighing on enterprises can be reduced.

Under present circumstances the slogan of utilizing internal reserves is to be interpreted as a call for *well organized, disciplined and efficient work*. This would allow reduction of work time losses due to different reasons (although a certain amount of such losses is to be reckoned with even in the best functioning organization). And, well organized and disciplined work *promotes a fast – much faster than previously – increase of labour productivity*. The importance of this is indicated by the fact that in each five-year plan a 30 to 35 per cent increase of productivity is prescribed on the national level. To achieve this is no small task, since – continuing to play with numbers – it could be also said that the labour force of about 1.5 to 1.7 million persons has to be saved in the course of each five-year plan by increasing productivity.

The *importance* of inner reserves today lies in the fact that reserves fast to be released through various central and enterprise measures *can be used for the restoration of the employment balance*. In this process, however, it must be taken into consideration that there is no direct cause and effect relationship between "reserves" i.e. productivity and employment balance either from the above-mentioned aspect or other aspects.

Namely, the mobilization of the "internal labour reserves" does not necessarily reduce labour shortage, and it is even possible that while work time loss is reduced (e.g. the rate of those on sick-pay is forced down), labour shortage is further increasing.

Utilization of internal labour reserves can improve the employment balance only if, simultaneously, economic growth i.e. demand for labour were kept in check, unlike previous practice, and not every bit of resource newly discovered were immediately seized upon in order to increase production (activity) as fast as possible. This is one of the important conditions of achieving the desired aim: a balanced and efficient socio-economic development.

Structural contradictions in employment

Labour is a multi-dimensional and structured resource. These structures have a comparatively large inertia: they change with difficulty, amidst social and economic contradictions, and *are made to change with even greater difficulty*. Therefore, a comparatively fast industrial development is nearly always accompanied by labour shortage and excess labour simultaneously present in the economy: shortage in one group of labour and excess on an other one. In the case of a global labour shortage the negative effects of *structural imbalance* are also stronger. Therefore, restoration of the balance of employment, and a more efficient labour utilization necessitates elimination also of the structural contradictions of employment.

Among the main types of labour structure the contradictions of three interactive ones: the sectoral, regional, and professional (vocational) structures are important. According to several investigations as well as everyday experience, *as regards sectors, labour shortage is particularly serious* in a few subsectors of heavy industry, in the textile industry, food industry, urban food trade, railway traffic, etc. [12].

This short and by far not complete list shows clearly that labour shortage is worse in sectors where *working conditions and circumstances are more unfavourable than the average* (heavy physical work, shift work, continuous operation, low wages, etc., or combinations of these), and where, partly because of this, the special trades and occupations of the sector have a *low social prestige*. Thus, *behind the contradictions of the sectoral structure problems of the trade (vocational) structure are latent, and these are further differentiated according to the particularities of the regional structure*.

At the same time, *we have hardly any information in which sectors there is excess labour*. Although this is natural enough, the reasons are worth noting. Indication of labour shortage is in the interest and a natural reaction of each enterprise. Similarly, it is in the interest of enterprises to *retain excess labour*, the more so the larger the labour shortage. And if profitability and efficiency requirements do not stimulate – or force – enterprises to reveal and eliminate this excess, and what is more, external – central or regional – intervention endangers their jealously guarded reserves, they will not only try to retain labour but will also carefully hide it. Clarification of the situation is rendered even more difficult today, because, under the conditions of intensive labour shortage, the question is

formulated rather by asking: which are the sectors where labour supply is more favourable relative to others. The comparatively more favourable situation is not typically of a sectoral character: it is connected partly to the trade (vocational) structure and partly, as will be seen, to the regional structure.

The problems of *regional labour structure* can be much more clearly surveyed. Among the regions struggling with *labour shortage* it is the industrial and urban centres, mainly *the capital, whose labour situation is the most difficult. Excess labour* and, what is more, an excess reproducing itself for a long time to come, is to be found in the traditional *agricultural regions* of the country.

Because of the special demographical structure of Budapest the number of young people entering employment has been for a long time lower than that of old people leaving work or dying. However, the net balance of internal migration has not only made up for the shortage, but also augmented the population of the capital. Yet in recent years *immigration has fast diminished* and has not yet stabilized even at that present low rate. At the same time one-fifth of those employed in the capital come to work from the countryside and the number of commuters is not increasing any longer, mainly because of the considerable improvement in employment possibilities in the countryside, and given today's conditions, it may even decrease.

Employment of the gradually released labour reserves of *agricultural districts* is a long range task. This includes not only the old, and still timely objectives of "*industrialization of the country*", but to an increasing extent the development of infrastructure, i.e. acceleration of urbanization. In regional development the results brought by the progress of the late 1960s are outstanding. From the aspect of employment, however, *regional allocation of new production capacities* is an increasingly difficult problem. In the selection of location alternatives of large projects it has been for long an important factor, where the demand for labour of the new project is expected to be sufficiently met. In spite of this, in an increasing number of cases it is exactly from the aspect of labour that the choice of the location site proves to be a decision of a doubtful value. The labour wanted for utilization of the new capacities can be acquired only with serious difficulties, in many cases with special preferences, thus *sharpening contradictions on the local labour market*, and causing difficulties in the carrying on and development of other production or servicing activities.

One of the direct reasons for this is *the interestedness of councils in the location of new investments*. The more important the new investment, the stronger this interest. This is because a new project brings not only new capacities; major productive investments entail wide complementary development. Thus, investments speed up the whole socio-economic development of the given district. Therefore, it is also in the interest of councils to give a favourable picture of the labour situation.

It adds to the inaccuracy of information that councils generally base their opinion on the regional manpower balance and on long-range regional development plans, or support their opinion by those. Such balances and location prognoses provide good grounds for the elaboration of regional employment policies, but are hardly apt for the

examination of development alternatives based on labour supply. Namely, the labour situation of a given settlement and its zone of attraction *must not be identified with the labour situation of the country as an administrative unit*, and not even the district units of regional development can supply sufficient information for this purpose.

A correct judgement on the satisfaction of the expectable labour requirements of a labour-intensive new project can be formed only after examination of *the settlement and its zone of attraction*. And this requires a method that is suited for analysing the past development and actual situation of the "local labour markets" and for prognosticating the future development of this labour market. The task of elaborating such methods is in most part still ahead of us.

In resolving the general contradictions of regional labour structure an outstanding role is played by the *location of housing and by development of transport* adjusted to the actual and future labour structure.

A particularly complicated and much discussed dimension of labour is its professional (vocational) structure, which is closely related to the structural education and qualifications.

The structure by qualifications is a system determined by schooling (education and vocational training) measurable by its formal criteria (certificates, diplomas, etc.). The "*professional (vocational) structure*" is characterized by actual knowledge i.e. the knowledge acquired. On the other side, the "*functional structure*" of labour shows, how this potential knowledge appears in social working activity [13].

There is a close relationship between the three structures. The structure by qualifications is one of the determining factors of the professional structure, since the knowledge of people (as labour-force) is formed by education, qualification, practical work, self-education and organized adult education combined. Potential knowledge expressed in the professional structure may be manifest in actual working activity. In this, however, the professional structure is determinant only from one aspect. On the other side, there is the employment (job) structure, i.e. working conditions and requirements dependent on the actual work organization.

Analysis of the relation between the structures by qualification and employment (jobs) is important from the aspect of measuring the social efficiency of education and professional (vocational) training and the planning of education. A significant and permanent incongruence warns that the vertical and horizontal structure of the educational system – including the contents and methods of education – does not correspond to socio-economic needs. Thus, *statistical data have also shown for some longer time already that the Hungarian system of general education is not adequate, particularly as regards its vertical structure. Today less general is imparted than would be possible, while a larger amount and more specialized professional training is given than is necessary. Thus the system of general education increases the professional inertia of labour and thereby also the equilibrium disturbances of the professional structure.*

However, it is not the task of employment policy to adapt the qualification structure to the employment (job) structure. What is more, assertion of a formal congruence, i.e. a forced adjustment of employment (job) structure to qualification structure would increase the structural contradictions of employment. It has to be considered namely, that the planned development of education reckons from the beginning with the effects of trade and employment (job) mobility. Plans relating to the number of specialists that determine vocational training contain mobility balances differentiated according to groups of trades: in certain groups that is a debit balance, in other groups a credit balance. This is because planners set out from the realistic assumption that the choice of a school (qualification) at a young age cannot be a final decision for the whole life of every individual. A certain extent of mobility in the development of the individual as well as of society is not merely inevitable *but even necessary*, and therefore, the qualification structure deviates from the employment (job) structure "according to the plan".

It follows from the foregoing that employment policy must strive mainly at a coordination of trade structure with job structure. The requirement must be given preference that everybody ought to get the kind of job (place of employment) which he can efficiently perform in view of his actual knowledge (professional structure), and, the other way round, labour with such qualification is to be employed (or retained) that can do the given work in the most efficient way. This means that the old slogan "The right man in the right place!" has to be employed with greater consistency.

The particular contradictions of the various trade and employment groups are so diversified and differentiated that their detailed analysis according to groups of trade would require a separate study. One of the most important and typical factors of the contradictions is the structure of the Hungarian general education system already mentioned, which cannot be treated here in detail [14, 15].

Other types of contradictions in the trade structure are rooted in *the working conditions and circumstances which are much less favourable than the average*. Because of these *mobility losses* in a number of professional and employment groups *are disproportionately large*. In some of these professions the *unfavourable conditions and unfavourable working hours* from the point of view of private and family life (different shifts, continuous operation) often coupled with difficult – unhealthy, exhausting, unpleasant – working conditions. (Let us think e.g. of the work of the metal-workers, the smiths, the weavers, spinners, nurses, etc.)

In other trade groups "unfavourable conditions" are mainly the *disproportionately low earnings*. Among them primary- and secondary school teachers deserve particular attention. Here the effect of the disproportionately low salaries appears, owing to particular reasons – first of all to the structure by sex of secondary school pupils – not in labour shortage but in a double selection of the unfittest. It will sooner or later entirely sort men out of the teacher's profession and lead to its effemination, disturbing to pedagogical work, and also to a deterioration in quality. The effects of this process will

assert themselves after some longer time and indirectly, yet they will be very grave, since the consequences will be defects in the education of young generations which are difficult to remedy later. The solution necessitates a comprehensive evaluation of the situation of the teachers' profession and complex measures.

Both factors mentioned in the preceding are related to the increasing shortage of simple physical labour. This causes ever greater difficulties not only in Hungary but also in other European socialist countries [16]. One way of reducing contradictions originating therein: modernization of the general educational system, has already been mentioned. The other way is to reduce demand for simple physical labour. This requires – within the inevitable limits of profitability – partly the mechanization of simple jobs, and partly a gradual reduction of production in sectors requiring a larger amount of and more difficult simple labour than the average, in favour of activities requiring more complicated and qualified labour.*

Labour mobility and its interrelation with balanced employment and efficient labour utilization

Global and structural balance of employment, i.e. harmony between demand and supply of labour develops through the *whole process* of socio-economic development [17]. This harmony is created directly through the *movement of labour*, its fluctuation and mobility [18] with the mediation of demographic exchange and exchange of working place. Therefore, both in the efficient labour utilization and in the development of employment balance *an outstanding role is played* by demand and supply of labour – interpreted as labour fluctuation determined by the socialist labour market – by the particular laws of movement of this process.

This is related to the fact that, although in socialism labour is by no means a commodity, in its movement a commodity character appears, since "labour has commodity features" [1]. *The real functioning of demand and supply of labour has always been taken into consideration* not only in Hungary but also in other socialist

*In connexion with the contradictions of the professional structure I deliberately do not treat separately the problem of administrative workers, although the "staff number stop" introduced in 1975 and amended not long ago shows that many hold the development of employment in this special group particularly important. I may be, however, right in assuming that this measure, not very useful from the aspect of labour economy, was not so much directed against administrative workers as against *administrative work*. According to experience from among non-physical workers the burden and the intensity of work of the large number of administrative workers is more above the average than below it. The problem is not that the "inner reserve" is particularly large in this group, but that the degree of organization of administrative work is low, and the volume of administrative work has grown out of proportions because of weaknesses in enterprise management, the fast increasing data supply requirements of local and central organs and extensive bureaucracy. It is presumably the solution of this problem that the "staff number stop" was intended to press for and force.

countries, This shows particularly clearly in the practice of regularly changing relative wages with a view to regrouping labour among sectors, employment groups and various fields

Recognition and acknowledgement of the determinant role of demand and supply of labour, i.e. of its factors in the movement of labour is essential also because *this determines largely the methods of labour management*. On the socialist labour market it is not the "salesman" meeting the "customer" i.e. not the working class conflicting with the capitalists, but members of the working class meeting the "enterprise" that is called upon to serve the interest of these same members of the working class. In these particular conditions *the possibility of labour movement is practically free exactly* for this reason, what is more, from a certain aspect it is even freer – *and has to be so – than in capitalist economy*.

This is because even at its present development level, socialist society provides for the security of existence and social openness at a higher degree than capitalist countries of a similar economic development or even the economically more advanced. In those countries unemployment, on the one hand, and capitalistic market relations, on the other hand, put strict limits on the overall social movement of labour, independently of how this restriction is reflected in the minds of individuals. In comparison to this, people are freer under our socialist conditions to choose and change their profession and place of work.

However, the movements of individuals for subjective motives can render difficult or even *cross the realization of economic policy aims*, and the harder, the larger the demand for labour relative to labour supply. This contradiction can be efficiently solved if *a consistent system of extensive and interrelated measures* helps in creating such circumstances and conditions under whose effect *the resultant of movements coming about from individual motivations of people will be a planned distribution and redistribution of labour promoting socialist development*.

The movement of labour effects hundreds of thousands of people. The number of those *entering jobs* characteristic of this movement has been in recent years 1.5 to 1.5 million yearly in the socialist sector. About 20 per cent of this come about because of demographical exchange (young people leaving school; retirement, and similar reasons; child-care allowance leaves); 30 per cent are due to seasonal work, incl. the summer employment of pupils. The other half is made up by changes in the place of employment. The number of those changing their place of employment, i.e. actual fluctuation, is somewhat lower than that, since the former figure covers also the repeated changing of jobs of identical persons.

The *global* balance of the demographic exchange is determined – under normal conditions – by demographic processes rooted in the past and effective in the long perspective: fertility, mortality, and migration. The result of these is such a given fact for the labour market as can be well enough seen from the demographic and employment prognoses, so that the economy, i.e. demand for labour has to be adjusted to it. The situation is entirely different with *the structural change* brought about by

the demographical exchange. The sectoral, professional and regional structure of natural losses (retirements, deaths) is conserved by past processes, since fluctuation and mobility are slight at an advanced age. The professional (vocational) structure of the young replacing the old is mainly determined by the structure of schooling and vocational training, i.e. their qualification structure. And their sectoral and regional structure are determined – beyond the demand for labour, as well as by such factors as relative wages, transport and housing conditions, the social prestige of the profession, etc. It follows from *all this that the structure of those leaving work strongly differs from the structure of those entering work: those leaving work reflect the average structure of the past, while those entering work reflect that of the future.*

Demographic exchange has an important role diminishing the labour reserves of the regressing sectors, professions and fields and in increasing the labour force of dynamic and progressive sectors, professions and field. It is for the same reason that the composition by age of the various layers of the employment structure is different. That is why e.g. agricultural wage-earners are “older” than industrial workers, and why the average age is higher in the “old” iron and metal mass production than in the “young” electronical industry.

In the case of labour shortage young school leavers have a wide range of choice from among the elements of the employment structure. The most important initial motivating factor of this choice is the structure of education, the level of training and its professional (vocational) contents, as well as the influence of teachers. That is today the main reason, *why the structural change brought about by the demographical exchange does not fulfil the requirements of the social allocation of labour* since – as has been mentioned several times – the Hungarian educational system and the structure of its output is not adequately in harmony with socio-economic needs.

Employment according to sectors and areas, and partly even the beginning of the professional (vocational) careers of young school-leavers can be regulated *through demand for labour*. As a matter of fact, this is the basic principle of the new measure which determines centrally for each profession the jobs to be offered by enterprises to the young school-leavers, thus delimiting their choice to a definite area. In the case of a correct execution, this directive will not restrict but strengthen the “freedom” of the labour market, since it reduces least partially and temporarily, the actual inequality of terms of the participants in the “market competition”, and improves possibilities to coordinate social interests with individual motivation.

This way of regulation, however, may be justified and effective only *in a narrow field*. Thus e.g. in health service and education the labour situation – the extent, nature and place of labour shortage or excess – can be clearly surveyed. In these sectors the creation of jobs has not been determined even so far either by the inner requirements of the economy or by foreign trade demand. That is why it is justified – and would have been so earlier – to announce new jobs centrally and in harmony with the number of graduating students, while the movements of the existing staff can be well directed through the long established mechanism of appointments and transfers.

Tensions will appear even on such a planned and regulated labour market, some jobs will be wanted by many, others not at all. This is, however, such a rational *signal system* as will – if correctly analysed and interpreted – show the way to measure by which the individual's choice of a career may be influenced in a socially acceptable manner. If, e.g. graduating teachers do not take jobs in schools, in whose area they cannot even hire a room, the only possible reaction is to provide for housing, particularly in consideration of the teachers' salaries. Solution of this kind cannot be replaced by any system of obligatory employment mediation.

In the majority of trades and occupations, however, larger masses are working than that, and most of them are employed in a *wide sphere of sectors*. The movement of these masses cannot be directed in the *above-mentioned way*, the less so as the jobs in these professions *cannot even be surveyed* centrally, directly, and individually. Thus e.g. about 70 thousand engineers are employed today in the national economy. The number of engineers graduating a year from day course is under two thousand. Under such conditions "central" regulation of the employment of graduating students could effectively influence the supply with engineers of the economy and of each field in it, if the whole staff were restricted in its movement by centrally prescribed, obligatory "staff number". Regulation in such detail, however, did not exist even in the "golden days" of central plant instructions, either in Hungary or anywhere else, nor is it conceivable, apart from an exceptional state of affairs.

Structural changes taking place through demographic exchange in populous professions and occupations covering many sectors can be influenced by means of factors *motivating the choice of career and job-finding of young people*. Regulation of labour demand assumed, the most important of these factors are the following: relative wages, working conditions and circumstances, development and promotion possibilities for the individual, housing and transport conditions in relation to the work, or, more generally speaking, all the motivating forces of the labour market mentioned in the preceding chapter.

From the aspect of balanced employment and efficient labour utilization the *changing of the place of employment* – appearing in the form of *fluctuation* and including a considerable part of *mobility* – has outstanding importance even on account of its volume. Investigators of fluctuation usually call attention to the size of changes of jobs, to their frequency, or to the considerable costs (damage) incurred because of the training of the new labour entering, work time losses and reduced output. Sociological and socio-psychological examinations provide a lot of information – mostly by questioning the job-leavers – as to the role of wages, working conditions, human relations at the place of employment, and transport conditions etc. in the changing of a job.

These examinations and analyses are not less valuable or correct if it is stated that from the aspect of either balanced employment or efficient labour utilization *the principal problem is not the size of the fluctuation and how much it costs, since without labour movement – first of all fluctuation and mobility – there is no normal*

socio-economic development. It is by this process that a continuous regrouping of labour from activities that serve diminishing social needs to those that serve increasing needs is taking place. It is this same movement that enables individuals to find jobs suiting more fully their abilities and claims having changed in the meantime, which is a basic condition of identification with one's work. *Therefore, a restriction of this movement cannot be an end in itself*. What is more, in a certain sphere labour movement, fluctuation, mobility, the changing of the profession, occupation, field and sector should be rather encouraged. It must not be, however, simply called "socially unjustified" labour movement when the worker leaves his job because he does not find it satisfactory. It is more realistic to list this under the "signal systems" mentioned earlier and to study carefully these "signals". Only in this way can we fight – instead of symptomatic treatment – against the causes lying behind the symptoms held harmful.

It is this opinion that is expressed by the statements which contrast socially "justified" or "necessary" labour movement with socially "harmful" or "unnecessary" fluctuation and mobility [19]. This classification shows again that *the trouble is not that labour "moves" but that the direction and structure of this movement is not adequate*: the labour moving is not the one which ought to, and not to the place where it would be more needed socially or where it could better satisfy the requirements raised by work.

As a consequence of negative tendencies acting in the present labour movement, the changes in employment structure – including the allocation of labour among enterprises, i.e. the production of various articles and services – are not in due harmony with rational social needs. Thus, *labour movement today sharpens contradictions in the employment structure* i.e. the structural incongruence of demand for and supply of labour. This incongruence hampers that the transformation of labour structure should take place in harmony with socio-economic development.

Having once recognized this problem, it is today an important tendency in Hungarian labour management that the structural harmony of the labour market must improve through an *organized direction of labour movement*. It is in accordance with this tendency that such methods are resorted to as the new rules concerning the employment of graduating students or the obligatory labour-exchange.* In principle, a similar procedure is the "organized regrouping" of labour whose importance has been stressed in several studies and declarations in the last one or two years [7, 10, 11]. All these methods may be useful if applied in concrete cases, in conformity with their character, and in the corresponding *narrow circle*. Yet they are obviously inadequate, *even in their totality* for a socially efficient and rational regulation labour movement.

This is because, as has been mentioned, the number of changes in the place of employment is about 700 thousand yearly. Out of this number the regulation of employment of graduates from higher education, obligatory labour-exchange*, and

*The latter affects administration jobs. – Ed. note.

“organized regrouping” may affect directly a few ten thousand persons, *at most* if these methods are rationally applied. Therefore, the most important question remains: how to control the movement of the really huge masses affected by fluctuation and mobility. By this control the *direction and character* of fluctuation and mobility should be changed so as to conform better to the requirements of socio-economic development. In that case *the volume of labour movement would probably also diminish*.

An opinion frequently expressed is that mass labour movement and its negative effects are caused primarily by *labour shortage*. Doubtlessly, increasing labour shortage intensifies unfavourable effects. Yet it is also doubtless that the phenomena objected to, as work discipline, work quality, etc. are not new; they were present even when labour was abundant. The negative tendencies of labour movement act similarly in socialist countries in which there is no labour shortage as yet. Thus, a disequilibrium of employment *cannot be the reason* for labour movements rendering difficult a planned and rational social redistribution of labour; it can only influence the *intensity* of these tendencies.

According to other opinions the criticised phenomena of labour movement are related to *the new system of economic control and management*, among other things, to the lifting of legal regulations that restricted labour movement. It is true that fluctuation speeded up after 1968. On the other hand, free changing of jobs – that had been formerly legally restricted – probably contributed to the upswing of efficiency after 1968. It is also likely that larger fluctuation is related to the sudden increase in demand for labour after the reduction of the work week. Separation of the effects of individual factors does not promise reliable results, since these as well as other factors motivated the volume and structure of movement together. In any case, the new mechanism cannot be the reason for the phenomena criticized, since the latter are observable also in such socialist countries whose economy is more or less still managed with the methods of plan instructions.

Relying on former examinations and experience it is closer to reality to *search for the direct cause of this problem – within the limits of the given social policy and economic policy – in employment policy*. It has been mentioned earlier that the *employment policy* of socialist countries has been more determined by certain social aims so far than by the important criterion of rational employment related to economic efficiency.

The effect of this is reflected also by the fact that the overwhelming majority, about 90 per cent, of changes in the place of employment are not initiated by the “enterprise” – the employing organization – but by the workers. Although a part of the workers’ notices is provoked by the “enterprises”, yet the larger part of the movement is not determined by this but by the *individual motivation of the workers*. And, since in a considerable part of the cases this motivation is not rooted in the requirements of socio-economic development but often in circumstances contrary to these requirements though corresponding to individual interests, today’s labour

movement does not adequately promote a rational distribution of manpower. Part of the workers leave a job even if their absence hinders satisfaction of important social needs or a more efficient development, and they change over to a field less important from this point of view. Today's labour movement increases also the incongruence between professional structure and employment (job) structure, since inefficient workers, "weak" from the point of view of the given job usually stay and the more efficient, "strong" ones leave.

This contradiction *cannot be eliminated by administrative and legal restriction of individual choice*. This would not only entail unfavourable social and political effects, but could restrict the movement of labour – as was shown by experiences of the 1950s – to a small extent only. *It would not eliminate* and might even intensify the negative effects. With the exception of deviating cases the restriction of individual changes of jobs cannot be lasting and successful also because *it contradicts basically our social aims*, i.e. the freedom the socialist system can give to the working people.

Therefore, the movement of labour is not to be restricted, but on the contrary, *its freedom has to be extended*. This can be done first of all by cancelling the restrictions that cause *the one-sidedness of today's labour movement* and intensify the negative tendencies of fluctuation and mobility. One of the basic conditions is the regulation of demand for labour through economic policy and economic control and management. This means practically the well-known requirement of a more intensive enforcement of efficiency, which has been mentioned in this article already several times. It can be attained only in this way that activities of low efficiency should gradually cease, and thus labour might be regrouped into more efficient fields of work.

The other basic condition affects directly employment policy: the requirements of economic rationality should be asserted with greater determination not only in economic policy but also in social policy. This is today not only *possible*, since security of existence connected with full employment has been realized to a maximum extent, but also *necessary*, because the advantages of the security of existence are enjoyed also by those who do not adequately fulfil in their work their obligations towards society.

To achieve this aim the social behaviour and legal regulation or rather the legal practice must be changed on account of which enterprises today refrain, justifiedly, from dismissal of people not working satisfactorily or who are superfluous. As against the previous practice and public opinion developed by ourselves it has to be made from an exceptional into a general practice that employees not performing their work satisfactorily or who are superfluous *should be dismissed*. Under today's circumstances this is acceptable even socially, since *dismissal would not leave anybody without work and income*. It would doubtlessly entail, however, that the effect of forces would be intensified which *direct labour movement* into channels corresponding to economic rationality and, with the intervention of "organized regroupment", important but exceptional, this would take place mostly through a more effective assertion of "*planned regroupment*".

Elimination of previous conditions restricting freedom of the labour market would, of course, *narrow down the range of choice of the individual*. Yet it would intensify in employment policy the requirements of economic rationality and efficiency so that not the individual decisions would be interfered with, but their *field of movement* would be more regulated and in a way better suiting social interest than has been so far the case.

In this case, in the conflict of the real or imaginary interests of the individual and those of society, and in the solution of these contradictions, the social interest, the *continual structural change* concomitant with socio-economic development, and the permanent and economically desirable flow of labour could be better asserted.

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Summarizing the aforesaid it can be stated that more efficient labour utilization, restoration of balanced employment, and an effective reduction of the increasing labour shortage are *mutually interrelated tasks*. Their solution requires *planned regulation and coordination of the demand for and supply of labour*. Regulation of demand for labour is dependent first of all on *economic policy* and within it from development policy; its most important means – based on planning – is raising of the standards of economic control, and further development of the regulation methods. *Regulation of labour supply* and creation of structural harmony are dependent mainly on employment policy; its most important means is the free movement of manpower on the labour market *within the limits of the scope of movement regulated according to plan and marked out by social interest*, through a many-sided and coordinated influencing of the individual's choice of a job.

The effect of planning and regulation determining demand for labour has to be asserted throughout the entire national economy: it cannot be limited to a few sectors, certain trades and occupational groups or certain areas.

The correct setting of aims is a necessary but not sufficient condition of development: it is only the initial step. The difficulty of realizing these aims consists not only in that a social practice which has become a "habit" is to be changed and this in itself necessitates a careful social, political, economic and legal preparation and gradual introduction. It is even more difficult to achieve that not only the *reality of planning of labour demand should be increased*, but also the mechanism regulating the labour demand according to plan should be developed, i.e. further progress should be made on the way of economic reform. And this can be done only by the wide coöperation and intensive work of scientific and practical experts, of which the best example was provided by the work preparing the 1968 reform which had been directly controlled by the Party.

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О ПОЛИТИКЕ ОБЕСПЕЧЕНИЯ ЗАНЯТОСТИ И ИСПОЛЗОВАНИЯ
РАБОЧЕЙ СИЛЫ В ВЕНЯРИИ

Я. ТИМАР

В статье на основе конкретного анализа занятости и использования рабочей силы в Венгрии рассматриваются возможности, с одной стороны, увеличения предложения рабочей силы в условиях полной занятости, а с другой, — сдерживания спроса на нее на уровне, соответствующем предложению. Автор детально останавливается на роли экономической политики в широком смысле слова в формировании спроса на рабочую силу.

Во второй части статьи автор останавливается на структурных противоречиях занятости, прежде всего на проблемах отраслевой, территориальной и профессиональной структуры, подчеркивая взаимосвязи трех структур и отмечая возможности разрешения противоречий.

В заключительной части автор останавливается на мобильности рабочей силы и ее взаимосвязи с равновесием на рынке труда, и с эффективным использованием рабочей силы. Он излагает роль и значение социалистического рынка труда, а также средства и методы его регулирования, особенно подчеркивая значение мер, обеспечивающих свободное передвижение рабочей силы.

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A FEW THOUGHTS ON THE PROBLEM OF HUNGARIAN COOPERATION WITH DEVELOPING COUNTRIES

How could Hungary meet her raw material demands apartly from the developing countries without reinforcing thereby their inherited one-sided specialization? What alternative forms of production cooperation could she apply instead of the export of direct investment capital resulting in long-lasting foreign ownership and control? What sort of industrialization should Hungary primarily assist in the developing partner-countries and by what kind of technology transfer?

It is such and similar questions that the author tries to answer in the context of a recommendable cooperation strategy. He raises the idea of vertically complex cooperation projects leading to intra-industrial division of labour, and refers also to a few, particularly appropriate spheres of cooperation.

Before World War II, or precisely: prior to her socialist transformation and industrialization, Hungary had been an industrially backward, semi-feudal, semi-capitalized, unemployment-stricken, primary-exporting country, which had practically no contact at all with the countries belonging today to the Third World. Even up to about the late fifties the economic relations of the new Hungary with the latter were developing rather slowly and sporadically, partly because of the necessary concentration of her own efforts to the internal transformation and development, partly and primarily because of the obstacles due to the colonial system in many regions or to the Gold War in others.

Lack of historical contact with the developing countries means, on the one hand, a definite advantage for Hungary (as well as for other socialist countries). Unlike the former colonial powers in Europe, she is not obliged to bear historical responsibility for the colonization and underdevelopment. She is not facing, either, the need, now, of restructuring her economic relations with these countries, in favour of a new international economic order. Such a restructuring – as one can observe in the countries concerned – necessarily meets, even if principally agreed upon on government level, with the resistance of interest groups, particularly the companies involved in the “old” order. Such problems cannot arise in Hungary, also because the private companies, local and foreign capitalist firms have all been socialized.

On the other hand, the lack of historical contact also means, no doubt, the disadvantage for Hungary that she acquired no accumulated knowledge and field experiences in the developing countries. Over and beyond the language problem which also sets up considerable obstacles, particularly to technical assistance, this explains a lot about difficulties in the first period of developing economic relations. Contact with

and support to the liberation movements, which obviously follow from the socialist character of the country, have been an important element of the Hungarian foreign policy since the late forties, but could not be a substitute for economic relations, though in some cases prepared the latter. Maybe this is the reason why in the first period the Hungarian policy of developing economic relations with the Third World countries hardly contained economic considerations over and beyond the indicated (sometimes very vaguely indicated) needs of those to be supported, on the one hand, and the aid-giving capacity — if estimated at all — of the country, on the other. Inevitably, certain disappointments for both sides followed from this simplified version of cooperation policy, however good intentions, strong solidarity feelings motivated it.

The expanding diplomatic and economic relations of Hungary with the Third World, and the slow but advancing accumulation of (good and bad) experiences in them, brought the question of how to develop economic cooperation with the developing countries on a sound basis, for mutual benefits with a full account of the endowments and the structural implications necessarily on the agenda.

Though the elaboration of a *long-run strategy* of development cooperation has actually started only quite recently, while showing already considerable results, certain principles and criteria did give a guidance or rather a frame for the economic relations, even before. The *principles* and criteria in question are ideologically motivated, and prescribe, for example:

- exclusion of exploitation from international economic relations;
- equality of partners, avoidance of one-sided economic dependence, and exclusion of interference with the partner's affairs;
- support to the countries fighting for their economic independence against imperialist economic powers;
- full respect for national sovereignty over the natural and labour resources of the partner countries and support to governments intending to realize it;
- combining the observation of the principles of mutual interests and advantages with the need for assistance;
- cooperation with and assistance to the state and collective sectors, wherever it is possible in the partner countries;
- assistance, according to realistic capacities, to industrialization and rural transformations in the partner developing countries;
- assistance to the partner countries in education and training for the development of a national intelligentsia which is faithful to the people and devoted to national progress.

These principles, which can be formulated, of course, in different words and complemented with a few similar ones conceived in the same spirit, are commonly shared by the socialist countries, and seem to be in full consonance with the demanded new international economic order. Nevertheless, and obviously enough, they cannot make up, but only guide, a *concrete cooperation policy*, cannot mark out the concrete

directions, fields and proportions of a long-run strategy of cooperation,* and cannot give answer to all those questions a country with her own concrete problems, specific endowments, needs and capacities is facing in the international cooperation.

By their very nature and aim, they provide "only" a general framework for the concrete cooperation policy which is to be elaborated in detailed terms and according to her endowments by each country concerned, taking also into consideration, as much as possible, the new or special problems, exceptional cases and possible contradictions arising in practice and left necessarily unanswered by the above.

The exclusion of exploitation and dependence, for example, suggests a ban, for a socialist country, to export *investment capital* one-sidedly in the form of creating thereby for herself a long-lasting, cumulatively growing productive asset for the purpose of acquiring a profit source in a developing country. This principle leaves, however, open the concrete question of how, in what alternative forms, to meet the need (often explicitly spelled out by the partner countries) to contribute to their investment capital, to share the risk of the new ventures, and to supply management service there. This question may arise with a somewhat different content in individual cases, i.e. for Hungary, too, according to different "factor endowments".

The same is true in regard of the delicate question of natural resources. Does it follow from the correct policy of fully respecting and supporting the national sovereignty of the developing countries over their resources, and assisting them in getting rid of their one-sided specialization in primary production, that Hungary — being a country rather poor in mineral resources and badly needing industrial raw materials — should not take part at all in the utilization of their raw material basis? The answer is obviously that it does not follow, even purely from the point of view of their own interests, particularly in those cases when the exploration and extraction of the raw material resources still give almost the only hope and basis for national development in the near future. But then the relevant question is *how* to meet some part of the Hungarian demand for raw materials by imports from developing countries, *without* keeping or encouraging them in the one-sided specialization.

The principle of assistance to industrialization is an obvious stand taken correctly against the colonial-type of international division of labour. But it leaves also some questions open. Namely: what sort of assistance is to be given, and, particularly, to what type of industrialization, to promote thereby a mutually advantageous division of labour? This question again may call for a somewhat different answer in the individual cases, reflecting the industrial structure and the nature of the assistance capacities.

The fact that Hungary does not belong to the technologically most advanced countries, except in a few fields, and she needs imported technologies, know-how and licenses also for herself, poses the question: how can she transfer *appropriate*

*The need for a long-run cooperation strategy was clearly stressed, among others, by Ferenc Kozma [1].

technology to the partner developing countries? Which are the most advantageous fields of industrial cooperation and technology transfer?

All these and similar questions require concrete answers in an elaborated cooperation strategy. Though the short time of the development of economic relations with developing countries did not make it possible to produce such a strategy and to proceed along it, the lack of it, aggravated by the shortage of accumulated experiences has not led, fortunately, to a faulty, malconducted practice, contradicting the above principles. It did result, however, in a certain over-cautiousness in seeking for or applying new ways and methods.

A certain cautiousness in expanding the cooperations over too wide or new fields, followed, of course, and necessarily follows in general, from the more uncertain character of economic relations with countries of the capitalist world economy, than that of cooperation with socialist countries in the CMEA. The more the uncertainties or negative phenomena increase in the former, the more obvious are the advantages of the latter.

The geographical position of Hungary, the economy of transport and communication, the increasing new complementarities resulting from intra-industrial specialization and cooperation among CMEA countries and, of course, the cohesion force of belonging to the socialist system induce trade and cooperation relations to develop primarily with the neighbouring socialist countries. Due to her land-locked position and the physical limits of her transit facilities Hungary meets with considerable difficulties and costs in expanding economic relations with overseas developing countries.

In spite, however, of the growing uncertainties and unfavourable effects for Hungary of the capitalist world market, particularly in recent years and also of the constraints and difficulties arising from the lack of experiences, the language problem, the land-locked position of Hungary, the financial bottlenecks etc., the development of her economic relations with the Third World has been rapid.*

(1) As regards the *terms of cooperation* it is quite evident from both the character of the Hungarian economy and the past experiences, that the further development of cooperation requires, even more than before, *stable, long-term, planned relations* between the countries concerned.

The institutional framework for it seems to be given by the long-term bilateral agreements and the high-level intergovernmental committees. However, in the absence of specific contracts for the long-term turnover of products with mutually accepted conditions, it is still difficult to take into consideration cooperation facilities when setting up Hungarian development goals and elaborating the national plan. The fact that in most of the partner countries there is a lack of a reliably elaborated overall national plan or of sufficient implementation capacities, sets up further obstacles for both the Hungarian planners and the governments of the developing countries.

*For details see [2, 3, 4, 5, 6, 7].

The long-term planning of development cooperation between two countries requires, of course, a perspective survey, on both sides, of the potential cooperation fields, with due regard to the development priorities in each, and to mutual information. In Hungary such a surveying work has recently started in relation to the developing countries, too, which, of course, has to be related not only to the structural development trend of the Hungarian economy but also to that of the partners. On the side of partner countries, however, besides the lack, in many cases, of clear ideas about the directions of internal restructuring and the desirable lines of new international cooperation, it is the lack of sufficient informations on the Hungarian intentions and capacities of cooperation, which may act as a major obstacle. The latter can be explained by various reasons, including the inadequate information activities of the Hungarian institutions or enterprises concerned.

Development of cooperation on the basis of long-term agreements which are organically connected with the national plans of the partners is a distinctive feature of the *socialist* international cooperation among the CMEA countries. In the mixed economies of the developing countries, with a considerable share and role of private enterprises, particularly the giant international companies, there are definite limits to planning the national economy. Nevertheless, a lot can be done, even under the given conditions, to improve the practice and machinery of national planning and to provide thereby – among others – a more reliable basis for international cooperation.

Since the training of manpower is a major, primary element of the Hungarian assistance to the developing countries, an improvement of the *manpower and educational planning* of the latter may appear as an important requisite of making this assistance more effective, and the pattern, direction and content of the training more relevant to the perspective needs of the partner countries.

(2) That the *content of cooperation* must develop towards a dynamically equalizing pattern of division of labour, reaching beyond both the colonial pattern and the one arising from the MNCs' activities, is a point which has gained stress not only in theory, but also in certain aspects of the Hungarian practice of cooperation.

The *readiness* of Hungary (as well as other socialist countries) for the transfer of not only the manufactured industrial end-products or the ready-made technologies, but also of certain capacities of technological development and research to the partner developing countries, her readiness and deliberate intention to assist them in developing, as against the enclaves, a real industrial basis, training and research centres as well, and her policy of providing market facilities in the framework of an organized, planned economy for the industrial exports of the partners, have been clearly demonstrated in practice [3]. This indicates that there is *no* resistance or opposite interest, on part of the Hungarian side, versus the progress towards *technological polycentrism and intra-industrial production cooperation* which should characterize the really new international division of labour.

In spite of all readiness, in the *actual reality* of economic relations between Hungary and the developing countries such a progress is still very slow and limited.

This follows, of course, from the limited size, volume and dimensions of the cooperation, but it follows also from certain endowments of both Hungary and her partners. The raw material shortage of the former and the inherited specialization of the latter lend a certain complementarity to the structures, which, however, is neither desirable to be perpetuated in this form, nor can provide an appropriate basis for a rapid expansion of trade either.

Due to the role and influence of the international monopolies (still keeping built-in positions in many of the producing countries) in the capitalist world market of the important raw materials, and the fluctuations and uncertainties in the latter, Hungary can hardly rely sufficiently and effectively in her raw material demands on such commercial sources of supply. At best, or mostly, she can have an easy access through trade to the "soft" commodities which are not necessarily those really needed for her economy. It is understandable also from this point of view, among great many others, why the raw material supplies within the CMEA are much more reliable for her. On the other hand, the raw material producing developing countries, even apart from the influence of the international companies, are inclined, again understandably, to export their "hard" products to the metropolitan countries because of the "traditional" business machineries, and their need for the convertible currency of the latter, enabling them to buy modern technology wherever they wish to.

And here is another objective condition, at the moment limiting to some extent expansion of cooperation with Hungary. The latter, a newly industrialized country, still being only on the way of catching-up with the advanced countries of the west, does not possess the most up-to-date technology but only in certain fields of industrial and agricultural production. On the other hand, the partner countries mostly prove to be still unprepared for an intra-industrial division of labour and unable, in many fields, to absorb the up-to-date technology in an organic (i.e. not an enclave-type) structure, since the preconditions, in terms of the production linkages and infrastructural network, the "technical milieu" and the labour qualities, are not mature yet. Their preference for purchasing industrial end-products and ready-made appendix-technologies in the metropolitan countries seems to be reinforced from this side, too, i.e. by the very consequence.

It is to be noted, however, that in many developing countries the traditional business ties with the big western companies, the transplanted standard system and some vested interests hinder the introduction of Hungarian technology even if its qualities in terms of scale, level, capital intensity, local adaptability and accumulated experiences ensure greater benefits and appropriateness than those transferred by the multinational companies.

The conclusion which can be drawn from a realistic assessment of the above endowments and limits clearly suggests that Hungarian cooperation in development with the developing countries should be *rationaly concentrated and gradually structured*, to make it effective within the limited dimensions and to accelerate the evolvement of the new division of labour. (Maybe it is needless to point out that

such considerations are by no means new for, or neglected by, the policy makers engaged in the cooperation with developing countries.)

(3) *Effectiveness of cooperation* will depend to a great extent on the application of "horizontally" and "vertically" *complex cooperation patterns*.

(a) The "*horizontally*" *complex cooperation patterns* have already gained some ground in the Hungarian practice of development assistance and cooperation. More and more pronounced intentions and efforts to coordinate and concentrate the main and complementary activities, deliveries and assistance in a preferably complete way on a few areas of cooperation, seem to characterize nowadays the new initiatives and preparatory works concerning the development of cooperation with developing countries.

Such complex patterns of development cooperation, which successfully combine the various activities in the given, however limited, areas extending thereby "horizontally" over all the important aspects of development, can actually multiply the positive effects of cooperation, as compared to the sporadic, fragmented actions, and can compensate thereby to some extent for its limited volume. They can also abolish certain bottlenecks in the assistance-absorbing capacity of the countries concerned, since the combined actions may create the preconditions of progress for each other. The "horizontally" complex cooperation patterns, particularly the rural or rural-oriented ones, can become, by their very nature, promoting factors in the internal integration process and play important role in the improvement of the employment situation in the area concerned.

(b) The "*vertically*" *complex cooperation patterns*, preferably on the basis of the former, would imply a systematic, programmed (i.e. planned) *gradual advance* from the structurally unequal pattern of division of labour towards the one allocating more equally the decisive vertical links of production. This would imply a shift from the division of labour and exchange, reflecting the inherited one-sided, exclusively primary production specialization and structural deficiencies of the developing countries, towards a division of labour (and trade) pattern which involves specialization and cooperation within the technologically advanced key industries as well. In other words a progress from the situation characterized by the "primary products *versus* industrial products" formula and/or the "soft industrial products *versus* hard industrial products" formula towards practice which involves also the exchange formula of "hard industrial products for hard industrial products" [9].

This seems to be exactly the way of solving the apparent contradiction between the deliberate policy of Hungary (and of some other socialist countries as well) of assisting the developing countries in the building up of their own processing facilities and the dynamic key industries, applying modern technology, and based upon local natural resources, on the one hand, and her import demands for traditional raw materials, on the other. It is an appropriate way also of bridging over somehow the gap between the utmost need of the partner developing countries to get these modern centres of technology on the one hand, and their structural inability to absorb them

even if acquired, on the other; and also a kind of solution for the conflict between their interests of processing also locally the raw materials and those attached to the export of primary products for earning foreign exchange.

One can easily visualize a *long-term agreement*, preferably built on both sides into the national development plans, which programmes cooperation to start (1) with the exploration and exploitation of the raw materials only, to be sold partly to the cooperating-assisting country; (2) to be followed and increasingly complemented by the local processing of the raw materials, and the growing share of the related manufactured products in the export to the assisted partner; and (3) to proceed also with the development of some advanced industrial centres based upon the local natural resources and entering into intra-industrial exchange and cooperation with those in the assisting country. The drop, in a relative sense, of the raw material purchases of the latter from the developing partner, which follows from the increasing volume of processing on the spot, can be purposefully, and for mutual interests, compensated by an appropriate increase in the manufactured imports for the related final consumption, without harmful consequences for the assisting country, if the pattern of her production capacities is shifted in time accordingly and in a planned manner.

The programmed, planned character of such production cooperation can offer the required safety in supply, in revenues and for the employment situation as well, on both sides. The development interests of the partners will particularly coincide, if the raw material supply is related to some of the "key"-demands of the assisting country on the one hand, and if the assistance of the latter to the development of the local industrial branch concerned is backed by a highly advanced level of her industry in the same branch.

It is needless to point out again that Hungary is not only ready but — as a planned economy — also able to implement such or similar complex cooperation patterns, taking thereby a more appropriate share both in certain raw material exports of the partner developing countries and in the development of some of those very industries of the latter, processing and manufacturing the local raw materials.

The greatest mutual benefits will arise in those *fields* of cooperation where the sharing of the raw material supply can organically be connected with the sharing of the higher vertical links of production, i.e. in the final stage, with the sharing of the technological centres and research capacities as well. These fields should obviously be found among those where the Hungarian industries have achieved a high international standard, i.e. where not only the raw material demands, but also the assistance capacities of these industries correspond both to the natural resource capacities and to the industrialization targets of the partners.

(4) It is extremely important to mark out carefully and concentrate rationally on the most adequate *fields of perspective cooperation*.

On the basis of the development level of those *individual* industries in Hungary which may have a closer relevance to the industrialization of the developing countries,

the opportunities for long-term industrial cooperation within the industrial branches concerned seem to appear particularly in the instrument industries (producing precision, optical and measuring instruments, laboratory and hospital equipments, medical instruments etc.) and the telecommunication industries; in the chemical and pharmaceutical industries; in certain branches of the food and the textile industries, and in the related engineering industries; and also in the "house-building" manufacturing industries and the aluminium industry.

As regards the individual fields of scientific and technological cooperation, in addition to those connected with the above, the following can be pointed out, with due regard to the Hungarian capacities and standards: national planning and management; the organization and management of agricultural and industrial co-operatives; agricultural technology, production systems and veterinary services; various engineering consulting services (such as mapping and surveying, mining, etc.).

Besides all the above, more or less individual fields of production and scientific-technological cooperation, appearing feasible also in a complex way but hardly on a large-scale, there seem to be *three main areas* where, due to their relevance to the primary needs of the developing countries, to the background of an advanced production and research basis in Hungary, and to the very complexity of the areas themselves, especially favourable opportunities are open or going to be open for *complex*, long-run cooperation:

(a) complex *rural (agro-industrial) production systems* which comprise related infrastructural and servicing spheres;

(b) *complex water economy*, and

(c) *medical service and public health systems*.

In the field (a), the high standard and rapid development of the CPS (corn production system) and other, animal production systems, related biological and biochemical research activities, advanced veterinary services and agro-based or agriculture-servicing industries, well-organized model farms and successful cooperatives, expansive and well-equipped training facilities etc. in Hungary can provide a growing basis for the feasibility of combined and coordinated cooperation activities in the developing countries, including production, trade and service activities, training, consulting and research.

Complex cooperation in this field could cover many elements in the wide scope of crop production development (involving soil research, plant protection, seed improvement, cultivation technologies, irrigation projects etc.); animal husbandry (involving industrial-type animal growing and feeding systems, improvement of breeding animals, veterinary services etc.); complementary industries (slaughter houses, storage facilities, canning industries, meat processing, manufacturing of certain agricultural machines and instruments, production of fertilizers, pesticides and vaccines, etc.); related training and research facilities and also organizational and consulting activities (such as concerning model farms, training or research institutions, cooperatives, etc.).

(b) In the field of *complex water economy* the traditional (more than a century old) experiences and rapid development of Hungary in the skill of planning, organizing and constructing water supply and irrigations systems, river regulation, water basin and purification systems etc., and the advanced level of the related producing and research apparatus, and of the international technical assistance and trade activities, seem to indicate convincingly the country's abilities for cooperation.

Cooperation could comprise here – within the limits, of course, of the financial and technical capacities – all important elements of a national or regional water economy, i.e. exploration, water supply and energy production, irrigation, water transport and river regulation. It could successfully combine the expert activities (consulting engineering in mapping, surveying, exploring of water sources, including medical and mineral waters, planning of water-engineering projects, consultancy, supervision etc.), the hydrological training and research facilities in Hungary and on the spot; the supply and/or also the local production of various water-engineering instruments, equipments and machines (such as geoelectric instruments, water filters, pumps, mobile purifying equipments, drilling and excavating machines, elevators, etc.).

(c) Cooperation in the area of *medical and public health service* can be sufficiently backed up in Hungary by the experiences of a well-organized public health service, of an overall social insurance system, a wide network of medical institutions of prevention, therapy and rehabilitation, including balneotherapy, and of the training, education and research institutions in medicine and pharmaceuticals, the advanced level of the pharmaceutical industry and the manufacturing of certain medical instruments, hospital equipments or appliances etc.. It has already made (just like cooperation in hydrology) certain, though sporadic, progress and gained some reputation as well, through the export and cooperation transactions of the Hungarian pharmaceutical and medical instrument enterprises and the activities of a few Hungarian physicians in the developing countries.

A more coordinated and complex cooperation in this area could involve organizational and consultant activities as well as training in the public health system, epidemics prevention, health control, rehabilitation, the social insurance system and the establishing or running of medical training centres or research institutions, balneology exploration etc.; installation of hospitals, laboratories, medical schools, combined with temporary staffing and the training of the local personnel; the supply and production in cooperation of medicines, vaccines, and various medical instruments, remedies, hospital and laboratory equipments, and the attached training and research facilities; medical and pharmaceutical education, training and research in Hungary and on the spot.

As regards the relevance of these three areas of cooperation to the development needs of the developing countries, it is more than evident how important each of them can be from the point of view of improving the general welfare conditions, nutrition and health of the population, the food, water and medical supply of the masses.

The complexity of these areas may guarantee a higher efficiency of cooperation. Certain complementarities can be easily pointed out even between the three areas. (E.g. irrigation and the rural production system.)

Implementation of cooperation in the above areas certainly calls for purposeful and coordinated preparatory work in Hungary (including e.g. production adjustments, appropriate language training etc.), and for concentration, both in time and space, of the Hungarian efforts and capacities on a few complex projects. Since the limited resources and capacities of Hungary will hardly make it possible to launch cooperation activities on a too wide scale and with too many partners, this is exactly the way of increasing nevertheless, by efficiency and quality, her contribution to the development of the Third World.

In addition, concrete feasibilities of complementing in these areas the available capacities of Hungary from other, first of all, *CMEA* sources, should also be explored. In other words, bilateral cooperation can be developed into tri- or multilateral cooperation.

(5) Finally, a few more words about the *forms of cooperation*.

The desirable long-term, planned character of cooperation, the requirement of making it the vehicle of progress towards technological polycentrism and intra-industrial division of labour, the need of increased efficiency and the complexity of the suggested cooperation areas make it inevitable (and international practice strongly urges it) to apply more synthetic, complex and organic forms, beside, and also for coordinating the single, isolated trade transactions (buying and selling on an *ad hoc* basis) or technical assistance (sending experts or receiving scholars at occasional request).

Increasing internationalization of the production process is an objective tendency which follows from the development of the productive forces, science and technology. No country can isolate herself from it unless she gives up the hope to keep pace or catch up with the others in economic development.

The characteristic and historically rooted form and vehicle of this internationalization of production in the capitalist world economy is, however, the export of private investment capital, which (as is known) has resulted in a cumulatively growing, interminable, self-reproducing foreign property in the economy of the developing countries, with the concomitant grave consequences.

This form, making the very internationalization of production one-sided, unequal and unbalanced, by combining the one-way transfer of investment capital with the opposite, one-way transfer of investment incomes, and by perpetuating foreign property one-sidedly in the production system of the recipient country, can never play the main role in the socialist practice of international cooperation. This form which is but one of the possible forms anyway, is obviously not the one meeting all the requirements and considerations of the Hungarian cooperation policy. Both the political-ideological considerations and the characteristic features of the Hungarian economy clearly suggest other forms. (There is no private capital in Hungary and there

is no "capital" surplus to be exported. Any financial contribution to an investment in a foreign country means a reduction of the actual investments into the national economy, in which, unlike the capitalist economies, due to its socialized and planned nature, expansion of the concrete investment opportunities never lags behind the potential investment fund.)

It follows that for Hungary, as a socialist country and also one very short of financial capacities, those other forms of cooperation are preferred which do *not* involve or require the export of investment funds.

There are plenty of other possible forms and vehicles of international production cooperation, including a number of varieties of the *joint ventures*, such as complex contracting systems, division of the production process and mutual deliveries, sharing of technology (know-how, licences, new results) and research facilities, joint marketing activities etc., which make possible the organization and effective management of common efforts and a division of labour without unequal ownership relations.

These *alternative forms* have developed not only – though particularly – within the cooperation system of the CMEA, but also in the East–West relations of economic cooperation. Hungary, like other socialist countries, in order to defend her economic independence and socialist economy and also to achieve an equal distribution of benefits from cooperation, has purposefully developed and encouraged first of all those cooperation ventures with the Western firms, which promote specialization and division of labour without the danger of foreign control over the national production and also of one-sided technological dependence.

These forms and the experiences already gained with them can be (and in certain cases have already been) applied in the cooperation with developing countries, serving and safeguarding their own interests, too.

Apart from, or besides, those cases when certain special tasks, problems or requests may make it necessary to apply, temporarily and as an exception, the form of investing in the national production of the developing countries, their often emphasized need for the partner's participation in the investment capital and ownership, sharing thereby the risk and financial responsibility for the venture, may also require the export of investment funds from Hungary to the partner's economy, which can be realized in *joint enterprises*.

While the ventures or joint enterprises established simply for promoting, managing or servicing the exports of the investing country or for the purposes of her technical assistance consultancies etc., (with a certain similarity to the embassies or commercial agencies) suggest a different case and a different solution for reciprocity, the *guiding principle* in the case of the joint investments with ownership participation in the sphere of the national production is voluntary *transformation* into full national property of the country concerned. (Except, if the enterprise will develop, by extending its activity to the investing country as well, into a reciprocal joint venture there, or a really transnational venture with an allocation of ownership and control in full consonance with that of the spheres of activities.)

The voluntary transformation may actually be programmed by a contracted termination or gradual "feeding-out".* (E.g. self-liquidation of ownership participation proceeds like amortization.) In other words, owing to its self-liquidating transformation the exported investment capital is actually behaving, in spite of its appearance, like a credit.

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Finally, let me stress that when raising the above issues and expressing my personal views on them I have by no means intended to suggest some rigid framework for practical activity or to underestimate the role and importance of other ways, forms and fields of Hungarian cooperation with the developing countries. Reality is much more complex and colourful than any theoretical scheme. However much a theoretically elaborated strategy may be needed to guide practice, the latter has always to face new, unexpected tasks, conditions and problems. What really counts in the final analysis is whether, under the given conditions in space and time, a concrete step in practice serves mutual interests and the development of the partner country or not.

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*An example of the programmed transfer of the Hungarian share into national property is the case of Asian Electrical and Mineral Industries Ltd. in Sri Lanka.

НЕКОТОРЫЕ СООБРАЖЕНИЯ О СОТРУДНИЧЕСТВЕ МЕЖДУ ВЕНГРИЕЙ
И РАЗВИВАЮЩИМИСЯ СТРАНАМИ

Т. СЕНТЕШ

В статье рассматриваются четыре, частично связанные друг с другом вопроса: 1. каким образом может Венгрия продолжительно и надежно удовлетворять некоторую часть своих потребностей в сырье из развивающихся стран, избегая при этом непреднамеренной консервации их односторонней (колониальной) специализации; 2. какие альтернативные методы продолжительного производственного сотрудничества и разделения труда с развивающимися странами возможны вместо вывоза капитала, связанного с долговременным закреплением иностранной собственности на капитал, иностранным контролем и систематическим выкачиванием прибыли, и каким образом может Венгрия в рамках своих ограниченных финансовых ресурсов в случае необходимости участвовать в капиталовложениях в некоторых развивающихся странах; 3. индустриализации какого типа следует в первую очередь помогать в развивающихся странах-партнерах; 4. каким должно быть научно-техническое сотрудничество с этими странами.

Автор ищет решения этих проблем не в последнюю очередь в осуществлении таких вертикально комплексных проектов сотрудничества (включенных в долгосрочные межгосударственные соглашения и в национальные планы развития стран-партнеров), которые предусматривают постепенное развитие по направлению более равномерного распределения вертикальных звеньев производства, что есть сырьевых и обрабатывающих отраслей промышленности, а в дальнейшем развитие разделения труда между отраслями обрабатывающей промышленности, а также внутри отдельных отраслей. Такие проекты могут включать или могут потребовать участия также и других стран-членов СЭВ.

Что касается форм производственного сотрудничества, то автор предлагает организационные решения, наиболее гибко приспособляющиеся к конкретным потребностям и взаимным интересам, и считает применимыми все формы, включая и совместные предприятия, а также срочные (аналогично кредитам) и постепенно самоликвидирующиеся участия в капиталовложениях, которые — в отличие от практики капиталистических стран — не приводят к образованию долговременной иностранной собственности на капитал и контроля над ним.

Автор затрагивает и некоторые конкретные сферы сотрудничества (как например, комплексные сельские аграрно-промышленные производственные системы, области комплексного водохозяйства, здравоохранения и фармацевтического обслуживания), в которых Венгрия может особенно эффективно сотрудничать, способствовать решению серьезных проблем питания населения, водоснабжения и здравоохранения в развивающихся странах.

A. KÖVES

CHAPTERS FROM THE HISTORY OF EAST–WEST ECONOMIC RELATIONS

The subject of the article is taken from the problematique of East–West trade: it surveys the Soviet concession policies of the 1920s and then tries to show the causes for the forced abandonment of active foreign trade policy by analysing the main tendencies of Soviet trade prior to World War II.

The term East–West trade today means trade between the socialist and the advanced capitalist countries. It is often forgotten that this trade did not start after World War II – when, following the Soviet Union, also other countries took the path to socialism – but much earlier, i.e. shortly after the October Revolution when Soviet Russia began to establish economic relations with the capitalist countries. The development, methods and forms of Soviet–Western economic relations were strongly determined by the political and international economic conditions of the 20's and 30's. Since then circumstances have fundamentally changed. Nevertheless, the armory used in foreign economic relations then formed (selection of certain forms and rejection of others), the attitude towards trade with the capitalist countries related to the problems emerging at that time are still at word and have their effect on the views concerning East–West trade in our very days.

Pondering over the present conditions of East–West economic relation it is, therefore, instructive to look back on the circumstances that had created a situation in the Soviet Union where the probable effects of economic relations with the capitalist states were taken into account only marginally in determining the fundamental goals and trends of economic development, and the economic role of the trade with them was confined only to its contribution to the accomplishment of *certain* objectives, to the solution of only *certain* problems.

1. Concession policies in the 1920's

The concession policy pursued in the twenties and coming to an end in the very early thirties was the first attempt at attracting foreign capital and technology into the Soviet economy.

Forms and objectives of cooperation with foreign capital

What was the essence of the concession?

The *concession* was an agreement between the Soviet state and a foreign enterprise by which the state leased to the enterprise land, industrial or other plant, fixed assets,

shared in the profits, and determined its business relations with enterprises in other sectors (state, cooperative, etc.). The enterprise was run by the concessionaire. Every aspect of production, trade and employment was regulated by contracts. The enterprise was committed by contracts, *inter alia*, to restore the idling capital equipment of the leased factory, mine, etc., and to provide it with the most advanced technology. The sum to be invested, the deadline of the project, the specification of production were stipulated by contracts, and so were the budget relations and in some cases the right of foreign trading were granted.*

The *mixed companies* – another form of cooperation with foreign capitalists – were created by the issue of shares; the Soviet state held at least 50 per cent of the shares, collected dividends for them, and directly participated in running the company. The Soviet chairman of the board of directors had the right to decide in case of disputes.

While the mixed companies were created in the fields of foreign trade, timber production and transportation, in other branches concessions were granted. In 1926 and 27,48.5 per cent of all concessions were in the extracting industries [1].

The *technical aid contracts* were aimed at purchasing investment plans, technologies, know-how, at supervising the implementation of projects, and inspection of the technological equipment of existing factories. These were usually followed by imports of equipment. Unlike the cooperation agreements in the field of science and technology in the present sense of the phrase, the Soviet state concluded such agreements not only with capitalist companies but also with individual experts. As a rule this was not considered as a concession as neither transfer of capital, nor usufruction, nor productive activity were involved.

The Soviet party hoped to attain manifold political and economic objectives by providing concessions. The concession policy was to serve primarily the breaking of isolation and the creation of economic relations for the Soviet state. It was based on the assumption – somewhat overvaluing the deriving opportunities – that if the *individual* capitalists were made interested in economic relations with Soviet Russia this would lead to a change in the general conduct of Western capital. Priority was offered to former owners for the concessions, and this was considered a form of indemnification for nationalizations [2]. However, only some of the former proprietors** were attracted by the rights of the usufructuary – instead of the rights of the owner – especially in the period when they were still anticipating the fall of the Soviet state.***

*Characteristically of the contemporary conditions, the commitments of the foreign partner often included food imports for the workers of the plant, in some instances even larger quantities, and the wages of its workers were set higher than the national average.

**The most significant of the concessions given to former proprietors was the one of the British *Lena Goldfields* that had run 13 plants on a vast territory, and when liquidated, its wealth was estimated at \$ 89 million. In 1925–26 *Lena Goldfields* yielded 30% of the Soviet gold output, and had an even greater share in silver. It employed almost 12,000 people [3].

***The complexity of the matter is illustrated by the negotiations about oil concessions. Pre-revolutionary Russia had been the world's second biggest oil producer and exporter. Crude oil

It was an important goal of the concession policies to consolidate the international position of the Soviet state by making use of the discords between the imperialist powers, such as Germany vs. the Entente, and the United States vs. Japan. The natural resources, vast territory and geographic location of Siberia had attracted foreign capital since the end of the 19th century. The concession talks held with American companies – mainly about territories under Japanese occupation (Kamchatka, Sakhalin) – which finally had no concrete results, were all meant to undermine the Japanese positions and to enhance the resumption of political relations with the United States.*

The American companies visibly played an important role in the talks about concessions. As only a small part of these talks resulted in concessions, in the realized concessions European – German, British, Scandinavian etc. – capital was predominant.

The concessions and economic development

When the idea of concessions emerged early in 1918 – before the civil war and the intervention – this concept was based on Soviet Russia's need of *credits* for starting production, and in return for these it could offer concessions to foreign capital.**

production was one of the industrial branches in which the biggest foreign capital was invested. Still, the biggest producer had been the mainly Russian concern *Nobel Co.* It had held one-third of production, 40 per cent of the refinery capacity, and 60 per cent of the marketing network. In July 1919 *Standard Oil of New Jersey* bought half of the shares of the Nobel concern, nationalized in the meantime, and the same year, in December, it refused the Soviet offer for a 50-year concession for the exploitation of the majority of the oil deposits in Russia. Later on the Soviet party offered this concession to *Royal Dutch Shell*, and Standard Oil had to resort to powerful actions to prevent Royal Dutch from concluding the contract. This explains the negative American attitude towards the Genua conference; namely, the Soviet party was ready to talk about the compensation of foreign capital pending the resumption of relations, yet the notion of previous owner was determined according to the state of ownership existing on the *date of nationalization* [4].

*There is much literature about e.g. the (fruitless) concession talks conducted with the American *W. Vanderlip* in 1920 and 1921. On behalf of a West American syndicate Vanderlip ran for the concession for crude oil, coal and fishing on the far eastern shore and in Kamchatka, or, on behalf of the American government, intended to buy north-east Siberia east of 160° latitude (the way Alaska had been bought half a century earlier). Agreement on a 60-year concession was reached, but its coming into effect was made dependent on the resumption of diplomatic relations not later than July 1, 1921 [5]. This, as is known, did not happen. The American *Sinclair Corporations* concluded a concession agreement in 1922 for research and exploitation of crude oil in Sakhalin with the Far Eastern Republic (a short-lived buffer state between Soviet Russia and Japan). Later on this agreement was confirmed by the Soviet government, and was valid till 1925. However, Japan did not even permit the Sinclair Co. to inspect the site [6].

**We quote from "The plan of developing economic relations between Soviet Russia and the United States of America" (12. 5. 1918): "... we are not able to normalize our balance of trade soon ... because this requires capital equipment in order to increase the quantity of exportable

According to this concept only plants to be newly created could have been given in concession [8]. However, at the start of reconstruction it was found that there was no chance to raise credits in bigger amounts, and that not only credits were required for reconstruction and for reactivating the economic circulation. Production had to be started anew in the existing factories, empty buildings had to be taken into use, idling equipment had to be repaired and renewed, the destroyed ones replaced, material and food supplies organized, production controlled, its technological conditions provided. Therefore, the original conception had to be modified. The majority of the concessions realized served precisely the accomplishment of the said tasks.*

Yet the significance of the concessions in the creation of the factors of economic development was still limited. The number of functioning concessions reached its peak in 1928 when 110 concession enterprises existed [10]. In 1927-28 the stock of concession capital amounted to only 45 million rubles, while the Soviet national economic assets totalled 4.5 billion rubles [11]. In October 1928 the enterprises in concession employed 20 thousand people – of whom 10 per cent were foreigners – and contributed in that year 0.6 per cent of total industrial output [12]. This is the ground of the rather common opinion of Soviet and Western scholars that the concession policy did not come up to expectations. From among the reasons for its fruitlessness the weak interest of Western capital (mainly of big capital) due to strained political conditions is generally mentioned. Western sources also refer to the risk factors of investing in the Soviet Union, while the Soviet sources mention the inimical Western propaganda against the concessions, the unfavourable effects of the international depression and, finally, the insufficient funds of the concession contractors and the incompatibility of their investment and price policies with Soviet conditions [13].

There still are some not negligible factors evidencing that although in the years when the concessions were operating it was obvious that they contributed to the development of Soviet economy only to a limited extent, the Soviet partner did not reach the conclusion that the concessions were not required at all. On the contrary:

products. Thus the country interested in receiving early payments for the goods exported into Russia is also interested in perfectly furnishing Russia with all the capital equipment... suitable for boosting the productivity of Russia agriculture and the extracting industries... Against the imported products Russia would provide America the opportunity to participate in the utilization of the goods at terms identical with those for other countries, according to the general principles of concession...” [7].

*So were the *Hammer* concessions. Armand Hammer, now Chairman of Occidental Petroleum, held two concessions. In 1921 he obtained an asbestos exploitation concession in the Ural and, at the same time, obliged himself to deliver 1 million puds (=16380 tons) of bread grain to Soviet Russia against industrial products manufactured in the Ural; in return he was also given export and import rights. This was the first *concluded* concession in the Soviet Union. The second Hammer concession was for the production and sale of pencils, pens, pins, etc. and was functioning in Moscow [9] from 1925 to 1929. (This is now the Sacco and Vanzetti Works.)

right before the termination of the concession policies, in 1928 – i.e. simultaneously with the drawing up of the first five-year plan, with the drafting of the industrialization concept – also a comprehensive concession programme was elaborated, predicting the probability of yearly 80 million rubles' worth of foreign investments. (This used to be the size of foreign capital input in pre-revolutionary Russian industries.) The programme: "1. hoped to attract foreign capital into branches of industries completely lacking funds and into which the Soviet state could not afford to invest in the near future either; 2. hoped to involve this capital in the reconstruction, replacement and modernization of fixed assets of existing state enterprises, and 3. hoped to create a cautious and planned competition between the state-capitalistic and Soviet enterprises in order to improve the quality of the products of state industries and to reduce costs." [14].

This programme of 1928 was not implemented. During the first five-year plan period the concessions were virtually wound up. Yet the fact of their cancellation does not render the analysis of this policy and its outcomes more unequivocal, it only shows that the offering of concessions became inconsistent, both politically and economically, with the adopted concept of industrial development. Namely, in a plan intended to concentrate all detectable resources on the creation of new plants, and to control the investments and the whole of production by means of direct instructions, concessions appeared to be intolerable foreign bodies. The contracts for technological aid – together with the raising of credits and traditional trade – seemed much more suitable, "get-to-business" means of foreign economic policies. And indeed: the number of technological assistance agreements reached their peak when the concessions were going through the decay phase. In 1926–27 the total value of technological assistance agreements amounted to 2.16 million rubles, while in 1927–28 it increased to 6 million rubles [15], and at the end of 1930 and at the beginning of 1931 only in industry there were 124 technological aid contracts in force totalling at an expenditure in foreign exchange amounting to 83 million rubles [16]. In September 1932, 9190 foreign experts and 10,655 foreign labourers worked in the Soviet Union [17]. This cooperation – and the accompanying lively trade – was associated with the central trends of Soviet industrial development, with the most characteristic projects of the late 20's and early 30's: the Dnieprostroy, the building of the tractor factories of Stalingrad and Kharkov, the car factories of Nizhni-Novgorod and Moscow, the metallurgical plants of Kuznetzk and Magnitogorsk, and so on. However, intensive technological cooperation and the trade based thereon did not survive for long the concession policies as will be shown below.

The policy of granting concessions (and then their discontinuation) was thus closely related to the economic conditions of the Soviet state at that time, and to the Soviet evaluation of the economic objectives. Namely, the concession combined the availing of foreign capital, know-how, and production organization, and exactly this combination was necessary for *starting the economic circulation*. Yet it must be noted that neither of the later forms of foreign economic relations induced as heavy internal

disputes or as strong opposition as did the concession policy. One of the reasons was that this was the first use of foreign capital and technology, that is, it had no precedents in Soviet economy, and in those times it was undecided even whether this use was at all acceptable or desirable in any form. Intensity of the dispute was still enhanced by the specific form of concessions because the leasing of industrial plants or lands, such linking of state property with the private property of the foreign capitalists, or the calling back of pre-revolutionary owners made this problem a very difficult one from ideological and political points of view, and especially right after the revolution and the civil war.

Therefore it is quite clear that the concessions may be considered as antecedents to the contemporary armory of economic policy tools only in the broadest sense of the term. However, the fact itself that the set of instruments of these policies may vary – depending on the policies themselves – i.e. that the forms of foreign trade activity are not given for good (nor are other forms discarded for good), is particularly instructive at times when, due to the changing socio-economic necessities, the economic role of foreign trade relations also changes, and it is imperative to decide about the methods and means suitable for fulfilling the new tasks.

2. Some tendencies of the early Soviet foreign trade

Volume of trade and its commodity pattern

There is no need for any special explanation of the political reasons why the Soviet state's participation in the international division of labour was remarkably lower than of Tzarist Russia. The big fluctuations and the fact that by the end of the period between the two world wars (1936 to 1940) the volume of turnover was at about the 1924 level, and was less than a quarter of the foreign trade of Tzarist Russia, are less obvious. As show in Table 1, the active foreign trade policies started in the mid-twenties resulted in a steady growth of exports till 1930 and of imports till 1931, but then the foreign trade turnover rapidly decreased. No doubt, many developments of the coming years are understandable only in the context of the foreign economic relations of the first five-year plan.

Prior to that, we must speak about the commodity pattern of foreign trade. It is clear from *Tables 2 and 3* that in its most *fundamental* features the structure – agricultural products and industrial raw materials (partly semi-finished products) exported against imports of means of production – did not change in comparison to the pre-revolutionary structure. This is quite natural: the possibilities and necessities were delimited by the inherited economic structure, by the level of development, and by the objectives of industrialization. Moreover, this rapid industrialization demanding large quantities of imported investment goods had necessarily a preserving effect on this commodity pattern in the short run. This structure was considered to be a natural

Table 1

Development of Soviet foreign trade till 1940 (million 1950 rubles)

Year	Exports		Imports	
	Value	In percentage of the turnover in 1913	Value	In percentage of the turnover in 1913
1913	5298	100	4792	100
1918	28	0.5	367	7.6
1919	0.3	0.0	11	0.2
1920	5	0.1	100	2.0
1921	70	1.3	734	15.3
1922	286	5.3	941	19.6
1923	760	14.3	498	10.3
1924	1174	22.1	906	18.9
1925	2119	39.9	2882	60.1
1926	2527	47.7	2401	50.1
1927	2600	49.0	2642	55.1
1928	2799	52.7	3321	69.3
1929	3219	62.6	3069	64.1
1930	3612	68.1	3690	77.0
1931	2827	53.3	3851	80.3
1932	2004	37.8	2454	51.2
1933	1727	32.6	1214	25.3
1934	1458	27.5	810	16.8
1935	1281	24.1	841	17.5
1936	1082	20.4	1077	22.4
1937	1312	24.7	1016	21.2
1938	1021	19.2	1090	22.7
1939	462	8.7	745	15.7
1940	1066	20.1	1091	22.7

Note: The data for 1913 relate to the area of Tzarist Russia excluding Finland

Source: *Внешняя торговля СССР за 1918–1940 гг.* Москва, 1960. Внешторгиздат

“evil”, a consequence of economic backwardness, to be changed in the course of development, but at the beginning of industrialization it was simply given.*

At the time of drafting the first five-year plan it was a very serious problem whether this structure was suited to carry out the rate of industrialization and the concept of industrialization laid down in the five-year plan. According to its targets,

*Of course, it may be asked whether this structure was a consequence and indicator *only* of economic backwardness. Apart from the level of economic development, the composition of exports and imports is affected by many factors, such as the size of the country, its natural conditions, production traditions and consumption habits. Characteristically, commodities of agricultural origin maintained their share in American exports through 50 years before World War I at a level of to 80 per cent. In the total US exports raw materials, unprocessed and processed foodstuffs amounted to 55 per cent in 1910 and to 45 per cent in 1920 [18].

Table 2
Commodity pattern of Soviet exports (1913-1938)

	1913	1927-28 ^b	1929	1930	1931	1934	1938
Total exports, million rubles ^a	5298	2758	3219	3612	2827	1458	1021
Total exports, per cent ^c	100	100	100	100	100	100	100
1. Machinery and equipment	0.3	0.1	0.2	0.2	0.6	1.5	4.9
2. Fuels, minerals and metals	6.4	24.3	20.9	20.2	19.6	21.6	13.5
3. Chemicals	1.2	0.9	0.9	1.0	1.3	3.5	4.0
4. Other raw materials and semi-finished products	31.1	40.8	46.0	37.1	32.3	43.7	40.3
of which: Timber, wood and paper products	10.9	11.9	16.5	16.4	14.0	21.5	20.2
Furs and pelts	0.4	18.7	11.5	7.4	7.0	7.5	9.4
5. Foodstuffs and raw materials for industry	56.0	24.3	22.4	32.1	36.2	17.1	29.4
6. Industrial consumer goods	4.7	10.5	9.7	9.5	9.8	12.6	7.9

Notes: ^a1950 rubles

^btill 1928 the data of foreign trade were given for the so-called operative years (October 1 to Sept. 30)

^cthe total of 1 to 6 is not necessarily 100 because of rounding

Reference: Внешняя торговля СССР за 1918-1940 гг.

Table 3
Commodity pattern of Soviet imports (1913-1938)

	1913	1927-28	1929	1930	1931	1934	1938
Total imports, million rubles	4792	3295	3069	3690	3851	810	1090
Total imports, per cent	100	100	100	100	100	100	100
1. Machinery and equipment	16.7	23.9	30.1	46.5	53.9	25.0	34.4
2. Fuels, minerals and metals	14.7	14.2	13.3	16.0	22.3	28.4	30.9
of which: ferrous and non-ferrous metals	6.7	13.6	12.8	15.2	21.7	27.5	25.8
3. Chemicals	7.9	8.5	6.9	5.5	3.2	9.5	5.2
4. Other raw materials and semi-finished products	29.4	38.5	36.8	19.9	13.1	20.1	15.5
of which: raw materials and semi-finished products for the textile industry	18.3	27.7	25.4	11.7	7.5	11.2	10.0
5. Foodstuffs and raw materials for food industry	21.4	12.9	10.1	11.2	6.4	14.2	12.7
6. Industrial consumer goods	10.3	1.8	2.8	1.4	0.9	2.7	1.1

See notes to Table 2

Reference: Внешняя торговля СССР за 1918-1940 гг.

exports were to increase 2,5 times in 5 years. As shown in *Table 1* this was a wrong estimate.

Before surveying the most important problem of the export side we must refer briefly to the difficulty that can be read from *Table 3*, namely, that except for the years when development was fastest, within the predominant imports of means of production the imports of materials, metals and semi-finished products was *always* greater than that of machinery and equipment. This could not be otherwise because, in addition to the materials required for new projects, also the maintaining of production necessitated material imports. As after 1929 agricultural production (and thus the production of industrial raw materials of agricultural origin) faced difficulties, the considerable decrease of material imports – chiefly of raw materials and semi-finished products for the textile industry – in itself affected the situation of the economy adversely during the first five-year plan.

Only 10 per cent of the machines and equipment imported during the five-year plan (and in 1931 only 5 per cent) served for the development of the sector "B" of industrial production [20]*. *Imports were thus immensely concentrated on the key branches of heavy industry, moreover, on the equipment of the major individual projects.* As *Mishustin* writes, machinery imports served not the continuous supply of each economic branch with machines but only that of the new heavy industrial projects [21]. Therefore, in spite of the fact that machine imports were indispensable for the fulfilment of the plan, their value amounted to a rather small fraction – decreasing already during the first five-year plan – of the output value of the dynamically developing domestic engineering industry. According to *Mishustin's* data, the ratio of machinery imports to the value of home-made machines was not more than 20 per cent in 1928, 19 per cent in 1930, 13 per cent in 1931 (and 2.4 per cent in 1933)[22]. The figure in brackets clearly shows that the more than 10 per cent share of machine imports was an indicator of the strongly import-oriented development policies.

Problems of increasing exports

It is seen from *Table 2* that in comparison with 1913 the ratio of industrial raw materials and semi-finished products in exports remarkably increased relative to agricultural commodities. The three most important categories of industrial export items (timber products, crude oil products, and furs and pelts) represented 14 per cent of exports in 1913, and 43 per cent in 1929 [23]. Else, the role of concessions (and mixed companies) was rather important in these three branches. However, the exports of industrial raw materials could not grow unrestrictedly, i.e. to an extent to bear a 2,5-fold increase of exports. This was impossible because of the obstacles to expanding production and because of the dynamically rising demands of the rapidly growing manufacturing industry, as well as of other branches of the economy.

*Sector B includes the production of consumer goods.

Couldn't the planned increase of exports be achieved by increasing the exportation of agricultural products?

Grain used to be the most important traditional Russian export item before the revolution. As seen from *Table 4*, in 1930-31 an attempt was made to make grain exports once more the most important item in financing imports (such attempts were made also for the other traditional export items like butter, hides, eggs, etc., but the exports of those items did not grow even temporarily). All that was interlocked with the process in which agriculture played the role of main financier of industrialization.

Table 4
Grain exports (1913-1938)

Year	Quantity, million tons	In percentage of the value of yearly exports
1913	9.18	33.3
1926-1927	2.1	25.9
1927-1928	0.29	3.3
1928 (October- December)	0.14	4.3
1929	0.18	1.0
1930	4.76	19.2
1931	5.05	18.4
1932	1.72	9.0
1933	1.68	8.0
1934	0.79	4.3
1938	2.05	21.1

Reference: Внешняя торговля СССР за 1918-1940 гг.

However, the big volume of grain exports in two consecutive years did not solve the problem of financing imports (to this was added the slump of grain in the international market), but it consumed the domestic reserves and worsened the difficulties encountered in food supply. The situation became critical in 1931, when grain production fell from 83.5 million tons in the preceding year back to 69.4 million tons [24], and the policy of exporting big volumes of grain had to be discontinued.

Table 1 shows, on the other hand, that while the value of exports reached its peak in 1930 and by 1931 it remarkably decreased, imports increased even in 1931 to suddenly drop from 1931 to 1932. Clearly, the upsetting of the balance of payments could have been avoided by a reconsideration of the forced rate of investments. Such a revision did not take place. (On the contrary: the plan targets were raised twice in the course of the plan.) Thus, by the end of 1931 the foreign debts of the Soviet Union increased from 485 million golden rubles in 1928 to 1400 million golden rubles [25] (1 golden ruble : US golden \$ 0.5146), and marked reduction of imports seemed the

only way to restore the balance of payments. This was carried out with reference to the accomplishment of the first five-year plan and the establishment of the domestic industrial bases

Before discussing the consequences of having abandoned the active foreign trade policy we must note the foreign-market factors contributing to the crisis of the balance of payments. The availability of credits was very poor: the Soviet Union could raise only short-term credits with high rates of interest. Yet we must refer chiefly to the coincidence of the world economic crisis with the first five-year plan in time and having a direct double effect on Soviet foreign trade. On the one hand, the world crisis improved the positions of the Soviet Union as an importer. Although the Soviet share in the trade of the leading capitalist countries was modest, yet the Soviet Union meant a stable and mainly a growing market and, due to the sudden decrease of international trade, this obtained decisive importance from the point of view of certain branches of industry. According to Soviet sources in 1931 one-third, in 1932 half of the world's machine exports (calculated without car exports) went to the Soviet Union and even in 1933 it was the biggest world importer of machines [26]. In 1931 40 per cent of the total American exports of machinery and equipment, 96 per cent of engines, 66 per cent of machine tools were delivered to the Soviet Union. Also *Williams* notes that some American industries survived the great depression with the help of Soviet orders [27]. From 1929 to 1932, despite the marked decrease of German foreign trade, the German-Soviet turnover doubled. In 1931 the Soviet Union purchased 36 per cent of the German heavy industrial output and 20 per cent of the electronic industrial output [28].

On the other hand, however, the food and raw material prices fell more steeply during the crisis than the prices of finished products, and thus the Soviet terms of trade much worsened. According to the data of *Kasyanenko* the Soviet Union lost about two and a half times more due to the fall of its export prices than it gained through the decreasing prices of its import items [29]. But exports were badly needed. To attain the planned – or near-to-planned – export revenues more commodities had to be exported at lower prices. But efforts in the foreign markets encountered the charge of dumping and other forms of anti-Soviet discrimination. *The world economic crisis offered advantages only for a short period, but ultimately it increased the difficulties in implementing the active foreign economic policies.*

Active import policies or minimizing imports?

The international position of the Soviet Union, the danger of aggression by the imperialist powers and of economic blockade necessitated the rapid development of heavy industry. Therefore, also according to the provisions of the first five-year plan, those branches of heavy industry had to develop fastest “which could increase the economic power and defensive capacity of the Soviet Union most quickly, provide for the feasibility of development in case of a blockade, and reduce

dependence on the capitalist world..."[30]. This definition of the objectives unequivocally determined the nature of import as well: *it was an important instrument of import-substituting industrialization*. But imports for that purpose did not necessarily imply their *almost total cessation* after a while, when the first fruits of industrialization ripened. With the development of industrialization, and of import substitution, a change is only necessary in the composition of imports.

True, *Stalin* said at the XIVth Party Congress in 1925 that the Soviet Union "today can't help" importing machinery, adding that this necessity should not turn into "a principle, theory, or development prospective". As he said imports were to help the Soviet Union move ahead from the stage of development "when we must import equipment and machines instead of manufacturing them on our own"[31]. However, this formulation of the objectives of import-substituting industrialization policies were interpreted only ten years later as a theoretical basis for reducing imports to the minimum after termination of the active import policies.

Still, the above quoted guidelines of 1927 for drafting the first five-year plan cannot be but understood as putting active foreign economic relations at the service of realizing "economic independence". On the other hand there is no mention of this economic independence meaning to reduce these relations to the minimum. On the contrary: "... in the field of *international relations* we must not start from the empty slogan to develop these relations in the widest range (a consistent application of this slogan issued by the opposition would mean the end of foreign trade monopoly, as well as economic and military capitulation before the international bourgeoisie), nor from the slogan to cut the economic relations with the capitalist world (which, if implemented, would mean a strong retardation of the rate of our economic development in general). In this field we must start from having the widest ranging relations *provided* that these relations (foreign trade, foreign credits, extending concessions, drawing in foreign engineers and technicians etc;) increase the economic power of the Soviet Union, make it increasingly independent of the capitalist world, expand the socialist bases for further developing the Soviet industries; widest ranging relations may exist only within these frameworks"[32]. The textbook formula "Soviet imports are designed so as to help the soonest relieving of the country from imports"[33] was to be created only in the following decade.

The concession plan for the year 1928 described above — and, as is seen, matching the guidelines of the plan — also shows that the creation of economic independence emerged in the original concepts as a task for some longer period and could not be expected to result from the industrial development of only one or two years.

To enhance the interest of capitalist partners, it was to be emphasized at the beginning of the first five-year plan that a long-term import policy valid for many years was launched. Moreover, the economists of *Amtorg* (the Soviet enterprise dealing with Soviet-American trade) even had to protest against certain opposing Western ideas: J.M. *Budish* and S.S. *Shipman* wrote in their book published in 1931: "The suggestion is

sometimes made that upon the conclusion of the five-year plan the Soviet Union will become self-sufficient and will not require foreign machinery, equipment, raw materials, and other products. These views are based on an erroneous conception of the aims of the five-year plan and of Soviet economic development . . . for many years to come the Soviet Union will be one of the world's outstanding markets, especially for agricultural, industrial and transportation machinery and equipment. The trend of Soviet imports of this group of commodities should be upward for a considerable period of time"[34]. Also a contemporary article by *Pravda* quoted by the above two authors shows that the Soviet party was very well aware of the importance for economic development of maintaining the active import policy. In case the U.S. declared an embargo on Soviet commodities, the paper stated, the Soviet Union would have two alternatives: "to divert orders for factory equipment from the United States to Europe, or to refrain from placing orders abroad and to develop the production of factory equipment to the maximum in the Soviet Union itself. We have reached a point of technical and economic development where we could adopt the second course, although this would involve considerably greater efforts than adoption of the first course . . ."[35].

Hence it is obvious that the radical cutting down of imports at the end of 1931 and the beginning of 1932 was a forced solution of the acute balance of payments problems. The balance of payments crisis itself derived partly from the deterioration in the terms of trade, but mainly from the forced plan, the export goals being unfeasible chiefly because of the situation of agriculture. At the end of 1931 and the beginning of 1932 a wide campaign was started to reduce imports and to substitute for them domestic products. The character of the measures effected is illustrated best by the directive addressed to the People's Commissariat of Heavy Industry in early 1932: "To stop and to prohibit henceforth the import of the following kinds of equipment for which orders to the value of 21 million gold rubles were to be placed in the course of the next fortnight within the country: transformers, all types of trucks and railway engines, motor vehicles, cranes, internal combustion engines, generators and spares for any equipment already imported"[36].

As *Table 1* show, imports fell more markedly after 1931 than exports. In the following couple of years a considerable export surplus was attained, and by 1936 the balance of payments situation of the Soviet Union became consolidated.

However, the literature of those times when writing about the change in Soviet foreign economic policies ignored the exigencies that had brought them about, and considered the changes to be a direct perpetuation of previous policies, and derived them only from the achievements of the industrialization policy. D.D. *Mishustin* explains in his book published in 1938 that engineering imports were always mere means to end the dependence of the Soviet Union on foreign technology. The Soviet Union had to become from a machine importing country a machine and equipment producing country. "The increasing of machinery imports (in the course of industrialization) was one of the means leading to the quickest solution of this most

important task up to the point when at last, with the help of the increased machine imports, we can satisfy all our needs from domestic production" [37]. From the fact that the Soviet Union had developed into an enormous industrial country during the first two five-year plan periods the author concluded that "the importation of machines and equipment which played an essential role in Soviet foreign trade till a certain stage of development, is now of secondary importance because the Soviet Union is able to manufacture any equipment herself" [38].

In other terms, the importing of machines and equipment was necessary, but this import "is not generally and not always necessary", but "only in a given stage of industrialization" [39]. According to Mishustin, these tasks set for imports had been fulfilled already during the first five-year plan period, the domestic engineering industry had become established, it already provided the whole economy with its own products, and thereby the technical-economic independence of the Soviet Union was achieved [40]. Further, as a result of the second five-year plan, "in future the Soviet Union will not need imports to fulfill its plans" [41], said Mishustin.

This conception counted it among the achievements of industrialization that an always decreasing part of the dynamically growing domestic output was exported, moreover, the value of exports decreased even in absolute terms. According to computations by the Scientific Research Institute of the Monopoly of Foreign Trade the share of exports in domestic production was – against 1913 when 11.6 per cent of the Russian industrial and agricultural products were exported – 3.5 per cent in 1930, 3.0 per cent in 1931, while only 1.3 per cent in 1935 and 0.8 per cent in 1936 [42]. At that time it was not only concluded that foreign markets were not so important for the Soviet Union as for the capitalist countries but – as against the practical experiences of the early 30's – also that "the Soviet industry and agriculture have all the possibilities to determine the export commodity funds relatively freely because the ratio of production for exports to total production is very small and is decreasing year by year" [43]. Naturally, this statement could have proven true later on only if the domestic necessities had been less acute, and the domestic commodity funds had been more exportable as regards composition, quality, etc. But this wasn't at all the case, among others precisely because the "domestic economy" lost its ties with the external world.

During the first five-year plans the Soviet industry became really muscular. New branches of industry were set up, giant plants were built, and in these plants up-to-date mass production – or in the fashionable term of the times "Fordization" – was adopted. It can be hardly underestimated that, having built tractor and car factories in technological cooperation with foreigners, a shift to the domestic production of tractors and cars could be made, of course not from one week to the other. This in itself had a modifying effect on the *trend* of the import policy, and to the *character* and composition of machine imports as well: it shifted towards special individual machines and equipment, and it is likely that these changes show the most important achievements of the import-substituting industrialization.

To sum up the above reasoning it may be stated that the changes carried out in Soviet foreign economic policies in 1931–1932 did not necessarily derive from the conception of import-substituting industrialization, but was a consequence of the actually realized trend of economic development. Namely, forced industrialization in the first years of the five-year plan – though requiring active import dealings – also created the disproportions which, piling up, needed only one or two years to enforce a radical revision of import policies. The political atmosphere was less and less favourable for maintaining an active foreign economic policy and finally made it impossible.

The real big achievements in the development of industry, which were referred to when the change was made towards an essentially autarkic economic policy, in fact increased the country's defensive capacity and made the consequences of economic introversion more tolerable for the Soviet state than the pre-industrialization conditions had been. But the introversion was not motivated by the achievements themselves. On the contrary: these supported that *continued active foreign economic dealings would have been necessary and desirable* as it would have made further economic and technological development smoother and less costly (and thus, at the same time, using the terms of these times, it would have further strengthened the economic-technological independence of the country).

Analysing the changes in the Soviet foreign economic policies, their background, the contemporary conditions and development trends of the capitalist world economy must not be ignored. Between the two world wars economic development of the capitalist world, and especially of Europe, was generally slow or was virtually stagnating, except for the short boom preceding the crisis. Those were not yet the times of a dynamic scientific and technical development so characteristic of the post-World War II capitalist economy. Therefore, the difference in level between the Soviet industry and that of the Western countries might have appeared to be a static one. This could have suggested the idea that, through a concentrated effort limited in time, the technological level and performing ability of the Soviet industries – or of the decisive branches of the heavy industry – might attain or at least approach the level of the leading Western states. After that, the Soviet Union's technological and economic development might advance at least parallelly with the West's even while dispensing with an active import policy. The world economic crisis that coincided with the period of the first five-year plan seemed to bring even the collapse of capitalism into a tangible nearness, and it did not seem worthwhile to establish lasting economic relations with a system doomed to quick extinction.

Beyond these considerations the Soviet trend of cutting down imports was in line with the methods generally followed all over the world during the crisis and during recovery from crisis. Imports were strongly limited in many countries – for example in the Central–East European agricultural exporting countries which were heavily inflicted by the slump of their export commodities. The balance of payments crisis – deepened by the collapse of the international credit system – caused in almost every independent country short of capital the introduction of foreign exchange controls,

the raising of customs duties, the setting of import quotas and, as a rule, the strengthening of autarkic tendencies, of a disintegration process of world economy.

The above thus testify that the reasons why the Soviet state chose to reduce economic relations with capitalist countries to the minimum in the early 30's can be understood only if we know the actual relationships of the given period. Under the given conditions the other way of creating durable equilibrium of foreign trade – one much more favourable for internal economic development – that leads through a powerful export policy to active participation in the international division of labour was out of question. Under other international and internal conditions, however, the latter is not merely possible but is the only desirable solution for the socialist countries, especially when modernization of their economies and their scientific and technological development require them to increase imports from the advanced capitalist countries also in the long run.

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ГЛАВЫ ИЗ ИСТОРИИ ЭКОНОМИЧЕСКИХ ОТНОШЕНИЙ ВОСТОК-ЗАПАД

А. КЕВЕШ

Статья рассматривает некоторые проблемы концессионной политики 20-х годов и тенденции советской внешней торговли до второй мировой войны. Автор характеризует формы и цели представления концессий иностранному капиталу, а также роль концессий в хозяйственном развитии. Прекращение концессий в период первой пятилетки автор объясняет изменением внутренней экономической политики.

Рассматривая развитие советской внешней торговли довоенного периода, ее товарной структуры, автор обращает особое внимание на активную импортную политику периода первой пятилетки, подробно останавливается на причинах и последствиях ее вынужденного свертывания в 1931–1932 гг.

F. MOLNÁR

THE 1974–75 RECESSION IN THE USA: A LOT OF FACTS AND SOME LESSONS

Describing and analysing the recession process on the basis of ample statistical material and comparing it with that in 1957–58, the author explains the unusual severity of the recent recession – which he regards, however, to be of the same type as previous postwar ones – by the combined effect of external and internal factors, the decisive ones being the diminished share of government in the economy and inappropriate economic policy.

The US economy was hit in 1974–75 by the *most severe* recession of the post-war period. As regards its *depth, breadth, duration and the negative consequences for the living standards of the American working men* it surpassed all previous post-war recessions, including the one in 1957–58, the most severe hitherto. Its *depth*, i.e. the drop in production, is demonstrated by the 6.6% fall in real GNP from peak (1973:4* to trough (1975:1), as against a drop of the same of only 3.2 per cent in 1957–58.** Industrial production, a most important factor in business fluctuations, fell from the June 1974 peak to the March 1975 trough by 15.3 per cent (in 1957–58 by 13.5 per cent). *Breadth* of the recession is demonstrated by the fact, that although the production of durable goods and manufacturing suffered most also this time, it extended to all spheres of production and consumption. A specific feature of the recession was a sharp drop in building activity, shown by a steep – 28.9 per cent – decrease in the structures component of GNP between 1973:1 and 1975:2. For the first time in the postwar period personal consumption, fell from one year to the next, being in 1974 1.1 per cent less than in the previous year. *Duration* of the recession is characterized by a drop of GNP through five quarters, as against one lasting only half a year in 1957–58 (1957:3–1958:1). As a consequence, real GNP dropped during two consecutive years (by 1.7 per cent in 1974 and by 1.8 per cent in 1975) – also a unique phenomenon in postwar economic history. The drop in industrial production was sharp but short: it lasted 9 months; while in 1957–58; 14. But it surpassed the pre-recession level only 20 months after the trough (November 1976), and only very slightly.

*The second figure indicates the quarter of the year in question.

**Here and everywhere in the following paper all value figures – if not stated otherwise – are expressed in 1972 dollars, at annual rate; percentage changes or shares are calculated on the basis of such figures. Thus they show changes in or proportions of real volume. The sources of data are – if not stated otherwise – official US government statistics as published in the Survey of Current Business and its Supplements.

The living standard of the working class also deteriorated during the recession to an extent unknown during the postwar decades. Unemployment at its peak in May 1975 reached 8.9 per cent (in 1958 the highest figure had been "only" 7.3 per cent). There was a serious drop in real wages, which in the private, non-agricultural sector fell between the July 1973 peak and the April 1975 trough by 8.1 per cent. Even greater was the drop – because of the growing tax burden – in spendable real weekly wages: more than 10 per cent.

An outline of the recession process

The 1974-75 recession developed after the short, two and a half year's expansion, following the 1969-70 recession. Analysing the major components of GNP we can notice, that it started – similarly to the 1960-61 one, – as a general, but mild contraction in business activity caused by a fall in the demand for consumer durables and residential structures. These two major important types of demand (together I shall call them consumers' investment) reached a peak in 1973:1, and fell back thereafter: purchases of consumer durables for 7 and residential construction for 8 quarters. The decrease was 17.5 per cent and 45 per cent respectively. Following the drop in its most volatile component, total personal consumption peaked in 1973:3, and fell for 5 quarters, hitting bottom in 1974:4 after a \$ 22.3 billion (2.9 per cent) drop. Such a drop in personal consumption, accounting for almost two thirds of total GNP, led in the next quarter to a decrease of the latter, its decrease reaching between 1973:4 and 1975:1 \$ 81.5 billion. Similarly to previous recessions the nondurable component of personal consumption was less involved in the contraction, (but still somewhat more than in other post war recessions), showing a drop for 7 quarters (1973:1 – 1974:4) and reaching 3.6 per cent. Services – as usually – did not decrease. On the contrary, they increased from quarter to quarter even during the recession.

For the reproduction process in general, and especially for the business cycle, a most important role is attributed to private fixed investment. This time its drop followed the general contraction with a considerable delay. This circumstance might have been the cause of so many erroneous forecasts (including such by the author of this paper) regarding the severity of the evolving recession. Namely, fixed investment was growing – although sluggishly – until 1974:1. A sharp, one and a half year long drop followed. The trough was reached only in 1975:3, resulting in a 17.5 per cent decrease.

Inventory change contributed significantly to the contraction, Mostly in the second half of 1973, driven by the fear of further inflationary price increases, accumulation of inventories ran wild, reaching in the last quarter \$ 25.4 billions – a figure-out of all proportions. This was naturally followed by a strong reduction of stocks beginning in the early months of 1975 and culminating in 1975:2 in a \$ 20.5 billion drop. Hence inventory change had a 50 per cent share in the total reduction of GNP during the recession.

The decrease of industrial production and its selected components is shown in *Table 1*.

The data in the table prove that the drop of industrial production was short but sharp. A crisislike fall took place between September 1974 and March 1975 and reached 15.3 per cent in this 6-month period, corresponding to an annual rate of

Table 1
Decrease of industrial production during the 1974-75 recession
(Federal Reserve Board index, 1967 = 100)

	Peak		Trough		Decrease	
	month	index	month	index	length in months	per cent
Total	June 1974	131.9	March 1975	111.7	9	15.3
Consumer goods	August 1974	132.2	February 1975	116.1	6	12.2
Business equipment	Sept. 1974	146.5	April 1975	125.6	7	14.3
Materials	June 1974	135.7	March 1975	108.3	9	20.2

more than 30 per cent! Comparing this with the contraction of industrial production in the 1957-58 recession, we can conclude, that this time the decrease was much steeper, much more concentrated to a relatively short period. We might, however also find some similarity, namely that the sharp drop was in both cases preceded by a 6-8 months' long stagnation. The table also reveals that the fall in the production of materials was especially sharp: more than 20 per cent. Milder than overall was the drop in the production of business equipment, proving once again that this slump was brought about much more by a cut in the demand for consumers' investment, than by one for business non residential fixed investment. For comparison: in 1957-58 the production of business equipment had fallen by almost 23 per cent, that of durable goods by 21.5 per cent, but the drop in total manufacturing had been less than in 1974-75, because non-durables then suffered much less. The drop in consumer goods production had been in 1957-58 much smaller than that of total industry (5.7 and 13.5 per cent respectively), whereas in 1974-75 there was no considerable difference (12.2 and 15.3 per cent respectively). In connection with the fall in production, utilization of industrial capacity slumped, and in 1975:2 stood at the lowest level in the whole post-war period: at 67 per cent!

The recession reached its trough in 1975:1 for GNP, and as regards industrial production in March 1975. Since then indicators of the production and use of GNP and of industrial production are all on the move upward - with smaller or greater differences in rate and timing. GNP showed in 1975 the following quarterly changes (in percentages): 1975:1 - 9.9 1975:2 5.6 1975:3 11.4 and 1975:4 3.3. While the

strong increase in the third quarter was brought about by a sharp drop in inventory depletion (1975:2 about \$ 21 billion, 1975:3 about \$ 1 billion), in the fourth quarter the expansion was already much more broadly based. In 1976 GNP increased from quarter to quarter – although at a decelerating rate – and for the whole year it was 6.2 per cent higher than in the previous one. Personal consumption expenditures (PCE) started to move upward in 1975:1, its growth rate increased further, affected decisively by the 1975 tax cut (to be discussed later in some detail). In 1975:3 it already surpassed the pre-recession peak. This is true for all three components of PCE, although the purchase of consumer durables surpassed the pre-recession peak only in 1976:3.

Business fixed non-residential investment hit bottom somewhat later, but a rather slow growth started in this respect as well in 1975:4. Its volume was in 1976:4 still 12 per cent less than at the peak. A turn took place also in residential construction; which was not severely hit by the recession. But in the above-mentioned quarter it was still 25 per cent below peak level.

Final sales reached their lowest level also in 1975:1, and since then they have shown a stable growth. The former peak level was surpassed in 1975:4 slightly, and in 1976:3 considerably. There was also a definite turn – due to great extent to the tax cut – in the development of disposable personal income as well.

The change from contraction to revival is convincingly proven by the development of industrial production, which increased after the March 1975 trough almost uninterruptedly from month to month, surpassing in March 1976 the level reached a year earlier by almost 15 per cent, and showing in the year 1976 a 10 per cent growth in comparison with the previous year. Accordingly, capacity utilization also improved rising in 1975:4 to 70.8 and by the end of 1976 to 81 per cent.

The turn about is reflected also by the unemployment figures, slowly diminishing since the May 1975 peak (8.9 per cent) – although not uninterruptedly – and falling in December 1975 to 8.3 per cent, and in December 1976 to 7.9 per cent.

Those responsible for US economic policy achieved in 1974–75 something held formerly impossible. They steered the ship of the economy with such skill, that she simultaneously got punctured by the rocks of Scylla and fell into the whirlpool of Charybdis. That is: the economy was not only hit by the most severe recession of the post-war period, but suffered simultaneously from the highest rate of inflation as well. This is indicated by a 8.9 per cent rise in the consumer price index between December 1972 and December 1973, and a 12.2 per cent one in the next twelve months. After the recession the rate of inflation was also ebbing: the consumer price index rose from December 1974 to December 1975 by “only” 7.8 per cent and in December 1976 it stood about 5 per cent higher than a year earlier. Although the phenomenon of prices continuing to rise even during a recession was not a novelty in post-war economic history, the coupling, however, of such a sharp drop in production with a two-digit inflation has no precedent in the one and a half century long history of economic crises and recessions. *This phenomenon is – beyond any doubt – the most important “differentia specifica” of the recent recession.*

The turn about in the price movement is more clearly demonstrated by the wholesale price index. This showed a more than 20 per cent rise between December 1973 and December 1974, but in the following 12 months the rise was only slightly more than 4 per cent, and between December 1975 and December 1976 4.7 per cent.

The question arises: does the recent recession – being undoubtedly the most severe one in three post-war decades – represent a fundamental, qualitative change in the characteristics of the reproduction process, including recessions of the post-war US economy, or not. In an earlier book, written almost 15 years ago (and published in an enlarged English version in 1970), I tried to outline the new features, characterizing post-war business cycles in the US and distinguishing them from those between the two world wars. These new features might be shortly summarized as follows:

- 1) A relatively frequent recurrence of recessions;
- 2) Recessions were relatively mild and short, personal consumption dropped only slightly and the decrease in fixed business investment never reached such an extent which might have diminished the stock of accumulated fixed capital and hence impair productive capacity;
- 3) Recessions did not have explosion-like beginnings, but the fall in production was usually preceded by about half a year of stagnation on the one hand, and on the other, the phase of depression was either completely missing or very short;
- 4) A more marked drop in production was confined to durables;
- 5) With the exception of 1948–49, the recessions were accompanied by increasing prices;
- 6) Recessions were no more accompanied by spectacular events in the financial sphere, like stock exchange crashes, bank failures etc.*

I am of the opinion, that although the recent recession was more severe than the 1957–58 one had been, the features outlined above are still valid. The drop in personal consumption was in 1974 bigger than in 1957–58, but might be still regarded as mild, and the difference between the decrease of durable and non-durable goods production was still significant. Hence we might state, that no radical change took place, and the *"recession model"*, developed after World War II has remained practically unchanged. The undoubtedly more severe character of the recent recession, however, can only be revealed on the basis of a more detailed analysis, aimed at finding those causes which made this recession – although the model has remained unchanged – much more severe than the previous post-war ones. In order to analyse the characteristics and the specific *modus operandi* of the 1974–75 recession, let us first of all have a look at the role played by the different components of GNP in the total decrease the latter during the recession, both from the side of demand and production. On the basis of comparing the two sets of data shown in Table 2., we can state the following.

*See: [6] pp. 224–225.

Table 2
Shares in the decrease of GNP in 1974-75 and 1957-58

	1973:4-1975:1 Billions of 1972 \$-s	per cent	1957:3-1958:1 Billions of 1972 \$-s	per cent
1 GNP	81.5	100.0	22.2	100.0
2 Personal consumption ex- penditures	11.3	13.9	4.2	18.9
3 Durable goods	12.1	14.8	2.9	13.1
4 Non-durable goods	7.4	9.1	3.3	14.9
5 Services*	+8.3	-10.2	+2.1	-9.5
6 Gross private domestic invest- ment	82.5	101.2	16.9	76.1
7 Fixed investment	36.6	44.9	6.5	29.2
8 Non-residential	18.0	22.1	5.9	26.6
9 Structures	8.2	10.1	0.6	2.7
10 Producers' durable equip- ment	9.8	12.0	5.2	23.4
11 Residential	18.6	22.8	0.6	2.7
12 Change in business inventories	45.9	56.3	10.5	47.2
13 Net exports of goods and* services	+7.2	-8.8	4.7	21.2
14 Government purchases of* goods and services	+5.1	-6.3	+3.6	-16.2
15 Federal*	+0.5	-0.6	+0.3	-1.4
16 State and Local*	+4.5	-5.5	+3.4	-15.2
17 Addendum: Consumers' in- vestment (3 +11)	30.7	37.7	3.5	15.8
	By major type of product			
18 Final sales	35.6	43.7	11.8	52.8
19 Material production (20 + 23)	94.7	116.2	21.1	94.9
20 Goods	65.2	80.0	22.1	99.5
21 Durable goods	42.5	52.1	21.3	95.9
22 Non-durable goods	22.8	28.0	0.8	3.6
23 Structures	29.5	36.2	+1.0	-4.5
24 Services	+13.2	-16.2	1.2	5.2

*These items showed no decrease during the recession but an increase. The - sign indicates, that these counteracted the decrease and hence should be deducted from the GNP decrease

It is immediately noticeable that the respective roles of final sales and inventory changes were different. While in 1957-58 it had been the former, in 1974-75 it was the latter which had a bigger share in the decrease of GNP. Personal consumption accounted for a considerably greater part of the decrease in 1957-58 than in the recent recession. The role of the durable component was in both cases similar, while the share of nondurables was much less in 1974-75 than 16 years earlier. Purchases of services worked in both

Table 3

*Decrease of major GNP components and disposable personal income
in the 1974-75 and 1957-58 recessions*

	1974-75 decrease		1957-58 decrease	
	length in quarters	per cent	length in quarters	per cent
1 GNP	5	6.6	2	3.2
2 Personal consumption expenditures	5	2.6	1	1.4
3 Durable goods	7	17.5	11	15.3
4 Non-durable goods	7	3.6	2	1.7
5 Services	no decrease		no decrease	
6 Gross private domestic investment	6	40.4	10	24.9
7 Fixed investment	9	23.6	10	11.7
8 Non-residential	6	17.6	8	13.3
9 Structures	7	22.0	10	10.1
10 Producers' durable equipment	6	17.3	4	19.3
11 Residential	8	45.0	11	20.3
12 Change in business inventories	6	-	4	-
13 Net exports of goods and services	1	19.0	5	65.3
14 Government purchases of goods and services	1	0.1	no decrease	
15 Federal	2	1.0	2	1.7
16 State and local	1	0.01	no decrease	
17 Addendum: Consumers' investment (3+11)	8	25.3	11	16.6
By major type of product				
18 Final sales	6	3.3	2	1.7
19 Material productions (20+23)	5	13.4	2	5.2
20 Goods	5	11.3	2	6.8
21 Durable goods	7	18.6	10	20.4
22 Non-durable goods	5	6.7	3	1.0
23 Structures	9	28.9	9	3.0
24 Services	1	0.6	1	0.7
25 Addendum: Auto product	8	40.1	11	43.1
26 Disposable personal income	5	4.0	2	1.2

cases – and to a similar extent – towards mitigating the drop of PCE. It catches the eyes that the share of gross private investment in the total decrease differed significantly: 1974-75: 101 per cent, 1957-58: 75 per cent. This difference is attributable in the first place to a greater role of fixed investment and secondly – to lesser extent – to the increased share of inventory change. Looking deeper into the first category, we notice

that the cause of the difference can be found not so much in non-residential, as in residential fixed investment. This is demonstrated by the fact that while the drop in non-residential investment accounted in 1974-75 for 22.1 per cent of the decrease of GNP and in 1957-58 for 26.6 per cent, the share of residential investment was 22.8 and 2.7 (!) per cent respectively. This is another serious proof to show that the recent recession was first of all brought about by the sharp decrease in consumers' investment and not by the fall of business fixed investment.

We come now to a most important difference: that in the role of government purchases. Although these purchases increased in both recessions, their increment counterbalanced in 1974-75 the total decrease only to an extent of 6.3 per cent while the corresponding figure for 1957-58 had been more than 16 per cent. Contraction was in both recessions confined to material production, the decrease of this category being in 1974-75 even greater than the overall decrease, the difference was compensated by the increment of services (see Table 2, lines 1.19 and 25).

The analysis of GNP decrease between the peak and trough of the recessions (1973:4 - 1975:1 and 1957:3 - 1958:1 respectively) can not, however, give a complete picture, comprising the main features of the recession, because for some important components of demand and production the peak or trough *did not coincide with* those of total GNP. Table 3 shows the total duration and percentage of the drop for selected major indicators, comparing the data for 1974-75 with those for 1957-58.

We notice, first of all, that the drop in the durable goods component of PCE was bigger in 1974-75 than in 1957-58, but its duration was shorter by a whole year, than 16 years earlier. In those years the purchases of consumer durables and also residential construction - that is the whole type of demand I call consumers' investment - peaked already in 1955. A rather sharp drop followed and further decrease during the recession proper was small.

The drop in the non-durable sector of PCE lasted in 1974 much longer than in 1957-58, but the percentual drop was small in this case as well. Services did not fall in either of the recessions.

There is noticeable difference regarding the decrease of non-residential fixed investment. The drop in this category had lasted two years in 1957-58, whereas in 1974-75 but one and a half, the percentages being of similar magnitude in both. Similar in percentages, but of longer duration was the decrease of producers' durable equipment purchases in 1974-75.

A further difference worth mentioning is that during the 1974-75 recession government purchases dropped for one quarter: nothing similar had occurred in 1957-58. Of considerably longer duration and twice as big in percentages was the drop in final sales in the recent recession than in the one 16 years earlier. Almost the same might be said about the decrease in material production. It is interesting, that the duration of the drop in durable goods production had been significantly longer in 1957-58, although in percentages of a similar magnitude as in 1974-75. It is a remarkable and *specific feature* of the recent recession, that the percentual drop in

Table 4
Structure of GNP in 1973 and 1957
 (percentage shares, based on 1972 \$ figures)

	1973	1957
	By major type of demand	
1 Personal consumption expenditures	62.2 (100.0)	60.9 (100.0)
2 Durable goods	9.9 (15.9)	7.3 (12.0)
3 Non-durable goods	25.0 (40.3)	28.6 (47.0)
4 Services	27.2 (43.8)	25.0 (41.0)
5 Gross private domestic investment	16.7	14.3
6 Non-residential fixed investment	10.6 (100.0)	9.7 (100.0)
7 Structures	3.7 (34.7)	4.1 (42.6)
8 Producers' durable equipment	6.9 (65.3)	5.6 (57.4)
9 Residential fixed investment	4.8	4.4
10 Change in business inventories	1.3	0.2
11 Government purchases of goods and services	20.4	23.5
12 Addendum: Consumers' investment (2+9)	14.7	11.7
	By major type of product	
13 Final sales	98.7	99.8
14 Material production (15+18)	57.0 (100.0)	59.0 (100.0)
15 Goods	46.1 (100.0) (80.8)	47.3 (100.0) (80.1)
16 Durable goods	19.1 (41.6) (33.6)	17.0 (36.1) (28.9)
17 Non-durable goods	26.9 (58.4) (47.2)	30.2 (63.9) (51.2)
18 Structures	10.9 (19.2)	11.7 (19.9)
19 Services	43.0	41.0
20 Addendum: Auto product	4.1	3.8

structures was about 10 times bigger than in 1957-58. Duration of the drop was, however, in connection with the above mentioned decrease in consumers' investment after 1955, about the same.

We find a most important difference in the development of disposable personal income. Duration of the decrease was much longer in 1974-75. The percentual drop - 4 per cent - can not be regarded as especially sharp, but in the earlier case a 1 per cent drop in GNP generated only a 0,4 percent decrease in disposable personal income, whereas the same relation in the recent recession was 0.6 that is, one and a half times bigger.

Structural factors influencing the recession process

Beyond stating the above major differences in the development of the two recessions I will look into the factors and processes causing them. To achieve this, let us first examine the patterns of production and use of GNP in the year preceding the recession, that is, in 1973 and 1957 respectively (see Table 4).

The share of personal consumption expenditures was somewhat greater than had been 16 years earlier. The difference, however, is small. The role of the durable component of PCE increased considerably. These purchases had accounted in 1957 for 7.3 per cent of GNP and for 12 per cent of PCE. Their corresponding shares in 1973 were significantly bigger: 9.9 and 15.9 per cent. This represents an increase in the share of such a component of PCE and total demand which is generally regarded as volatile and unstable. The share of the most stable type, that of services also increased a little. Residential structures also increased their share as a component of fixed investment – and of total GNP as well. The change, however, was small. More important is the significant *shift* which occurred in the proportion of business nonresidential and consumers' investment in favor of the latter. While in 1957 for each dollar of business non-residential fixed investment 1.2 dollars were spent on consumers' investment, in 1973 \$ 1.484. This explains to some extent why the contraction was so deep, although the drop in fixed investment was not very sharp. Within this latter one, the share of its more unstable component, that of producers' durable equipment went up.

The by far most important structural change between the two years was a *drop in the share of government purchases* of goods and services from 23.5 to 20.4 per cent. We should not forget, that the most far-reaching change in the reproduction process, having taken place in the post-war period, was the strengthening of state monopoly capitalism. This has manifested itself in the USA exactly in the form of government purchases establishing a stable market for a considerable part of the national product. This stable market underwent a relative shrinking in 1973 compared with 1957. But we have to add: this did not involve a general tendency of such a development since 1957, but originated mainly in a considerable drop of defense purchases connected with the "de-escalation" and later termination of the Vietnam war.*

As government purchases exert a considerable effect on the reproduction process in general, and especially on the development of recessions, it is worth while, I dare say necessary, to examine in some detail the development of the indicators reflecting the government's role during the recession. Those are shown in *Table 5* for 1973 and parallelly for 1957 as well. How does this table read, what kind of answer does it give to the questions: Did the government's share in the economy increase or decrease between these two years, and consequently, how did the susceptibility of the US economy to recessions change, how strong were the positions of the federal government for pursuing an effective anti-recession policy?

It has been already mentioned that the share of government purchases in GNP, the volume of this stable market characteristic for state monopoly capitalism, shrank relatively in comparison with 1957. But the relation of total government expenditure

*The share of government purchases in GNP had been biggest in 1953, at the height of the Korean war, reaching 27.3 per cent. It came nearest to this during the recession year 1958: 24.9 per cent. It was only slightly less at the height of the Vietnam war in 1968: 24.6 per cent. Afterwards it decreased from year to year, the lowest figure being that of 1973.

Table 5

Selected indicators of the government's role in the economy, 1973 and 1957

	1973 Billions of 1972 \$-s	Per cent of GNP	1957 Billions of 1972 \$-s	Per cent of GNP
1 Total government expenditure*	395.6**	32.0	201.7	29.6
2 Federal*	225.8**	18.2	127.4	18.7
3 State and local	169.8**	13.8	74.3	10.9
4 Government purchases of goods and services	252.5	20.4	160.1	23.5
5 Federal	96.6	7.8	89.8	13.2
6 Defense ¹	69.5	5.6	79.0	11.6
7 State and local	155.9	12.6	70.3	10.3
		Per cent of all such purchases		Per cent of all such purchases
8 Government purchases of material products	63.8	9.1	50.3	12.5
9 Durable goods	16.1	6.8	18.7	16.1
10 Structures	30.8	22.8	22.4	28.0
11 Fixed capital formation	36.2	21.6	24.6	27.2
		Per cent of total personal income		Per cent of total personal income
12 Personal income from ² government	250.4	25.1	90.4	17.5
13 Wages and salaries ²	140.6	14.1	60.7	11.7
14 Transfer payments	109.8	11.0	29.7	5.7
	Millions	Per cent of total employment	Millions	Per cent of total employment
15 Government employment	14.8	17.4	10.0	15.3
16 Military	2.4	2.7	2.8	4.3

*Excluding federal grants in aid to state and local governments.

**Calculated as the sum of government purchases of goods and services in 1972 \$-s and other government expenditure in current \$-s deflated by the implicit price deflator for personal consumption expenditure (on the assumption that the latter is spent by its recipients as personal consumption expenditures).

to GNP, showed an increase compared with the corresponding data for 1957. But looking at it more thoroughly, we notice, that the share of federal expenditures fell, while that of state and local ones grew. It is easily understandable, that thousands of state and local governments do not and cannot have a uniform policy of receipts and expenditures taking into account national interests, hence the impact of their economic activity must be often contradictory from the point of view of anti-recession measures.

Reduced weight of the federal government can be traced also in the purchases of goods and services. Here its share dropped considerably, first of all because of the relative and also absolute slump of military expenditures. In this respect proportions changed completely in favour of state and local purchases.

The shrinking of the above mentioned stable market is clearly revealed by comparing government purchase data for the two periods. In the sector of utmost importance for business fluctuations, that is, of durable goods, government purchases fell absolutely, and their share in the total purchase of such goods sank to less than half of the 1975 figure! And this originated only partly in the fall of military expenditures, because — as seen from *Table 5* — there was also a serious drop in the government share of fixed investment as well. That is: *all sectors important for business fluctuations in general and especially in the 1974-75 recession (durables and structures) show a very considerably shrunken share of secure government demand.*

The development of *government employment*, hence also *incomes originating in government* went the other way. In this respect the government's role *increased significantly*, in spite of a decrease in the number of armed forces. We deem especially significant the increase from 17.5 per cent to 25.1 per cent — in the share, of personal income originating in government, of which the share of transfer payments almost doubled (it rose from 5.7 to 11 per cent).

To sum up: *the role of government as a direct market-stabilizing agent decreased*, but that of government as employer and hence as a source of incomes *increased*, consequently also *its role as an indirect market-stabilizing agent*. It would be early to conclude, whether, on final account, the starting positions of the federal government to pursue an effective anti-recession policy were better or worse in 1973 than in 1957. Let us delay our judgement until we have analysed what really happened during the recession. But already at this point we have to formulate more precisely our former, too general statement. Let us examine how big the governments's combined direct and indirect* market share really was. In 1973 this equalled 25.5 per cent of GNP, whereas

¹ Calculated by deflating the current dollar figure by the implicit price deflator for federal government purchases of goods and services.

² Calculated by deflating the current dollar figure by the implicit price deflator for personal consumption expenditures.

*This is calculated by adding to direct government purchases (not equal to total government purchases of goods and services from which compensation of employees must be subtracted in order to avoid double counting) consumption from income originating in government, assuming that the share of consumption in incomes originating in government is the same as for total personal income.

in 1957 only 21.1 per cent, showing thus a considerable increase. On the other hand, the share of direct purchases in this total dropped from almost half to 39 per cent. And an even more important phenomenon: a strong fall in the share of the federal government in direct purchases: 67 per cent in 1957, 39 per cent in 1973! The former accounted for 6.4 per cent of GNP, the latter for 3.9. The federal government purchased in 1973, in *absolute terms* a smaller amount of material production, than in 1957: \$ 21.5 billions only, as against \$ 28.4 billions (this accounted for 3.1 and 7.1 per cent of total material production, respectively).

So we have to add to our former statement; there occurred *a shift in favor of the indirect role of government and, simultaneously, within the direct role, one to the significant detriment of the federal share.*

The economic role of the state and major policy measures during the recession

Let us begin with the best known and perhaps the most comprehensive indicator: government purchases of goods and services. Their sum increased in the three quarters following the peak of 1973:4 from \$ 253 billions to \$ 257.1 billions (2 per cent), their share in – a decreasing – GNP rose from 20.2 to 21.2 per cent. The sum was the same at the trough – 1975:1 – accounting for 22.1 per cent of a further diminished GNP. For the sake of comparison: in 1957–58, for the three months following the peak this indicator had increased by 4.6 per cent, from 23.4 per cent of GNP to 24.6 per cent – and the recession was over. Federal purchases for the same three months had risen by 1.5 per cent, dropped after and their sum was at the trough only half a per cent more than at the peak. Government purchases of durables fell between 1973:4 and 1974:3 from \$ 14.7 to \$ 13.2 billions, increasing again slightly to the trough quarter and reaching \$ 13.6 billions. (Their sum being thus 10.2 per cent and respectively 7.5 per cent less than in 1973:4.) Federal purchases of durable goods fell first from \$ 9.1 billions to \$ 7.3 billions, rising later to \$ 7.8 billions. As regards structures: overall government purchases fell for three months by 1.7 per cent and for the whole period of the recession by 9.2 per cent. Of this, federal purchases in the first three months dropped by 9.1 per cent and remained at this level till the trough and even dropped a bit after that. Federal purchases of structures were during the whole recession less in absolute terms than they had been 16 years earlier. State and local purchases of structures showed for the first three quarters of the recession a slight drop, but fell to the trough quarter by more than 9 per cent. That is: *in both of these sectors, hit severely by the contraction, the fall in government demand aggravated the difficulties, it had not a mitigating but a sharpening effect on the realization problem!* As however, the drop of government demand in the above mentioned sectors was much less steep than that of private demand (business fixed and consumers' investment), a very slight and relative stabilizing role should not be denied. But for the sake of comparison: in 1957–58 government purchases of durables had increased in three quarters by 4.2

per cent (federal purchases by 4.7 per cent) and of structures by 9.9 per cent (federal: 18.6 per cent!). The total direct market role of government (purchases of goods and services except compensation of employees) increased in the first three months of the recession from \$ 111.4 to \$ 115.3 billions, (by 3.5 per cent) falling back in 1975:1 to \$ 113.9 billions (2.2 per cent more than at peak). Thus the *direct impact of government was a slightly stabilizing one*. But this is valid only for the sectors of nondurables which anyway suffered only a slight setback in the recession and services which suffered no setback at all. In comparison: 16 years earlier this direct impact had increased for three months by 10.3 per cent and comprised all types of demand.

Looking at the *indirect* and *total* market impact of government (the former being exerted through government wages and transfer payments) we find that the former one increased in the first three months of the recession by 3.8 per cent and for its whole duration by 8.7 per cent, and the latter one by 3.7 per cent and 6.3 per cent, respectively. But also in this respect the comparison turns out in favour of government behaviour in 1957-58: the increases then had been 9.6 per cent and 10 per cent for three and five quarters respectively.

It deserves attention, that while in 1974-75 of the two types of impact the indirect one was overwhelming, in 1957-58 the two had been rather balanced, as demonstrated by their respective proportions within total government demand: in 1974-75 13.2:86.8 and in 1957-58 51.0:49.0 (the first figure being the share of the direct component).

The shift toward indirect demand affects the government impact on the economy unfavourably in various respects. This impact is first of all not simply determined by the amount of money government pays to persons in the form of wages and transfers. Government gives with one hand, but takes with the other: it collects taxes. And we might as well say, that the functioning of these two hands is by far not always well coordinated. This is even enhanced by the circumstance that two thirds of the wages and transfer payments are handed out by state and local governments, whose economic activity is influenced by different cross-currents, sometimes directly counteracting each other. A smaller or bigger part of disposable personal income is saved, and the saving rate is also influenced by different factors, causing sometimes sudden, and in respect of their impact on the recession not always favourable, changes (for instance the saving rate spurted to a high level around the end of 1973, fell somewhat afterwards, to rise again considerably in 1974:4). Direct government purchases are more effective as a market stabilizing agent also, because they involve to a great extent *production determined by orders*, thus ensuring – and in many a case for quite a long period – for capitalist producers a guaranteed demand they can take into account in advance.

Better than by any growth rate or percentage share, the change having taken place between 1957 and 1973 and the difference in government behaviour (fiscal policy) as well is highlighted by two absolute figures: in 1974-75, in three quarters government caused (directly and indirectly) total demand to augment by \$ 11.1

billions, whereas in 1957–58 for the same period by \$ 14.3 billions.!* *Thus in the recent recession government expanded demand by an amount smaller in absolute terms than sixteen years earlier.* And if we add, (tempted again by percentage shares) that those figures had represented in the first case 2.1 per cent and in the second only 0.9 per cent of GNP at its peak, and keep in mind, that in one case it compensated for the drop of GNP in the rest of the economy to 45.1 per cent and in the other to 27.1 per cent, then we might state beyond any doubt, that *in 1974–75 the market stabilizing impact of government was much less effective, than it had been in 1957–58.* How about our usual comparison with 1957–58? There is no way to make one, because then, five quarters past the peak, the recession had been over, due to a considerable extent to the demand-expanding impact of the state. This is also proven by the fact, that in the three quarters of the 1957–58 recession GNP had fallen by 3,2 per cent, whereas in the first three quarters of the recent one by only 2.4 per cent. The annual rate of GNP drop per quarter (we might take it as an indicator of the sharpness of the recession) had been 6.5 per cent in the earlier recession, but was only 5.3 per cent in the recent one. This means, that though the initial momentum of the contraction had been stronger in the earlier recession, yet, the cumulative process could be stopped after three quarters, thanks to a more favourable structure of the economy and a proper anti-recession policy, whereas in the recent recession the contraction could deepen and extend, owing to a less favourable situation in respect of the former factor and a lack of the latter.

Let us now turn to a somewhat detailed analysis of the functioning of the two “hands” of government – the one handing out incomes and the one collecting taxes – during the recession. Their functioning has a significant impact on the development of *disposable personal income*. It deserves our serious attention, since the latter one is tightly connected – as I had shown in an earlier work, already mentioned** – with the most important change in the mechanism of post-war capitalist crises. This change lies in the phenomenon, that a given drop in production and investment brings about a much smaller fall in disposable income than was the case in the interwar period. This was brought about by the joint effect of changes in the relations of production, the pattern of reproduction and in various institutions. And it was this, that rendered possible a significant mitigation of the cumulative process usually causing contraction – once started – to deepen. Some years after that study, in a paper written jointly with Péter Erdős*** we examined the cumulative process quantitatively and in a broader context, with special regard to the role attributable to structural changes on the one hand, and to discretionary government policy measures on the other, in the mitigation of this cumulative process. I am of the opinion, that an analysis concerning the functioning of the “two hands” of the state and the effectivity of this in a real recession might be a further contribution to solve the above mentioned problem.

*Let us remember that these figures are, as all others throughout this paper – if not stated otherwise – expressed in 1972 dollars, at annual rate.

**See [6] pp. 238–239.

***See: [4].

Let us look into what really happened! In 1973:4 the state paid with the right hand (I find it appropriate to call the giving hand the right one) \$ 140.7 billions* in wages and salaries, and \$ 108.2 billions as transfers (total: \$ 248.9 billions) to persons, collecting in the same period \$ 145 billions in personal taxes; net personal income originating in government amounting thus to \$ 103.9 billions. The corresponding figures three quarters later were; wages 137.2 billions, transfers 116.9 billions (total 254.1 billions) and taxes 147.1 billion . . .

But here we have to stop for a minute! Is it possible that three quarters deep in a recession the *real volume* of personal taxes collected was bigger (by more than 2 billions) than at the peak of the expansion? But every college student, majoring in economics was taught, that the system of progressive income taxes was one of the most effective built-in stabilizers, dampening the increase of incomes in boom times and mitigating their fall in rainy days. Those students — by the way — must have been greatly perplexed, when, after having read in their favorite textbook by the Nobel laureate professor Samuelson, that “. . . our tax system is a mighty and rapid built-in stabilizer.” and, that “today for each \$ 10 billion drop in GNP, total tax receipts drop by about 31/2 billion,”** they had to listen to their old men, complaining about their increased tax burden inspite of the recession. In the recessions of the previous decades the tax system had exerted this anticyclical effect quite well, even in 1957-58. Why has it failed recently? And it is this point where inflation enters the picture as a serious disturbing factor, one which turned certain economic mechanisms upside down. To be exacts because of a rise in nominal wages and other types of personal income, brought about by inflation, many a taxpayer found himself in a higher income tax bracket (without any increase in real income, or even simultaneously with a drop in the same), and this increased the amount of taxes paid. No government action was taken to prevent this. As pointed out and analysed by Okun*** former chairman of the Council of Economic Advisers, the pundits of economic forecasting, including those in government service, those days systematically underestimated both the severity of the recession and the virulence of inflation. So could it happen, that as a share of “earned personal income” (personal income minus transfer payments) federal personal taxes rose from 12.2 per cent in 1973 to 13.0 per cent in 1974****. Contributions to social insurance were also raised, curtailing personal income in three quarters by \$ 1 billion.

*It goes without saying that all the data in this calculation are also expressed in 1972 dollars, at annual rate. In official US statistics we find these data only in current dollars. I transformed them into 1972 dollars by deflating with the implicit price deflator for personal consumption expenditures, on the assumption that they are spent overwhelmingly on personal consumption. Thus they became comparable with other indicators, first of all with disposable personal income, published also in 1972 dollars.

**See [1] p. 357.

***See [7] pp. 214-219.

****Ibid, p. 211.

But let us return to our figures. These show, that in 1974:3 the state handed out personal income in the amount of \$ 107 billions, net: \$ 3.1 billion more, than at peak. But since all other types of personal income combined dropped by \$ 23 billions, the latter was compensated by the above increase in income originating in government to about 15 per cent. The result was an overall decrease in disposable personal income by more than \$ 20 billions (2.4 per cent). As the tax burden was rising and government wages dropped, the above compensating effect was due totally to an increase in transfers. For comparison: in 1957-58 government wages had increased in three quarters by \$ 1.5 billion, transfers by \$ 6.2 billions. Taxes had fallen simultaneously by \$ 2.9 billion, net income originating in government thus rising by \$ 10.6 billions, that is, in absolute figures thrice as much as in 1974-75. Thus the \$ 13.7 billions drop in other types of personal income had been compensated to 77 per cent. As overall result, disposable personal income had dropped by only 3 billions, that is by a trifle 0,7 per cent.

But let us proceed. In the trough quarter (1975:1) the state handed out \$ 137.4 billions in wages, \$ 127.6 billions as transfers (total: \$ 265 billions) and collected personal taxes in the amount of 144.9 billion dollars. Thus net personal income originating in government reached \$ 120.1 billions, 16 billions more than 5 quarters before, thus compensating at the trough the more than \$ 50 billion drop in other personal incomes already to 31.8 per cent. This came this time as well completely from an increase in transfer payments, and half of it from increased unemployment benefits. The latter built-in stabilizer worked this time also well. Its sharp increase and strong compensating effect was, however, brought about partly by new legislation extending the right to and the duration of unemployment benefits. The overall result was: a more than \$ 34 billion (4 per cent) drop in disposable personal income as compared with 1973:4.

At last, at a fairly advanced stage of the recession a turnabout in federal government behaviour took place. Up to then it had seemed paralyzed partly by the objective circumstances of the inflation, partly by its own fear of it, and had done practically nothing to counteract the recession by fiscal means. The turn materialized in the 1975 Tax Reduction Act, reducing personal taxes by \$ 16 billions and including also a 50 dollar per person one-time payment to persons receiving social security benefits (totalling \$ 1.8 billions). The effect of the tax cut on personal income and through it on personal consumption expenditures and hence on the whole economy was quick and strong. Let us look at the figures! In 1975:2 government paid wages in the amount of \$ 138.9 transfers \$ 135.3 billions (total: \$ 274.2 billion) and collected only \$ 113.7 billions in personal taxes, that is \$ 31.3 billions less than in the previous quarter. As a consequence, net personal income originating in government jumped by \$ 40.4 billions (33.6 per cent) to \$ 160.5 billions, a level \$ 56.6 billions (54.4 per cent) higher than at the 1973:4 peak. And although other wages and salaries fell also in this quarter (e.g. in material production by \$ 3.0 billions), this was overcompensated by the increase in net government income. This led to the first increase in disposable personal

income after a drop lasting 5 quarters. The increment was \$ 41.8 billions (5 per cent) over the previous quarter and \$ 7.6 billions (almost 1 per cent) higher than at the 1973:4 peak. The tax cut stopped the cumulative process and shifted the gear of the economy from "reverse" into "drive" again. Indeed, disposable personal income was already higher than at peak, but GNP — although resuming its upward movement, brought about by the turn — was still by \$ 65.6 billions (5.3 per cent) less than at peak. Thus the growth of personal consumption expenditures, starting already in the preceding quarter, but caused only by a drop in the saving rate, got a stable basis. Profits also started to rise, in current dollars, and so did in the next quarter fixed investment — mainly reflecting the revival in residential construction. The recession was over, a revival has begun. The decisive role of the tax cut-income rise-consumption rise chain is proven by the fact, that reduction of stocks reached its maximum in the same 1975:2 (21.2 billions) cutting 1.8 per cent from GNP — and despite this, GNP began to rise.

In order to demonstrate the significance of a diminished government share in the economy and of the unsatisfactory utilization of opportunities still provided by the latter and of the lack to change this share seriously during the recession, and to what extent a deepening of the recession could have been lessened, let us investigate the impact of certain hypothetical cases on the development of GNP. We begin with government purchases of goods and services.

Assumption 1. If the *share* of these purchases in GNP had been the same as in 1957 but their percentage *development* as actually, their impact would have added to GNP in 1974:3 \$ 2.3 and in 1975:1 \$ 4.3 billions.

Assumption 2. *Share as in 1973, but path of development as in 1957-58.* This would have resulted in surpluses of \$ 6.4 and \$ 14.2 billions in the respective quarters.

Assumption 3. *If both share and development had been as in 1957-58,* the surplus in the quarters indicated would have been 9.8 and 20.8 billion dollars, respectively. If so, GNP in the trough quarter would have been less not by \$ 81.5 billions, but only by \$ 60.7 billions than at peak. The decrease would have been only, 4.9 per cent instead of the actual 6.6 per cent.

Let us have a closer look.

In case 1. The direct market impact of the state (purchases of goods and services minus government wages) would have added to GNP in the same quarters \$ 2.0 and \$ 2.2 billions respectively.

In case 2, the amount added would have been \$ 10.1 and \$ 20.1 billions, respectively. And in case 3, \$ 10.3 and \$ 21.6 billions, consequently the drop from peak to trough would have been only 4.8 per cent.

To make this hypothetical investigation more comprehensive, I calculated the impact of the corresponding government purchases on the two sectors hardest hit by the recession: durables and structures.

Case 1 would have resulted in the sector of durable goods for 1974:3 at trough in a slight surplus \$ 3.9 billion. As regards structures, there would have been at trough a minimal, \$ 0.3 billion drop.

In case 2 there would have been a small surplus in the durables sectors: \$ 3.1 and \$ 3.8 billion respectively. As regards structures, the surplus in 1974:3 would have been small: \$ 3.6 billions but in the trough quarter more considerable: \$ 8.1 billions.

Case 3 would have resulted in both sectors and both periods in a significant surplus: for durables \$ 5.8 and \$ 9.4 billions, respectively and for structures: \$ 5.5 and \$ 11.0 billions. This represents a combined \$ 20.4 billions surplus at trough, which could have compensated the drop in those sectors - \$ 72 billions - to 28.8 per cent. For the third quarter of the recession the surplus would have been only 10.7 per cent, but its compensating impact 41.8 per cent.

Taking into account both (direct and indirect) types of impact and calculating the impact of total government demand in case 2 (1973 shares, 1957-58 development) we get \$ 25.6 and \$ 42 billion surpluses respectively. If things had went that way, the drop of GNP for three quarters would have been only 0.3 per cent! It is questionable whether the contraction would have deepened further. And if so, the decrease by the trough would have amounted to 3.6 per cent, i.e. to only *slightly more than half of what it was actually*. What we had in mind in the previous assumptions was one "hand" of the state, the one handing out incomes. If its tax collecting hand had acted as it did in 1957-58, that is, personal taxes had been cut by the same percentage, *via* the income increase, this alone would have resulted in a \$ 6.8 and \$ 8.5 billion GNP surplus, respectively, in the above mentioned quarters.

And finally, taking into account the actions of both "hands", we arrive at the result that in 1974:3 GNP would have been already somewhat (by \$ 2.7 billions) higher than at the 1975:4 peak. It is possible that the recession would have been over by then. But even failing this, the drop in GNP until 1975:1 would have reached anyway only 2.5 per cent.

We have to add, that in the previous calculations no secondary effects of government expenditures were taken into account. Hence, it seems quite justified to assume that in reality the impact would have been bigger and had the government pursued a fiscal policy corresponding to the above assumptions, the recession would not have been simply of the same duration but lesser severity, it might also have been cut short considerably earlier.

We also have to state, that not only fiscal, but monetary policy too - the main responsibility for which rested with the conservative Federal Reserve Board chairman, Arthur Burns - failed to play its role properly. Monetary policy far from having helped to mitigate the contraction, and especially interest policy, had a very negative effect on residential construction.

It is worth mentioning, that G.L. Perry of Brookings Institution elaborated various simulations, using the public version of the SSRC-MIT-Penn (SMP) model. He, too, concluded that a more appropriate monetary and fiscal policy might have considerably changed the path of the economy during the recession. He showed that monetary policy taking better into account the impact of the increase in oil prices, combined with a well-timed \$ 20 billion tax cut could have added considerably to GNP

and, consequently, the drop of GNP at trough (1975:1) would have been only 3.3 per cent, (that is only half of the actual one) adding only half a per cent to the price level.*

The impact of inflation on the contraction

As already stated, the coupling of a sharp drop in production with a two-digit inflation has been an outstanding *differentia specifica* of the recent recession. Post-war economic development was characterized in general – due to various causes – by an inflationary tendency. In such direction were working the increased share of government in the economy, the series of big budget deficits, some of the built-in stabilizerst, etc. This tendency was accentuated by some economic shocks in the early 1970's. Such were poor harvests outside the US in 1972, and one in the country itself two years later, pushing up food prices; the four-fold increase in oil prices; the simultaneous boom in the developed market economies in 1972-73, etc.** By abolishing the remainders of price controls introduced in August 1971 and already much weakened, by this most ill-timed measure the Nixon administration opened in April 1974 the gates wide for inflationary tendencies to surface. Inflationary price movements are shown in *Table 6*.

Table 6

Selected indicators of inflationary price movements
(percentage changes, seasonally adjusted annual rates)

Item	Six months ending					
	1974		1975		1976	
	June	Dec.	June	Dec.	June	Dec.
GNP implicit price deflator	10.5	12.5	7.3	7.0	4.2	6.0
Consumer price index	12.2	11.6	6.6	7.0	4.4	5.3
Wholesale price index	18.1	23.8	0.5	8.6	2.3	4.8
Energy items	82.1	26.1	5.4	20.9	-5.1	...

Source: [3], [9] and [12]

The data reveal that the steepest price rise occurred – due to factors already mentioned, first of all to skyrocketing oil prices and the ill-timed abolition of price control – simultaneously with the steep drop in production. According to wisdom, based on – we might say – centuries-old experience, an increase in prices should have

*See [8] pp. 227-228.

**See: in some detail in [9], p. 558.

improved business — first of all by raising nominal profits. Gross profits of nonfinancial corporations increased as a matter of fact between 1973:4 and 1974:3 by more than \$ 20 billions. Almost half (46.8 per cent) of their profits in that period originated, however, from inventory valuation adjustments due to increased prices. Eliminating this, profits fell by \$ 18.8 billions caused by the drop in production and demand. Real profits dropped, of course, even more, although — lacking an appropriate deflator — it is impossible to tell precisely by how much. In times of high price increases capitalists do see through the “money veil”, and the above mentioned increase in profits did not at all induce them to raise fixed investment, which could have changed the path of the economy sliding into recession. But considerable speculative, windfall profits were to be gained from price increase: a strong inducement to inventory accumulation. Of course not much later it turned out that inventories did not correspond to any demand based on an increase in production, this necessitated a very sharp reduction of inventories deepening the fall in production, and the contraction in general.

Inflation — paradoxically — did not lead to an increase in expenditures of wage-earning consumers scared by the prospects of future price rises. Most probably they got even more scared by the prospect of unemployment, their fears enhanced also by a drop in real wages, not a usual companion of recessions. This might be the explanation for abnormally high saving rates during the recession.

We already mentioned the negative effects of inflation, preventing the functioning of an important built-in stabilizer: the progressive income tax.

The negative consequences of inflation were sharpened by the fact, that the money managers of the Federal Reserve Board fought inflation with a restrictive monetary policy without taking into account certain important circumstances, such as e.g. the fact, that the rise in oil price added \$ 37 billions to the cost of oil products used in the country by the end of 1974, adding an estimated 2.6 per cent to the demand for money.* With all this in mind, although I disagree with the exaggerated statement by chairman Burns that: “The basic cause of the recession was our nation’s failure to deal effectively with the inflation that got under way in the mid-sixties and soon became a dominant feature of our economic life.”** Yet I am strongly convinced, that *inflation, working through numerous different factors caused the recession to deepen.*

Some lessons of the recession

The recession, which shook the US economy in 1974–75, was not only the most severe in the post-war period, but also had a number of specific features distinguishing it from other crises and recessions of the same period. Among them the most conspicuous and most important was doubtless its being coupled with a two-digit

*See: [8] p. 223.

**See: [1] p. 6.

inflation. This was not only a unique curiosity of economic history, but a serious deepening and lengthening factor as well. Another characteristic feature worth mentioning was the important role played by a slump in building activity. The latter was reflected in the unusual relationship – not experienced in earlier recessions – between the drop of GNP and industrial production, the former being in the early phase of the recession sharper than the latter.

The recent US recession developed as a part of a world economic crisis comprising all developed capitalist countries simultaneously. It was stated about this crisis in the Hungarian economic literature by Tibor Erdős that it was no periodical overproduction crisis in the classical sense, but one caused by specific factors.* I am of the opinion, that all the facts and data cited prove beyond doubt that his statement is clearly valid for the case of the US economy as well, there was no periodical overproduction crisis either, but a recession, brought about by specific, mostly one-time factors.**

The recent recession was – in spite of its *differentiae specificae* – similar to and of the same type as other postwar recessions had been. This was determined by the fact, that all structural changes which had made previous post-war recessions mild by mitigating the cumulative process were operative this time as well. To mention only the most important ones, first of all the increased share of the unproductive sector, including that of the government, and all types of services.

Due to these decisive and permanent structural changes this recession could explicitly be regarded as mild in comparison with those between the two world wars. As proof of the above statement I would like to draw the attention of the reader of all the facts and figures in this paper, to one more – in my opinion quite important – phenomenon. Similarly to all other post-war recessions in this one, too, *expanded reproduction and accumulation were severed from each other*. Namely: production dropped, hence reproduction was not expanded, but restricted. Accumulation, however, continued uninterruptedly, as fixed capital stock, (both gross and net) and hence productive capacity as well, increased all the time. The cause was that gross fixed investment never dropped to an amount not enough to replace the wear and tear of this stock.***

We have to explain, however, the irrefutable fact that it was significantly more severe than all other post-war recessions. This was brought about by two groups of causes: external and internal. Let us begin with the less important group, that of

*See: [5] p. 45.

**By the way: anybody declaring the recent recession a periodical one, must answer the rather delicate question what was the duration of the latest cycle, which was the crisis marking the start of the cycle? Maybe the 1969-70 one; or perhaps the one in 1960-61? Or even in 1957-58? Who knows?

***This phenomenon renders the correctness of using the term crisis for these type of contractions rather dubitable from a Marxist point of view, as such "crises" clearly do not fulfill the function attributed to them by Marx: destruction of productive forces, clearing the way for a new wave of fixed investment.

external causes. Among them first place is taken by the oil price "explosion". This accentuated inflation on the one hand, and through higher gasoline prices led to a drop in demand for automobiles on the other. Due to the important role of the motor car industry in the US economy, this became a contraction-deepening factor. Simultaneous recessions in other developed capitalist countries also had an adverse effect on the American economy.

Decisive however, were the *causes of internal character*. Among these we regard as most important certain *changes in the structure of the economy* in the years preceding the recession — some of them only temporary — leading to a higher "propensity to contract". The most important of these was the *drop in the government's share in the economy*. The recession hit the economy at a time when this process, which had started after the peak of the Vietnam war (1968) has not yet run its course. This was accentuated by the shift within government expenditures in favor of the indirect impact on the one hand, and in favor of state and local governments without any national anti-recession policy on the other. The main consequence was a much diminished share of government demand, exactly in the two sectors suffering most from the recession: durables and structures.

"The propensity to contract" was also increased somewhat by a greater share in GNP of two unstable components: manufacturing and durables.

The situation was also aggravated by the fact that the *sharp contraction into major types of demand* — business fixed investment and consumers' investment *coincided*, which did not happen in previous post-war recessions. Compensation, which could have come from a considerable rise in the third major type of demand, i.e. government purchases, did not materialize, owing to causes already analysed in some detail.

As we have seen, *inflation* tended to aggravate the situation through a number of factors, not the least by *putting an important built-in stabilizer out of action*.

Consumer demand was squeezed from two sides. On one side by the drop in disposable income, due to the factor mentioned above, and on the other by an increased saving rate. Saving a greater part of their diminished real income, consumers, of course, had to curtail their purchases considerably.

Last but by far not least, the *main factor responsible for the deepening of contraction was the bad, weak and ill-timed economic policy of the government*.^{*} The main characteristics of this have been already outlined. It was expectable, that a Republican administration would not cope with its task, as past experience shows, that when faced with the alternative to fight inflation or unemployment, Republicans were prone to choose the former. Besides, this time the situation was really more complex and more difficult than at any time during the previous quarter of a century. We might also assume that a factor in the do-nothing attitude of the administration

^{*}A short but biting, and hitting right on the target, critique of the activities of the Ford administration and Burns during the recession can be found in Samuelson's column in the October 20, 1975 issue of Newsweek [10].

during the decisive first half of 1974 could have been the circumstance, that Nixon's major headache at that "point in time" was not to fight the recession — which was possible — but to do the impossible: to save his presidency, already crumbling under Watergate.

From the failure of the above economic policy quite a few people concluded — in my opinion incorrectly — that Keynesian economic policy in general, a source of much previous success, was bankrupt. Certainly it was demonstrated that such economic policy was less effective in times of inflation, meeting a lot of objective difficulties. But, as the belated but considerable turn in fiscal policy, embodied in the tax cut enacted in April 1975, had a rapid and positive effect, we might perhaps better conclude, that Keynesian recipes are not always equally effective, but by all means have a feature common to all medicaments: they have a curative effect only on patients who take them — or, if necessary, are forced to do so.

Both the development of the recession and the impact of the policy measures taken prove, that the "*propensity to contract*" of any economy is basically determined by structural factors. But how severe a recession becomes within those structurally determined limits depends also to a considerable extent on discretionary policy measures taken — or missed.

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ЭКОНОМИЧЕСКИЙ КРИЗИС 1974–75 ГГ. В США: ФАКТЫ И ВЫВОДЫ

Ф. МОЛЬНАР

Во вступительной части статьи описывается экономический кризис 1974–75 гг., который по своей глубине, широте, продолжительности и влиянию, оказываемому на положение трудящихся, был самым серьезным за период после второй мировой войны. Автор отмечает как наиболее важную отличительную черту кризиса сочитание резкого снижения производства с двузначным темпом инфляции. В статье рассматриваются и другие особенности прошедшего кризиса (например, необычно большое падение строительной деятельности во время кризиса и т.п.). На основе рассмотренных фактов автор констатирует, что несмотря на всю свою тяжесть этот кризис однотипен с другими экономическими спадами послевоенного периода, поэтому не является общим периодическим кризисом перепроизводства, а представляет собой особый, вызванный большей частью разовыми факторами экономический спад.

В углублении кризиса 1974–75 гг. бодьшую роль играли внешние и внутренние факторы. Менее важным фактором автор считает скачкообразный рост нефтяных цен, а также в одновременное развертывание экономического спада в других развитых капиталистических странах. Решающими же, по мнению автора, являются внутренние факторы – некоторые структурные изменения, способствующие усилению чувствительности к экономическим спадам. Среди них он прежде всего указывает на определенное ослабление экономической роли государства, а также на сдвиги внутри спроса государства в сторону роста косвенного спроса и в сторону роста расходов местных органов, неспособных к ведению единой антициклической политики. Кризис усугублялся из-за одновременного падения двух главных, с точки зрения формирования конъюнктуры, видов спроса – инвестиций в основной капитал и так называемых потребительских капиталовложений, их сокращение не компенсировалось ростом третьего важнейшего вида спроса, – спроса государсва. Положение значительно усложнила также и инфляция. И наконец, главным фактором, послужившим углублению кризиса, явилась ошибочная, бессильная, неправильно приуроченная экономическая политика правительства. Поэтому неудача правительственной политики не означает краха экономической политики кайнсианского типа вообще, а, скорее всего, свидетельствует о том, что и снабдьбе действует только в том случае, если больной на самом деле принимает его. В качестве докозательства автор указывает на быстрое и положительное влияние на экономику снижения налогов в 1975 г.

REVIEWS

REPORT ON THE STATE AND TASKS OF ECONOMIC RESEARCH IN HUNGARY*

Results and deficiencies

In the course of *extensive development* lasting till the late sixties a wide network of economic research units was established in Hungary. 20 per cent of the researchers in social sciences is engaged in research in economics, and about 16 per cent of all inputs is used for this purpose.** These ratios characterizing the discipline correspond to its national economic and social importance.

Table 1
Research staff and inputs in economics, 1973

	Researchers		Research inputs	
	number*	per cent	million Ft	per cent
<i>Economics**</i>	584	20.0	99.1	16.0
Political economy	32	0.7	4.3	—
Industrial economics	73	2.3	12.3	2.0
Agricultural economics	140	5.4	21.9	3.8
Economics of other branches	122	3.7	53.0	8.6
<i>Total of social sciences</i>	2973	100.0	615.3	100.0

Source: Adatgyűjtemény a tudomány-kutatás 1970-1973. évi főbb adataiból (Data collected about scientific researches between 1970-1973). KSH, 1975.

*Converted to full-time research workers.

**Without management research.

*The first variant of the analysis elaborating the experiences of 1968-1974 and reporting on the state of research in economics in Hungary was prepared by T. Nagy and T. Földi for the Committee of Economics of the Hungarian Academy of Sciences. The analysis was discussed at several other forums. This is a shortened version of the final report approved by top science policy bodies.

**Without management research.

Economic science helped in the solution of problems related to the building of socialism, to practical economic activity, and contributed to the development of Marxist economic theory, to clarifying problems important from the point of view of ideology. Though the links between research and practice have not yet attained the degree required by a socialist society, efforts at this objective have been a strength of Hungarian economics. Research workers frequently participated in analyses initiated by party and government organs, and also in the preparation of decisions. The standards of research in economics is indicated also by a growing international appreciation.

Research into *political economy* and the history of economic thought has kept pace with international development. Quite a few important works have been published on the phenomena of modern capitalism, and the critique of bourgeois economic theories. The results achieved in exploring the problems of economic development, national economic planning and economic control and management have contributed to the development of the political economy of socialism.

Important results have been attained in the researches of problems of *economic growth* which were stimulated by the requirements of long-term planning of the economy. In the researches aimed at the problems of national economic *planning* success can be reported about the development and application of modern tools of planning — mainly advanced mathematical methods — as well as about those dealing comprehensively with economic policy.

By exploring new interrelations the *researches into economic control* supported, on the one hand, the correctness of the reform of economic control, and provided scientific help to implementing the necessary corrections and, on the other hand, they enriched the knowledge about the actual functioning of socialist economy, and contributed to a better understanding certain questions which are important from both ideological and political points of view.

As regards the *economics of various branches*, besides the considerably stepped-up researches in industrial economics, development is most perceptible in agricultural economics. Several scientific results have been attained which have contributed to the development of socialist agricultural economics.

The weight of *world economic researches* and of those dealing with Hungary's external economic relations has significantly increased in recent years. The results have contributed to a better foundation of Hungary's external economic policy and to a better understanding of a series of important theoretical problems, such as the mechanism of socialist international division of labour, significant new phenomena of modern capitalism, the various problems of developing countries. Also an interesting forecasting activity has been developed.

In mathematical economics highly appreciated results have been attained. The main reason for this is close contact with practical problems, with planning and economic control activities.

In spite of the results attained, Hungarian economics cannot satisfy every socially justified demand. Above all, there is a lag in various fields of economics as regards the

deeper exploration of economic and social interrelations, aimed at generalization and synthetization, although the domestic and international experiences accumulated and the ever enriching knowledge of partial interrelations of economic reality provide increasing possibilities. Also the solution of practical problems urges such researches.

Development of *political economy*, particularly that of socialism, is by far not satisfactory. There is backwardness in the research of important subjects (such as the development of the socialist forms of ownership; the role of commodity and monetary relations, and value categories in socialist planned economy).

Many problems which are highly important from the viewpoint of the development of the economy have not yet been sufficiently illuminated in the course of research engaged in *economic growth* problems. Such are first of all, analysis of the economic policy and interrelations of its individual fields in the stage of intensive development, scientific foundation of investment and manpower policies, investigation of the system of requirements of a socialist model of consumption and its implementation. Researches into the problems of economic development have little to tell in concrete terms about the social circumstances promoting and accelerating the growth, the development of socialist economy or about the institutional aspects of the process.

In comparison to the *research into planning* carried on in some socialist countries, above all in the Soviet Union, not much attention has been paid to research — based on systems theory of planning, the order of working out the plan, and the operation of the planning agencies.

The major deficiency of researches into *economic control* is that fact that they have not reached an evaluation, theoretical generalization of the experience gained, nor a theoretical illumination of the socialist economic mechanism. The problems of the institutional system of economic mechanism have not obtained their due place in research.

Researches dealing with the *economics of individual branches* have not been satisfactorily integrated with researches approaching from the national economic aspect, little attention has been paid to the socialization of production (specialization, cooperation), as well as to the problems of organization and high-level control. In the field of *business economics* development of interdisciplinary research is not satisfactory and also a further increase of empirical investigations is desirable. In *agricultural economics* analyses should be further enforced which may directly contribute to the scientific foundation of agricultural policies from the viewpoint of the development requirements of the national economy as a whole. In the other branches of economics (e.g. economics of transport, domestic trade, non-productive branches in general) there were only few projects that satisfied theoretical standards.

In the *researches on world economic* problems and external economic relations of Hungary the main bottlenecks relative to social needs are: general theory of international economic relations, tracing and analysing the economic development of individual CMEA countries, complex investigation of the laws of motion of the socialist world economy, division of labour and cooperation, and within it a comprehensive

investigation of the nature of processes. Researches ought to signalize faster the long-lasting changes in the world economy.

In *mathematico-economic* researches sometimes social interrelations are left out of account, the links with traditional economics are missing and eventually formalism and considering the researches into methods as an end in itself are the main problems.

It is a general deficiency of economics that relations with the other social sciences and some natural and applied sciences are not intensive enough. Also the results attained by economics in other countries should be more relied upon.

Problems of controlling and coordinating researches

From the viewpoint of further development it is decisive to assert the requirement that the fast growing social needs should be better satisfied, and this demands a purposeful concentration of the forces available.

Experiences as regards the mobilizing effect of the main priority programs of research* are, in general, satisfactory. These testify to the fact that it is worthwhile to proceed on the road taken. The work related to the national priority program: "The socialist enterprise" is successfully carried on. Significant forces from outside the Academy could be included into the research program administered by the Academy "Medium-term world economic prognosis with special regard to the viewpoints of national economic planning". A similar program of the Academy termed "Analysis of experiences of Hungarian economic policy — proposals for its improvement" is outstanding for its novel, complex ways of approach.

The international relations of economic research have lately become an important coordinating force. Ties have particularly strengthened with economic research in the socialist countries. The major part of these relations became established within the framework of CMEA cooperation. Also the partly bilateral, partly multilateral cooperations coordinated by the Academy and those initiated by some Academic institutions have important roles. Relations are particularly intensive with the institutions of the Soviet Union. A considerable part of relations with economists from non-socialist countries is connected with the operation of international organizations. In this field of major role is played by the Hungarian Economic Association which was host to the Fourth World Congress of Economists, successfully organized in 1974. Relations with economists of the developing countries have also strengthened on the line of the Hungarian Economic Association, but many possibilities are not yet utilized.

Direct commissions placed by the party and the government organs are important means of influencing research and of asserting the interaction of social needs and

*Those identified as such in the National Long-term Plan for Scientific Research approved by the Government. — Ed. note.

Table 2

*Distribution of research units in economics according to supervising authorities (1974)**

Authorities	Institute	University department	Other	Total
Central Statistical Office	1	—	1	2
Hungarian Academy of Sciences	3	—	—	3
Ministry of Agriculture and Food	2	8	—	10
Ministry of Construction and Urban Development	1	—	1	2
Ministry of Education	—	46	1	47
Ministry of Finance	1	—	—	1
Ministry of Foreign Trade	—	—	1	1
Ministry of Heavy Industry	1	—	—	1
Ministry of Domestic Trade	1	6	1	8
Ministry of Labour	—	—	1	1
Ministry of Light Industry	1	—	1	2
Ministry of Metallurgy and Engineering	1	—	—	1
National Council of Cooperatives	1	—	—	1
National Planning Office	1	—	—	1
National Trade Union Council	1	—	—	1
Total	15	60	7	82

*Institutions where economic research is conducted only partly beside other (i.e. consulting, managing) activities are included too

scientific research. Several steps have been taken recently in this field. Committees have been set up for preparing the up-dating of the structure of production, the price system and the exchange-rate as well as for working out a new external economic strategy. Research workers from various fields of economics participate in the work of these committees. To the above are added the researches to be organized on the basis of recommendations by party organs.

A yet unsolved, much debated problem of research in economics is the comprehensive control and coordination of research activities (i.e. harmonizing basic with applied research). Progress is most difficult in this field which may be explained by the many ramifications of economics as regards both disciplines and organization. The experience is fairly general that efficiency of coordination is greatly enhanced if the coordinating body has separate funds for this purpose, available for commissions, competitions, rewards. Not only the problems of coordinating basic researches in economics emerge in this context, but also of harmonizing applied researches, particularly those carried on in the institutes of economic ministries dealing with industrial economics and organization.

Tasks for the future

Research in economics should continue to put in the forefront of its activities the projects investigating the present practice of building socialism and its development perspectives. The material and intellectual resources should be mainly concentrated on the projects falling into the main priority programs. In liquidating the bottlenecks in research the possibilities inherent in international – mainly socialist – cooperation should be extensively relied upon. It is necessary to concentrate forces on a few well delimited fields of research which better satisfy social needs and serve practical economic policy.

– The national priority program termed “The socialist enterprise” should be continued. Its strength lies in the interdisciplinary nature of research and the participation of many institutions. It is justified, however, that the medium-term plan of the program should better concentrate on a few tasks highly important from the viewpoint of practice. It is necessary to devote a wider field within the program to the evaluation and directions of improvement of the organizational system of industrial enterprises and the investigation of the efficiency of organizational forms in industry and agriculture.

The priority program on economic policy addressed to the Academy of Sciences should be continued under the new title “Scientific foundation of economic policy”. It is necessary to modify the contents of the program. Importance of the research objective, its significance for the economy, its comprehensive nature, and the greater possibilities inherent in interdisciplinary research justify that the program should rise to the rank of national priority.* The main project to be investigated within the program are:

1. Interrelations of economic policy decisions and implementation of decisions, based on a complex analysis of the experiences of economic policy up to now;
2. The rate of economic growth and transformation of the economic structure;
3. Development of the system of economic control (the economic mechanism),
4. Scientific foundations of the living standards policy (income distribution, consumption, living conditions, the way of life),
5. Scientific foundations of an industrial policy, with particular regard to the development of industry and its organizational system,
6. Scientific foundations of an agricultural policy, with particular regard to the industrialization of agriculture,
7. Economic cooperation and integration of the CMEA countries, with particular regard to Hungary's foreign economic relations.

– It seems reasonable to enlarge the priority program world economy preferred by the Academy of Sciences carried on up to now under the title “Medium-term world

*Since the article has been written the Government gave its approval to the raising of the program to the rank of national priorities. A detailed review of the program will be published in one of the next issues. Ed. note.

economic prognosis" into one entitled: "Development tendencies of the world economy, with particular regard to the viewpoints of Hungarian economic policy and planning."

The strong practical orientation of research in economics should be accompanied by the enrichment of Marxist-Leninist economic theory. To this end, the generalizing, theoretical research projects aimed at exploring the Hungarian practice and historical experiences of building socialism should be enhanced, the positions of Marxism should be strengthened and the views alien to Marxism must be rejected. Further development of economic researches demands that

– approaches and methods (techniques of analysis) developed in other scientific fields (above all in sociology) should be employed and that results of economics should be transferred into other branches of social science;

– the scope of interdisciplinary research should be widened and deepened: sociologists, jurists, philosophers, mathematicians, biologists and representatives of the engineering sciences etc. should be drawn into the research of every economic subject where this is justified:

– in the course of research into individual subjects the experiences to be drawn from the economic development of other socialist countries, from the ways in which problems were solved, should be more thoroughly explored and taken increasingly into account;

– scientific achievements, established views and trends in other countries should be reviewed more thoroughly, evaluated and taken into account in the course of research.

Coordination of the activities of the research network dealing with the various problems of economics, widely dispersed and partly organized not mainly with the purpose of solving scientific problems, could not yet be achieved. Therefore

– forms and methods should be sought with the aid of which the activities of economists working in different research units in the interest of a common purpose can be harmonized as efficiently as possible;

– efforts should be made that the tasks set to economic research, the priority projects should not be too many and that they should constitute a consistent system;

– by including into research a greater number of the teaching staff of universities and other institutions of higher education, research capacities should be expanded and the conditions of research work improved.

Marxist critical spirit must be improved in the public life of economists. In the periodicals reviews of the important publications should be published. The Hungarian Academy of Sciences, the Hungarian Economic Association and other forums should organize discussions about practical and theoretical problems. In the course of work on the priority projects a closer relationship should be developed between research workers and practical experts. It is necessary that young economists obtain a greater role in the activities of committees and societies.

BOOK REVIEWS

KOZMA, F.: *Jólét szocialista módon* (Welfare in a socialist way.) Budapest, 1976. Kossuth Könyvkiadó. 197 p.

Ferenc Kozma's recent book deals with the socialist way of life and first of all with its economic aspects.

In *Chapter I* the close relationship between the level of economic development and consumption is shown pointing out that consumption is to a great extent a function of the productivity of social labour. Consequently, welfare can be increased by accelerating the harmonic development of the forces of production. High and increasing consumption is only a necessary, but not sufficient condition of the material welfare of society, the author emphasizes. A given individual or a group of people will never assess the absolute level of their own consumption, but the relative one. Spatial and time dimensions as well as limits of this comparison are outlined and the author states that if the comparison shows favourable results, then one of the most important elements of social *welfare-feeling* will develop, namely, that the individual and the group of people will judge their consumption level as realistic, stable and gradually improvable. The feeling of welfare is a very important reflection of the way of life and of the economic and political relations of society, in the minds. In general, this is a fundamental political factor, but – according to the author – at the same time also an extraordinarily important force of production.

The subject of *Chapter II* is the way of life in capitalist society, more precisely its certain aspects connected with consumption in

developed countries. The high level of consumption is made possible there first of all by the productivity of social labour and it is a basic condition of the reproduction of labour. At the same time, manipulation of the consumer market, and waste as a characteristic feature of this way of life are also pointed out. The author shows what anti-social activities result from wasting, for example even in the field of technological development. He proves that wasting is not some wilding of the capitalist economy but a basic condition of existence of contemporary capitalism. Wasting paid for partly by consumers but in a greater part by the underdeveloped sector of capitalist world economy leads to world-wide metabolic disturbances in several respects. These factors are closely connected with the crisis of the capitalist world economic system worrying also the ideologists and scientists of this society. Referring to the analyses and propositions of the "Club of Rome" Kozma tries to formulate some general lessons: a) the increase of production and sales cannot be a purpose in itself and high living standards should be planned while keeping in view also the living conditions of future generations: b) it is impossible to ensure permanent, stable welfare for a minority at the expense of misery and poverty for the majority; an economy based on group-selfishness will finally destroy itself; c) development trends of the forces of production cannot be independent of the welfare model of a given society.

In *Chapter III* the author outlines his concepts about the welfare model of socialist society. Such a model is, namely, necessary, but

it has not been elaborated as yet. In the introduction he analyzes precisely the reasons why this model has not been elaborated up to now, although it should be made a key-issue of long-term economic policy.

His theoretical standpoint is that two extremes should be avoided. Firstly, a socialist society cannot copy the "consumer society" of the West even if the most glaring wildings were cut off. Unfortunately, the author does not properly analyse, either in *Chapter II* or here, how the elements of consumption necessarily concomitant with high labour productivity can be separated from those based on manipulation. Secondly, the basic characteristics of socialist welfare cannot be deduced from the puritanism of the emergency situations in revolutionary times, nor from egalitarianism. Socialism contradicts its own objectives if it proclaims general poverty and it will even close the way of development if talent and mediocrity, or diligence and laziness are equally remunerated. Starting from these theses the author outlines a desirable model corresponding to the nature of socialist society by analysing more palpable economic categories and phenomena (incomes, income and consumption differences, system of consumer prices).

The model should serve the socialist way of life briefly characterized in the next chapter as follows: 1. it means such *material welfare* where differentiation of consumption possibilities is proportionate *exclusively* to the social utility of the activity of individuals; 2. it means a *basic security* where the life of the individual, his human dignity, health, education and the possibilities of evolving his talent are ensured independently of his income level; 3. it means a *supply with products and services* that can ensure a *civilized* material environment and stimulates at the same time for a *cultured* way of living. In a socialist way of life a permanent equilibrium is realized between the material and intellectual value of life. Its individual elements and also the entire social environment should provide proper conditions for a rich, useful life. Ferenc Kozma compares the model outlined by him with existing real income relations and the price system, showing where and why greater deviations can be found between the

desirable and the real situations. He states, for example, that the Hungarian price system more or less corresponds to the requirements with the only "very painful exception entailing socially harmful effects that setting up a family home is expensive, the prices of flats and furniture are high, and there are serious shortages in supply . . ."

In the following he formulates an important idea much graver than the price problem, that might be considered as one of the basic contradictions of the transitional period. The living conditions of the population underwent such changes in a life time in consequence of accelerated industrialization that could not be properly followed by the development of either incomes, or supply with goods or costs or prices. Despite this circumstance he considers the petty-bourgeois effect as the main source of the distortions in welfare ideal — which does not seem to be consistent with the foregoing. He is more convincing when he writes that the real reasons for the distortions in consumption habits and requirements are unsolved social problems, housing shortage, bottlenecks in transport and services and especially the fact, that society cannot, for the time being, provide for everyone the conditions necessary for a many-sided development of personality. Therefore also the conclusion is correct and worthy of noting that such distortions can not be eliminated by struggling against the phenomena but only by the planned formation of *living conditions and consciousness*.

Chapter IV reviews some "neuralgic points" of development of the socialist welfare model. Such problems of varying nature and weight can be found here as, for example, the dispersion of real incomes, housing, immovable properties, wasting. Finally the book deals with the relationship between socialist welfare and world market efficiency.

Ferenc Kozma's work emphasizes firstly that development is more contradictory and complicated than it seemed to be previously and the development of a socialist way of life requires a longer period, taking several generations. Secondly, it also turns out from the book that the key-issue is economic

development, raising the productivity (and culture) of social labour: this is the factor on which the solution of problems of other nature depends. This statement, however, does not hide any prejudice of or one-sided approach by the author who is an economist – Ferenc Kozma examines material and economic, educational, cultural and moral, ideological questions in their unity and interaction. Thirdly, he proves that the question of the way of life is a macro-economic problem in its most relevant aspects, a question of economic policy. This does not mean, of course, that formation of consciousness would have a smaller or even secondary role, it seems even that the author better sees and more exactly, and interprets more correctly its importance than it is usually done nowadays.

I. P. SZABÓ

RIMLER, J.: *Fejlődéselemzés ökonometriai módszerekkel* (Development analysis with econometric methods). Budapest, 1976. Közgazdasági és Jogi Könyvkiadó. 375 p.

In this book the author not only summarized her researches on economic development, but also showed how her views on development analysis changed in the subsequent phases of research, partly in consequence of the results and partial failures of her researches, and partly under the influence of changes in the views of economists dealing with similar problems in Hungary and in other countries. With this one of the main interesting features and merits of the book are emphasized, namely, the fact that readers can follow in the book the scientific development of an economist doing research work. The way how *J. Rimler* is doing research might be considered exemplary in this respect: she tests some methods on the analysis of Hungarian reality, investigates thoroughly their usefulness, their advantages and disadvantages, then she proceeds on the basis of these experiences, chooses and elaborates new concepts and new methods, tests them again on Hungarian economic development, verifies what can be said by applying them to the recent development of Hungary, investigates in what

respects these new methods are better than the previous ones, which questions have remained unsolved, in what direction it is possible to proceed.

The book is divided into three parts. In the first part *J. Rimler* deals with the fundamental questions of the two approaches that can be used in development analysis. She denotes them as the simple and the complex development concepts. The simple concept approaches measure economic development generally with a single indicator, mostly with an output indicator (gross or net domestic product, national income, gross output of material goods). It supposes that development depends on a few factors, first of all on manpower and capital and considers mostly the quantitative side of these factors. It treats the relation of the factors to development as a causal relationship and hypothesizes an unlimited, continuous and constant substitution between the factors.

On the other hand, the complex conceptual approach measures development by means of many indicators; and considers many development factors investigates both the quantitative and qualitative side of the factors. It treats the relationships less as causal ones, but rather as expressing the parallel appearance and change of the variables. It considers substitution between the different sides of development as limited, discontinuous and of changing elasticity.

In her researches *J. Rimler* proceeded from the simple development concept to the complex one and considers that the latter is theoretically more adequate. This change of approach of *J. Rimler* went parallel with the development of the ideas of Hungarian economists (e.g. *J. Kornai*) and with those of economists in other countries. Earlier it was usual to measure economic development by the growth of per capita income, and even to treat them more or less as identical concepts, recently, it has become widely accepted that economic and social development has, in addition to the growth of per capita income, many other aspects as well. In the Hungarian economic literature, however, *J. Rimler* was the first to formulate so clearly and compare the

two approaches with each other. Therefore, the first part of the book might be recommended for reading also to those economists who are not interested in econometric analysis.

The second part of the book presents the two methods of development analysis, namely, estimation of production functions and factor analysis. Description of dyadic decomposition of matrices in the annex (the work of B. Székely) is connected to this part of the book. This is a development of the method of factor analysis. Computation of production functions corresponds to the simple concept of development. The book treats the different variants of the Cobb-Douglas function, the CES (constant elasticity of substitution) and CMS (constant marginal shares) production functions. From among the different methods of factor analysis she deals with component analysis and dyadic analysis. The latter differs from the well known component analysis first of all in that it extracts factors in the form of matrices instead of vectors. From these matrices it is possible to determine the shape of the common curves of the variables, that express common growth tendencies.

The third part presents and analyzes the results of the empirical computations. In the subsequent phases of her research work J. Rimler estimated on the basis of Hungarian time series from 1949 to 1967 different Cobb-Douglas production functions (one containing a factor for disembodied technological development, and an other function not containing it, functions with a production elasticity of all factors taken together to equal unity and one different from it), as well as a CMS function, for the total of state-owned industry, and separately for heavy industry, for light industry and for food industry. She compares her results with the earlier similar estimations of Kornai and Wellisch, as well as of Gy. Szakolczay and his colleagues. On the basis of her computations J. Rimler concludes that the best one from among the different types of functions is that Cobb-Douglas production, which does not contain a factor for disembodied technological development and in which returns to scale may differ from unity. Introduction of disembodied technological

development into the production function results in a very low or even negative production elasticity of fixed capital, i.e. it leads to a logically meaningless result.

It may be asked whether it is possible to estimate production functions on the basis of time series of some ten-odd years, — or even on the basis of long time series of national data, as both manpower and capital grow only slowly from one year to the next and its depends on the small deviations of the growth rates, what kind of parameters result from the estimation. J. Rimler points to the same fact, when she emphasizes that the actual data are situated in a narrow effective band, and therefore the estimations for the production elasticities: of labour and capital could be considered valid only in the neighbourhood of the actual points observed. A deep-going discussion has taken place recently in Hungarian and foreign economic literature the possibility of estimating national and sectoral production functions. The discussion has not decided unequivocally the question. The opinion of the author of this book review, not supported by conclusive proofs, is however, that in spite of all their deficiencies, the estimation of production functions may lead to many useful results. This opinion seems to be confirmed by the interesting conclusions of J. Rimler on the basis of the estimated production functions concerning economic development and economic policy in Hungary in the investigated period. E.g. she states that the extent and rate of investments in heavy industry was excessive.

In interpreting the production elasticities she introduces two new ideas. First, she adds to the earlier interpretation in terms of scarcity (according to which the production elasticity of the scarcer factor is higher) a new interpretation in terms of quality. According to it, the values of the elasticity parameters depend also on the quality of new inputs (as compared to the average quality of earlier inputs). Second, she compares the production elasticities of labour and capital not to each other, but to their standard proportions (found in the majority of estimated production functions). This latter is a highly interesting idea, but the concept of standard proportions of elasticities does not seem to be founded enough.

In the factor analyses J. Rimler used 49 variables. The number of variables is reduced in the dyadic analysis. Among the variables there are output types (national income, consumption), as well as data characterizing labour, capital, particular branches of production, personal consumption, health and welfare, communications and cultural development. She performed computations with both the basic time series from 1950 to 1966 and with their increments. In the factor analysis of the basic time series (she deals mostly with this analysis) a very strong first factor was extracted, which represented the parallel movement of most of the variables.

The results raise several problems. On the one hand, it is problematical, whether it is justified to perform a factor analysis of 49 variables on 16 years (observation units). Mathematicians usually insist a principle that the number of observation units should be higher – possibly much higher – than the number of variables. Social scientists who are not mathematicians, are more prone to be more lenient and sometimes the opinion is expressed that it might be justified to try a factor analysis of variables whose number is higher than the number of observation units.

On the other hand, it is not clear what is the meaning of the result that the variables, i.e. the different indicators of development, are all more or less strongly correlated with a single factor. From this finding it follows at first appearance only that all aspects of the economy and society are developing more or less parallelly. J. Rimler very pertinently stresses that in reality the development of the variables strongly correlated to the first factor shows important deviations, and that these differences might provide most interesting informations.

It is, however, probable that with the data basis used in the book, i.e. with basic time series of different variables, it is not possible to obtain other results, as some tendency more or less prevails in the development of all time series, and these tendencies are necessarily strongly correlated. (Factor analysis of the increments of the variables provided entirely different results, but these are not analyzed in detail by J. Rimler in the book.) *Adelman* and *Morris*, who did pioneering work in the

utilization of factor analysis for development analysis, certainly did not use time series, but cross sectional data (indicators of 74 countries in one period) as data basis. Also they extracted four main factors, instead of one. They interpreted these factors as four distinct dimensions of the development level of the investigated countries.

From this point of view the results of the dyadic analysis of J. Rimler are very interesting, as she got four common curves, instead of one, namely one rising curve (this is the strongest one), one declining curve (this one expresses the slowing down of the growth rates) and two cyclical curves. Also on the basis of the dyadic analysis she distinguished three development phases in the recent economic history of Hungary (1951–1954, 1957–1961, 1961–1966). It seems that a further study of the results of the dyadic analysis might lead to many other interesting conclusions.

The clear structure and the excellent style of the book should be emphasized. Although the treated topics are very intricate both theoretically and mathematically, the clear composition and style of J. Rimler helps the reader to grasp and understand her ideas, as well as the results and problems of her researches.

R. ANDORKA

MÁRTON, J.–UJHELYI, T.: *Élelmiszer-gazdaságunk jövője és a nemzetközi munkamegosztás* (Future of the Hungarian food economy and the international division of labour). Budapest, 1976. Közgazdasági és Jogi Könyvkiadó, 487 p.

Food economy is highly significant in Hungarian foreign trade and, consequently, in the entire economy as well. Therefore, it is hard to tell why this field of Hungarian foreign economic relations is short of really complex studies. As far as we are informed, the new book of János Márton and Tamás Ujhelyi is unique in this respect in the Hungarian economic literature.

The authors defy the idea that considered virtually only Europe, and in it only

certain countries providing "safe" markets, as potential market for our agrarian exports.

Rapid development of the means of transportation — let us only remember the increasing role of air transport or of trucks equipped with refrigeration — allows to reach more and more faraway markets. There always exist important food consuming areas in the world which, due to changeable weather or natural disaster, need imports at a given date and, similarly, in principle it is always possible to export a good crop.

The above thesis is naturally considered by the authors to be a component of the chances of Hungarian foreign trade only in the long run. Nevertheless, they consider it feasible already in the present framework to consolidate our constant, or rather steadily increasing food exports to the West European countries through a flexible utilization of the marketing opportunities.

Following a discussion of the correlations of world food production and world trade in foodstuffs, and the Hungarian reflections thereof, in *part two* of the book the authors continue to examine the major relationships, but with a view to their special field: the agrarian forecasts on world scale and for individual nations. They provide a more or less detailed description of the forecasts for the West German, Italian, French, British, and Dutch agricultural production, and of the FAO world prognosis. It is an important merit of this chapter that it does not simply describe these forecasts but also gives a detailed analysis of the fulfilment of each forecast and simultaneous comparison of the countries. A brief review is presented of the forecasts for the Hungarian food economy and their fulfilment too, moreover, the authors also inform about the forecasts for the entire CMEA and the difficulties emerging in the preparation of these forecasts. The section analyzing the reality of the Hungarian food economy forecast in comparison with foreign (West European and CMEA) forecasts is especially remarkable.

In *part three* the authors expose in a brief summary the institutional forms of the international division of labour and specialized cooperation so far realized in the CMEA

countries food economies. These forms developed modestly up to now, and the implementation of real specialization is the task of the present, and especially of the future. The authors believe that in this "we may and have to start from the increased application of the sectoral principle and the vertical approach".

A practicable means of developed integration in the food economy could be the so-called "sector fostering" system, and here the term "sector" means, beyond agriculture and food industry, all activities required for the production of the end product (industrial background, moreover, research and education). The "sector fostering" system essentially means that the countries participating in integration undertake to foster different sectors according to their specific possibilities, i.e., they perform the production and delivery of the products belonging to the sector or sectors according to the above interpretation. Moreover, they take care of the related research and development, manufacturing the means of production, and the creation, or development, resp., of the processing industries as well. A few calculated results serve to support the idea, illustrating the achievements and mainly the opportunities of the sector to be considered as first from the Hungarian point of view: the maize-meat vertical production process.

Part four deals with the problems of market research and market organization for the agricultural and food industrial products. A detailed description is presented of the common problems of this activity, of the conditions and characteristics of the capitalist and the socialist agrarian marketing. Naturally, the authors are preoccupied with the difficulties, i.e., tasks to be solved, of the Hungarian food economy in this field. They analyse very thoroughly the marketing activity, as a part of food economy, both from its theoretical and practical aspects. For example, useful advices are given to the market research workers of foreign trading enterprises too, about some fundamental, or detail questions of marketing.

This part of the book, which deals with a dry science apparently dull for the reader, makes astonishingly real good reading at places,

"digestible" for the average reader as well. This is especially true for the parts describing the food consumption habits in our various – real or potential – export markets, i.e., for the last chapter presenting a critical analysis of the beliefs and truths prevailing about the Hungarian, so-called brand products.

To sum up: the interesting ideas of the authors may offer many new points to the agrarian expert and to the foreign trader, and what is the most important, it may contribute to the expansion of our horizon – also in the geographic sense of the phrase.

A. TÓTHFALUSI

РИБАКОВ, О. К.: *Экономическая эффективность сотрудничества СССР с социалистическими странами* (Efficiency of international cooperation between the Soviet Union and the socialist countries). Москва, 1975. Мысль. 272 стр.

The book of O. K. Ribakov is a methodological one. He provides a survey of the methods advanced in the Soviet Union for measuring the efficiency of foreign trade and of international cooperation, as well as of the relevant debates. Regarding this subject we have not yet encountered such a comprehensive, theoretically based work that also ponders the practical possibilities; many of the statements and recommendations may be considered to be remarkable progress in the research work aimed at measuring the efficiency of foreign trade.

Its merits are not reduced much by the fact, as noted by the author himself, that the book was written from the special point of view of the Soviet Union, nor because, although in print in December 1974, the paper does not reflect the price explosion of 1973/74 and its bearing on international cooperation.

The basic tone of the book is given already in the short introduction. Ribakov appreciates the wealth of Soviet literature on the efficiency of international cooperation, but believes that practical application is lagging far behind theory. There is a wide rift between theory

and practice, and it is high time to do something to overbridge this rift.

Chapter 1 is a review of the development of international cooperation between the Soviet Union and the other socialist countries. The author stresses: the already extremely wide-ranging cooperation, getting even more intensive in the future, increasingly demands the knowledge of efficiency.

Chapter 2 discusses the theoretical grounds of measuring the efficiency of international cooperation. Ribakov builds here on two pillars: the general economic definition of efficiency (formulating it as follows: the lower the costs of obtaining the set goals, the greater the efficiency), and on the Marxist–Leninist theory of foreign trade. He makes a very interesting statement: foreign trade does not create value or national income. The value of the imported products is determined by the labour input of the products exported in exchange for them. No matter how much is imported against the exported products, the value will not be greater, similarly as value does not grow if, by increasing productivity, a bigger volume of use value is produced with the same input than before. The foreign trading activity only increases the physical volume of the national income in a way that after exports and imports have been transacted a bigger volume is available than before.

Though it is hard to argue with Ribakov's opening thesis, if the function of value measurement is considered in the strict political economic sense the following must be noted: the indicator of national income, as it is used in planning and statistics, does not perform precisely this function. The value of national income at current prices (we stress: at current prices, not merely at constant prices) grows also if, by increasing productivity, with the same amount of labour a greater volume of use value is turned out than before (as prices do not decrease proportionally with the increase of productivity). And in the CMEA statistical routine and uniform system of economic balances, foreign trade is considered to be a value-creating, national income producing sector. Let us add, however, that from the aspect of the main subject-matter of the book it

is not too important whether Ribakov considers foreign trade as creating value or not; the main point is that he admits its role in increasing (or decreasing) the volume, and bases his efficiency measuring methods on this assumption.

The heart of Ricardo's theory of comparative costs is accepted by Ribakov too, as it is by other Soviet economists, e.g. O.T. Bogomolov but he stresses that its content is different under the conditions of socialism.

Proceeding from the theoretical bases to the concrete methods of measurement, Ribakov rules out the extreme ideas: both the one intending to measure only the direct effect showing up superficially, and the one deeming it completely unnecessary to measure the direct effect. The author distinguishes three levels of efficiency measurement. The first one is the effect manifested in the financial stage, which is but the financial result, gain or loss, accruing from the individual foreign trading deals (e.g. from exporting some commodity) or from the total of foreign trading transactions. Measurement on the second level is more of a national approach: here the basis of calculation is the difference between the export costs and the assumed costs of manufacturing the import received in return at home. Measurement on the third level is the true national approach: it takes into account not only the direct effects, but also the indirect ones. For example, that the development of exportation of some commodity can increase the productivity of the manufacturing branch itself, or the bearings of exporting some semi-finished product on the domestic branches using the semi-finished product. These indirect effects are influenced not only by economic factors but also by other (e.g. political) ones as well. Therefore measurement on this level cannot be performed with a single indicator or with indicators alone.

Ribakov deems measurement on all three levels important because these mutually complement, one another. However, he focuses his attention on measurements on the second level, considering this to be the most important link in the development of methods for investigating the efficiency of international cooperation. In the meantime he always bears in mind certain indirect effects.

A most remarkable statement from the closing section of this chapter: the method of economic incentives is not necessarily identical with the method of measuring efficiency. Ribakov disagrees with the authors who are inclined to consider these as equivalent.

Chapter 3 deals with the general methodological principles of measuring the efficiency of international cooperation. The question of valuing exports and imports is examined first. Should actual prices or calculated prices be taken for the basis of efficiency measurement? In Soviet literature we find two opposed views in this context. The first one completely rejects measurement at actual prices, as these also have a function in redistribution and thus may significantly deviate from value proportions. The other extremity, on the other hand, is total rejection of measurement at calculated prices arguing that only actual prices bear economic function. Ribakov, ruling out these extremities, considers that computations with both types of prices are useful: those at actual prices because the economic interests of enterprises and sectors are based on indicators worked out with such prices, and at calculated prices because this is a better approach to efficiency measurement from the point of view of the economy. He disagrees with the opinions which consider efficiency measurement at calculated prices hopeless because of methodological difficulties, though he admits that the difficulties are considerable, and thus in many cases only approximations may be feasible. Contradicting certain Soviet authors he stresses that the calculated prices are to be determined on price level and not on cost level (without the elements of net income).

For the method of determining the calculated prices he proposes, in line with the practice adopted in the Soviet Union, the formula $Z = C + EK$ where Z is the calculated price of the product, C is the cost of the product, K is the investment required per unit product, and E is the average national profitability rate of investments.

Cost is to be understood as inputs in the last phase of manufacturing the product. I.e. the method eliminates from the disproportions of the price system only the effects accumulating in the last phase; the

disproportions accumulated in earlier phases, e.g. subsidies piled up in raw material prices, are thus not eliminated. Ribakov remarks that in many cases this is inadequate and further corrections would be desirable (i.e. the disproportions arising in earlier phases, or part of them, ought to be also eliminated); yet he also adds that there is no general formula for that, the methods are to be chosen in the knowledge of the given case and its conditions.

Unlike the directives in force in the practice of the Soviet Union, Ribakov proposes to interpret the scope of investments to be taken into account rather narrowly, and proposes to cover only the investments directly related to the production of the article. There would be much uncertainty if the indirect investments were taken into account. The author's strongest argument is that production for exports and for domestic needs are in most cases interlocked, thus it is very hard to find an objective criterion for how far the scope of "consequential" investments should reach. On the other hand the investments for purely export purposes, the joint CMEA enterprises, and new projects such as the Usty-Ilimsk cellulose plant, must be exceptions. This plant is built practically in the taiga where no infrastructure (residential buildings, roads) existed at all: in such cases the costs of the latter must be included in the investments.

The third element of determining the calculated prices is the average profitability rate of investments (E), Ribakov agrees here with those opinions which propose to adopt a uniform rate, the same for each sector, and not different ones for each sector. In his own calculations he uses a 15 per cent rate, the same as figures in the Soviet official methodology.

A special section of the chapter discusses the specific problems of the efficiency computation for exploitation industrial products (sources of energy, minerals). Contrary to the products of the manufacturing industry, Ribakov recommends here, instead of the average sectoral cost, the use of what is perhaps nearest to the term marginal cost. He relies on the consideration that mines and wells opened in order to increase exports have, as a rule, less favourable natural conditions than the already

existing ones; if there were no exports from their products, only the resources with more favourable conditions (lower costs) would be exploited. The author analyses numerous offshots of this problem and finally, with some simplification, settles down at the proposition that in case a new plant serving export purposes works at a higher unit cost than the sectoral average then the computations must be performed with the cost of this new plant, while in case it is beneath the sectoral average, the sectoral average costs must be used for efficiency computations.

One of the most disputed questions is determination of the local (calculated) price of the imported products. Ribakov devotes 12 pages to the discussion of this problem. As mentioned above, according to the author's theory the direct efficiency of foreign trading activity is based on the difference between the assumed local production costs of the imported products and the actual costs of the products exported in return. This is why he attributes so great importance to the method of determining the assumed price of the imported products.

Ribakov straightly refuses to define this import value (sometimes also denoted anti-import) with the aid of foreign prices and some sort of a foreign trade price coefficient. But he also recognizes the hazards of applying the anti-import calculations automatically, e.g. if it is stated how much bananas would cost if planted in the Soviet Union. This way it would seem to be very economical to import any article which cannot, or only at very high costs, be produced in the Soviet Union. Ribakov's proposition may be summarized as follows:

1. The import products with identical counterparts manufactured domestically must be valued at the local price of the latter.

2. The import products with no identical, though similar counterparts produced in the Soviet Union, must be valued at domestic prices computed according to the quality differences on basis of parameters. The author interprets this category very broadly (he lists in this class even the bananas advising to convert these on the basis of their nutritive value and taste at the price level of local fruits).

3. The import products, with no similar counterparts produced in the Soviet Union, but having realistic preconditions for being produced there, must be valued at prices calculated according to the $C + EK$ formula.

4. The import products with no similar counterparts produced in the country and having no realistic conditions for being produced there – and only these products – are to be valued on the basis of the foreign price and the currency conversion coefficient. Ribakov considers this latter category to be very slight.

The concluding part of *Chapter 3* deals with the time factor, and, in order to bring the inputs and realised results in the different periods to a common denominator, he proposes the use of interest. Similarly to the computations adopted in the Soviet practice, Ribakov does not discount the value for the starting year (as is done for instance in Hungary), but works with the compounded rate of interest for the year of termination, and it also worth noting that in the author's calculations an 8 per cent rate of interest is used, in spite of the fact that the average profitability of investments (E) is considered by him to be 15 per cent. (According to directives now in force in Hungary, the rate of discount is the same as the average expected profitability of investments, i.e. 12 per cent.)

We cannot undertake in this brief summary to survey in details *Chapter 4* which is extremely rich in concrete methodological issues. Ribakov enumerates the indicators applied in the Soviet Union and those recommended by himself, makes the reader acquainted with their properties, limits, and problems. He also deals with the organizational problems of efficiency measurement. Finally, he illustrates the problems of using the different indices with numerical examples.

Chapter 5 deals with the problems of measuring the efficiency of the complex forms of economic cooperation, international specialization and cooperation, and of joint projects. These problems too have many methodological implications. To put it in simple way: the author here explains that these complex forms have an additional effect beyond the usual foreign trade

effect, namely, that, due to the concentration of production, the costs per unit product decrease. He illustrates also with numerical examples how this latter effect and the result deriving from the entire cooperation can be determined.

The closing chapter of the book examines the relation between efficiency and the planning of international cooperation. The entire chapter is penetrated by the author's attributing great importance to efficiency calculations and his opinion that a more significant role than hitherto should be assigned to them in the planning of international cooperation. Regarding the present routine of planning Ribakov shows his discontent in several respects. He emphasizes that the efficiency calculations must be given due importance as early as in the stage of drawing up the conception of the plan. Integration within the CMEA can fulfil its true role only if the development of specialization and cooperation are guided by considerations aimed at raising efficiency. The different sectoral ministries do not yet participate adequately in the efficiency calculations, and the author also deplores the lack of a uniform approved method of efficiency calculations.

In conclusion the author reiterates that in his book he studied the question of the efficiency of international cooperation from the point of view of the Soviet Union alone. The process of CMEA integration demands it emphatically that such calculations be made from the point of view of the entire community as well. For the time being there are many obstacles to such calculations. For instance, it is not easy to bring to a common denomination value amounts expressed in various currencies. In this field – he refers, *inter alia*, to the comparative exercises proceeding in the CMEA Statistical Commission – circumstances may be expected to change for the better.

L. DRECHSLER

GRZYBOWSKI, K. (ed.): *East-West trade*. New York – Leiden, 1973. Dobbs Ferry – A. W. Sijthoft. 307 p.

SAETER, M.: *Europa politisch*. Berlin (West), 1974. Berlin Verlag. 307 p.

PINDER, J. and P.: *The European Community's policy towards Eastern Europe*. London, 1975. PEP. 45 p.

SAUNDERS, CH: *From free trade to integration in Western Europe?* London, 1975. PEP. 107 p.

One of the four books is a collection of studies on East-West trade published under the editorship of an American professor; the second one is the writing of a British professor on the future of the West-European integration process; the third one is by an English economist-couple on the policy of European Economic Community towards socialist countries and finally the fourth one is the book of a Norwegian researcher on the future of all-European cooperation. These various writings are linked by the same intention: all of them demand the development of economic relations between countries with different socio-economic systems. The attitude and standpoints of the nearly twenty Western authors deviate from those of Marxist economists in very important questions; in certain writings even wrong starting points or conclusions can be found. Our review, however, is not aimed at clashing opposite views, but at pointing out recognitions and concepts promoting progress.

The volume of studies published under the editorship of Kazimierz Grzybowski was compiled in a period when it could be hoped that the Soviet-American trade agreement concluded in 1972 would soon come into force and thus the American trade law discriminating then Soviet Union and other socialist countries would lapse. The volume was conceived with this idea in mind. In his foreword Grzybowski, professor at Duke University, U.S.A., emphasizes that East-West trade represent a separate dimension of international economic cooperation and steps that would integrate this dimension into the general legal system of international economic relations are important. Another objective of the volume is to make Western, first of all American, interested circles acquainted with the system and methods of foreign trade in socialist countries.

The editor of the book is also author of the first study. Reviewing the Soviet-American

trade agreement concluded in 1972 he expects the United States to attain an increasing share in the foreign trade of the Soviet Union and of other socialist countries. (It is known that up to now American circles opposing the policy of détente have succeeded in preventing the agreement in question from taking effect and thus also the normalization of trade relations with the Soviet Union and other socialist countries.)

The second study written by *Yataro Terada* (Japan) is almost a practical evidence of the favourable effect of the most-favoured-nation clause applied in the trade between countries with different social systems. Japan began to give up discrimination against socialist countries already in the second half of the 1950s. Terada clearly realizes that certain Western countries maintain discriminative measures against East-Europe in the interest of an alleged strengthening of their bargaining positions. He adds that Japan's bargaining position towards socialist countries was even improved by abandoning discrimination and granting the most-favoured-nation clause, even if this might sound paradoxical. This effect is supported by figures, too, indicating the dynamically increasing East-European exports of Japan. Great importance is attributed to agreements with socialist countries on technological-scientific cooperation. The author reports also on worries on the part of certain Japanese business circles according to which Eastern Europe might obtain one-sided advantages from the transfer of technology, which, however, proved to be unfounded.

Another Japanese author, *Tokusuke Kitagawa* wrote a study on the legal aspects of Soviet-Japanese trade. While the former essay is more of a practical, this is rather of theoretical character. According to the author the most-favoured-nation clause is a keystone of Soviet-Japanese trade. In Japan a conviction has developed that trade policy towards countries with planned economy is an integral part of foreign policy and thus in its direction political considerations must also have a part. It was suitable for Japan's policy to eliminate discrimination against the Soviet Union, the author states. It is an interesting statement of

his that one of the conditions of improving Japanese bargaining position is rapid scientific and technological progress making socialist countries interested in imports from Japan.

Kenneth M. Starr's study on Anglo-Soviet commercial relations is less optimistic. (A possible reason may be that Britain, although she was the first among West-European countries to introduce a partial liberalization of imports from socialist countries in 1964, on the whole, seems to lag behind in the normalization of commercial policy relations.) Starr clearly realizes that elasticity of Soviet foreign trade in British relations is closely connected with British commercial policy measures.

Many studies included serve for information only. Such are those Soviet trade representations abroad, foreign capital investment in Yugoslavia or those reviewing Bulgarian and Polish laws on foreign trade as well as essays on arbitral tribunals in socialist countries.

A Yugoslav author, Mihalo Jovanovic reviews his country's trade with EEC-countries on the one hand and with CMEA members on the other. At the end of his paper he emphasizes that many-sided cooperation with member-countries of the CMEA is of increasing importance in the Yugoslav national economy.

The starting point of the book by Martin Saeter, Norwegian economist is that the principal factors of all-European cooperation are the following: relationship between the Soviet Union and the United States, forms of cooperation between East-European and West-European countries and finally, the character of integration of the European Economic Community. Else, Saeter points out already on the first page of his book that Europe means not *only* the European Economic Community (thus criticising the well-known incorrect Western terminology which narrows down Europe either to the EEC or to Western Europe). The book points out those interactions which manifest themselves in the relationship between the two leading great powers and, on the other hand, between integration process of the EEC and East-West cooperation within Europe. The author's standpoint according to which there is also a

very interesting contradiction in this interaction can hardly be doubted. If integration of the EEC advanced parallel with a successful "Eastern" policy this would diminish also the dependence of Western Europe on the United States. But, since the United States has not given up its claim on leadership in Western Europe, it is reserved towards all-European endeavours perhaps on this account: certain American circles believe that what the socialist side could gain by this, would be lost by the United States. To this is added the worry that the EEC might become a potentially dangerous economic rival. In Western Europe, however, there are very contradictory views with regard to the relationship with the United States and the aim of becoming independent cannot be neglected either. One can feel that all-European cooperation can be, after all, a real alternative for Western Europe against dependence on the United States.

Saeter emphasizes that the separation of our continent can be considerably moderated by an all-European security system. Nowadays, with a previously highly neuralgical problem, namely the complicated and complex question of the two German states, already solved, when both the GDR and the FRG are members of the UNO and have concluded agreements of great importance between each other, their is an undoubtedly better ground for a further development of all-European cooperation. The author also demonstrates the importance of the fact, that the EEC is moving away from supranational institutional decision-making in so far as it has changed over to intergovernmental coordination in important questions. Intergovernmental coordination, however, is very suitable for socialist countries and an applicable way of progress in all-European cooperation. (This has been proved since the book was published by the European Conference on Security and Cooperation and the decision of the Helsinki final documents envisaging similar meetings also in the future.) The author emphasizes that European countries not participating in integrations would, of course, also take part in an all-European system.

We must admit that the author is right when saying that the forms of all-European

cooperation should be "system-neutral" else the functioning of the entire system might become questionable.

Referring also to other Western economists Saeter calls the European security system very wittily a development problem of the infrastructure of world politics. He concludes his work by the statement that at present no full picture of an all-European cooperation system can be seen as yet. This is a function of several conditions, first of all of power relations in world politics. Considering the great many unsolved problems of world politics (for example, control of armaments, allocation and utilization of resources, equalization of differences in development level between "rich" and "poor" countries, etc. he would find it expedient that all-European institutions to be established should operate under the auspices of the United Nations.

It can be stated both from Christopher *Saunders'* book and from the writing of the *Pinders* that the EEC should develop economic cooperation with the socialist countries not by supranational devices producing also negative effects, since inter-governmental contacts and agreements are much more suitable for this purpose. Having worked on the Geneva Secretariat of the ECE for a long time Saunders perceives the effect of measures impeding international trade especially well. He expounds, for example, that even a very low customs duty may cause considerable disadvantage as against exemption from duty, since in case of a 2 per cent importers have to spend the same time on customs formalities as in case of a 20 per cent one. It can be added that this refers also to administrative restrictions on trade. If a country has liberalized its imports from country *A* and all imports from country *B* have been allowed as well, but there is still an obligation of preliminary reporting the latter imports, then country *B* will be in a disadvantageous competitive position on the market, because those wanting to buy from it will have to spend time and trouble on reporting to the authorities. There are several such disadvantages imposed on the exports of socialist countries which seem insignificant, but cannot be neglected at all in reality.

According to Saunders the EEC should follow much more complex objectives than depending of cooperation within its region alone. Saunders is not deceived by the backward product pattern of the exports of socialist countries to the West. He draws attention to the fact that Eastern Europe has been able to develop industry from its own resources and socialist countries could thus become industrial economies. At this stage already a much more developed division of labour could be established between the two parts of Europe than at present. From this follows that not only the obstacles to trade should be eliminated, but positive measures aimed at developing the division of labour are also required. The latter could include the coordination of raw material — especially energy — production as well as of certain investments as far as this is possible. From his book it is clear that Saunders finds the division of labour between the two parts of our continent unsatisfactory. At present, he writes, Europe is divided into two commercial systems and these two economic flows are only very loosely connected. Ways to strengthen this connection should be found.

In the course of discussions going on already for several years about the commercial policy conceptions of the EEC towards the socialist countries, the literature of socialist countries has often pointed out that the Community has not yet elaborated the contentual elements of this commercial policy. What the EEC calls its common commercial policy towards socialist countries is nothing else but an acknowledgement of prevailing status quo developed in the framework of bilateral relations. What has already been done, it is said, should fall within the competence of the community, while elimination of still existing discrimination as well as measures aimed at the development of trade are not mentioned. Western conceptions about establishing relations between the CMEA and the EEC referred mostly to legal and institutional aspects while hardly anything could be heard concerning contents. This recognition is now already reflected also in works of Western economists. In their book John and Pauline *Pinder* clearly declare: the

EEC's common policy towards Eastern countries is in an embryonic state and as a matter of fact, it cannot even be called a common commercial policy. At the same time, they emphasize the great importance of economic relations between both groups of countries also from the point of view of peace.

One of the most relevant points of their analysis is when they prove that there is no reason for the EEC not to conclude an agreement with the CMEA that would extend also to the general principles of economic cooperation, provided, that also separate trade agreements are simultaneously concluded with CMEA-countries. Although this statement is not free of some asymmetry either, since it does not speak about agreements of EEC-countries to be concluded with the CMEA, yet it means considerable progress in comparison to previous EEC conceptions. The Pinders realistically perceive that if a CMEA-EEC agreement involved general principles of commercial behaviour this would correspond to the spirit of the European Conference on Security and Cooperation. They add that an important requirement of East-West trade is elimination of still existing obstacles and development of methods suitable for making progress.

It is a similarly interesting statement of theirs that the main problems of East-West trade is not that it could lead to "disturbances" on Western markets, but that its volume is too low. On the other hand, however, this low volume is partly a consequence of the cautiousness with which several Western countries try to "protect" their markets from socialist dumping and similar other phenomena. We think there is no need to prove how fictitious these dangers are. It is a fact, however, that these worries are repeatedly voiced in several Western countries either on purpose or led by wrong traditions. The fact that the socialist system of price

formation deviates from the capitalist one is usually treated one-sidedly in Western literature. A great number of both scientific and practical studies were published on the price distorting effects of monopolies and inflation, but when socialist prices are examined, the former ideas are usually forgotten and two fictitious poles appear in the comparison: prices under the conditions of an idealized classical capitalist free competition, on the one hand, and socialist monopoly led political intentions and neglecting efficiency, on the other. In practice the solution seemed to be proper according to which trade agreements between socialist countries and Western partners usually laid down that both parties would trade at world market (or main market) prices, respectively. The Pinders point out that this method deprives socialist countries of the possibility to improve their competitive situation in cases when could really trade with costs advantages, consequently, it impedes them in making use of comparative advantages.

Concerning cooperation assuming large imports as required by the Soviet Union and other socialist countries and the granting of considerable corresponding credits the authors urge the collaboration of Western enterprises. Furthermore they are of the opinion that the EEC might become suitable for concluding agreements with the CMEA on important cooperation projects and could create also the conditions for granting credit. Besides, also commercial policy allowances could be given to such cooperations. They raise the possibility of concluding up-to-date commodity-exchange agreements, too. Speaking about agricultural products they point out that CMEA-countries are not only suppliers but also buyers of the EEC and conclusion of long-term agricultural trade agreements providing also for price stability would be mutually advantageous

G. IZIK HEDRI

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*We acknowledge the receipt of the enlisted books. No obligation to review them is involved.

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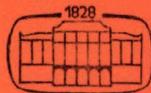
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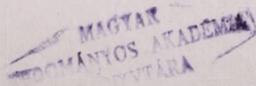
J. BOGNÁR

A NEW ERA IN THE WORLD ECONOMY AND HUNGARIAN FOREIGN ECONOMIC STRATEGY

The impact of world economic developments on the Hungarian economy, vulnerable from the point of view of foreign trade, necessitates a strategy which puts external economic relations into the focus of economic development. The internal postulates of such an approach cannot be reduced merely to economic ones as they are connected with the value system of society, too. Among the external interrelations influencing a new strategy, the trends of socialist integration are of outstanding importance. In accordance with the country's interests, Hungary strives to strengthen economic relations with the developed capitalist and the developing countries, too. Economic management characterized by greater initiative and flexibility, thus improvement of the system of control and management is required.

In the decades ahead the economic and political factors which influence the process, mechanism and system of the world economy will gather strength and their consequences will affect ever wider fields. It would take us far from the central problems of this paper if we now started to analyse the factors involved [1] [2]. At this stage I should like to indicate only that these processes and factors demand, by their very nature, a *radical rearrangement* or preventive regulation. Rearrangements are needed where the development of world economic processes has created an untenable situation as regards socio-political and international consequences. Thus, a reiteration of the processes on an extended basis would not improve the situation but only increase tensions. Preventive regulation will be needed in cases where research has already indicated dangers which are not or only partially signalled to the economy at present. If these dangers, created by organizing certain economic and production processes on the basis of existing technologies truly menace the existential conditions of mankind, these problems (environment, limits of non-renewable resources, technological dangers, etc.) must be solved even if they are not in harmony with the present economic aspirations. Thus, an economic theory approach suggests arrangements in which the *positive* and *normative** methods of research and control are combined in a specific manner. Only such a combination of actions allows for an arrangement which will be sufficiently far-reaching and comprehensive (sufficiently radical and wide) in the service of emerging new needs and relations, but also sufficiently circumspect to prevent avoidable losses of energy. This *circumspection* is particularly necessary these days, since unprecedentedly urgent action is required. By the end of the century, the food, clothing, housing, schooling, health care etc. needs of 6.5 billion

* This terminology is used by [3]. In the view of the present author this terminology is not quite precise since the normative approach aims at a *certain regulation*, too, not merely at describing what should happen to avert the impending catastrophe.



inhabitants of the earth will have to be satisfied in conditions worthy of man. The remaining 23 years appear short in comparison to the dimensions and importance of the task. Thus, as distinct from the past, considerable losses of energy are not permissible, however noble the reasons.

A radical transformation of world economic processes comprehensively usually called a new era of world economy [4]

– demands that every national economy re-think the system of needs, faculties, interests, relations, effects and compulsions by which it is linked to the world economy. From the angle of the development of particular national economies the world economic processes and relations constitute *a system of conditions*. Growth and development are *internal questions*: in the sense that no national economy can attain a developed structure exclusively 'from without' i.e. with external resources, but the solution of this "internal question" is subjected to a powerful *external system of conditions*. The effect of this system is immediate and of an almost elementary force in capitalist economies, and more indirect and liable to moderation in a socialist economy. Some argue that negative world market effects can be "warded off in a socialist economy". This is not so, because the effect of an objective economic process, e.g. a price rise, can be always felt, more has to be paid for a more expensive imported product, but there is a possibility to choose – within rational limits, including the rechanneling of trade – the place where, and the way how the effect appears in the domestic economy.

The rational requirements for participation in the world economy, that is in the international division of labour were extensively discussed in the past. At present, there are contradictory trends, the internationalization of production on the one hand, and the organization of the great majority of mankind in *national economies* with a large time-lag, on the other.

But the creation of national economies means not only the complex organization of related activities, it also involves certain structures. However, a developing and a structure-building economy does not primarily think in terms of gains and losses concernin the international division of labour, but *feels mainly the effect of exchange* (the division of labour) *on the domestic economy to be what is essential*. It may be presumed therefore, that the value judgements on the division of labour (international trade developed up to now will also change and the new way of reasoning will place into focus the interrelations between exchange (the division of labour) and domestic development

Effect of world economic developments on the Hungarian economy which is vulnerable from the viewpoint of foreign trade

The approach to participation in the world economy on a new basis is of decisive importance for Hungary. I have used the term *decisive* not because no other has occurred to me, nor because I am fond of big words. The term is in harmony with the real situation. Three factors must be there considered:

1. The *sensitivity* of the Hungarian economy to world economic processes is extremely great (in one of my studies [5] I even called it vulnerability). The share of foreign trade within the national product is great and there is a powerful interrelation between the increment of national income and that of imports (1 : 2,5); the weight of industries, factories and farms whose rational utilization assumes considerable imports is great; foreign trade makes full employment possible and, finally, through imports the economy obtains not only raw materials, but *modern technology and additional means of development as well*.

Obviously, an economy so dependent on foreign economic relations is much more affected by changes in the system of international conditions than those where foreign trade is merely a source of additional gains or savings.

2. The Hungarian economy – 55–60 per cent of whose imports consist of primary energy and raw materials, and 65–70 per cent of its exports of finished products – has been very unfavourably affected by the changes in the terms of trade. Because of the price changes for the same volume of primary energy or raw materials essentially more finished products had to be exported in payment.

Because of the more expensive imports an equilibrium in the balance of trade and of payments as well as the maintenance of the rate of growth require essentially greater efforts.

3. The development of the Hungarian economy attained a new critical point – quite apart from the major changes in the world economy – where the extensive type of growth has to be replaced by the intensive kind.

Replacement of a technologically less developed (more rudimentary) type of growth by a more advanced type is a favourable development: it is a proof of growing maturity of the national economy in question. Replacement is needed for three reasons:

a) Full employment has changed into overemployment. There are thus no labour surpluses; therefore, in the dynamic sectors and in services “anticipatory investments” have to be implemented in the interest of releasing the necessary labour.

b) The industrial pattern developed in the various stages of industrialization – of which the decisive role was played by socialist industrialization – is structurally advanced, but not sufficiently productive. The raising of productivity demands, however, more up-to-date technology and a more developed infrastructure.

c) The import elasticity of the economy is so high, that the balancing of imports assumes exports of such an order of magnitude as cannot be secured in the prevailing system of economic policy priorities, nor in the present structure, nor with the attained standards of marketing possibilities.

New foreign economic strategy

As a result of these factors – whose individual and combined analysis demonstrates the close intertwining and mutual effects of internal and external economic factors – a *new Hungarian foreign economic strategy* is needed. It is self-explanatory that every

foreign economic strategy is a part (a partial unit) of general economic policy, which does not mean, of course, some primitive relation of super and subordination, but an iterative system of postulates (criteria) and possibilities. In the case of setting out from the external economy, the desirable factors (requirements) are investment, production, labour management and sales policies carefully weighing up world economic processes, as a result of which markets will be opened up and gains can be attained, as well as new technologies and additional development resources injected into the economic circulation. It logically follows that there is *interdependence* between the systems of objectives and tools of the new foreign economic strategy and general economic policy. From another aspect, if one speaks about the transformation or renewal of foreign economic strategies, one also thinks of general economic policy. (Of course, I am not thinking of changing such long-term social policy efforts and aims as e.g. raising the standard of living, or the distribution of available goods and services according to work, etc.) After 1956 the earlier foreign economic concepts and efforts were already modified, but only *as a consequence of and in the framework of a deepgoing reform of general economic policy*. The present situation essentially differs from the circumstances of two decades ago also in this respect. At present both the bottlenecks of internal development and the fundamental change in the world economy demand that the new concept should be *centred on the external economy*.

One of the most decisive requirements of the new foreign economic strategy consists precisely in that the problems must be put *into the focus of economic development*. In the context of the problems of the Hungarian external economy, however, *exports* have and will have a decisive role, since the given *elasticity of imports* proves that in the present situation it is easier to raise imports than exports. This, of course, does not mean that the working out and implementation of a conceptual import policy is easy, but exports will remain the neuralgic point of the Hungarian economy for many years.

Export concentration – which assumes a wider and more complex system of activities than export orientation – demands that every essential problem of economic development be solved in such a way that the results are more and more efficient exports.

It is obvious that productivity must be raised fast, particularly in industry, but those alternatives and methods of raising productivity should be preferred which most promote the boosting of efficient exports.

We aim at a *selective* development of industry, since in a small country this is the realistic and rational way, but one of the decisive criteria of selection is that the products in question should be in demand on the world market.

We have already indicated that in the intensive stage of development investment demands take a great leap forward, but of alternative investment possibilities those must be preferred which considerably improve marketing.

Fast technological improvement is needed, but in development policy such industries, plants and activities must be preferred which increase marketing opportunities on the world market and improve the esteem our products are held in.

The system of control (the mechanism) needs to be improved, but relevant efforts must be concentrated on factors and stimuli influencing external economic activities.

Adaptation of foreign technologies cannot, in the future, be considered as an exclusively industrial-technological problem, since the "technologies" of sales, business policies, stockpiling and marketing develop very quickly.

Such points of emphasis — which involve simultaneously constraints as well — clearly show that if in a sensitive and complex economy some effort is defined (denoted) as the *main task*, this does not necessarily mean that other key tasks be set aside or delayed. Clear definition of the main task only means that for the solution of the other key tasks alternatives must be chosen which promote a successful implementation of the main business ahead.

The implementation of the new external economic strategy has not only development policy conditions, but also social control postulates. The economic decision preferences developed in earlier periods are not only derivatives of the system of postulates of rational management deemed correct or approximately correct such times, but *also precipitations of a social structure and a related system of value*. In more concrete terms, the established economic relations created a structure which consolidated and strengthened itself also through economic decisions. This is why a change in economic policy ideas conflicts with the established structure and the given allocation of economic power. This should be obvious, since development priorities affect the allocation of investments, the division of profits and, through these, the future of industries — not to mention wages, bonuses, profit shares and similar factors. In the case of economic policy decisions and actions which would select on the basis of external economic requirements the weight of industries, plants and activities turning out efficient products saleable on every market will increase, while the weight of those which are "only" capable of import substitution, and of those which produce costly goods or in an obsolete manner will diminish. Obviously, production of such goods will often have to be terminated, or perhaps even the plants will have to be closed down. It is also natural that factories exporting more and at more advantageous conditions will receive more investment resources and better development possibilities, and more favourable "import ranking", they will attain higher profits and thus be able to more easily create incentives for staff and labour.

Because of such shifts in emphasis tensions will arise within the structure and a certain resistance will energe on part of the unfavourably affected industries and factories. In the prevailing system such resistance is considerable also because the *value judgements of the world market* (e.g. that the product in question is not needed) does not directly and forcefully affect the economy but *indirectly and in a moderated form*.

This had very considerable advantages in the past and continues to have such in the present as well, but also involves the disadvantage that it is much easier to challenge the correctness of an indirect value judgement whose consequences have been fully or partially averted. On the other hand, justice and equality are important in a socialist society and these factors are working even in the case of a policy (decisions) aimed at *efficiency*,

that is, in the systematic implementation of basic economic principles. To sum up: the factories and industries unfavourably affected by the selection and formation of points of emphasis consider them frequently an injustice and unfair treatment.

Creation of the socio-political system of conditions for *export concentration* is thus an extremely complicated and complex process. Within the structure, not only the power relations and directions of the different industries will change, but also the relations between production and trade will undergo transformation.

It is known that the classics of Marxism expected the "socialization" of the means of production to put an end to commodity and monetary relationships, leading to the birth of a direct exchange of products. In the course of Soviet development Lenin and Stalin accepted commodity exchange and trade first as a temporary and transitional category, later as one strongly restricted by socialist societal and production relations.

It should be obvious, however, that in every kind of social system there are favoured, accepted, tolerated processes and activities and such as are doomed to quick elimination. Within the structure generally the favoured categories (processes and their representatives) are the strongest, since — according to general opinion — they are expressive of the true nature of the system. Of course, relations established in the past as well as the objective nature of some present processes demand that in the interest of satisfying social needs also such activities *be accepted* which do not entirely conform to the nature of the system. In the course of the development of the socialist economy and a socialist society production has belonged to the first category, while trade to the second and thus an indispensable revaluation of their roles in economic processes seems a "compromise" in the eyes of a great many. In the history of socialist economies the development of the economy and the shaping of its structure have conformed up to now exclusively to internal needs, exports to the non-socialist world were overwhelmingly of an *additional* character. This type of economic development was related in part to the hostile behaviour of capitalist countries, (blockade, embargo, cold war), in part to the concrete weaknesses of the internal structure of the economy. But this type of development has also produced a certain mentality, a way of reasoning and thus the acceptance of a considerable part of world market value judgements in *development policies* may seem for some people as a *retrograde step* (though these value judgements have been *indirectly* accepted even in the past in sales prices).

It should be obvious from the briefly outlined picture that in implementing the new external economic strategy the economic leadership must apply such combinations of political and economic methods which secure the implementation of the development policy objectives outlined with the relatively smallest social tensions.

The reasoning related to this outline of the socio-economic conditions of export concentration I hope convinced readers that foreign economic strategy is not merely an economic problem. Its shaping and reconstruction — whether it happens directly (that is, on the basis of a single conception) or indirectly — deeply affects the structure and equilibrium relations of society established in a given system.

International interrelations of the foreign economic strategy

The international interrelations of foreign economic strategy are extremely complex. Of course, there have always been economic theories, from the classics to our very days, which placed the international division of labour and the systems of interests related to it in a world where political power and security interests,* deriving from the established social systems and the existential conditions of nations, attached to the behaviour and efforts of national economies, are non-existent. Nor do these theories take into account that not only the political power and security sphere needs the economy, but that the economy demand the support of the political sphere at several critical points.

The Hungarian state has an international security policy which derives in part from the nature of the social system and in part from national conditions. In modern European history, since the French Revolution, trends of the sort have strengthened, and since the October Revolution they have accelerated further, which have led to a specific interdependence between the political system and national security requirements. If, in the framework of modern development, a socio-political system is capable of solving the inherited decisive problems of a nation, successive generations will consider the political system as a framework for, and stimulus to their own creative activities, as they do the nation or national feelings.

Hungary is a European socialist country which has to find her own *security*, related to the system and to national existence, in a world divided according to political systems and national interests, only in the community of socialist countries. This is why Hungary is a member of the Warsaw Treaty, which is the joint organization of the European socialist countries for the prevention and warding off of potential attacks.

Obviously, the political and security factors mentioned will continue to be firm pillars of Hungarian foreign economic strategy in the future as well.

Political security factors, however, can only influence but not substitute for the most important bond of foreign economic strategy, that is, economic interest. Economic interests made Hungary a member of the Council for Mutual Economic Assistance, which is the first such integration in economic history whose principles of cooperation go beyond the principles of equality and mutual advantages and implement the postulates of mutual assistance in the practice of cooperation.

Hungarian economic interests in the development of socialist integration are *demonstrated* in part by commodity exchanges, in part by the concrete results of production cooperation and *their effect on the internal economy*. Of these concrete results and effects one wishes to stress the following:

A) The member countries of the integration, particularly the Soviet Union, provide an extremely important *market*, capable of absorbing huge quantities of commodities, for the products of Hungarian industry. This effect is particularly important for a small country whose internal market is necessarily limited.

*The list ranges from Francois *Quesnay* to Gottfried *Haberler*, not to mention newer examples. Of course, also an opposed conception can be traced in the history of economics, from Alexander *Hamilton* to François *Perroux*.

Production for domestic need does not attain the scale of production usually considered as the lower limit of profitability.

In external economic strategy I expect favourable conditions for expanding exports in the decades to come but the Hungarian economy must make efforts to satisfy needs that are more dynamic and more advanced from the technical and technological viewpoint.

B) The member countries of the integration, the Soviet Union in the first place, play a decisive part in supplying the Hungarian economy with primary energy and raw materials. The long-term stability enjoyed in this respect constitutes an advantage for a country poor in raw materials, particularly in periods when there are considerable fluctuations and grave crisis phenomena on the world market.

C) The division of production tasks is playing a growing role within CMEA: This secures for the Hungarian economy – beside a stable satisfaction of domestic needs – the advantages of larger series, more specialized production, and more concentrated development. Besides, the opportunity arises for us to produce parts or complementary equipment for industries whose production would be expensive and inefficient to organize in a small country.

D) The member countries of the integration supply several industries with machines and systems of machines which promote both technological progress and the saving of labour (agricultural machinery from the Soviet Union, mining and civil engineering equipment, etc.)

A remark in parentheses: in these passages the advantages deriving from foreign trade are considered from the viewpoint of the effect exerted by exchange on the Hungarian economy. I am aware, of course, that advantages deriving from foreign trade may be judged also in another way, e.g. on the basis of *profit*. I have indicated already that profit is the resultant of a great many factors and manipulations: and there are frequent cases when the entrepreneur gains but the exchange affects the national economic structure detrimentally. I should like to emphasize that in the course of analysing the Hungarian external economic strategy exclusively those effects have been treated which arise from the purchases and sales of the partner countries, for the Hungarian economy like this and the advantages deriving for the partner countries from relations with the Hungarian economy have not been mentioned. There are, of course, also advantages of that sort.

In every integration an important role is played by the *mechanisms* which promote the flow of goods and services among member countries, on the one hand, and by the *economic-policy and planning-coordinating methods*, with the aid of which the division of labour is transferred to new fields, on the other hand.

Several components of the external economic mechanism of the integration can be deduced from the postulate of *mutual aid*. This principle expresses that in developing mutual economic relations member countries weight not only the real nature of economic processes, and the possibilities deriving from them, but they far-reachingly take into account also *each other's interests*. From another angle this means that the economically

stronger party (and this relates not only to power relations but also to positions emerging in certain fields) reduces the quantity and quality of economic advantages that could be attained on the basis of power relations, in the interest of the weaker party. (E.g.: if the buyer has not yet accepted the higher price proposed by the seller but negotiations are still in process, the supplier is under obligation to continue to deliver the commodity according to the earlier quantitative agreements; that is, it cannot exert pressure on the buyer.)

The member countries of the integration showed great concern for and had reservations as regards the acceptance of world economic effects which might involve unemployment, closedowns or sudden price rises for domestic economies. Therefore, the mechanism was devised in such a way that it should provide a certain protection against sudden and unexpected developments. Effects were partly retarded, and slowed down, and partly efforts were made to keep away disadvantageous developments from production and the people. These efforts led to a certain separation between the domestic mechanisms and external ones. Beside several positive effects this policy, inspired by noble feelings, also had strongly cumulating negative ones. Thus, e.g., the high price level of finished goods served the interests of the fast industrializing countries, but the fact that the price was established independently of the quality and service requirements of the world market had a *negative effect*.

On the external economic mechanism of the CMEA countries

How the external economic mechanisms of the CMEA countries will develop in the next years is of decisive importance for the Hungarian economy, but also for international political and economic movements and changes.

Obviously, there are factors which speak in favour of the *maintenance of differences* developed under various mechanisms. It is self-evident, e.g., that the European socialist countries wish to preserve their freedom of decision over shaping their economic structures. This does not mean that they leave *profitability*, or the marketability of goods, that is, *world market relations* out of account.

It is in their elementary interest not to do so. The postulates of rational management are gaining ground in the socialist world and this makes it possible for them to recognize the limitations of different concepts and alternatives themselves. Their experiences have taught them to reckon with the consequences of their various decisions.

It should be also taken into account that the population of the socialist countries is much more sensitive to price changes than that of the capitalist world. "Price fetishism" disappears but the factors of uncertainty related to the reactions of masses suggest that only a part of tensions and shortages can be bridged over by price changes.

While emphasizing these necessary requirements likely to persist also in the future, I should like to point out several factors which make it likely that the mechanism will be transformed. These factors are located in three spheres:

- a) in the national economies of the particular socialist countries.
- b) in the division of labour and exchange of commodities between the socialist countries,
- c) in the economic relations between the socialist countries and the rest of the world.

These three spheres mean, of course, only the place of origin of the particular phenomena, since it should be obvious to everyone that they are spreading to other spheres and the latter react on the former.

I only wish to stress the following of the factors mentioned:

- 1) The requirements of intensive development in national economies.

Intensive development demands the raising of productivity and substantial development of technological standards. But the most important precondition for meeting these requirements is to organize external economic relations on a new basis.

2) The products, effects, services, possibility of substitution, and, in their wake, alternatives of the two kinds of trade (within and without the integration) are functionally intertwined so that the mechanisms controlling the movement of these commodities cannot be separated from each other to the extent supposed earlier. It is more and more frequent, e.g., that technology imported for convertible currency is a precondition for advantageous exports to the other area for roubles. Since the external economic equilibrium of national economies is a function of two separate equilibria (within and without the CMEA integration), it has become frequent lately that "convertible products" are exchanged for other "convertible products" in excess of the quotas (e.g. an exchange of Hungarian grain for Soviet oil).

3) Technological and technical progress must be accelerated and the pattern of exports improved both in trade within the CMEA and outside it. As a consequence of changes in the terms of trade the Hungarian economy has to attain bigger sales receipts also on the Soviet market. Given Hungarian economic endowments it would be inconceivable to attain this goal merely by raising the volume of present exports. The Hungarian economy must export technologically more advanced products and provide more services. This means that the quality and service demands of the two markets are getting close to each other. This process can be described, of course, also from the aspect of the Soviet economy, since it should be obvious that the regular importation of Western technology involves *not only rising demands, but a rational improvement of the related activities as well.*

4) Lenin already indicated that revolutions do not automatically change the established international political and economic system. A general change in the system can occur only if the revolution gains power in a number of major countries.

In our present world, however, the international economic system must be changed *in the interests of the developing countries at a date* when the conditions mentioned by Lenin have not yet been realized. As a result a conflict has emerged between the *desirable* state of the system of world economy (i.e. from the point of view of the developing countries) and its *real* state. Presumably, this conflict can be bridged by *including every*

interested party, that is, the socialist countries as well, but this has various preconditions. *Particular understanding and benevolence is needed* on the part of those affected: the developing countries must understand that, to supply 6,500 million people in the year 2000 on an acceptable level every available economic energy will be necessary; while the capitalist countries must understand that the *instinct of self-preservation* of the masses and countries endangered will be stronger than their understanding of, or respect for, the inherited economic system. In the case of mutual understanding and goodwill the birth of a *compromise* tolerable to one and still acceptable to the other party may be hoped for. In this case a world economic system differing in several respects from the prevailing one will emerge, one in which thinking in terms of cumulating effects in external economic relations, and long-term agreements, multiplication of intellectual capacities by enlarged mobility, specific solutions to world problems, e.g. environmental pollution, supply of grain, joint planning, etc. (independently of the world market mechanism at certain points), will be a natural phenomenon.

Obviously, efforts and regulations aimed at the solution of common tasks of a world dimension, as well as the factors built into the new methods or functioning parallel to them, will influence both mechanisms.

5) The external economic mechanism of the CMEA countries is considerably influenced by economic relations with capitalist countries as these relations have grown to a considerable degree both *in quantitative and qualitative terms*. Trade of the sort where imports serve primarily to make up for certain shortages and exports are something additional to normal activity, is relatively easy to separate from the functioning of the whole economy and other foreign policy tasks. It is neither expedient nor rational to conduct voluminous trade which is important also for qualitative reasons (affecting the development of the economy) in a similar manner.

6) In this respect also *credit relationships* involve new developments, since part of exports must be used to pay off loans and for interest payment. Elementary interests demand that commodity exports paying for increasing imports and also paying off credits should be profitable.

The factors mentioned and the present situation of the world economy indicate that we are heading towards a transitional (mixed) system of world economy, which forcefully promotes the movement, exchange and transposition of economic energies. In this manner a wide international division of labour will come about between systems which will be much larger than the present one and will promote the solution of fundamental world problems, particularly the development problems of the third world, and which will also comprise in some form the component that will be called convertibility in the future.

Summing up what has been said – and stressing that I am not providing a proper prognosis – the following assumptions (expectations) seem justified:

a) As a resultant of the national, integrational and international economic needs and efforts the external economic mechanism of the CMEA countries will undergo substantial changes,

b) Simultaneously, under the effect of the demands of developing countries, the prevailing mechanism of the world economy will be essentially modified,

c) In the new economic world order demanded by the developing countries the components and effects of the other two mechanisms will appear as a result of compromise,

d) These mechanisms must be such as to secure, on the one hand, the development of domestic economies and, on the other, to promote a relatively just and equal division of labour between the various participants in the world economy.

It follows that the best points of linkage of the various mechanisms must be found.

In the approach and coordination thus conceived and implemented on a world level the external economic mechanisms of the CMEA, as they are changing under the effect of needs, might play a highly active and positive role for the benefit of world trade and the world economy.

Of course, there are also other alternative developments for CMEA integration.

The alternative outlined is favourable from both the international and the Hungarian viewpoints. In addition, in the case of developments of such a type, the changes in the external economic mechanism and the accentuated growth in economic relations would be followed by a certain "outward turn" of the integration. Given the present mechanism, there are considerable limits to external cooperation and enterprise.

Interest of the Hungarian economy in relations to be established with the rest of the world

The Hungarian economy has important and increasing interests also in cooperation with the world outside the CMEA integration.

The import elasticity of the economy remains high also in a period of intensive development. Assuming the planned growth rate (5,6 per cent p.a.), imports must increase by at least 9–10 per cent annually. Besides, these imports, that is those originating in non-CMEA countries, also have an important role in the economic development of the country. It is in that way, that technologies and additional means of development are obtained. Various difficulties may be alleviated also by imports of certain raw materials and special materials, while trade with developing countries permits important savings in labour.

High import elasticity means that *export concentration* is the only possible way.

As has been indicated, *export concentration means* that all other key tasks of the economy must be solved in a way that allows profitable exports to be increased. The volume and composition of exports in the years to come demands *closer and livelier relations with particular markets and particular processes characteristic of commodity exchange* than Hungary at present possesses. Structural change is necessary since the share of profitable finished products (e.g. rear axles, engines, driving gears) is relatively low in

Hungarian exports. But change in structure is almost a continuous activity in today's international economy, since in a few years countries with lower living standards will also be able to produce to same goods; thus *either innovation or change is needed*.

In the interest of closer links with markets, particularly relations with large commercial systems such as department stores or large firms must be re-thought. Various cooperations in production and on sales markets must be further developed in their most efficient forms. Particularly those kinds of cooperations seem to be advantageous where highly qualified, experienced and disciplined labour is available but, because of a shortage of capital, this is operating at lower technological standards than its qualities suggest. In this respect Hungary possesses comparative advantages. Through cooperation the technology and marketing possibilities of such factories can be considerably improved. Several commercial methods promoting exports are needed, beginning with joint ventures to improve marketing techniques.

Not only technological know-how and licences are needed, but commercial know-how as well. A time lag in marketing has to be made up for which is the by-product of underestimating commercial functions, but the volume of exports, the need for increasing the Hungarian share of the market, the unavoidability of quick structural changes, as well as extremely quick changes in commercial methods and organizational forms demand radical changes as well, and this would be true even if up-to-date methods had been employed up to now.

Efforts must be made to develop more *specialities, more characteristically Hungarian products*. In solving export tasks of a large volume these specialities are indispensable. (In this context I mean, of course, primarily industrial specialities, though there are possibilities, and things to be done, in food production as well.)

We may attain considerable development also in agricultural exports. It is an old truth in economics — though frequently interpreted rather onesidedly — that after having attained a certain level in nutrition, the elasticity of demand for agricultural products is lower than that of industrial products. In today's world economy, however, all three kinds of agricultural exports (grain, feedstuff and meat, fruit and vegetables) may be *elastic* in some region of the world economy. Thus grain in the developing and the socialist ones and fruit and vegetables in the socialist countries. They may be sold at favourable terms.

Of course, these kinds of agricultural exports raise a whole series not only of production problems but those of transportation, warehousing, quality and (sales) constructions. Nevertheless, it would be wrong to neglect utilization of these possibilities in a world struggling with grave nutrition problems. This would be wrong from the viewpoints of both the national and the world economy.

As regards the geographical distribution of trade, I should like to note only that it is, in the nature of things, still over-centred on Europe. This is related to the fact that Hungary is not only a long way from the oceans, but even from Adriatic or Black-sea ports.

Obviously, in the future Hungary must increase trade with the developed capitalist countries overseas, particularly the USA and Japan, because relations with them usually

involve considerable quantities of commodities, as well as with certain non-European Mediterranean countries. Mediterranean trade has always had a certain role in Hungarian economic history.

In developing countries Hungary must join first of all in those major development projects which are contained in the plans of various countries. In this way commodities, services and technological systems to be supplied can *directly* promote economic development in the importing countries. Today we are already capable of joining in the solution of various agricultural problems, such as irrigation, other water management, animal raising, or cooperative organization, or infrastructural ones, concerning health services, or education including the equipment needed, or industrial development as suppliers, designers and as advisers (on operational questions). It causes concern, of course, that Hungary generally does not possess the capital necessary for implementing these tasks, but in the case of an adequate partner the material and intellectual requirements for the activities mentioned can be generally secured. Hungary has considerable experience in the bauxite, alumina and aluminium industries as well. In the pharmaceutical and vacuum-technical industries first a part of needs can be satisfied and then independent factories can be built.

Through cooperation projects to be established with the developing countries Hungary must first of all save labour, in order to be able to regroup workers released in the dynamic industries and services. There are now ample possibilities for such cooperation activities not only in light industry but in engineering as well.

Obviously, cooperation will efficiently promote also the traditional exchange of commodities, which will continue to be the basic method of international trade.

Offensive tactics and the future of the Hungarian economic mechanism

Right from the beginning of the great change in the world economy two kinds of surmises were current in foreign economic and other literature about the Hungarian economy. The first of these tried to prognosticate the expected behaviour of the Hungarian economy — and, in general, of the European socialist countries — under the effect of the changes. Developments since then have convincingly proven that the Hungarian economy and the economies of the other socialist countries seek a way out of the maze not by turning inwards, but by increasing external economic relations. Readers of this paper will be aware that this answer is the result of a well designed economic strategy. In the past year the Hungarian economic leadership demonstrated already in many cases that it had realized the economic-political and management problems deriving from changes in world economy.*

*From among the most outstanding contributions I wish to refer only to the speeches of János Kádár at the 3rd Congress of Agricultural Cooperatives and those of Károly Németh and Lajos Faluvégi during the budgetary debate in Parliament[6].

The second type of surmise concerned the fate of the economic mechanism introduced in 1968. These did not completely lack in foundation, since certain consequences of the control system released considerable social tensions. It is also self-explanatory that the rise in world market prices would have caused socially untenable situations in production and consumption and, therefore, a system of subsidies, levelling and taxes had to be created which contradicted the original efforts of the control system at several points.

In connection with these surmises I should like to indicate that the principles of the control system stand fast even today and the necessary bridges are built in a framework whose nature is emphatically stressed as temporary. In addition, I should like to express my hope and conviction that the changes in the world economy will lend a new impetus to the struggle for the further improvement of the control system. How is this possible? — one might ask, since there is hardly any possibility for further decentralization. No doubt Western colleagues and the press attributed the greatest importance to *decentralization*, although this is only a *consequence* (a highly important one, of course), *but not the basic idea of the reform*.

The character of the control system depends in a socialist economy mainly on the importance attributed to the economic categories. The centralized control system of plan-instructions had to be born because it had been considered that certain economic categories were not active in a socialist economy, or active to a very limited extent only. If this were true, it should be obvious that different but closely interrelated economic processes can be controlled only on a *physical basis, in a system of coordinated instructions*. If, however, the economic categories exert a true, measurable and controllable *effect* in a socialist economy, it should be obvious that control through the economic environment will be the most successful one.

As I argued in 1966 “the system of plan directives has to come to an end with the introduction of the new mechanism. It is obvious that plan-directives parallel with the effects of the economic mechanism are superfluous, those that are opposed on the other hand are damaging and dangerous”[7]

In the present situation the socialist countries, led by their own interests, are compelled to take into account in their control systems the results, effects and consequences of world market processes and events. This is why the present situation leads to a further reform of the control system.

The external economic strategy of a national economy is, at the same time, *an international prognosis*, since its rationality and reality depends also on certain external factors. Among the external factors we find economic and political (and even security) components. The external economic strategy *assumes* a certain transformation of the major trends of world economic processes, the expansion of the absorptive capacity of markets in a given structure and — what should have been perhaps mentioned first — developments of international political relations which allow (minimum requirement) or even promote (maximum requirement) the realization of the economic flow assumed in the idea.

I cannot here expound now this "world prognosis" in detail. Various references and indications should make it obvious to the reader that the author assumes a world where the non-socialist world establishes strong economic relationships with the socialist world based on the acceptance of a peaceful structure and on a system of mutual benefits.

No doubt, in the present international situation there are efforts and power centres which oppose both the creation of a peaceful structure and the development of East-West economic relations. Of these retarding factors I should like to point to three:

a) Weakening of the political structures of Western countries from the viewpoint of decision taking. No governments have firm majorities which allow them to take upon themselves responsibility for new decisions.

b) The strengthening activity of the military and industrial complex, first of all in the USA, but also in Western Europe, though in different form.

c) International political and economic currents outside the sphere of East-West relations which work, in a direct or indirect form, against the consolidation and development of cooperation.

Other factors — expounded in detail in this paper — speak, of course, *for the strengthening* of cooperation.

Presumably, it also speaks for cooperation — provided that rational reasoning remains one of the important, even if not the single, leitmotifs of international politics — that East-West relations could well be the highest factor of relative stability in an unstable world. It is well known that a stable component (a fixed point) is generally necessary for a system of consequences deriving from instability to remain within its limits. . .

Hungary is a small nation, but we wish to serve the wider community, the world and humanity, as members of this small community. A proof of this is also that we attempt to formulate as new external economic strategy for Hungary in a new situation in the world economy. As far as our modest forces allow, we should like to contribute to the creation of such a peaceful world where national economies and integrations, as well as the international economic relations, emerging under the aegis of interdependence, and humanitarian solidarity equally flourish.

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СМЕНА МИРОХОЗЯЙСТВЕННЫХ ЭПОХ И ВНЕШНЕЭКОНОМИЧЕСКАЯ СТРАТЕГИЯ ВЕНГРИИ

Й. БОГНАР

Автор исходит из изменения мирохозяйственных условий экономического роста с тем, чтобы выявить их влияние на экономическую политику Венгрии.

Венгерская экономика характеризуется повышенной чувствительностью к мирохозяйственным процессам. Это проявляется, в частности, в высоком удельном весе внешней торговли в реализации национального дохода, в высокой импортоемкости экономического роста (в 1971–75 гг. на единицу прироста национального дохода приходилось 2,5 единицы прироста импорта). В условиях роста мировых цен на энергоносители и сырьевые материалы поддержание равновесия торгового и платежного баланса страны, а также сохранения темпа экономического роста требует неизмеримо больше усилий, чем раньше.

Автор указывает на необходимость разработки новой внешнеэкономической стратегии, что требует пересмотра и экономической политики в целом. Во главу угла этого пересмотра следует поставить концентрацию усилий на расширение экспорта и осуществление селективной (выборочной) политики в развитии промышленности, ставящей своей целью развитие производств, способных экономически эффективно производить экспортную продукцию, пользующуюся спросом на всех рынках.

Для того, чтобы все народное хозяйство прониклось экспортной ориентацией, необходимо создание не только экономических, но и соответственных социально-политических условий. Ведь в течение многих десятилетий изолированного развития в условиях экономической блокады, холодной войны и т. д. экономика стран социализма строилась в духе ориентации на удовлетворение исключительно внутренних нужд; экспорт в несоциалистические страны носил в основном второстепенный характер.

Автор подробно останавливается на международных факторах, обуславливающих внешнеэкономическую стратегию Венгрии как члена социалистического содружества; рассматривает состояние, проблемы и перспективы развития экономического сотрудничества социалистических стран, их взаимоотношения с развитыми капиталистическими странами и странами «третьего мира».

В заключение автор подчеркивает, что новые явления в мировой экономике не толкнули венгерскую экономику, как и народное хозяйство остальных социалистических стран, на путь отгораживания от международного разделения труда, наоборот, они ищут выхода в расширении внешнеэкономических связей. Об этом свидетельствует и этому служит также и стремление продолжать совершенствование системы народнохозяйственного управления.

I. T. BEREND

DEVELOPMENT OF THE INFRASTRUCTURE – IN HISTORICAL PERSPECTIVE

The study examines the course and level of development of the Hungarian infrastructure in a historical perspective of about 100 years and on the basis of international comparison. Three historical phases of infrastructural development are distinguished: the periods of the industrial revolution, between the two world wars, and following World War II.

In the present third phase with a break-through of industrialization, relative backwardness of the infrastructural branches became apparent. Evolution of the intensive stage of development puts new development tasks in the centre in this respect, and has considerably influenced the practice of economic policy in the last decade.

With the gradual exhaustion of resources of extensive development and with entering into the intensive stage of development, it is a more and more frequent and urgent requirement in the economic development of socialist countries to line up the conditions for the development of infrastructure of production and consumption in the widest sense, since these conditions are lagging behind in many respects.

Let me first explain what I mean by the term infrastructure: I mean the background sector that serves production and consumption, and secures the functioning of the economy. I believe the following one is the most appropriate from the different conceptions and interpretations to be found in Hungarian and international economic literature: "Infrastructure means that part of the national wealth by which neither production nor consumption of goods is served directly but which, at a given level of economic development and according to the given technological requirements, is called upon to guarantee the undisturbed field of movement, the so-called vessel system, of the processes of production – distribution – consumption." Hence the notion comprises energy distribution, water supply, drainage, transportation, telecommunication, trade, catering, housing, town planning, scavengery, repair services, public health, education, culture, administration, jurisdiction, and public security [1]. This acute problem of our times, pushing nowadays into the foreground in the socialist countries, would be – like all economic actualities – hard to fully and truly understand without its historical contexts. Namely, the processes of industrialization and the development of modern economy showed, since the origins of capitalist transformation in the middle of the 19th century or its last third, many peculiarities in Eastern Europe which were strongly interlocked with the specific elements of the socialist way of development and thereby with the present age.

In the following the characteristics of the development of infrastructure will be reviewed through the historical processes of the past century, in comparison with the

development of the entire economy and with its maturity. Though these features are more or less valid for Eastern Europe in general – with certain modifications by countries or regions – renouncing the presentation of a wide range of documents I am going to support my statements only with the main facts of the processes in Hungary.

1. In the age of the industrial revolution

The roots of the processes reach back to the age of the industrial revolution. In that period the development of infrastructure could attain quite a unique role. In Eastern Europe, lagging far behind in its transition to capitalism, till the end of the 18th and the middle of the 19th century the so-called late feudalism, or its so-called “second edition” (Engels) stiffened, paralyzing the development of capitalist economy and its system of institutions. These conditions made it impossible for the industrial revolution to start and take place at the end of the 18th and the beginning of the 19th century, as it had happened on the soil of the preceding gradual lifting of feudal conditions in England and in the western half of the European continent. The ever growing agricultural demands of Western Europe, rapidly industrializing after the industrial revolution, increased Eastern Europe’s opportunities for agrarian exports on the basis of the division of labour developed in the modern 17th and 18th century world economy. In fact this was the first capitalist challenge to feudally blocked Eastern Europe, which did not only encourage the increase of capitalist, modernized production in agriculture but was extremely tempting for a general transformation of the social and economic conditions. It should be added that the industrializing West was in bad need of Eastern Europe’s resources and especially its agricultural products, and the industrialized European capitalist countries which monopolized the majority of world trade were trying to expand their East European markets as well. Beginning with the last decades of the 19th century their imports of food and raw material and exports of finished products and capital, as well as their great-power interests and political-strategic competition, and their efforts at the redistribution of the world established close links between Western and Eastern Europe. This encouraged the East European reply to be given to the economic processes taking place in the West with ever newer challenges.

In connection with all this the emergence of a specific economic development trend can be perceived, namely, that in the later stages of modern capitalist transformation – mainly from the last third of the 19th century to the decades up to World War I – all the penetrating and transforming effects of the industrial revolution appeared in Eastern Europe in an extremely one-sided form. They could in no way alter the agrarian character and structure of the economy and of society, could not guide these countries onto the path of rapid economic development to overcome their earlier underdevelopment. In Hungary the proportion of agricultural population amounted to 64 per cent even in 1910, and 62 per cent of the national income was produced in agriculture before the war.

The relatively backward structure and level of the economy — the per capita national income did not reach one-third of the advanced West European level — support the general view that Hungary attained only a weak or medium level of European development at that time. Considering the comparable indicators it was much closer to the backward than to the advanced countries.

Nevertheless, owing precisely to the aforesaid reasons, infrastructure of modern economy evolved in a quite different way and achieved a different level of advancement. This is the field where the Eastern European countries and Hungary were able to follow the ways of modern economic transformation. It was in the framework of the industrial revolution during the 19th century that an infrastructure developed which provided the bases and conditions for modern industrial transformation till about the first World War. This "19th century infrastructure" was established mainly by building out a modern railway transport system, creating modern water transportation, the attached road network, modern postal services and telecommunications. Here belonged also the dynamic building of towns, modern trade with its specialized shop system, the public education based on compulsory and free schooling and schools erected in every village, etc. It should be quite obvious that all these, and the other infrastructural elements not mentioned here, were essential for the pre-war achievements of capitalist transformation and economic development. Interestingly, *in the Eastern European development and in Hungarian economic and social transformation the proportions were shifted in a special way, so that the relative advancement of the infrastructural fields was much higher than the average level of economic maturity, and than industrialization.* Thus, for example, the length of railways per 100,000 inhabitants was in Hungary 87 kms already at the turn of the century, more than in Austria, and practically the same as in England (86 kms), and only somewhat less than in Germany (91 kms). Like the essentially West European standard of the railway network, the river control and water works were also of West European level, (Danube and Tisza regulations works, the building of about 3500 kms of navigable waterway, considerable reduction of flood risks). It is worth noting that in the decades from the 1860's to the war *50 per cent of all investments* — taking into account also the involved foreign sources of capital — *were directed into infrastructural areas.* The majority of foreign investments were allotted for the development of this sector.

Without reviewing the various infrastructural fields I should like to refer to the schooling system, thanks to which 90 per cent of the people in school age *did* go to school in Hungary already before the war, and only less than one-third of the adult population remained illiterate (when this figure was one-quarter of the population in Austria, one-fifth in Belgium, one-sixth in France, and illiteracy was practically eliminated mostly in the North-Western European countries). In terms of education costs in the year 1910, the amount of funds allotted for public education from the introduction of compulsory and free education in 1868 up to World War I reached a quarter of the investments actually made into the economy from the domestic accumulation of capital.

Here we have a peculiar picture: while the Hungarian level of *per capita national income did not reach one-third of that in the advanced West European countries, the*

development of the infrastructural sectors was ranging – in the fields where quantitative comparison is possible – between 50 and 80 per cent of the advanced West European level, i.e., it can be considered in general as a good medium, and was much closer to the level of the advanced than to that of the backward countries.

In other terms it could be said that the emergence of the infrastructure in the 19th century took place on a relatively much higher level than the development of the production sectors themselves. Huge “pots” were put on the stove – to adopt the analogy of Attila Csernok. Éva Ehrlich and György Szilágyi characterizing the infrastructure as a vessel system – in which very little was cooked first, and which had far greater capacities than the production branches were able to use directly.

2. The interwar period

Deriving also from that, in the coming period – from the beginning of the 20th century and especially between the two wars – in the world economy a new era opened in the development of infrastructure. Continuing the above analogy, new and more up-to-date vessels were made. The East European countries, however, did not feel any pressing economic urge to keep pace with the processes because there was plenty of room in the old vessels. Therefore, the first half of the 20th century became the age of a special inconsistency from the point of view of the development of infrastructure in Eastern Europe. In the first period the East European countries had kept pace the quickest and the highest level exactly in the creation of the infrastructure in their late transition to modern capitalism, while in the first half of the 20th century they were very much lagging behind the new developments of the infrastructure. With the “outgrown” and by then inadequate infrastructural sector, new infrastructural networks to be created on the basis of 20th-century technology became indispensable for further economic progress in the conditions of advanced world economy. In transportation the railway era was succeeded by automobilism. However, with the passing out of steam technology, not only transport but also the energy system went through a transformation. A modern electric power network was established, and the system of telecommunications was entirely renewed, and became dominated by the rapid proliferation of the radio, television and telephone services. In these decades the urban infrastructure was renewed, this period was the time of creating a public health service in the modern sense, of building up-to-date hospital and clinic networks. The infrastructural bases for mass entertainment were created, related to the utilization of leisure time available from the 20th century, since the legal regulation of working time, and brand new infrastructural fields were developed through mass sports, cinema network, etc.

The East European countries could follow these processes only in part. As noted above, the infrastructure established in the 19th century was still an unutilized framework in many fields, it allowed for the further development of the productive sectors, and thus in the first half of the 20th century transportation and other, particularly capital-intensive infrastructural sectors showed unmistakable signs of stagnation. Trans-

portation got virtually stuck at the railway age (and became increasingly outdated technologically), and practically it did not keep pace with the development of automobilism at all. The value of the so-called motorization indicator, showing the number of vehicles against the country's area and population, averaged 5,7 in 14 European countries in 1938, while in Hungary it was only 0,5, a fraction of the European average, and in other Eastern European countries it was even lower. Stagnation, moreover, a decline could be observed in construction activity, e.g. between 1920 and 1929 town building activity amounted to only half of the building level in the pre-war period, and from 1933 to 1938 it was higher only by one-third, i.e., on the whole it was beyond the building activity prior to World War I.

At the same time, several new infrastructural branches were going through great progress. The causes cannot be examined in details this time. Yet it must be noted that only certain fields of the infrastructure were developed, and in such circumstances when the fields of production and consumption hardly developed, i.e., the main factors determining the development of the economy and, under their effect, the improvement of living conditions, were quite unfavourable. In such circumstances it is justified to ask why a considerable development occurred precisely in some new infrastructural branches. In this context a deliberate intention for the modernization of living conditions can be pointed out in the countries shaken by revolutions and situated near to the Soviet Union, i.e., in the "cordon sanitaire" having special importance for capitalist Europe. John M. Keynes, the most influential Western economist of the age drew the capitalist big powers' attention to that right after World War I, and advocated a credit policy to boost Central and Eastern Europe as primary task. Thereafter a considerable part of the large credits extended in the 20's was indeed allocated for such investments.

In the case of Hungary the so-called Talbot Credit for electrification, and the repeated credit raising actions of counties and townships contributed to the development of some infrastructural sectors. Among these perhaps the most dynamical development took place in the electrification of the country. In 1920 in Hungary only 27 per cent of the population could benefit from electric light, while in 1944, as power had been introduced into about 1000 settlements in the meanwhile, already three-quarters of the population could use it. But, as a rule, those infrastructural sectors advanced considerably whose development required relatively little capital. The considerable expansion of the retail network, for example, is worth noting. The proportion of commercial employees increased between the two wars from 13 to 17 per cent of the gainfully occupied population. The density of the shop network in Budapest — 20 to 25 independent merchants per every 100 inhabitants — attained the level of Vienna, Berlin, or Munich.

The establishment of the public health network advanced with large steps. Between the two wars more than 100 new hospitals were built, the number of physicians per 100,000 inhabitants doubled and reached the European standard. Following the investments in education, while 92 per cent of those in school age were already going to school, the number of pupils per classroom was reduced from 60 to 40, and the number of pupils per teacher from 80 to 42.

The extension of the "leisure time" infrastructure related to modernizing living conditions can be indicated by the facts that before 1918 there were less than 700 sports establishments in Hungary, while before World War II their number exceeded 8 thousand. (All the sports swimming pools and 50 tourist hostels in the hills were built at that time.)

All this does not, of course, imply that e.g. the public health service or education were highly developed. The medical insurance covered hardly more than one-third of the population, and schooling unchangedly offered hardly more than 4 to 6 years of primary education. Against some 180,000 pupils enrolled in the first class, only 35,000 were going to the one corresponding now to the eighth grade.

Facts demonstrate, however, that in the period between the two wars, when the rate of growth was very slow in Hungary, when agricultural production was practically stagnating, and when even at the peak of war production of World War II industry showed only a 70 per cent increase, that is, when the yearly increase of per capita national income was less than 1 per cent, *the infrastructural sectors again were extended more significantly than the productive sectors*. On the other hand, in infrastructural fields with no considerable advancement even the pre-war frameworks were sufficient to serve the infrastructural needs of the extremely slowly developing production (and of the practically stagnating consumption!).

3. The development in the last three decades

Following World War II, after having restored the war damages, it was characteristic of the structure of the Hungarian economy — and it may be considered to be a more or less general Eastern European feature as well — that the standard of the infrastructural sectors, *though falling short of the high infrastructural standards and new quality factors of the age, was relatively still higher than the standard of the productive sectors*. Thus, for a while, these sectors provided a possibility for the development of production even without a corresponding expansion of the infrastructural framework.

All that suggested that the earlier established infrastructure would for a good while secure the conditions for the socialist economic strategy, for the planned rapid development. The existing and still ample (though technologically outdated) railway system could satisfy the transportation requirements of speedy industrialization. The telecommunication network would be about sufficient even amidst increasing demands. With better utilization and maximum use of reserves, the old infrastructure would be enough for some time for the development of services. For instance, the coverage of health insurance almost doubled by the beginning of the 1960's, covering 85 per cent of the population, without building any new hospital till that time. Neither was the enormous escalation of schooling accompanied by a school building activity which could have e.g. reduced the number of pupils per classroom. On the contrary, congestion increased, and it often happened that the classrooms were used in two shifts. In the first period the infrastructure related to consumption was expanded partly through the elimination of the

earlier social differences, through social levelling. For example, it seemed that the increased need for holiday resorts could be satisfied without any considerable new buildings, through nationalization of the former properties of the ruling classes, by taking castles, villas and holiday homes and handing them to the working people. The retail network was even considered to be "overdeveloped" and at the beginning many shops were closed.

It must be added that *the economic leadership judged the situation to be even more favourable than the relative abundance of the old infrastructural frameworks really was*. This is very well illustrated by the example that though the telephone system, extended to somewhat more than double in the inter-war period, provided only about 5 per cent of the population with regular telephone service, the following attitude was adopted in drafting the first plans: "there is no need to touch the telephone system because the capitalists accomplished it".

I should like to stress that this was not lacking a *certain* realism. The *resources inherent in the infrastructural sectors were indeed available, "consumable"* with more modest development inputs than the general rate of growth of the economy, and this could provide for partial satisfaction of the new demands evoked by the rapid economic and social development.

Further, we shouldn't lose sight of the economic-strategical situation in which the way out from the relative underdevelopment was to be decided. All previous experiences in history did and do prove that industrialization is the only practicable way. That is, the main resources had to be concentrated to industry, and simultaneous great efforts were to be exerted to raise the population's standard of living and standard of consumption — marked by primary dissatisfactions. Aiming at these ends in a quarter of a century the volume of industrial production increased to sevenfold, and the standard of personal consumption to 2 — 2,5-fold. Quite clearly, in that situation a rapid forward push in all fields was *ab ovo* impossible.

However, this fact does not help the inconsistency of the situation. Namely, despite the relatively advanced state of infrastructure — another common East European feature — Hungary's infrastructural lag increased between the two wars (owing to the stagnation in the capital-intensive fields, first of all transportation, building, urban development). The lag was rather qualitative than quantitative, manifested by the marked lack or imperfect form of the process called above the creation of new infrastructural sectors, characteristic of the first half of the 20th century.

At the same time it shouldn't be forgotten when judging this problem that in the second half of the 20th century in the industrialized countries there were important new development trends in the modern infrastructure. This was linked largely to the extremely intensive development of services, with the creation of a new network of repair services and trade, with the revolutionizing of telecommunications, town planning, the energy system, industrial services, on the basis of the extraordinary acceleration of technological development.

Thus, when there partly was a certain opportunity to utilize the existing infrastructural framework and to develop these more slowly than the rate of production development, with this we did not simply preserve old underdevelopments in the extremely important *infrastructural fields of the economy, but added to them in a number of fields, and could not keep pace with the important progress of the age.* Together with transportation, telecommunications and production services, also the situation of the consumption infrastructure of services illustrate the backwardness.

Another expression was that in the 1950's and partly even till the mid-60's services declined in many fields. For example the mass transportation capacity in Budapest only doubled while the number of passengers jumped to fourfold. The housing stock of the capital increased by about one-third, and this was not sufficient for reducing the number of persons per room, that is, the existing housing shortage. While the proportion of those covered by health insurance jumped from 40 to 97 per cent of the population — as an important element of the development of the security of living and health services — the number of hospital beds increased only by 50 per cent (this, too, mainly through increasing crowdedness).

Despite the fact that women were drawn into employment *en masse*, till 1960 only 15 per cent of the households had washing machines, and a mere 1–3 per cent had vacuum cleaners, refrigerators and floor polishers. In these latter fields there was rapid progress already in the coming years: in 1967 half of the households used washing machines and each sixth family possessed a refrigerator. The general improvement in the supply with services in this period is shown by the fact that in the late 50's and early 60's the consumption of material goods increased by 40 per cent, while the consumption of services increased by 60 per cent. (Thereby it amounted to a quarter of total consumption, still much less than what would have followed from the level of economic development.) Although the rapid increase of production was not hampered by this for a while (all the less as the country's resources were concentrated by economic policy on a breakthrough in industrialization and within that at the quantitative development of industry) *the standards of productivity and efficiency, the development of services and of consumption were affected unfavourably, and such development tasks were delayed and accumulated which imperatively call now for urgent solutions exactly when the stage of intensive economic development has been reached.*

The infrastructure of production and consumption proved to be poorer and poorer and caused tensions in every field of the economy. The stock of fixed assets of the productive sphere increased by 127 per cent by the mid-60's, while that in the non-material production sectors by only 71 per cent. Between 1953 and 1960 the increase of fixed assets in the non-productive sectors amounted to two-thirds of the increase of fixed assets in the productive sectors, while between 1960 and 1966 to only half of it. In 20 years the value of investments into material production sprang to fourfold, while the investments in transportation only doubled. The net value of fixed assets in telecommunications increased only 1,5 times.

The infrastructural sectors were supplied with manpower at a much slower rate than the productive sectors, especially industry, and finally the proportion of manpower working in these sectors stagnated: in 1950 and in 1967 alike, it was in the range of one-fifth—one-sixth of total employment. The share of infrastructure in national income was similarly stagnating, and even slightly decreasing.

The lagging of the infrastructural sectors behind the rapid growth of the productive branches and behind the considerable rise of the level released a new contradiction in our socio-economic development. With much higher production volumes in industry and agriculture, the lagging of the infrastructural sectors has been namely the cause of disturbances in energy and water supplies to production, of the limitations of modern transportation and material handling conditions, of the inadequacy storage and warehousing (by this alone, heavy damages are inflicted upon the economy year after year), of the permanent difficulties in the maintenance and repair of the huge park of machinery and vehicles (and, consequently, of the decay of great values), and last but not least, it leads to large-scale environmental pollution. All that is becoming an obstacle to the optimum utilization of the production capacities expanded at great sacrifices. The impact of the weaknesses of educational infrastructure is similar: the low qualification of manpower brakes the economy's ability for renewal, as well as the most intensive utilization of new technology. *The raising of productivity, of central importance in the intensive stage of economic development, is thus inseparably related to the development level of infrastructure.*

The same is true for the further improvement of the standard of living. *Namely, the lagging of the infrastructural sectors becomes the main obstacle to an adequate improvement of living standards* above a certain level. The effect is similar when adequate nutrition, clothing, basic schooling and public health services etc. have been attained, but hospitals are crowded, clinics are overloaded, and thus the quality of the health service is not always satisfactory, if there are heavy disturbances in telephone service, if transportation is jammed, if the retail network is not suitable and all that cause losses of time, waitings, nuisances, if the repair services are inadequate and backward, e.g. in comparison with the mechanization of households or with the development of the stock of cars or flats. By now in these fields such unsolved problems have accumulated which affect the public atmosphere, occasionally so as if the standard of commodity supplies or of consumption were inadequate.

The cause of developing the infrastructure has been raised to the rank of a primary socio-economic task by the importance attached to increasing productivity and to supplying the population with satisfactory services.

Consequently, since the mid-sixties, since about the decade when the extensive resources of economic development became exhausted, Hungarian economic development has gradually been permeated by the demand for a fast growth of infrastructure. Its share in investment was increased, from 33 per cent characteristic of the fifties it rose in the 60's to the level of 40 to 44 per cent. From the middle or the end of the preceding decade the infrastructural fields became the most dynamically developing branch of Hungarian

economy. Characteristically, between 1961 and 1967, the average growth rate of industry exceeded 7 per cent a year, that of agriculture was near to 4 per cent, and that of services was ranging from 5 to 6 per cent, while in the latest ten years the yearly average increase of industry has been a moderate 6 per cent, that of agriculture rose to a level around 5 per cent, while services attained a growth rate of around 8 per cent a year. Within that the building activity developed even faster. The development of services in the extremely capital-intensive branch of transportation was upgraded; massive structural and technological renewals began. Also urban development and housing construction took a fast upswing. As a characteristic manifestation of these tendencies, in the fourth five-year plan period, from 1971 to 1975, employment increased only by 1,8 per cent in the entire economy, but by 10,3 per cent in the infrastructural fields, and the investments for the development of the so-called non-productive sectors increased twice as quickly as those for productive branches. The investments in the infrastructure attained about half of the total investment in the economy.

Renewal of the 19th-century infrastructure (e.g. in the fields of transportation and building, town planning) and adopting the new and latest infrastructural development trends of the 20th century have become, historically, about coinciding issues. The fast rate motorization and the development of modern mass transportation, the mechanization of households and the development of the public services, etc. began simultaneously.

The extreme boom of housing construction is a good illustration of these processes. The number of homes annually built was steadily increasing from 1965 to 1974, and in the end we built by 60 per cent more flats a year. Other interrelations of infrastructural development are shown by the facts that the proportion of flats connected to the water supply system was only 28 per cent of the stock in 1965, while by the beginning of 1975 it was 40 per cent; and the proportion of flats without electricity was cut from 18 to 9 per cent. This is among the reasons for the rapid improvement in the supply of households with gadgets: from 1965 to 1974 the number of refrigerators per 1000 inhabitants jumped to almost eightfold and approaches now 200. The number of washing machines doubled and became 220 per 1000 inhabitants. The spreading of television is shown by the increase from 82 to nearly 220 sets per 1000 inhabitants in ten years.

After long decades of stagnation, the transportation sector has gone through extremely dynamic progress in the latest decade, making up for previous lags. This is conspicuous in the modernization of railway transport. Steam was eliminated virtually in that decade from the Hungarian railways. In 1965 about 65 per cent of the railway engines were still steam engines, while following the spread of electric and Diesel engines this was reduced to 14 per cent by 1974. The transformation typical of the 20th century is taking place simultaneously also in the structure of transportation, advancing new forms of it. In 1965 78 per cent of transport performance, calculated by freight-ton kilometres, was by rail, in 1974 only 60 per cent; at the same time the share of transportation by road and pipe increased from 14 to 28 per cent. Simultaneously, the share of road traffic in passenger transport increased – in terms of passenger-kilometres – from 24 to 36 per cent. This was related to the steep increase of the car park which

rose to five-fold in 10 years; in 1965 there were 10 cars per 1000 inhabitants, by 1974 this figure became 47.

Public health remained a more modestly developing branch of the infrastructure. The number of hospital beds per 1000 inhabitants increased only by 9 per cent, but on the other hand, the number of physicians per hospital bed rose by 15, and of the nursing staff by 29 per cent.

The above data unambiguously show the processes of substantial acceleration apparent in most fields of the infrastructure.

In this situation there necessarily arises the conflict that the demands for investment are increased very much by the requirements of production development, of energy supply and the raw material bases, of the technological and productivity conditions of exportability, of the creation of industrialized production in agriculture, that is, by the requirements of production deriving from the intensive stage of development. However, as I said above, the necessary development of productivity cannot be attained without developing the similarly capital-intensive infrastructure, while in the new conditions the rate of growth cannot be secured but from productivity sources. Economic policy onesidedly concentrated on the rate of growth, along with neglecting the infrastructure and with disproportionate preference for production, constitutes the typical feature of the fifties. Its elimination began already at the end of the 50's, and from the end of the 60's a real turn began to let close up the previously lagging infrastructural sector — all these giving a clear indication of the predominance of historical tendencies. However, the future tasks are enormous. For these tendencies to succeed obstacles must be removed.

The changes in the world market in the mid-70's and the unfavourable impacts of these on the terms of Hungarian foreign trade might provisionally slow down the progress, but cannot reverse or halt the development processes.

The breakthrough in industrialization that took place in the last thirty years of socialist economic development, the multiplying of the volume of industrial production to sevenfold assured the pushing forward of such a wedge, the establishment of such a bridgehead, which today allows us to advance and close up the lagging sections of the economic front, including the infrastructural sectors.

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РАЗВИТИЕ ИНФРАСТРУКТУРЫ – В ИСТОРИЧЕСКОЙ ПЕРСПЕКТИВЕ

И. Т. БЕРЕНД

В статье развитие инфраструктуры в Венгрии и ее уровень рассматриваются в исторической перспективе приблизительно ста лет, на базе международного сопоставления. Автор различает три исторических этапа развития инфраструктуры: эпоху промышленной революции, период между двумя мировыми войнами и послевоенные годы, и прослеживает процессы развития венгерской инфраструктуры на этих этапах.

Первый этап – это период промышленной революции, предшествовавший первой мировой войне, когда развитие инфраструктуры приобрело своеобразную роль. Несмотря на низкий уровень общего развития, значительную роль иностранного капитала и аграрный характер страны, вывозившей большей частью сырьевые товары, развитие инфраструктуры происходило на относительно высоком уровне того периода. Инфраструктура – в первую очередь в области транспорта, народного образования и т. п. – достигала приблизительно 50–80% уровня развитых западноевропейских стран, существенно превышая средний уровень развития всей экономики.

На втором этапе, между двумя мировыми войнами, когда началась складываться развитая инфраструктура XX века, Венгрия была не в состоянии целиком следовать за этим большим преобразованием. В ряде новых областей инфраструктуры, в первую очередь, в области преобразования инфраструктуры транспорта, наметилось серьезное отставание. В то же время наблюдался значительный прогресс в некоторых новых отраслях инфраструктуры; это относится в первую очередь к электрификации, к здравоохранению, а также к инфраструктуре проведения свободного времени. Все это происходило в условиях, когда в производственных отраслях наблюдался застой или весьма умеренное развитие. Таким образом, и в этот период расширение инфраструктуры было более значительным, чем в производственных отраслях.

В период после освобождения страны, когда в развитии инфраструктуры и в международном масштабе начался новый этап, уровень развития инфраструктуры Венгрии, хотя и значительно отставал от высокого уровня и новых требований эпохи, все же был относительно выше уровня развития производственных отраслей. Однако экономическая политика этого периода слишком переоценивала относительно благоприятное положение инфраструктуры, и осуществлявшаяся быстрыми темпами индустриализация долгое время сопровождалась исключительно умеренным развитием отраслей инфраструктуры. Вследствие этого прежняя отсталость не только консервировалась, но и росла в ряде областей по отношению к новым тенденциям и требованиям развития второй половины XX века. Было отложено решение таких задач по развитию, которые затем на этапе интенсивного экономического роста многократно требуют своего решения. Все это проявилось как новое противоречие социально-экономического развития, особенно в связи с задачей повышения производительности труда, приобретающей на интенсивном этапе центральное значение. Это отставание становится также одним из главных препятствий улучшения жизненных условий.

В последнее десятилетие приблизительно одновременно стало актуальным обновление так называемой инфраструктуры XIX века (в области транспорта, строительства, градостроительства) и следование новым и новейшим тенденциям инфраструктурного развития XX века. Эти процессы развернулись с большим размахом в венгерской экономике прошедшего десятилетия. Ускорился процесс развития этой отрасли, указывающий на формирование новых прогрессивных пропорций в народном хозяйстве. Замедление этого процесса из-за наблюдающихся в середине семидесятых годов изменений на мировом рынке и их отрицательных последствий может быть лишь временным, ведь сами процессы развития необратимы, и в выполнении новых экономических требований отраслям инфраструктуры принадлежит важная роль.

K. SZIKRA MRS. FALUS

SOME QUESTIONS OF THE INTERPRETATION OF DISTRIBUTION ACCORDING TO WORK*

The author tries to obtain an answer to the question about the centre of wages in socialism and how this asserts itself. As a result of her examinations she states that the wage centre can be adequately approached if the work performed is interpreted not as an output, but as an input. Its basic factors are the following: qualification necessary for performing the working task, on the one hand, and mental, physical, nervous, etc. performance in the course of working, on the other. In consequence of the extraordinarily complicated character of relationships forming the centre of wages a comprehensive, exact wage model is only a Utopia. Finally, the author examines some topical problems related to the assertion of distribution according to work in Hungary.

There are two basic problems of distribution according to work, namely, 1. how relative wages should develop among *various categories* of workers; 2. how relative wages should develop *among the individual workers* within these categories. I am not going to deal with the second question in my study. I will discuss only the first one: the relative measure and proportion of average wages in various categories of workers. *I should like to determine the centre of wages in socialism and how this is enforced.* My starting assumption is that there must be such a centre. Relative wages do not develop by chance only or on the basis of arbitrary decisions. They cannot be explained by demand and supply relations of the individual labour categories alone,** because a classical question immediately arises: what will happen if demand and supply exactly coincide? But cannot accept the explanation newly wide-spread among Western economists either, i.e. that wages develop only on the basis of agreements concluded as a result of power relations, bargaining and the conflict of deviating value judgements (so-called "bargaining", "consensus" and other theories). They, too, only raise further questions and provide no explanation, for example, for the apparent circumstance that relative wages in countries at more or less similar level of economic development are similar, too, nor for the causes of common tendencies in their development to be found everywhere.

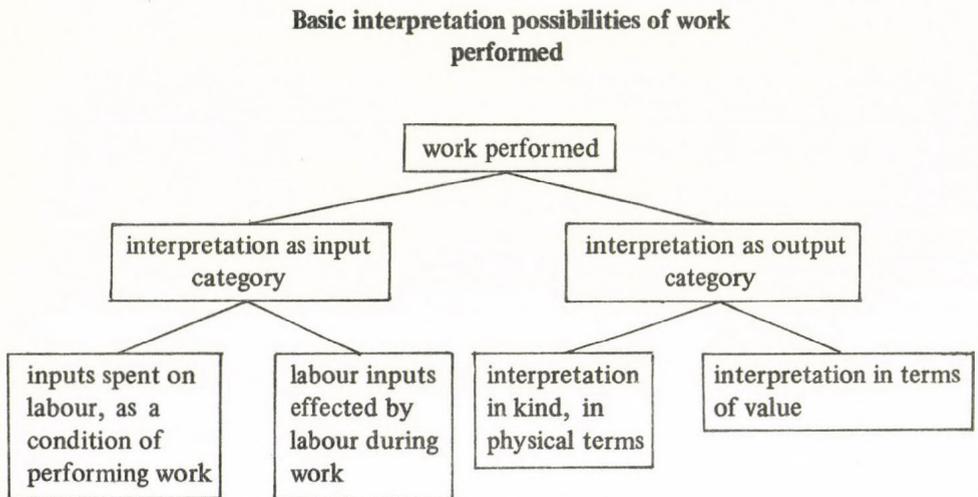
In the course of my investigations I consider the necessity of distribution according to work in a socialist society as an axiom. By distribution according to work I mean that incomes resulting from work are situated around the work performed as a wage-centre.

*On the basis of the inaugural address of the author to the Hungarian Academy of Sciences.

**Application of such expressions as labour demand, labour supply or labour market also to socialism does not mean that labour would be regarded as a commodity also here. These habituary words are used merely for the sake of simplicity.

Thus, determinants of the wage-centre will be sought after among the possible interpretations of the work performed, as an interpretation of work performed that is correct from such a point of view.

The notion of work performed can be (and is in reality) conceived in two ways, already in the first approach. On the one hand, it is considered as an input category, while on the other hand as an output category. If it is interpreted as an input category, distinction is made between inputs spent on labour as a condition of performing work, and labour inputs effected by labour during work. As an output category the work performed, as the result of labour, can be examined in kind (in physical terms) or in terms of value. This can be illustrated by the following diagram:



The investigations will be carried out according to this systematization, beginning with the output category interpretation.

Interpretation as output category

In this concept, where the work performed is represented by the output of work, distribution according to work means that remuneration for work is linked to the result of work. This seems very rational since for society not the inputs constituting the conditions of work or those effected during work are important, but the result itself. It is the result of work whose increase should be stimulated. When examining in detail, however, the question is not so simple.

Interpretation of output in kind

The result of work, in physical terms, is the mass of use-values produced depending on the productivity of concrete labour. It has a very important role in the development of wage differentials among *individual* workers. The difference between the earnings of two turners should depend on the difference between the physical outputs of their work, provided that their working tasks, technology, etc. are identical. This is realized, for example, in case of piece-wages. But — as it has already been mentioned in the introduction — our investigation is not aimed at individual wage differentials since they do not belong to the problem of the wage-centre. *The relative wages of various categories of workers and employees, cannot be deduced from differences in the physical outputs of their work.* Namely, masses (aggregates) of various use-values are not commensurable with each other, furthermore they are jointly produced by several cooperating worker categories, technologies applied and even by nature itself.

For the same reason, increase of the wages of workers in individual branches cannot depend only on the development of productivity in the given branch. This is a function of several circumstances, which are independent of workers of the given branch. Development of wages, however, should follow not deviating *objective* possibilities for productivity increase, but changes in the work performed itself. Of course, it may occasionally occur that changes in physical output — even in a whole branch — are brought about, to a great extent, by changes in performance of workers (e.g. increase of labour intensity) and then they should be expressed also in the increase of wages. But this belongs already to the fourth interpretation, to the question of labour inputs effected by labour during work.

Limits to the possibility of remuneration on the basis of productivity and the physical output of work are otherwise widely known. There are no particular illusions in this respect.

Value approach to output

This is a different matter. Differing remuneration of various kinds of work is often linked to their differing value-creating ability and explained by this latter in economic literature, where this conception is widely accepted. In a considerable part of cases, distribution according to work is interpreted as remuneration proportionate to the value created, at least in theory. (The rather widespread researches on the reduction of complicated labour to simple labour which are going on in socialist countries can be partly traced back to this interpretation.)

References go back to Marx. Even the well-known theses of "Critique of the Gotha programme" — "... Accordingly the individual producer receives back from society — after the deductions have been made — exactly what he gives to it. What he has given to it is his individual amount of labour." [1], etc. — are usually explained in this way. In my opinion, neither the conclusion outlined, nor any other specific interpretation of distribution according to work can be read from these statements. The classics of Marxism were no

prophesiers, but scientists and revolutionaries. In their statements concerning the principle of distribution in a socialist society they pointed out — according to an aspect historically necessary under the given circumstances — first of all the great difference between capitalist and socialist distributions, the character of socialist distribution fundamentally differing from the capitalist one: namely, that in socialism work will be the only and exclusive source of incomes, while incomes based on private ownership of the means of production will be eliminated. (Moreover, they showed the impossibility of equal distribution and distribution according to needs.) No other, more concrete contents must be attributed to these statements.

Scantiness of Marxian theses on socialist distribution prompted a considerable part of those dealing with this question to draw conclusions valid also under the conditions of socialism from Marxian statements on wages in a capitalist system — which are, of course, much more abundantly available. This way of approach is justified. Namely, the basic difference between capitalist and socialist distributions lies in that unearned incomes are eliminated in socialism — and not in the relative wages themselves.* Despite the entirely deviating socio-economic contents of capitalist and socialist wages, the quantitative relations of wages, their relative sizes are determined by circumstances similar in many respects in both systems, apart from incomes of executives in special positions. Wages do have common functions in capitalism and socialism as well. Thus: 1. They must cover in both systems the reproduction costs of labour not covered in some other way (social allowances, benefits, etc.). 2. In both systems they should promote the allocation of labour among occupations (professions) and working places. (There is also a third very important common function, namely, that individual wage differentials should stimulate for the increase of performance, good work on the given job. This, however, as has been indicated, does not belong to our subject).

If it was said about Marxian statements referring to socialist distribution that they represent a definite aspect (namely, they point out basic characteristics of socialist distribution, fundamentally differing from the capitalist one), then the same refers to wages theory under capitalist relations. Marx's theory of wages is based — according to Engels — on his theory of surplus value. In my formulation: it serves for finding out the "secret" of the capitalist system and surplus value. When Marx emphasizes that a worker doing more complicated work and receiving higher wages creates more value than the average, his aim is not to determine the quantitative relationship between the value created and wages, but only to point out that in capitalism even the best paid worker is exploited since he, too, produces his own surplus value. Therefore, a wage-centre conception valid also for socialism can by no means be based on this statement.

In contrast to use value, value is indeed created exclusively by human labour. But, under the circumstances of modern production, commodities are not results of the separated activity of individual workers, but a joint product of complicated cooperation

*Relative wages of various categories of industrial workers are rather similar in socialist and capitalist countries, provided that there is no too great difference in their economic development levels.

among members of an enterprise collective. The market, or society can evaluate only the commodities or mass of commodities produced by the entirety of an enterprise. The idea often arises, however, whether it were not possible to deduce in some way the wages of individual workers and working groups from their contribution to the total enterprise value recognized by the market. In reality there is no possibility for this, either in principle or in practice. *The activity of individual workers or groups working within the enterprise is not valued by the market separately and thus their contribution to the joint output of the enterprise can in no way be determined either.*

It has been a vehemently debated question in Hungary for a long time whether personal incomes of the entire enterprise collective should depend, and if so, to what extent, on the enterprise output and what should be the measure of this dependence for different working groups – leaders, subordinates, etc. As a matter of fact, this debate has already been decided, and, in my opinion, in a proper direction. After all, even in the case of those in leading position we cannot speak of remuneration proportionate to the value created, but at most of a certain connection with a socially assumed contribution.

We have thus seen that the work performed interpreted as output cannot form the centre of wage movements either in physical or in value form. Let us consider now the input interpretation.

Interpretation of work performed, as input

Inputs spent on labour, as a condition of performing work

These are practically the reproduction costs of labour power within which distinction can be made between educational and training inputs making labour suitable for fulfilling working functions, i.e. educational costs in a wider sense, on the one hand, and inputs ensuring the continuous, daily reproduction of the labour power already trained, on the other.

The Marxian wages theory and wages centre conception referring to capitalism are based on this. Accordingly, the centre of wage movements is the reproduction cost of labour power, similarly to the price centre of normal commodities. This results from the commodity character of labour power. This is how the theory of surplus value is completed and the whole theoretical system becomes perfect. The most important statement from the point of view of the size of wages is that the worker cannot receive higher wages than he has to spend on consumption under the given circumstances. It follows from the nature of the system that nothing can remain with him for accumulation and capitalization.

It must never be forgotten that Marx's intention was not to give a well utilizable recipe for capitalist economic policy, but to reveal the economic and political essence of the system.* His statement quoted above is not aimed at giving an explanation of relative

* He was interested in the relationship between worker and capitalist, but, much less in that between worker and worker – thus in that expressed in relative wage proportions – or, if so, then only from the previous aspect.

wages for everyday use. Reproduction costs of some labour category depend — in consequence of the historical and social factors so much emphasized by Marx — to a great extent on its living conditions already achieved and established. These latter, however, are basically determined by their wages. We have come to a curve recurring partly into itself that perfectly corresponds to reality, and truly reflects the extreme complicatedness of relationships, but is not sufficient to answer questions raised day by day. Labour power is a special commodity not only in the sense that it is able to create new value, what is more, even greater value than its own value — which is, of course, decisive from the point of view of revealing the essence of capitalism — but also from several other aspects. If we look for a wage-centre to serve as a basis also for practice, it cannot be simply deduced, on the model of the price centre, from inputs spent on labour power.

Although it is generally accepted among Marxist economists that labour power should not be regarded as a commodity under socialist conditions, still it arises again and again that the wage-centre in socialism should be somehow deduced from inputs spent on labour power or at least from a group of such inputs, on the model of the price centre. The assumption aimed at surmounting the resulting contradiction is similar to those already discussed, namely, that the value created by the worker is proportionate to his reproduction or, in a wider sense, educational costs. A wage-centre conception starting exclusively from educational costs, however, cannot provide a theoretical basis, either under the relations of capitalism or under those of socialism, that is required by wages policy in everyday activity, on which it can rely in practice. Nevertheless, several useful conclusions could be drawn from investigations carried out from this aspect also numerically. Thus the necessity of considering educational costs met by the family was pointed out as was the outstanding role of qualification in relative wage proportions in general.

Qualification determined in a considerable part by educational expenses enabling labour to fulfil some working function is, indeed, one of the determinants of the wage-centre.

Labour inputs effected by labour during the work process

Concrete labour inputs effected by labour during work are another decisive factor. It is the elementary characteristics of individual kinds of work, the *mental, physical and nervous requirements* raised by the working task and the circumstances determining the former, that are involved. (Responsibility attached to the working function, working conditions, and circumstances, etc.) Their enforcement in wage proportions can unambiguously be stated and perceived. Wages tariffs based on the categorization of various kinds of jobs take first of all these factors into consideration beside qualification.*

*Work evaluation systems serving for basis of wages tariffs take in general, the following groups of requirements into consideration: qualification required, physical hardness of work, responsibility, working conditions and circumstances.

The final result of our investigations up to now is that the wage-centre can be correctly approached if the work performed is interpreted not as output, but as input. Its basic factors are: on the one hand, the qualification required for fulfilling the given working task, including educational expenses spent with this purpose on labour prior to work and, on the other hand, concrete labour inputs effected during work, such as mental, physical, nervous and other performances. The weight of the individual factors or groups of factors is different – depending on concrete circumstances – and in the course of development there are tendentious changes as well. The main trends of shifts in weight are the following: the weight of physical hardness of work and that of working circumstances increase at the expense of qualification required, but to some extent even at that of responsibility undertaken. This is a consequence of the fact that while formerly the possibility of obtaining higher qualification had been the privilege of few people only, later on the supply of labour with higher qualification increased and the number of those undertaking hard manual work decreased, to such an extent which did not coincide with an adequate transformation of the structure of demand. These circumstances are so to say built into the wage-centre. (This process had already been referred to, as a matter of fact, also by Marx; for example, in connection with the development of wages of commercial employees.) At the same time, these factors are not independent of each other, but have an effect on each other, too, or occasionally interact. (Precondition of certain mental or physical performances is usually an adequate qualification, etc.) This is such a wage-centre or rather something like a wage-centre which is not a special characteristic of socialism, but of more general validity. It is not contrary to Marx's definition of wage-centre (given either for capitalist or for socialist relations), but only another approach to the problem that is more concrete and moves in the sphere of technological and economic relations. Let us look more closely at its characteristics.

1. Anyway, it is a special centre, greatly differing in its nature from the price centre. While the price centre is determined by costs exactly measurable in terms of money and resulting from the production conditions of a commodity, in case of the wage-centre only one of the determinants – namely, educational costs – is of money-cost character and even this cannot be exactly determined. (Educational costs can be interpreted in various ways, widely, narrowly, etc. and they always contain some "historical and social" element. In practice, qualification is usually measured rather by the duration of education only.) Other factors – characteristics of concrete labour – are of physical nature and can be measured only in a very limited way, each with considerable simplifications. Their summarization and expression in money wages are in practice a highly specific process.

It seems that in this process *social value judgement* – whose development is, of course, not independent of objective socio-economic changes – has a special mediating part, and a much greater one than in case of prices.* Social evaluation the scale of

*The importance of social value judgement in the development of relative wage proportions had been strongly emphasized also by Adam Smith[2]. He pointed out that "the wages of labour vary with

values have a direct part in the weighing of individual factors. At the same time, effective relative earnings asserting themselves for a longer period also form the social value order and normatives. There are always certain traditional elements involved in social judgement. Permanent deviations – within fundamental similarity – in the wage structures (e. g. sectoral wage structures) of countries very similar to each other with regard to the level of economic development can be largely attributed to this fact. Similar objective changes – for example, increase in average educational level – may result in highly deviating changes in relative wage as a consequence of differences in normative traditions, sanctioned requirements, etc. But a certain international effect of value judgements can be felt, too. Objective changes taking place in some countries have an effect on relative wage proportions of such countries, too, where the changes in question did not take place at all or only to a small extent. (Even if there is no possibility of labour migration between these two countries.) All this, however, concerns only the extent of changes. After all, the changes in relative wages show similar trends everywhere and the weight of individual factors shifts in the direction mentioned.

It results from the above *that the wage-centre is a rather loose point of attraction, much looser than the price centre*. The final reason for this is that performing work is never merely an economic act and undertaking a job is not simply a sale of a commodity even in capitalism. These actions are always influenced by very complicated sociological, psychological and human motivations.

2. The mechanism of the labour market is not so elastic as that of commodities even under the circumstances of a relatively free competition, the interaction of demand and supply and wages which enforces the price centre and ensures the fluctuation of the price of a commodity around the centre through deviations from the centre can be less felt. This results from the facts that labour power cannot be multiplied at discretion, moreover that excess labour does not press down wages below the centre nor does labour shortage raise them above it to such an extent as is the case with prices.

This latter results from the fact that wages never mean merely the price of a commodity, but simultaneously a *personal income* determining also the living standards and social status of the person receiving wages and his family.* Therefore any kind of wage reduction encounters extraordinary difficulties and not only an absolute, but also a relative one. Individual working groups strongly cling to their place taken in the social wages hierarchy and oppose not only an absolute reduction of their wages, but even any relative reduction in comparison to other working groups, a slower increase of their wages than that of others. In most cases these endeavours can be enforced, as a result of their organization and policy of socialist state aimed at preventing social conflicts. Wages are therefore less subject to changes than prices and relative wage proportions are modified

the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment. . . . Honour makes a great part of the reward of all honourable professions. . . . Disgrace has the contrary effect. . . . The most detestable of all employments, that of public executioner, is, in proportion to the quantity of work done, better paid than any common trade whatever . . .”

only relatively slowly. All this means that *the wage-centre is not only a looser point of attraction than the price centre, but also deviations from it are greater and longer lasting than in the case of prices.*

3. Finally, in close connection with the above, changes in wages are not accompanied by changes in labour supply to such an extent, moreover, labour supply and the structure of this supply are much less influenced by the amount of wages than those of commodities are by price changes. *Separation of wages from the centre does not result in such an elastic restratification of labour than in the case of prices and commodities, an adaptation or restratification process takes place more slowly.* The role of wages in the allocation of labour is more limited than that of prices in determining the proportion of various commodities in production, and even this is of decreasing tendency. When choosing an occupation or job, labour is not guided exclusively by material considerations and economic points of view, but also by their requirements raised towards working task and working conditions, although to different extent. On the other hand, however, there is even a limited possibility for labour to enforce the former. In a modern economy the *occupational structure of labour* is basically determined by the educational system and the structure of the school network. Wage differentials influence – mainly in the short run – rather the qualitative than the quantitative distribution of labour among occupations. Quantitative distribution can be influenced by them only during a longer period. Under such circumstances certain labour shortages or labour surplus in an occupation may persist for a very long time. In choosing a job – within the given occupation – wages have already greater influence, but even here this influence is decreasing with the increase of general welfare. (This asserts itself most powerfully in choosing jobs of those without any qualification.)

We have seen that the wage-centre might act as a centre and play its related allocating part only in a looser way than the price centre does in the case of prices. This, however, does not mean that it would be less important than the latter or would have a smaller part in the entirety of economic processes. Perhaps we could even venture that in a society where commodities are produced by means of wage-cost inputs, that is, where not a petty-commodity production is going on, the development of wage-centres is a precondition of that of price centres. As a matter of fact, a preliminary valuation of various concrete amounts of labour as amounts of general human labour takes place in the course of this latter process even if only in the “loose” way mentioned above.

From these particularities of the wage-centre and the extraordinary complicatedness of relationships result the special difficulties of a practical wages policy. Several models have been built all over the world on price formation relying on firm theoretical basis which are, at the same time, quantifiable and translated into practice as well. This can hardly be stated for our subject. An overall, exact and quantifiable model on wages is a Utopia.* Practical specialists have to “feel out” correct relative wage proportions under

*By this I do not intend to say that such attempts are absolutely in vain. They may bring valuable results even without attaining the final goal, as is shown by several other examples in the history of science.

the given circumstances on the basis of their knowledge and experience day after day. Nothing and nobody can exempt them from this work sometimes seeming to be a Sisyphean task. Theory – when pointing out certain relationships usually valid only within certain limits – may provide only modest building stones for them. They must build with these stones and make combinations or – continuing the story from mythology – these stones should be rolled.

Let us speak very briefly about some actual problems of asserting distribution according to work in Hungary.

In Hungary relative wage proportions deviate in several respects from those regarded expedient in the opinion of both the public and the experts; they are, in a certain sense, “confused”. There are some views according to which the reason for this deviation is the profit motivation of enterprises and the connection of wage increases with the development of enterprise profit. I cannot share this opinion. A close connection between the wage level of enterprises and the development of profit may lead to serious disproportions in earnings indeed, but this connection was not close enough in reality – as a consequence of various inserted “brakes” – for such an effect to evolve.

The main reason for disproportions and wages becoming “confused” is the considerable general labour shortage, excess demand for labour, wage-competition of enterprises aimed at obtaining labour, which we have increasingly tried to control recently. In this wage-competition very important fields were driven to the background even within the productive sphere, but mostly outside it. It often occurs that there are no adequate funds available to pay higher wages precisely where it would be most important in the interest of society and the national economy.

Another serious problem not fully independent of the former is that wage differentials by qualification too much diminished. Decrease of wage differentials by qualification between workers and employees with higher and lower qualifications, respectively, is a world-wide trend – already mentioned – which can be attributed to the rising general educational level and to the fact that an ever greater part of educational costs is met by the state. At the same time, while registering the phenomenon, it must be noted, that a too rapid decrease of these wage differentials – and too small differences between the wages of workers and employees with high and low qualifications, respectively, as related to the given level of economic development – has a harmful effect.

It seems that in Hungary wage differentials by qualification have recently decreased to an exaggerated extent. Beside domestic practical experience this is supported also by international comparisons. Available data indicate that since the mid-50s the difference between the earnings of workers and technical staff, respectively, has decreased to the greatest extent in Hungary from among five socialist countries (Bulgaria, Czechoslovakia, Poland, Hungary and Soviet Union), and it is the smallest when compared to these countries even if regarded statically. But the situation is similar in the case of some other, highly qualified layers, too (e. g. pedagogues). Also the relevant data of seven capitalist countries (United Kingdom, France, West-Germany, Norway, Switzerland, Sweden and

United States) were examined, but such rapid decrease of differences in earnings by qualification as in Hungary was nowhere experienced.*

Decrease of earnings differentials by qualification will result first of all not in that there will be fewer candidates for professions requiring higher qualification — this is basically determined under modern circumstances by the capacity and structure of the educational network, but in the fact that these candidates will not be the most suitable ones. Adequate wage differentials by qualification are required to ensure the desirable social selection. In an opposite case it may occur that those not suitable will choose some professions in masses which, furthermore, may be accompanied even by unwilling performance and the financial pressure to undertake a lot of extra jobs. There is no need to prove how harmful consequences such a process may have, for example, on technological progress or educational level. This situation must be changed gradually, within the limits of our possibilities.

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НЕКОТОРЫЕ ВОПРОСЫ ТРАКТОВКИ РАСПРЕДЕЛЕНИЯ ПО ТРУДУ

К. СИКРА-ФАЛУШНЕ

Автор ищет ответа на вопрос, каков центр оплаты труда при социализме, и каким образом он проявляется. Определяющие факторы центра оплаты труда она исследует в кругу возможных толкований исполненного труда.

Исполненный труд можно рассматривать, с одной стороны, как «затрату», а с другой стороны, как категорию, имеющую характер «выпуска». При трактовке труда как «затраты» следует различать, с одной стороны, затраты на рабочую силу, обеспечивающие условия трудовой деятельности, а с другой стороны, — затраты труда, производимые рабочей силой в ходе

*The extraordinarily rapid decrease of wage differentials by qualification is also connected with large-scale labour shortage. Labour shortage and the concomitant wages competition strengthen the levelling trend of such character everywhere. Namely, labour shortage is generally a concomitant phenomenon of certain extensive development trends increasing demand especially for labour with low qualification, which is thus brought into an advantageous situation. It is rather workers and employees with high qualification who will get in a disadvantageous situation in the course of wages competition.

трудового процесса. В качестве категории «выпуска» исполненный труд как результат трудового процесса может рассматриваться в натуральном или стоимостном выражении. Согласно автору правильнее подходить к центру оплаты труда, трактуя труд как «затрату», а не как «выпуск». Его основные факторы: с одной стороны, образование, требуемое для выполнения трудового задания, включая предварительные затраты по обучению рабочей силы, а с другой стороны, — конкретные затраты труда, производимые рабочей силой в ходе трудового процесса, затраты ее умственных, физических и т. д. усилий.

Центр оплаты труда является особым центром колебаний, по своему характеру весьма отличающимся от центра цен. В его формировании социальной ценностной ориентации принадлежит особая опосредствующая роль. Будучи центром притяжения, гораздо более слабым, чем центр цен, отклонения от него также являются более значительными и устойчивыми, чем в случае цен. Далее, отрыв заработной платы от ее центра не приводит к эластичной перегруппировке рабочей силы, как в случае товаров: процесс приспособления, перегруппировки здесь происходит гораздо медленнее. Вследствие исключительной сложности взаимосвязей, формирующих центр оплаты труда, построение всеохватывающей, точной, числовой модели оплаты труда автор считает утопией. Специалистам-практикам приходится изо дня в день «нащупывать» правильные при данных условиях соотношения заработной платы.

В заключение автор рассматривает некоторые актуальные проблемы реализации принципа распределения по труду в Венгрии — прежде всего чрезмерное сокращение разрывов в заработной плате в зависимости от квалификации и подготовки и связанные с этим отрицательные эффекты.

T. LAKY

ATTACHMENT TO THE ENTERPRISE IN HUNGARY

SOCIETAL DETERMINATION OF ENTERPRISE INTEREST IN DEVELOPMENT

The article is a part of a sociological study analyzing interestedness relations determining the investment decisions of enterprise. An empirical analysis of 24 investment decisions taken in 8 enterprises has shown a strong group interest in the development of the given enterprise on the part of those in leading positions, which is integrated into a predominant group interest by the forced attachment of executives. The article summarizes socio-economic and personal factors bringing about this forced attachment.

In the course of a sociological examination of the enterprise decision process* — aimed at revealing latent interest relations — our attention was drawn to the persistence of enterprises in fighting for investment possibilities, and to the amount of energy, diplomacy, manoeuvring, and use of official as well as personal relationships by which executives** try to acquire resources necessary for developments.

*The investigation was carried out in 1973-75 as a subject of the Economic Research Institute about development decisions. It was examined in eight enterprises, how important development actions are initiated, who receive and what role in the organization in setting objectives, in the selection of means to serve the objectives, i. e., which are the characteristic interests guiding the selections. Among the eight enterprises there were preferred ones, large and medium-sized enterprises; pharmaceutical, textile industrial, metallurgical, household machinery manufacturing, machine-tool manufacturing, telecommunication and metal mass goods manufacturing enterprises (or factories (plants) with an independent production line belonging to the enterprise but located elsewhere). The staff of the enterprises covered by the examination ranged between 3000 and 20 000. (The enterprises do not constitute a statistically representative group.) In the course of the examination we succeeded in a comparative processing of the history of twenty-four development actions. Several methods were applied in the examination: analysis of data characteristic of the development situation of the enterprises, case studies processing the history of individual development actions, personal interviews with about 100 leaders at various levels, and questionnaire investigation covering practically the whole set of leaders (594 persons from general managers to heads of production units) of the enterprises.

**“Leaders” were considered all who belonged to the enterprise staff category of “leaders”, except direct workshop leaders (foremen). According to their position in the directing hierarchy leaders were classified as follows: I. (general) managers and their deputies; II. technical directors, (chief engineers), economic directors, (chief accountants), factory directors; III. enterprise heads of department; IV. enterprise heads of section; V. factory heads of section; VI. heads of production units (factory, plant). In addition, leaders of political and social organizations were put into separate categories. The present analysis is concerned mainly with leaders under categories II-VI; the special interest components of (general) managers and their deputies are not treated.

"If an enterprise wants to develop, it will team up with the devil himself" — was given as explanation for their efforts by the head of the investment department of an enterprise. And indeed, enterprises led fights with inventiveness and made surprising compromises. They were ready to postpone even development plans originally deemed urgent and important and to develop instead whatever that might be subsidised by one of the higher authorities. Unable to get any money for its own development program held for most important, one of the enterprises carried on negotiations with several higher authorities, prepared to go into any development project that would be subsidised. Among the possible actions there were: the purchase of a licence, computerization, the building of a high store-house, the manufacturing of a product belonging to the line of another Ministry, etc. As the common opinion was formulated by the party secretary of the enterprise: "In addition to centrally decided projects substantial amounts are allocated to various organs and these amounts are rather freely given. . . The clever leader tries to find out, for what purposes those amounts of money are preserved; and he is flexible in his conceptions." To this was added by another leader: "We did not give up our own development projects, just changed the schedule. We have to find side entrances, because 50 million can be tapped here and another 50 million can be tapped there. In the last year we succeeded in getting quite a few millions: the potatoes from one place and the bacon from the next for a good soup".

The leaders of another company, soberly considering the situation and with a view to larger possibilities let their sectoral ministry prepare the whole development action.

The preliminaries are not without interest: the earlier modest plans of the enterprise, requiring a lower subsidy, were rejected by the ministry, and the latter decided itself by what volume production capacity should grow, i. e., what amount should be requested from the central organs. Why exactly that capacity was decided upon, nobody knew for sure at the enterprise; market conditions and developments of the neighbouring countries gave grounds rather for a modest home investment. Yet everyone at the enterprise refrained from going into these questions and thus risk the whole action by revealing uncertainties. Instead, each enterprise executive became a co-operating partner of the ministry fighting for larger amounts of money: they supplied the wanted data and did as was required by the Ministry.

Further examples could be enumerated, but individual examples are not, given their "peculiarity", really apt to describe the *strong* and *general* character of the efforts readily teaming up with the devil: the fact that *every* enterprise endeavoured to obtain money from *every* possible source in one way or another, trying to widen the limits of their own development funds as far as possible.

What is then the reason for the necessity of developing *anything, in any way*, in certain cases neglecting even basic questions of profitability and practicability, considering only that there should be investment?

The phenomenon is not a new one. The well-known direct and indirect advantages obtainable through investments have always been important for enterprises, and they have always tried to find the way to main and side entrances leading to resources. Most of

the motivations are not new, either, although certainly an important role is played in today's efforts by the contradiction between the interest in the continuous augmentation of profits, and the increased centralization of investment resources.

Yet the profit motive in itself does not explain why enterprises are not content with modest development possibilities, a somewhat lower pace, and the realization of really important and well-grounded programs.

From among today's motives for the strong and general development efforts one will be described here, which has been revealed by our examination: the existence of a group interest* rooted in the strong and often forced attachment of executives to the enterprise. This phenomenon, with its present components, has become observable only recently, since factors causing attachment as well as interest relations that are intertwined with the profit motive now determinant in the development efforts of the enterprise developed in the course of several years.

Attachment of executives

It was clear from both interviews and data of questionnaires that the majority of executives have been with their enterprise for 10–15 or 20 years and, although unsatisfied in many respects with their situation (e. g. less than half of the executives are satisfied with their income or the moral recognition of their work, and hardly over half are satisfied with their present professional perspectives, etc.), they would remain with their enterprise, were they put before a choice. What accounts for their attachment, for their loyalty, in spite of dissatisfaction and in some cases even of grievances?

Before answering the question two statements must be made.

First: within the attachment characteristic of the whole set of executives the situation of general managers and directors *appointed by the Ministry* differs in one respect essentially from that of leaders at lower levels of the hierarchy. This is that they are the "cadres" not of the enterprise but of the Ministry; their staying with the enterprise or their leaving depends at least as much on the intentions of the controlling organs as on other factors to be analysed. And, although the particular interests of the highest enterprise executives in developments are quite well definable, we shall refrain from their specification in this paper.

The second statement to be made as a preliminary is that what we conducted was not a so-called identification examination: this was not our purpose.** Therefore, we did

*Without touching upon the philosophical concept of "interest", we use here the sociological interpretation accepted by Soviet sociologists, in which "interest is an expression of an effort to achieve something"[1]. This formulation agrees with what has been expounded in several studies by *I. Pozsgai*: Interest is the motive of reasonable actions and work activity, and the ordering principle of satisfying needs. See e.g.[2].

**We have refrained for several reasons. First of all because identification (or, as it is also called: satisfaction) examinations traditionally belong to the area of psychology or socio-psychology and

not start from individual aspirations serving as basis for "regular" identification examinations, and did not look for the extent of their fulfilment. Instead of examining the relation between individual and organization, our efforts aimed much more at "identifying" the factors — in the formation of the group interests of a sociologically relevant *group*: that of executives constituting the formal power structure of the organization — originating in the *organizational form* i.e. the objective conditions determining the executives' situation. Our methods were to serve this aim: the use of the items of the questionnaire, the data collected at enterprises relating to the mobility and fluctuation of executives, and national statistics reflecting the real weight of phenomena.

Our starting-point was that the many kinds of individual reasons for attachment to the enterprise can be grouped in two large categories; the province of the *subjective* factors of attachment and that of the *objective* factors. (Objective and subjective factors are, of course, inseparable for the individual; they exist and exert their effect in a mutually complementary way: strengthening or weakening one another. Also the categorization applied separates the factors determining individual intentions and efforts only hypothetically, for the sake of analysis. Yet for the analysis the separation can be done and is justified.)

In this sense everything is considered subjective that follows primarily from the personality of the *individual*, from his demands, and expectations towards the enterprise, income, atmosphere, etc. (E. g. the same job, management style, and the role assigned in the life of the enterprise may be judged radically differently by individuals, depending on their personal aspirations and expectations; what is quite convenient for one may be unbearable for another.) Although subjective factors are widely responsible for the attachment of individuals, we have not treated the "subjective aspect", i. e. if somebody is attached to the enterprise also because he feels well there, likes his work, is content with his role in the life of the enterprise, as well as with his income and the atmosphere.

Objective are considered all such elements of attachment that exist *independently of individual intentions*, as given conditions, which are *common* determinants of attachment for the whole group of executives. The groups of objective factors appearing in numerous combinations make it difficult, and in some cases render it impossible, for an executive to leave the enterprise and work for another one. Thus it may be stated that

require characteristically psychological methods. Examinations of this kind carried out by Hungarian sociologists are also rather of a psychological than of sociological character [3, 4, 5]. (I have also made — together with Z. Endreffy — an identification examination among the specialists of two cybernetical institutes whose results have not been published.) And, although in examining the interaction of characteristically individual aspirations and possibilities and limits set by the enterprise, many attempts have been made since Ch. Barnard and H. A. Simon to arrive at the *sociologically relevant collectives* formed by the *organizational existence*, in the end it is rather the well delimited group of highly qualified specialists that serves as subject for identification examinations. What is more, while the methods of examinations carried out among specialists are quite well tested (these being the most frequent, since it is usually the effort of organizations to keep this group), those to serve examination of leaders as a group are rather uncertain.

they *force* identification. Objective factors set individual aspirations against realities and realities force individuals to compromise – instinctively or consciously – with given circumstances and to accept factors otherwise considered unsatisfactory, such as the given professional perspective, income, and moral acknowledgement. They realize – instinctively or consciously – that their own life and existence, income and career are closely dependent on the life of the enterprise which they do not want to leave, since they cannot, because of the existence of these objective factors.

Factors forcing attachment

Three large categories of objective factors which may be qualified as the most important, will be presented in the following: 1. environmental, 2. organizational, 3. personal and family factors.

1. Environmental factors

In the given context the macro-structural conditions of the country are considered “environment”. Three of these will be mentioned here as objective conditions directly affecting the attachment of leaders:

a) *The organizational system of industrial production.* From the much analysed problems of the concentration of Hungarian industrial production [6, 7, 8] a few data will be quoted only for reminder and introduction. Owing to the geographical, historical, economic and demographic conditions of the country a situation has developed that – in spite of a diversified industrial development – numerous industrial branches are represented by a *single* enterprise; certain products are manufactured by a single enterprise. (There is only one rubber industrial, household refrigerator and washing machine manufacturing enterprise in the country, Hungarian ball bearing industry is represented by one enterprise, etc.)

A few data: the number of state-owned industrial enterprises was 1427 in 1950, 1368 in 1960, and today it is hardly more than half of the 1950 number: 779. (And that the concentration process goes on stubbornly in spite of so many known negative consequences is shown by data of recent years; in 1970 there were 812 enterprises, in 1974: 794, in 1975: 779.) [9].

The given structure of industry may be – beyond its economic and other known effects – *the most fundamental objective factor of the forced attachment of leaders.* The fact that a number of industrial branches consist of a single enterprise restricts very strongly – in some cases makes impossible – any movement, first of all for qualified technical specialists and executives with technical qualification. (Detail of an interview: “There is no other place in Hungary where I could use my qualification. Wherever I would go, I ought to begin everything from the start. But to stay in my own field I would have to emigrate, because there is no other similar factory in the country.” – Head of a Development Section.)

The situation is made more difficult by the fact that in case two or several enterprises manufacture the same kinds of goods (medicines, textiles, etc.), each has a line demanding special knowledge even within the branch and their similarity is only apparent (aluminium- and non-ferrous metallurgy, roller bearing and ball bearing, etc.). The conclusion is simple, as put by a leader, similarly with technical qualification: "The truth is that there is no real space of movement for us. Where there is metallurgy, it is not better than with us. And non-ferrous metallurgy is not anywhere else, not even in a research institute, since there only aluminium is dealt with, and that is a separate branch, not belonging to nonferrous metals. As a matter of fact, our special knowledge can be utilized only at this place."

And, to make restrictions even more expressed: enterprises of similar lines or producing also identical products make agreements between themselves not to take over specialists from each other (telecommunication, pharmaceutical industry).

42 per cent of the executives gave the answer on the questionnaire that their special knowledge bound them strongly to their enterprise. And, though special knowledge binds strongly first of all highly qualified technical leaders, the fact that there are only a few industrial organizations renders movement difficult also for leaders of more "universal" professions or jobs (economic, financial, material supply, commercial).

b) *The "closed character" of the organizations.* Earlier, in various centralization and decentralization periods, in the course of changes affecting the structure of economic control and management, and at the time of the introduction of the new system of economic control and management in 1968 the set of enterprise executives always changed a little. The large waves of organization (or their danger) took many from the controlling organs to enterprises, and part of them back again, as well as quite a number went from enterprises to higher authorities and, following this exchange, some movement developed also among enterprises. After 1968 the exchange practically stopped, gates "closed". There is today but a slight movement *among* organizations. Every enterprise makes efforts to have a set of leaders of "their own breeding" and takes a leader rarely from the "outside".

This is a country-wide phenomenon. According to an investigation of the Central Statistical Office published in 1964 [10] 74,1 per cent of technical employees in directing jobs at the enterprise level *did not change their workplace* between 1964 and 1969 (i. e. in 5 years), and 72,7 per cent of administrative employees with the same scope of authority did not either; a further 19–20 per cent did once at most. (According to the latest investigation; under publication 93–94 per cent of this group have not changed their job since the 1st January 1973!)

We examined the movement of leaders at every enterprise under investigation. We shall give only one example to illustrate the overall identical formula: at an enterprise 31 leaders were appointed altogether in 1972–73 (heads of section, heads of subsection or group, and mainly foremen). There was only one among the new leaders who came from the "outside": a head of section.

It is quite a general principle and is quite definitely asserted that only "our own people" can be assigned to leading posts; and no leaders are brought in from the "outside". And indeed, at most enterprises gates are rarely opened before "strangers". This closed character — advantageous from numerous aspects for both enterprise and those "inside" — entails also that an executive has seldom an opportunity to take a job elsewhere.

c) *Housing conditions*. Another environmental factor is housing conditions. It is well known that the general housing shortage is a strong brake on migration. It is an old phenomenon that those living in Budapest as well as those living in the country-side bring themselves very slowly to change their job entailing a removal, even if the new job offers advantages. By their own will, "only" because they do not feel well at their own job, they would hardly go into a removal.

The executives of enterprises in Budapest and in its surroundings are in a more fortunate position from this point of view. Yet the place of residence may be a factor working against the changing of a job even for those working in enterprises in the vicinity of Budapest and living in surrounding settlements. (The centre of an enterprise in the vicinity of Budapest is in a large country town. To the question whether leaders go to the central positions bringing advancement the characteristic answer is: "No, but this has mainly geographical reasons: most of the leaders here live in Budapest and they do not wish to move to the country.")

2. *Organizational factors*

The objective conditions originating in the macro-environment are completed by ties rooted primarily in the micro-environment i. e. the *organization* or the fact of belonging to a given organization. Again three characteristic organizational factors will be reviewed:

a) *Familiarity with the enterprise, routine*. The largest sphere of leaders (67 per cent according to answers given to our questionnaire) are tied most strongly by another knowledge of about the same intensity as the professional knowledge: that of the enterprise, the manufacturing process, the people and customs, the everyday routine.

The interrelation is only too trivial: the more and the richer the knowledge obtained at the enterprise and therefore best utilizable at the same place, the stronger the tie.

And the majority of today's set of enterprise executives have been for long accumulating such knowledge. At the enterprises under examination 82 per cent of today's leaders have been working there for over ten years, and within this the share of those working there for over 15 to 20 years is very high: 65 per cent. The above-mentioned investigation of the Central Statistical Office indicates a similar tendency. Although national data cover a much narrower sphere and thus only the tendencies are comparable, it does appear that in 1969 56,6 per cent of leading employees with technical qualification at the enterprise level and 55 per cent of administrative employees in the same sphere of authority had been working at the same place for over ten years[11].

Knowledge accumulated in the course of long years and even decades is not easy to give up. According to interviews a number of leaders received at least one possibility for choice in the course of years: they were offered a job elsewhere, in some cases with much higher salary (although these instances and the amounts mentioned may be embellished by memory). Yet very few left a leading post, particularly in the last 6 to 8 years: one or two in each case, and much more owing to insoluble conflicts than to advantages available in the new job.

The others stayed in spite of attractive offers. In the course of interviews they gave grounds in detail for their decision. Of course, giving grounds ulteriorly is usually self-justification; and perhaps one of the most handy and therefore most general explanation is the diversified knowledge obtained at the enterprise and utilizable there in the best way. "A lot of things binds one here, the fights, the everyday work one has been doing here for so many years. And human relationships. . . Long years help people to get to know each other well, everyone can be sure that people know him quite well here, and it is not at all certain that it would be better in a strange environment." (Shop-manager.)

b) *Position reached and attainable.* Another factor that ties one to the organization is the position reached: the place occupied in the organization. As was shown by the data of the questionnaire: the leaders questioned are discontented with many things, but 79 per cent are contented with their present position and 77 per cent are contented with their career in the enterprise. (First of all, of course, those belonging to the three upper levels of leadership: 94 and 93 per cent resp. are contented.)

Most of the enterprise executives became leaders at the given enterprise, which means that in a considerable part of cases becoming a leader was an actual step forward in comparison with the earlier status.

To belong to the set of executives means a particular status in rank, prestige, responsibility, income, etc., and therefore even those are contented with their "leader's career up to now" whose position is stagnating: they have been holding the same post since their appointment. (Most leaders' career are like that; at every enterprise only a narrow circle of executives could make several steps forward in the leaders' hierarchy.)

For the majority the given enterprise is not only the scene of their rising, their hope for an eventual further promotion is also stuck to the place; and because of the environmental conditions almost entirely. And that is the ambition of many. First of all of young leaders at lower levels who do not consider their career as ended. Yet this ambition is more general: with the exception of the highest level of the leaders; hierarchy promotion is possible from every level. (And here we do not deal in particular with qualified young specialists, many of whom would like to get a leaders' post because, owing to the rigidity of the Hungarian system of salaries, for them, too, it is a leading post that would open up perspectives, wider professional possibilities, and promise larger income, etc.)

There is today a strong tension between ambitions and possibilities. At the enterprises examined there are 40 to 250 executive statuses in addition to leaders directly in charge of the working places. It is a continuous effort with every company to increase the

number of statuses, so that any inner reorganization and change are opportunities to do so. It can be pointed out with every enterprise that the number of executive' statuses has grown nearly each year, even when production remained unchanged. The statuses are, however, "occupied", most of them for 10–15–20 years, since 60 per cent of the present set of leaders are under 45 years of age. (According to the latest (as yet unpublished) data of the Central Statistical Office, the average age of the set of leaders – more or less of the same scope as that examined by us, yet differently classified – is as follows: 46,5 years with general managers and directors, 45,1 years with their deputies, 44,7 years with those in the first category of technical-economic leaders, and 43,2 years with those in the second category.)

Therefore, with an unchanged number of executive statuses, the chances of promotion in leaders' posts or of becoming a leader are slight. With the usual activity of the enterprise, and with its given size something can be done: the number of leading posts can be augmented a little, but, finally, the number of possible leading posts is rather limited. Essentially more leading positions can be created only with certain conditions: considerably increased production, growth and development of the enterprise. "If the enterprise grows, many people can enter the "inner circle" of the enterprise, which entails growing income as well as other advantages. We were in difficult situations many times, and the enterprise overcame the difficulties because there were 20 or 30 people for whom the tasks to be solved and expansion brought the hope of promotion" – this statement, made by the technical director of a major enterprise, renders the relationship quite simple and obvious.

And it is also obvious that – with a few individual exceptions – for the majority chances are better at the place where they are well known and counted upon, where their promotion may be already envisaged in accordance with the consequently asserted principle: the insistence on a set of leaders of "own breeding".

c) *The income attained.* Although, according to answers to the questionnaires, leaders are least content with the moral and material acknowledgement of their work, and we list the income attained among the objectively binding factors, the contradiction is only apparent.

It is a fact that discontent with incomes is rather strong at every level of leading posts. (The least, naturally, at the three highest levels: 63 per cent of those at the top levels are contented, while only 43 per cent of those at the four lower levels. Discontent is highest among medium-level leaders: heads of departments of enterprises and of factories.)

It is also a fact that discontent shows more openly now than at any earlier time. (Earlier it was either not held proper to complain, or complaints were formulated more modestly. Yet discontent did exist. This was clearly shown by a survey of the Institute of Economic Research carried out back in 1969–70. At about a hundred enterprises 250 interviews were followed by a questionnaire investigation of over 3000 leaders of various levels. One item was concerned with the expectations of leaders towards their work, sphere of authority, income, etc. – and the fulfilment of these expectations. Although in

the course of the several hundred personal discussions it came only as a rare exception that somebody complained about this income, answers given to the questionnaire showed that the widest difference between the levels attained and those considered as deserved existed in the case of income. As it was stated in the analysis: if it is examined closely, what the average Hungarian economic leader is contented with and what he is not, it will be found that his number one effort is to increase his income.)

Here we can dispense with the analysis of the *reasons* for discontent and, in comparison *with whom and with what* leaders consider their income unsatisfactory.*

According to 1972 data of the Central Statistical Office [13] the average monthly earnings of general managers and directors in the state and cooperative industry was Ft 7353, that of deputy general managers Ft 6424, that of technical and economic leaders in the first category Ft 5721 and that of those in the second category Ft 4537.

Data supplied by enterprises show that in 1974 not only the general managers', directors', and deputy general managers' income surpassed Ft 7000 but — according to classification of the Central Statistical Office — also that of technical and economic leaders of first category: the average monthly income of those in our sample was Ft 7300. (The overall average monthly earnings of workers and technical and clerical staff was Ft 2903 in the state industry in 1974, while Ft 3107 in 1975. [14].

Apart from the question whether this income is to be considered "high" or "low", leaders are aware that they could not earn their present income just anywhere. (Fragment of an interview: "As head of department my monthly salary is Ft 5200, my income amounted to Ft 83.000 in the last year. I could not get this income elsewhere, since e. g. in this county there are only five such posts." Or: "Earlier I was invited to teach at the University. I did not go then, and now I am kept back mainly by financial matters. At the University I would be a beginner only, which would entail a much lower salary than what I have already attained. I have children and cannot go back to such financial conditions." — Head of department.)

Actual income is a strong tie, especially with those in the higher income categories. This is because, although they might find an activity with higher prestige than their actual one (scientific career, university, etc.), but hardly any that would ensure also the income already attained.

3. Personal and family factors

Two objective conditions have been put in the third group of factors causing forced attachment: age and family circumstances.

a) *Age*. According to the above-mentioned publication of the Central Statistical Office (which does not differentiate according to sphere of authority in its breakdown by age groups, giving only the aggregated data of leaders and staff) it is those between 21 to 25 years of age among technical and administrative employees who change jobs most

*Causes are analysed in detail e. g. in [12].

frequently (about half of those in the age group). Later this rate of job-changers is gradually decreasing: 14 per cent of the technical employees and 22 per cent of administrative employees in the group of 46 to 55 years, 10 resp. 15,5 per cent of those in the group of 55 to 60 years. That is, over a certain age, people do not like to move.

According to the enterprise data of our survey the age distribution of the set of leaders is the following: 17 per cent under 35 years, 14 per cent between 36 and 40 years, 68 per cent over 40 years. That is, the majority of leaders is of an age when they prefer to settle down instead of changing. (Fragments of interviews: "What is the explanation for the attachment? It is partly age: none of us is so young as to want to change. We have spent a long time here." — Economic director. "Between 35 and 38 years of age one dares begin something, but is more or less aware that after that it is very difficult to begin something new." — Head of section.)

According to our findings those *over 40 years of age* rarely bring themselves to change (just as those with a long enterprise service, which two factors usually meet); only a few cases have been found looking back over long years.

It is also general experience that at that age it is seldom an advantageous offer but much more the forcing circumstances: failure, insolvable conflicts that induce a leader to leave the enterprise. The majority of the sporadic cases are such, and they usually involve a forced compromise for the leaving leader: he accepts a lower rank and salary to be had elsewhere.

b) *Family circumstances.* It is first of all leaders of country enterprises for whom job changing is rendered more difficult by having a family. This is a factor acting against movement and encouraging staying from several respects.

One characteristic feature is — and by far not only in country enterprises — that several members of the family work at the same place. There are no statistics about family ties within enterprises, although it would certainly provide an interesting picture of one of the special components of social mobility accompanying industrial development. In the course of talks it was usually asked how the person interviewed had come to work for the enterprises. It seems that family connexions still have a highly important role in the selection of a job. However, the situation within the enterprise of one-time workers' dynasties has changed obviously also in that one or several members of the family are not merely workers but leaders of the factory as well.

At one of the Budapest enterprises it was estimated that about one-third of the leaders had a *close* relation working at the enterprise, and that the rate of less close relatives very high. And that is a moderate estimation; at country enterprises family connexions are presumably even farther-reaching. And for the leader whose wife or husband, or child, i. e. a direct relative works at the enterprise, this is also a factor in attachment.

Another characteristic factor hindering mainly again leaders of country enterprises in moving to another place is that new jobs should have to be found for the whole family, and school for the children. Existing relationships at the dwelling-place, social prestige, in a certain sense the giving up of a regular way of life may be strong brakes on a change.

The interest-forming effect of forced attachment

Of course, the numerous kinds of environmental, organizational and personal factors hindering movement do not equally affect the situation of each leader. Yet, *in their totality they dominate as factors forcing attachment to the enterprise*. A considerable part of the leaders *cannot* leave the enterprise and exchange it for another one. This means also that their further career, income, and possibilities of satisfying their professional ambitions (to mention only the most general efforts) depend largely on circumstances developing at the enterprise.

It is at this point that in part the individual interests rooted in attachment, and in part the dominating elements of the sphere of interests integrated from individual into common "enterprise interests" become tangible.

In the given situation for most leaders *security* becomes one of the primary interests (which is not a *common* effort yet, only an *identical* one, resulting in *similar* behaviour). The effort to defend the position held in the organization and the concomitant social and economic prestige is not accompanied — under our conditions — by fear of losing one's existence. On the contrary: according to our findings most leaders feel — and justly so — that they are needed at the enterprise, their abilities and knowledge are wanted, their person belongs to the life of the organization, and they would be hardly replaceable on account of their routine and local knowledge. Their loyalty, devotion and responsibility in difficult situations are in a great part due to this consciousness.

At the same time, inevitably, most of them take care, consciously or instinctively, not to jeopardise their position and not to get into insolvable conflicts that might force them to leave. They go far to comply with given conditions, not to sharpen but rather avoid disputes, to take the least risk possible, and, instead of initiative and search for new things, they restrict themselves to fulfilling instructions. As a matter of fact, for many of them the desirable situation is if they are told clearly what to do, and are not expected to have their own opinion, since this might sharpen conflicts, while the reasonable conduct for them is to avoid conflicts.

All this has been extensively supported by documents both in daily conflict situations and in the whole system of decision-making on developments. Leaders realistically considering their situation are themselves aware of it: "Leaders try to adapt themselves to new situations, they make efforts to find quickly compromises. That is how it is. And I should add that the higher the position, the stronger the conformism. This is because a higher position goes with a higher income level, which cannot be ensured at another place. It is good luck that our factory is not in the country-side, because then even the flat would be an attachment; as it is, it does not come into account, yet what there is, is enough to lead to conformism." (Head of section.)

Further: "If the given place is quite satisfying for someone, he will try to avoid conflicts and will become prone to compromises. That is, he will be more willing to accept somebody else's ideas, and act not according to his own conviction. And, if one is of a character unwilling or unable to compromise? It is not at all certain that I can ensure

for my family the same standard of living somewhere else, and this makes one think it over again. If one considers this all, the idea will be arrived at that a leader insists and is obliged to insist for existential reasons on his position already acquired. This is such a motive that, knowing it, he will try to avoid conflicts. By the way, what I have related serves also as an explanation, why there are no disputes within an enterprise. It is worth examining, up to what level disputes occur at all in enterprises." (Production manager, chief engineer.)

It is otherwise understandable that the majority readily leave decision-making and the expressing of opinions to those "more competent". Although in this way they can less assert the interests of their own section and their individual efforts differing from those of others, on the other hand, they will not jeopardise their own situation nor cross common interests: those of the enterprise, within which they are searching for a future promising wider perspective. (More exactly: the deep intertwining of enterprise and individual interest results in two characteristic types of executive behaviour: a smaller group of active initiators comes into being, who "explore" – through their place taken in the hierarchy, and their official as well as non-official relations – the various possibilities for a further development of the enterprise, while on the other side, a larger group of leaders is also established, who accept the efforts of the active initiators and, conforming to them, avoid disputes.)

And the interest of the enterprise is already a *common* interest, which becomes *integrated into being common exactly by forced attachment*. The condition of satisfying individual efforts existing anyway – such as the wish of promotion, higher income, work in better conditions – is for all of them the success and prosperity of the given enterprise, their common base of existence. In spite of so many hidden interior conflicting interests, on this question lasting agreements are easily reached between the leaders of various sections of various levels in most cases, although inner conflicts reproduce themselves from time to time. And, since enterprise efforts and the corresponding actions are primarily decided by executives constituting the formal power structure, their interests in developments are formulated as "enterprise interests", i. e. as enterprise objectives.

The fact that every organization, from the moment of its coming into existence, has its special interests differing from and sometimes clashing with those of other organizations is an axiom of organizational sociology. In this interpretation, therefore, the existence of the organization group interest is neither "good" nor "bad", but, necessarily, an integral characteristic of the organization, it is only the way of assertion of interests or their consequences that can be qualified according to social values, norms and rules.

And, as concrete group interests appearing as organizational aims, defensive or offensive towards environment, are moulded by the interaction of the organization and its environment, the feasible ways of assertion are regulated by the environment (by its values, norms, written and unwritten rules); or the "rules of the game" i. e. the means that can be resorted to emerge in the course of a continuous "bargaining" between the organization and the environment.

And, naturally, enterprises do everything in order to assert their interests; it would be surprising if they did not. It may be safely stated that today the set of leaders serves as the best guarantee for further development of the enterprise, since this cannot be so important for anyone as it is for them, who are tied to the enterprise by a multitude of objective factors. It is for the enterprise, and for their own elementary interests intertwined with it, that they carry on indefatigably their activities for investments, starting again from dead ends, with diplomacy and manoeuvres, looking for allies and making compromises.

And in this they are supported by the atmosphere felt constantly within as well as outside the enterprise, in which it is not only a desirable and acknowledged effort but also an expectation that development should be continuous and measurable by the rate of profit increasing year by year. "From inside" this is a requirement of the whole enterprise collective, even if the advantages concomitant with development appear less directly, and in a less wide range for the various groups of employees. "From without" development is required and pressed for by economic and political organs supervising enterprise activities, and it is desired also by the political, administrative and local organs of the local geographical environment, taking it for a condition of rising living standards of those living in that locality. The ambitious efforts of executives are in harmony with these expectations.

It is a different question, what desired and non-desired socio-economic consequences come from the existence of the group interest originating in the strong attachment of leaders, and the given possibilities of its assertion. Here only a single example of *economic* contradiction will be mentioned.

The efforts made to obtain development possibilities and the readiness to develop anything in any way may have the advantage that enterprise will realize *first* development projects that are in accordance with central intentions. It remains a question, however, in how much the development programs – usually serving *long-range* aims – of various higher authorities disposing of resources and the *given*, primary needs of the enterprises coincide; or, whether the contradictions between objectives on the macro-level and needs felt primarily on the micro-level result in fact in really efficient utilization of development means.

In this paper, however, we did not wish to take into account the far-reaching effects but to present the circumstances in which a group interest *comes into being*. Its development – as that of every group interest – has been determined by a multitude of historical, economic and social factors; its existence is maintained by objective processes. A number of things are subjected to its existence, thus, among other things, the enterprise decision-making process as well.

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ПРИВЯЗАННОСТЬ К ПРЕДПРИЯТИЮ В ВЕНГРИИ

T. LAKY

В 1973–75 годах автор изучала на восьми предприятиях интересы, влиявшие на решения, принимавшиеся в области капитальных вложений. В ходе социологического исследования она проанализировала историю принятия 24 инвестиционных решений, ища ответа на вопрос, какие — предписанные или ожидаемые — задачи выполнялись отдельными относящимися к организации лицами при проявлении инициативы в данном мероприятии, в формировании конкретных целей, в выборе средств, служащих осуществлению данных целей, то есть каковы характерные интересы, направляющие выбор.

Эмпирическое исследование проводилось при помощи различных методов: анализа данных, характеризующих развитие и положение предприятий; обработки истории мероприятий по осуществлению капиталовложений; персональных интервью с приблизительно 100 руководящими работниками предприятий, занимающими различные должности, а также анкетного опроса по существу всего руководящего персонала данных предприятий (всего 594

человек — начиная с генеральных директоров и кончая руководителями производственных участков).

Исследования выявили сильную групповую заинтересованность в развитии данного предприятия, которая на почве вынужденной привязанности руководителей к данному предприятию интегрируется в доминирующий групповой интерес.

Автор анализирует социально-экономические факторы, формирующие эту вынужденную привязанность.

Из числа факторов, относящихся к окружающей среде, определяющей она считает организационную систему промышленных предприятий, то обстоятельство, что число промышленных предприятий постоянно сокращается (в 1975 году было всего 779 предприятий), и ряд отраслей промышленности представлен одним-единственным предприятием. Из-за этого миграция в особенности высококвалифицированных и руководящих работников со специальной подготовкой весьма ограничена: они не в состоянии переменить места работы внутри страны, так как другого предприятия с подобным профилем нет. Помимо этого руководящих работников привязывает к данному предприятию еще и то, что организации являются «замкнутыми»; руководители редко назначаются «извне» — пополнение производится каждым предприятием за счет собственных кадров. К факторам окружающей среды относится и жилищная проблема. Из-за общей нехватки жилья руководящие работники не желают покидать столицу или переселяться из одной части страны в другую, опасаясь, что не смогут найти подходящую квартиру.

Из числа организационных факторов привязанность руководителей мотивируется прежде всего знанием данного предприятия, опытом, занимаемой или возможной в будущем позицией, а также уже получаемым доходом.

Среди факторов персональных и семейных автор анализирует сдерживающую роль возраста и влияния изменений на семейное условия.

Что касается воздействия вынужденной привязанности на формирование интересов, то автор выделяет конформизм как поведение, характерное для широкого круга руководящих работников, а также сильную групповую заинтересованность руководящих работников в развитии своего предприятия и определяющую их действия в процессе принятия предприятием решения о капиталовложениях, в стремлении приобрести финансовые ресурсы для развития предприятия.

M. TARDOS

COMMODITY PATTERN OF HUNGARIAN FOREIGN TRADE

The commodity pattern of foreign trade is the most characteristic indication of the development of an economy. Two correlated properties are typical of the Hungarian situation: on the one hand, though the per capita foreign trade turnover is rather high, the Hungarian economy is not deeply affected by the international division of labour, and, on the other hand, it is strongly marked by the difference between the commodity patterns of trade with the socialist and the nonsocialist countries. This paper is devoted to the analysis of these two characteristic features.

Patterns of production and trade

Creation of suitable structures of production and foreign trade is among the most important objectives of Hungarian economic policy. There are two, sometimes confronting, views about the interpretation of these objectives. The first criticizes the established Hungarian pattern of industry and foreign trade on the basis of the technological and economic tendencies recognized in the leading industrial countries, saying that the share of sectors and products representing technological progress the best is low, and intending to achieve expedient development through advancing these products and sectors at a higher than average rate.

According to the other point of view there is no definite sectoral or product pattern of production and foreign trade that could be called *ab ovo* expedient. According to this view each decision must be taken "*hic and nunc*", here and now, according to the expected costs and incomes.

Neither of the two points of view provide unambiguous points for judging the established or the desired pattern of production and foreign trade, nor do they provide a clear-cut measure to which the channels of the international division of labour ought to penetrate the economy of a country. Namely, if something was carried out in the advanced industrial countries, this is not a guarantee for the success of imitators. On the other hand, it is also doubtless that the presumable social costs of, and revenue from, production cannot be estimated accurately.

Despite the above we feel it correct to approach the issue of our study from the two extreme, and not from the absolute, aspects. As the drive for "imitation" can offer but a rather relative starting point, and provides no direct possibility for the consideration of specific local conditions, the problem could be examined first *from the efficiency point of view*, which is surely correct in principle. This could be formulated as follows: when developing the structure of national reproduction did we avail ourselves of the

export and import opportunities offered by world economy when and where it was the most profitable? Did we arrange, without preliminary preferences, for the exports of all those products of the extracting industries, semi-finished (intermediary) products and finished products whose exportation was more efficient than the average — and did we import all those which we do not produce efficiently enough? This point of view is certainly important and should be observed. It is not simple to judge this even for the past for two reasons. First, for an accurate judgement of the development problems from this approach not only a price system showing the costs of production, i. e., the costs of domestic living labour and the costs of means of production and tools of domestic and foreign origin would be required, but also the potential opportunities for exports and import all those which we do not produce efficiently enough? This point of view is the opportunities that were given in the past as well as the costs accruing in case we had availed ourselves of those opportunities.

Realizing the importance and difficulty of an efficient development of production and foreign trade, the Hungarian government exerted considerable efforts for the completion of this task in two directions, with the introduction of the reform of economic control and management in 1968. In part it attempted to guarantee a proper reflection of costs in the producer price system, and in part it encouraged the decision-makers, the productive companies to make increased efforts in the exploration and utilization of favourable opportunities on basis of their autonomy and interest in the results attained. Unfortunately, the reserves of the economic system inherent in the enterprises' independence and in the interest of enterprise staff in profits was not exploited consistently because the new methods of central control and a dispersion of incomes induced internal social strains. Moreover, there emerged the desire to defend the enterprises against the consequences of the rapid inflation and changes in price proportions that took place in the world market and which had an unfavourable impact on Hungary.

The direct effect of the changes of foreign markets on the productive and foreign trading enterprises was neutralized by the escalation of the system of economic bridges.* Due to excessive interference by the state the trend of increasingly efficient exports and of economizing on imports slowed down after 1972. The foreign trade turnover did not remain the motor of economic development but, on the contrary, in many respects it became a bottleneck of development.

The following main information is available about the impact of our joining the international division of labour. In fact the volume of the Hungarian exports grew quicker also after 1968 than the national income — as it did earlier. The only exception was 1974, the period of the price explosion. In the seventies the volume of exports increased by 1,63 per cent over each 1 per cent increase of the national income. At the same time the increasing import requirements of economic growth abated: for 1 per cent increase of national income the average growth of the import volume was only 1,20 per cent.

*For the methods of interference see [1].

After the improvement of the efficiency indicators between 1968 and 1972 a turn followed. The unit costs of exports transacted in roubles (forint costs calculated per one rouble export revenue) dropped from 44,30 forints in the year 1972 to 41,10 Fts, and for exports transacted in dollars from 63,60 Fts to 47,60 Fts which is – bearing in mind the 16,8 per cent increase of prices in our exports to the rouble area, and the 63,8 per cent rise in our dollar export prices, as well as the 10 per cent increase of our domestic producers prices – equivalent to a 1,5 per cent improvement of the differences between budget revenues and expenditures from 1972 to 1975 per unit volume of exports accounted in roubles and to a 15 per cent deterioration per unit volume of exports transacted in dollars. The loss deriving from the two opposed tendencies indicates that the *efficiency of exports* diminished. About half of the difference added to the enterprises' incomes at the expense of the budget, while the other half constituted social loss.

This unfavourable phenomenon can be explained by mainly objective causes. The situation of Hungary was made rather difficult by the changes in the world market, particularly those in price proportions coupled with powerful inflation, and the CMEA contract prices also followed suit. This was the reason why the relative deceleration of the growth of imports and the continued marked growth of exports were insufficient for maintaining the equilibrium of the balance of payments. Consequently, the country gradually increased its use of external resources without being able to increase internal accumulation with additional means.

Domestic consumption in 1975 was by almost 2 per cent more than the national income produced – mainly as a result of drawing credits from Western money markets. The experiences with the net use of credit instruments were contrary to those in the previous period when the balance of credit transactions had not yet been in the red. It is also worth noting that while the use of foreign resources was at least accompanied with a – perhaps unnecessary – increase of accumulation in the early 1970's, later on the indebtedness only served to guarantee (personal) consumption while the proportion of accumulation was stagnating. The proportion of accumulation exceeded the 1970 value only in two years: 1971 and 1974.

From among the complex factors halting the economic development oriented since the sixties towards the international division of labour the conflict between the two important objectives of Hungarian economic policy was dominating.

On the one hand, the government realized that external market demand and supply conditions must have a direct impact on the management of enterprises if the economy is expected to adapt itself quickly and smoothly to the changing conditions. On the other hand, the authorities intended to protect the economic units and their purposeful, quiet, continuous activities from external disturbances and sudden changes. The government had the intention to arrive at this dual – and clearly contradictory – goal by planning to modify the central economic regulators (commercial rate of exchange, taxation, etc.) and the fixed domestic prices only every five years, after thorough preparation, as necessitated by the changing social requirements. Furthermore it intended to give way to the

Table 1

Resources available for the economy and their use
(by percentage)

Year	Total domestic output	Imports	Available resources	Use of foreign resources	Final uses		
					Consumption	Net accumulation	Exports
1970	87.1	12.9	100.0	1.1	26.7	8.9	11.8
1971	86.4	13.6	100.0	2.4	26.2	10.1	11.2
1972	87.2	12.8	100.0	-0.3	26.2	8.2	13.1
1973	87.0	13.0	100.0	1.6	25.8	7.7	14.6
1974	83.4	16.6	100.0	1.7	24.7	9.2	14.9
1975	83.2	16.8	100.0	1.9	24.2	8.8	14.9

Source: Nép gazdasági mérlegek (Economic balances) 1975, Budapest, 1976. Központi Statisztikai Hivatal (Central Statistical Office).

profit-motivated enterprises' own initiatives only within the framework of centrally regulated conditions unchanged within each five-year plan period.

This arrangement would certainly not have caused considerable strains in a period of smooth world economic development. But the picture was disturbed by the accelerating inflation in the world market, the price explosion in 1973-74 and the series of yearly increases in the CMEA contractual prices started in 1975. The government naturally wished to protect the economy from the overall effect of world market price increases, from the devaluation of the dollar and the diminishing purchasing power parity of the rouble, and to save the population from the consequences of the sudden deterioration in the terms of trade. However, the government also wanted to avert the influence of the modifications in price proportions in external markets on the planned quiet management of the enterprises and on the corresponding profit. To this end it did not only alter the commercial rates of exchange but also subsidized imports and levied a differentiated tax on export revenues.

This intensive detailed interference with the economic processes resulted in that enterprises did not adapt themselves to the changes in the external markets as objective facts, did not recognize that they could only survive if they raised their export prices and increasingly economized on imports. Instead, precisely because of the interferences, continuous production was often considered to be the primary or the only goal, knowing that the emerging losses would be compensated, and the surplus incomes taxed away, by the budget. As a result of this attitude considerable losses in efficiency were caused by safeguarding the economy from partial and transient disturbances.

Having studied the efficiency aspects let us now approach the problem of intensity of the international division of labour from the viewpoint of *international analogy*. Let us

examine the extent of specialization among industries in Hungarian production. If the difference between internal consumption (production plus imports minus exports) and production is examined by industries (see Table 2) it may be concluded that Hungary is unequivocally compelled to import mining products: net imports exceed one-third of the mining production for domestic consumption. The case is nearly similar also in the chemical industry. Though in the trade in chemical products with the socialist countries exports exceed imports, we still are net importers, and net imports are more than one-fifth of production for domestic consumption. Moreover, we have an import surplus of electric power as well. In all other branches we are net exporters. Net exports are high in comparison with production for domestic consumption in the light and food industries and agriculture (7–10 per cent), and are more modest in metallurgy and the engineering industry (3–4 per cent).

That is, the specialization of imports among the main sectors is rather marked, though in Hungary the sum of the net export of the sectors, that is the intersectoral trade is of lesser significance than in the Western countries. In comparison to the whole import it amounts to 21,8 per cent. According to approximative comparisons this rate is the following in some of the most advanced countries: 58 per cent in the USA, 41 per cent in Italy, 40 per cent in Sweden, and 35–36 per cent in West Germany and Great Britain. The intersectoral trade is higher also in the Netherlands and France than in Hungary. From among the countries for which comparable data are available the role of turnover between sectors is smaller than ours only in Spain.

The feature of the Hungarian foreign trade turnover that the intersectoral trade is relatively low by international comparison is not contradicted by the fact that – in spite of efforts in recent years – the turnover of the industrial semi-finished products, parts, and machinery components is still not satisfactory, through this is precisely the predominant characteristic of modern world trade.

The above feature of foreign trade turnover is very hard to trace in statistics. Yet there is a way for characterizing several specific features if the proportions of foreign trade turnover are compared with those of the advanced industrial countries.

As regards proportions, international cooperation is not satisfactory in the field of foodstuffs, consumer goods and industrial semi-finished products. Characteristically, the share of these products in imports is much less than the similar proportions in the imports of OECD countries (see Table 4 on p. 293).

The inferior level of intersectoral trade is shown also by the fact that in the engineering product turnover rather finished products are exported and imported than specialized components produced at high technological level. The special materials and components required for manufacturing machine are often produced with outdated technologies instead of modern cooperation. This is contrary to the experiences of the pioneering countries. It is an important feature of the lack of cooperation in semi-finished products that the share of machinery imports in the domestic use of machines is 38,6 per cent and the share of imports in the supply of machine parts and components is only 24,2 per cent, though, as is well known, specialization and cooperation among domestic enter-

Table 2
Foreign trade turnover in percentage of production for domestic purposes
 (on basis of the input-output table for 1972)

Sectors	Imports		Exports		Net exports and net imports of the sectors		Total
	Rouble	Non-rouble	Rouble	Non-rouble	Rouble	Non-rouble	
	accounts						
Mining	40.0	5.6	6.2	1.6	-33.8	- 4.0	-37.8
Electric energy	13.8		1.7	0.3	-12.1	+10.3	-11.8
Metallurgy	33.3	13.4	12.0	31.4	+21.3	-18.0	+ 3.3
Machine industry	38.5	14.6	46.2	11.1	+ 7.7	- 3.5	+ 4.2
Building material industry	8.6	12.1	6.1	5.6	+ 2.5	+ 6.5	+ 9.0
Chemical industry	17.8	34.6	19.4	11.4	+ 1.6	-23.2	-21.6
Light industry and miscellaneous industry	8.2	10.4	5.9	13.8	+ 7.7	+ 3.4	+11.1
Food industry	2.1	13.1	9.6	14.9	+ 7.5	+ 1.8	+ 9.3
Agriculture	1.5	4.5	3.8	9.4	+ 2.3	+ 4.9	+ 7.2

Source: Ágazati kapcsolatok mérlege, 1972 – szervezeti elhatárolásában. (Input-output table, organizational breakdown, 1972) Budapest, 1975. Központi Statisztikai Hivatal (Central Statistical Office); Ágazati kapcsolatok mérlege, 1972 – export-import elszámolások (Input-output table, 1972 – export-import accounts), Budapest, 1976. Központi Statisztikai Hivatal (Central Statistical Office).

prises is not advanced either. Especially low is the share of shipments of productive parts and components from the socialist countries: the latter is about 10 per cent lower than the value of similar non-socialist imports though, at domestic prices, machinery imports coming from there exceed the value of purchases from non-socialist sources by 68 per cent. The use of foreign parts and components is of considerable extent only in the telecommunication engineering and precision, engineering industries. In these sectors such imports reach 37 to 38 per cent of the trade (See Table 3).

From all these two provisional conclusions may be derived: on the one hand that, though considerable efforts have been made in recent years to extend the range of choice of commodities and to increase imports, yet the domestic assortment has remained much narrower than in the advanced countries; and, on the other hand, that specialization in

Table 3
Turnover of machinery and transport equipment in Hungary 1972

	Available resources	Exports	Domestic use			Output to sectors	
			Total	Investment	Consumption	total	to the machinery industry
Domestic production	115.3	42.0	73.3	15.8	6.9	46.6	22.4
Percentage distribution		—	100.0	21.6	9.5	64.9	30.5
Socialist imports	29.2	—	29.2	10.6	4.7	13.9	3.4
Percentage distribution			100.0	35.4	16.2	47.5	12.1
Non-socialist imports	17.4	—	17.4	8.3	0.7	7.9	3.7
Percentage distribution			100.0	47.8	3.9	45.5	20.1
Total	161.9	42.0	119.9	34.7	12.3	68.4	29.5
Percentage distribution			100.0	28.9	10.3	57.1	24.6

Source: see Table 2

products manufactured at home is of a relatively low level, especially in the manufacturing of semifinished products. Consequently, the producers of final products are often forced to manufacture the semi-finished product they need with small-scale technologies.

In the light of these two conclusions the efforts expected to increase economic efficiency by further development of foreign trade turnover appear to be reasonable.

Differences between the socialist and non-socialist trade

The big difference in turnover with the two major markets – socialist and non-socialist countries – is the most specific characteristic of Hungarian foreign trade turnover. The relative size of the two main markets is assumed to be approximately two-thirds to one-third according to the foreign-exchange forint valuation. In fact, however, at domestic prices, the value of turnover with the two main markets is nearly identical. E. g. in 1972, the last year before the world market price explosion, in terms of forints the share of the socialist countries was 58 per cent in exports and 55 per cent in imports. The difficulties of Hungary's rational participation in the international division of labour are augmented very much exactly by the fact that its two profoundly different main markets are almost equally important for it. It is not easy to find a sound basis for stating the differences in the purchasing and marketing conditions and characterizing the different features.

The difference in the commodity patterns of Hungarian trade in these main relations is striking also in imports, though not to the same extent as in exports. Imports from socialist countries are dominated by three categories of commodities: mining products, metallurgical products, and machines for final use. At the same time, agricultural products, non-mineral industrial raw materials and semi-finished products, as well as consumer goods play relatively little role.

It is known that Hungary's mining production is not significant; we have seen above that, in consequence, in comparison with production for domestic consumption, the share of net imports is very high, almost 40 per cent. Most of the mining products and almost all of the electric power imports come from the socialist countries, approximating one-fifth of the total socialist imports. At the same time the share of these items in non-socialist imports, though steadily growing, increased from 2,8 per cent in 1965 to a mere 8,7 per cent by 1975. In evaluating this change it must be considered that proportions in volume terms have shifted somewhat less towards the non-socialist markets as the price of mining products increased there more rapidly during the past years.

The importance of the ever increasing volume of Soviet crude oil deliveries through Friendship Pipeline must be underscored in the context of supply with mineral raw materials. The volume of deliveries was near to 7 million tons in 1975, more than triple of the Hungarian production. The oil deliveries are accompanied by considerable Soviet shipments of natural gas, oil products and electric power. The Orenburg gas pipeline and

Table 4
The Hungarian import pattern in 1972
 (percentage)

SITC denomination	The pattern of Hungarian imports (on the basis of current Forint prices)			The pattern of imports of advanced industrial countries (OECD)	Deviation of the import pattern of Hungary from that in the advanced industrial countries (OECD). The rate of distribution by commodity categories in the OECD countries' imports-100
	Total	Socialist	Non-socialist		
	(1)	(2)	(3)		
0 Food and live animals	9.9	2.8	17.9	12.0	82.5
1 Beverages and tobacco	1.3	1.3	1.2	1.4	92.9
2 Crude materials	11.6	11.2	12.3	9.5	122.1
3 Mineral fuels	8.0	13.3	2.1	11.9	72.7
4 Animal and vegetable oils	0.3	0.2	0.5	0.6	50.0
5 Chemicals	11.3	6.4	16.8	6.6	171.2
51 Chemical elements and compounds	3.5	2.6	4.6	2.4	145.8
53 Dyes, tanning and colour products	0.7	0.2	1.3	0.5	140.0
54 Medical products	1.1	0.4	1.8	0.8	137.5
55 Volatile oils, cosmetics, ingredients	0.3	0.2	0.4	0.4	75.0
56 Fertilizers	1.4	1.8	1.0	0.3	466.7
58 Plastic materials	1.7	0.4	3.1	1.4	121.4
5 Basic manufactures	20.1	21.2	18.8	20.0	100.5
61 Leather and leather products	0.2	0.0	0.4	0.5	40.0
63 Wood, cork manufactures	0.5	0.7	0.2	0.7	71.4
65 Textile yarn	2.3	1.3	3.4	3.8	60.5
67 Iron and steel	5.3	7.1	3.3	4.3	123.3
68 Non ferrous metals	4.5	7.0	1.7	3.2	140.6
69 Metal manufactures	3.1	1.1	1.5	1.9	163.2
Machines and transport equipment	32.7	38.9	25.3	28.2	115.0
Miscellaneous manufactured goods	4.8	4.7	4.9	9.1	52.7
82 Furniture	0.4	0.7	0.0	0.6	66.7
84 Clothing	0.8	0.6	1.0	2.9	27.6
86 Instruments	0.2	0.4	0.0	0.7	28.6
Total	100.0	100.0	100.0	100.0	

Reference: UN Trade Yearbook, 1972; Külkereskedelmi Évkönyv (Foreign Trade Yearbook) 1972, Budapest.
 Converted with the actual foreign trade price coefficient, called since 1976 commercial rate of exchange.

the 750 KV transmission line are built with united efforts in order to develop relations and to increase efficiency.

The big role of importing metallurgical products is also worth noting among the characteristics of socialist imports. Together with the domestic steel production based partly on Soviet iron ore, Hungary is supplied with steel mainly from Soviet imports of crude iron and rolled semi-finished and finished products. In addition, a big part of the Hungarian bauxite wealth is processed only into aluminous earth. The latter is processed into aluminium mainly in the Soviet Union with cheap hydroenergy. Thus the socialist countries, foremost among them the Soviet Union with its highly advanced metallurgical basis, play important roles in the supply with metallurgical basic materials. The volume of metallurgical products imported from the advanced industrial countries is much less, yet it is approximately of the same value since it consists of first quality rolled steel.

The high volume of machine imports from the socialist countries is characterized, together with the equipment imported for investment purposes, by the development of recent years: a sudden increase of machine imports for personal use due to the increase of passenger car imports. On the other hand, as stated above, a definitely small part of the engineering products is used by the engineering industry in the form of productive parts, i.e., components. In the machine imports from Western countries, in compliance with relevant government decisions, the investment use aimed at the introduction of new technologies is predominant.

Imports from non-socialist markets are dominating in the imports of industrial raw material processed to a higher degree. Thus first of all in the imports of chemicals – except for fertilizers – and of light industrial semi-finished products. Also with the industrial semi-finished products processed to higher degree in which the socialist trade has a big share, the more expensive higher quality products are, characteristically, purchased mainly from the non-socialist market. Thus, for example, in the imports of fertilizers, synthetic fibres, synthetic materials and the aforesaid steel products we have to buy the special qualities, the costly commodities almost exclusively from the convertible currency market.

It is also worth noting that the majority of our agricultural imports come from the non-socialist markets. Aside from the tropical fruits not grown in Hungary and in the socialist countries here the imports of plant proteins used for animal fodder has a role, and a decisive one.

Finally also that peculiarity of the pattern of imports must be noted that in the rather low value of articles for direct personal consumption the share of the non-socialist markets is preponderant – except for cars.

In *exports* the difference between the main proportions of the two markets is much more apparent. The character of our exports to socialist countries roughly corresponds to the structure of the industrially advanced countries. In our non-socialist exports exportation of agricultural raw materials is the dominating feature (see Table 5, on p. 295).

Accordingly, the industrial finished products have a big share in our exports to socialist countries. The average export proportions of the leading industrial countries are

Table 5
Pattern of Hungarian exports in 1972
 (percentages)

SITC denomination	Export		Export of industrial countries	Export of developing countries	Deviation of the assortment of Hungarian socialist export from the export pattern of industrial (OECD) countries ^a and of Hungarian non-socialist exports from the export pattern of developing countries ^b	
	to socialist markets	to non-socialist markets			(1:3)	(2:4)
	(1)	(2)			(3)	(4)
0 Food and live animals	13.3	34.0	9.9	19.9	133.3	343.4
00 Live animals	0.8	16.1	0.5	0.3	160.0	5366.7
01 Meat and meat products	2.5	9.9	1.6	3.3	156.2	300.0
05 Fruits and vegetables	7.0	4.6	2.9	3.1	241.4	148.4
1 Beverages and tobacco	3.3	0.9	1.5	1.1	220.0	81.8
11 Beverages	3.2	0.7	0.9	0.4	355.6	175.0
2 Crude materials	2.8	8.6	7.2	14.3	38.8	60.1
24 Wood, number	0.1	2.1	1.2	1.9	8.3	110.5
25 Textile fibres	0.1	2.2	1.7	1.6	5.9	137.5
3 Mineral fuels	0.9	2.5	3.4	39.9	26.5	6.3
33 Petroleum and products	0.5	2.2	2.2	39.5	22.7	5.5
4 Animal and vegetable oils	0.1	1.3	0.5	1.3	20.0	100.0
5 Chemicals	8.4	6.6	8.6	1.3	97.7	476.9
51 Chemical elements and compounds	0.8	1.4	2.8	0.3	266.7	466.7
54 Medicinal products	6.2	3.3	1.1	0.3	563.6	1100.0
58 Plastic materials	0.3	0.6	1.8	0.1	16.7	600.0
6 Basic manufactures	13.5	23.3	21.9	13.5	61.6	172.6
63 Wood, cork manufactures	0.1	0.4	0.6	0.5	16.7	80.0
65 Textile yarn	3.1	5.0	4.4	3.1	70.5	161.3
67 Iron and steel	2.5	10.3	5.6	0.8	44.6	1287.5
7 Machines, transport equipment	42.4	11.4	36.6	3.7	115.3	308.1
8 Miscellaneous manufactured goods	15.3	11.4	8.9	4.1	170.8	278.0
84 Clothing	4.5	5.0	2.0	2.4	225.0	208.2
85 Footwear	3.6	1.0	0.7	0.4	514.3	250.0
86 Instruments	3.0	1.1	2.4	0.2	125.0	550.0
Total	100.0	100.0	100.0	100.0		

^aThe export pattern of the OECD countries=100

^bThe export pattern of DCs=100

Source: see Table 4

exceeded by machine exports at a diminishing rate and by now not significantly, while by clothing and footwear at an increasing rate and to a very significant extent. At the same time, in our exports to non-socialist countries the proportion of machines is only slightly more than one-fourth of the share in the socialist trade, but even so our share is above the average importance of machines in the developing countries' exports. This specific pattern of trading proportions was attained because the socialist countries, mainly the Soviet Union, constitute a safe market for big volumes of Hungarian engineering products. Due to Soviet orders the volume of Hungarian machine exports is, by international comparisons, probably greater than what would correspond to the engineering, construction and technological knowledge accumulated in Hungary, or to the selection of products and the reliability of machinery production.

The assortment of machinery exports went through important changes during the past years. Modification of the export pattern in the most important commodity group of machines transport equipment is characteristic. Exports of railway rolling stock and ships directed mainly to the Soviet market have been gradually replaced by the export of buses. In other fields of the machinery industry the alterations have been much slower.

Non-socialist sales lag behind the development of Hungarian engineering industrial production and exports to socialist countries. Constructions, assortment, packaging of commodities, servicing, and observation of terms of delivery complying with the Western business customs did in many instances not come up to the requirements usual in the markets of the advanced industrial countries. Consequently the voluminous Hungarian machinery industry has not yet been able to properly contribute to raising exports directed to non-socialist markets. After adequate specialization, in the commodity groups manufactured successfully, the opportunity is given for increasing the volume of exports, for raising the sales prices by extension of the assortment and by improvement of quality, which might greatly contribute to easing the strain of the balance of payments in the non-socialist markets. The poor assortment impedes the raising of the export volume, while shortcomings in quality press down the unit prices.

The case in the production of clothing and footwear is similar. However, while construction designs and production technologies are decisive among the factors hampering deliveries of engineering industry to non-socialist markets, in the light industry the slow adaptation to the commercial customs, to the changes in demand are the most important factor retarding development.

The dominating role of raw materials and agricultural products in the non-socialist exports also needs special explanation. It is a particular feature of the export pattern that the proportion of the traditional agricultural exports corresponds on average to about the share usual in the developing countries' exports. Most of the agricultural exports flow to the non-socialist countries. Although the socialist countries were rather short of agricultural products till the mid-seventies, we exported to them large quantities of only vegetables and fruits, mainly apples. Since then, also the exports of livestock, meat and — in years with rich crop — of grain increased. It is remarkable that, due to the rigidity of the CMEA contractual prices, the clearing channels coordinated by plans did not prove

satisfactory for transacting this turnover. Therefore since 1975 bilateral special agreement had to be concluded with the Soviet Union in the framework of which products are exchanged for crude oil and oil products above the quota figuring in the plan.

The most typical traditional item of Hungarian agricultural exports to non-socialist markets – mainly to Italy and West Germany – is livestock, namely, cattle. Understandably the fact that the Common Market countries discontinued cattle imports in 1974 and practically maintain the embargo even now has had a heavy impact on the country's balance of payments.

Finally, another important peculiarity of the export pattern concerning trade in raw materials is to be noted. Industrial raw materials play an important role in the exports of Hungary although the economy is badly short of industrial raw materials, especially of those of mineral origin. There is a double reason for this apparently controversial situation. Partly, in the increase of raw material exports the chemical industry – the branch not requiring much mineral raw materials – has an important role. Chemization goes along with modern industrial development, this is an argument for the need to increase production in the chemical industry.

The pharmaceutical industry relying on the experiences of Hungarian development between the two wars is the leading branch of chemical production and exports. The exporting of medicaments, having intensified in the course of socialist development, means export of intellectual products. The exports of medicaments going mainly to socialist market are extremely efficient. Also the share of Hungarian deliveries to the non-socialist markets is bigger than the average share of pharmaceutical products in the exports of the advanced countries. However, these Hungarian exports are not always efficient enough because, in lack of adequate patents and due to factors making it difficult to introduce the Hungarian medicaments there, the sales of pharmaceuticals are often inadequate. Achievements in the exports of chemical elements, synthetic materials and synthetic fibres are more modest; the bulk of Hungarian exports to the non-socialist market is made up of mass products.

In our raw material exports a special activity attains an important role. We export oil products, timber and timber products to non-socialist markets in modest volume, and have more significant exports from rolled steel. We are known not to be self-supplying in any of these products. Up to now the maintaining and even increasing of exports was allowed by our being able to purchase some qualities above our requirements from our socialist partners. This specific type of trade does not make use of the difference between the internal structures of the price systems in the socialist and the capitalist world market: it is efficient because it affords a possibility to convert the claims accruing in socialist bilateral clearings into convertible currency.

But, unfortunately, this foreign trading activity that used to play an important role in the past period is likely to decline – due to the planned relative, and in many cases absolute, reduction of raw material shipments from socialist countries.

The difference between the two types of relationship adds to the difficulties deriving from the difference between the socialist and non-socialist terms of supply and

demand. In the first case the contemplated annual and five-year delivery agreements and systems of quotas concluded between central authorities are accompanied by a mechanistic determination of the contract prices on basis of world market prices. The seller has the upper hand in trade. In the latter case the market methods prevail completely; within that the price bargain is not negligible either and the business terms are determined by the buyer.

The difficulties of adaptation to the two types of markets are augmented by accounting and settlement problems as well. The adverse balance of convertible currency payments would allow undisturbed use of materials and semi-finished products purchased from capitalist markets for the production of commodities exported to socialist markets only if the buyers rewarded the social costs involved. However, the established CMEA routine of price determination often does not permit that.

Characteristics of the pattern of foreign trade and the deriving tasks

With more or less success, two closely correlated theses were proven above: first that Hungary, in spite of its foreign trade turnover being rather high in comparison to its national income, does not make satisfactory use of the opportunities afforded by the international division of labour; second, that the terms of supply and demand are markedly different in the socialist and the non-socialist trade, making it extremely difficult to enhance an expedient participation in the international division of labour. This complicated situation causes difficulties in taking decisions on economic development.

The strained situation which developed in the early 1970's and has been characterized above continued to deteriorate in the last years. Combination of the price explosion in 1973-74 with the consequent step-by-step change in the CMEA contract prices since 1975 had a considerable detrimental effect on Hungary's terms of trade.

The sudden deterioration of the world economic environment and other internal factors have created a situation in which the accomplishment of the economic political objectives declared earlier suffered a break. The economic leadership, relying on effective participation in the international division of labour and on the activity of independent profit-oriented enterprises have, as indicated above in the analysis of the efficiency problems, slowly and by most people unnoticedly retreated. A system of objectives aimed at safeguarding the domestic market, protecting the established enterprise patterns from sudden impacts of the world market, retarding the differentiation of enterprises, has come into the foreground. Clear indications of this change were shown in the efforts aimed not only at controlling the inflationary pressure but also at retarding and moderating the effects of changes in the world market price proportions by central economic

interference, by means of so-called monetary bridges. With the high number of monetary interferences the price system and, through it, profit, of course lost their role of orientating towards social objectives. Thus the well known difficulty had to be faced that each intervention necessitated a chain of further interferences.

In many cases the maintenance of smooth productive activity was considered to be more important than adapting the enterprises to the changing internal and world market conditions. Characteristically, while with the sudden increase of crude oil prices the chemical production of the whole world was halted and there were grave temporary disturbances in the period of adaption to the new situation, in Hungary the changes of the world market hardly had any influence on domestic demand – because society heavily contributed through the state budget to subsidizing the established production and consumption. Parallel with these symptoms the leaders of enterprises found that their activities were not judged by their economic achievements – profits – but by the fulfilment of the expectation of the authorities that there should not be any disturbance in supplying the enterprises with the materials required.

Coinciding with above changes at home, an economic decline took place in the leading capitalist industrial countries. Thus, against the economic requirements, Hungarian exports, especially those to non-socialist markets, stopped growing, while up to 1975 imports increased rapidly.

It must be noted about the break in exports that our share in the non-socialist world market diminished not only because of the crisis of the decisive export item, i. e., cattle. The rate of growth of our exports of industrial finished products to the advanced Western countries, which exceeded that of the other CMEA countries in the 60's and early 70's, is no longer that favourable. Our export achievements in the markets of leading industrial countries were exceeded by Poland, Romania, and the Soviet Union, and good many a developing countries in the mid-seventies.

All that indicate that, under such conditions, the impacts of the international division of labour require special treatment by economic policy. The relieving of strains is only feasible through better organization of the social labour and by creating modern new productive capacities. Development decisions need to be pondered with particular care. Neither actual efficiency nor a mere copying of the advanced countries' structural changes provide adequate grounds for that. Under the continually changing conditions an almost artistic harmony of soberminded constructive efforts is required for a realistic consideration of future possibilities. For mobilizing the capacities in this direction it is necessary to improve the regulating activities of the economic authorities and to develop responsible, independent, courageous pioneering activity in the enterprises.

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ТОВАРНАЯ СТРУКТУРА ВНЕШНЕТОРГОВОГО ОБОРОТА ВЕНГРИИ

М. ТАРДОШ

Одним из наиболее своеобразных и вместе с тем наиболее характерных отражений венгерской экономики является товарная структура ее внешней торговли. Положение можно охарактеризовать двумя взаимосвязанными чертами: с одной стороны, несмотря на довольно высокий уровень внешнеторгового оборота в расчете на душу населения, международное разделение труда не проникает достаточно глубоко в экономику страны, и, с другой стороны, для внешнеторговых связей характерно резкое различие структуры оборота с социалистическими и капиталистическими странами. В статье автор раскрывает эти две характерные черты внешнеторгового оборота Венгрии.

Автор констатирует, что в венгерском внешнеторговом обороте межотраслевая специализация характеризуется прежде всего импортом продукции горнодобывающей, электроэнергетической и химической промышленности, в то время как все остальное производственное отрасли являются «нетто»-экспортерами. Таким образом, среди отраслей не выделена преобладающая, ведущая экспортирующая отрасль, и межотраслевая специализация находится на более низком уровне, чем в рассматриваемых автором промышленно развитых странах (США, Италии, Швеции, ФРГ, Англии, Голландии, Франции).

Интересно отметить, что относительное отставание межотраслевого товарообмена — несмотря на усилия последних лет — продолжает сочетаться с оставанием также и внутриотраслевого товарооборота. В сопоставлении с международными данными незначительна торговля на основе специализированного национального производства промышленных полуфабрикатов, обработанного сырья, деталей и узлов. Анализ, произведенный при помощи межотраслевого баланса, показывает низкий уровень обмена полуфабрикатами машиностроения.

Автор детально рассматривает существенные структурные различия товарооборота с социалистическими и несоциалистическими странами, указывая, что эти различия затрудняют дальнейшее развитие.

В заключительной части статьи автор анализирует необходимость развития внешней торговли во всех направлениях и его специфические трудности, вызванные «взрывом» цен на мировом рынке и последовавшим за ним изменением социалистических договорных цен.

К. БОТОШ

НЕКОТОРЫЕ ФИНАНСОВЫЕ ВОПРОСЫ СОВМЕСТНОГО ПРЕДПРИНИМАТЕЛЬСТВА В РАМКАХ СЭВ

В статье рассматриваются народнохозяйственные критерии обоснованности создания совместных предприятий стран СЭВ и финансовые проблемы, возникающие в связи с их хозяйственной деятельностью. Автор считает, что для социалистической интеграции характерен, в первую очередь, перелив капитала внутри отдельных народных хозяйств, а не его международная перегруппировка. Необходимо создать условия хозяйственной деятельности уже функционирующих международных хозяйственных организаций, объединений. В этом первоочередную важность имеет решение вопросов пересчета национальных валют и связей совместного предприятия с госбюджетом страны по его месторасположению.

Интегрирующиеся национальные экономики стремятся к формированию рационального и взаимовыгодного разделения труда. И в сотрудничестве стран-членов СЭВ к этому побуждает правомерное требование все более полного удовлетворения производственных и личных потребностей, а также обостряющаяся конкуренция в мировой экономике. Постоянно растет число таких задач, в решении которых необходимо выйти за национальные рамки (транспорт, сеть шоссе-ных дорог, согласование инфраструктуры, система «сообщающихся сосудов» энергоснабжения, производство и использование атомной энергии, охрана окружающей среды и т. д.).

Рациональное разделение труда может быть обеспечено путем более усиленной гармонизации национальных устремлений в области производства и развития, более интенсивным включением деятельности национальных предприятий в международное производственное сотрудничество, в различные формы кооперирования и специализации. Не следует, однако, упускать из внимания возможность того, что выполнение некоторых задач может быть наиболее эффективно организовано в форме совместного предпринимательства.*

В каких конкретных областях может оказаться целесообразным создание совместных предприятий? На первый взгляд ответ кажется простым. Предложения по решению задач путем совместного предпринимательства следует сопоставить с решениями, не требующими движения капитала, с возможными результатами

*Во избежание терминологических дискуссий замечу, что слова «предпринимательство», «основание предприятий» я употребляю в качестве синонимов. Эту терминологическую неточность можно простить потому, что — как об этом будет сказано ниже — международное предпринимательство толкуется мною не как деятельность предприятий, а как деятельность макроэкономических единиц. Конечно, совместное предпринимательство предприятий может иметь и многие другие формы. Данная статья занимается только рассмотрением финансовых вопросов совместных предпринимательств.

международной координации национальных производственно-инвестиционных программ. Экономические расчеты покажут, которая из альтернатив более эффективна.

Этот сам собой разумеющийся подход усложняется следующими вопросами. Ясен ли метод соизмерения различных вариантов, и есть ли возможность для сопоставления? Какова система критериев принятия решения, связанного с движением капитала, на уровне отдельных народных хозяйств?

О народнохозяйственных критериях создания совместных предприятий

Мы предполагаем, что создание значительной части совместных предприятий и в будущем, как и поныне, будет зависеть от централизованных решений; поэтому в их создании будут играть роль не просто соображения предприятий, а и народнохозяйственные аспекты.

В плановом хозяйстве стран СЭВ регулирование расширенного воспроизводства является централизованной задачей. Существенное расширение деятельности предприятий, учреждение нового предприятия обычно осуществляется на основе центрального решения, из централизованных денежных средств.

Чистые доходы, оставляемые предприятиям и объединениям, обычно не позволяют (даже при наличии банковских кредитов) осуществить крупные капиталовложения. (Если да, то проект капиталовложения рассматривается такими «жюри», которые на первый план ставят централизованные интересы и намерения.)

Я не намереваюсь оспаривать взгляды, которые считают обоснованным расширение степени самофинансирования и требуют отвести больше места автоматизму косвенного управления, в интересах более эффективной хозяйственной деятельности и развития предприятий.

Я считаю, что значительная часть капитальных средств стран-членов СЭВ еще относительно долгое время будет централизована. Следовательно, создание совместных предприятий я рассматриваю как акт, утверждаемый государством и осуществляемый в основном на его средства.

Система критериев принятия решений партийным и государственным руководством стран СЭВ, отвечающим за рост экономики и политику в области жизненного уровня, несомненно более широка, чем при принятии решений на уровне хозяйственной деятельности предприятий.

На уровне центра, который обеспечивает условия органического развития экономики, а также осуществляет и финансирование инфраструктурных и социально-политических мероприятий, степень свободы при использовании капитальных ресурсов гораздо меньше, — особенно на данной ступени развития и удовлетворения потребностей, — чем на уровне микроединиц. Когда можно считать с

точки зрения макроэкономики чистый доход (хотя бы на этапе планирования) свободным ресурсом для осуществления зарубежных инвестиций? Потребности в средствах для развития и финансирования перечисленных выше задач постоянно превышают возможности. А имея в виду сужающиеся во многих странах ресурсы рабочей силы, я не останавливаюсь отдельно на потребностях в средствах для осуществления политики в области занятости. Этот вопрос возникает во времени и пространстве дифференцировано, но в системе критериев принятия централизованных решений в любом случае пользуется предпочтением. Планирование народного хозяйства имеет в виду не просто финансовые результаты производства; своей целью оно считает максимизацию всего потока доходов. На его решения влияет не только реализуемый в форме прибыли чистый доход, но и произведенный (или производимый в будущем) национальный доход.

Макроэкономика заинтересована в зарубежном предпринимательстве в том случае, если его рентабельность превышает совокупные доходы, получаемые от отечественных предприятий. Следовательно, совместное предпринимательство, возникающее на почве ориентации на получение прибыли, должно удовлетворять повышенным требованиям эффективности; это явно ослабляет интенсивность международного движения капитала.

(Сказанное выше не касается того случая, когда создание совместного предприятия является предпосылкой удовлетворения определенных потребностей, за неимением другой реальной альтернативы. Более жесткие рыночные условия превращают многие капиталовложения в относительно экономичные, и в этом смысле они могут стимулировать международный поток капиталов.)

Означает ли этот тезис, что интенсивное международное движение факторов производства не становится характерной чертой социалистической интеграции?

Использование преимуществ крупного рынка и концентрации капитала в принципе широко позволяет уже и сложившийся инструментарий социалистического сотрудничества.

Даже предприниматели монополистического капитала не распоряжаются большими средствами, чем социалистические государства, подписывающие значительные межправительственные соглашения. Возможность, предоставляемая плановой ориентацией, согласование планов развития может вызвать такое движение капиталов внутри народного хозяйства, которого никогда не было бы без интеграционного сотрудничества. Следовательно, процесс интеграции сопровождается оживленным движением капиталов, но областью этого движения прежде всего является внутренний рынок макроэкономических единиц.*

Соображения, изложенные во вступлении, мы можем обобщить следующим образом:

При осуществлении стремлений, направленных на развитие планомерного разделения труда в рамках интеграции СЭВ, на использование преимуществ кон-

*Относительно определения признаков интеграции см., например [1].

центрации капитала, национальные экономики обычно предпочитают кооперирование, основанное на координации развития производства. В некоторых случаях, исходя из характера задач и требований рынка, они выбирают путь совместного предпринимательства, создания совместных предприятий.

Решение о совместного предприятия прямо или косвенно и в дальнейшем будет актом государственного уровня, при котором можно ожидать осуществления макроэкономических критериев. Если избирается форма объединения, то его членами являются самостоятельные предприятия, а хозяйственная деятельность совместного предпринимательства и его филиалов основывается на принципе хозрасчета. В дальнейшем мы более детально рассмотрим, какие из финансовых проблем требуют выяснения как с точки зрения экономических расчетов, предваряющих учреждение предприятия, так и в интересах процесса функционирования.

О принципе хозяйственной деятельности совместных предприятий

Понятие хозрасчета и сегодня еще является предметом оживленных дискуссий. Способ финансирования предприятий связан со всей системой управления народным хозяйством.

Мнения о сущности этой категории расходятся. Одни считают хозрасчет методом управления экономикой, категорией *управления*, другие же подчеркивают, что он является хозяйственно-организационной формой производства, носителем и выразителем *определенных производственных отношений*. Особенно критически оценивается отношение между финансированием расширенного воспроизводства и самостоятельностью предприятий, что во всех странах-членах СЭВ считается вопросом, требующим дальнейшего рассмотрения. В отношении совместных предприятий мы ни в коем случае не можем считать хозрасчет категорией лишь управления. Это понятие стоит ближе к тем взглядам, которые рассматривают предприятие, хозяйственное объединение как основную общественно-экономическую ячейку производства, как носителя производственных отношений.

Само собой разумеется, что не только теория, но и практика весьма различна в интегрирующихся социалистических странах, имеющих различные общественно-экономические условия, традиции и методы управления хозяйственной деятельностью. В эту среду врастают созданные в настоящее время и создаваемые в будущем совместные предприятия.

Бесспорно, что вести хозяйственную деятельность* — в буквальном смысле этого слова — можно только в качестве органической части экономической среды места расположения предприятия.

* Ясное толкование понятия смотри, напр. [2]. Национальные предприятия являются продуктом хозяйственного предпринимательства государства. «Качество» их деятельности харак-

Необходимо отметить следующее: регулирование приспособления совместных предприятий к хозяйственному порядку страны, где расположено предприятие, гораздо важнее издания разовых, «сшитых на заказ» распоряжений, нужных для функционирования нескольких имеющихся предприятий. Для такой работы требуется знание и систематизация конкретных условий и методов различных стран. (Пользуясь сравнением из жанра научной фантастики: для конструирования дыхательного аппарата космонавта необходимо ознакомиться с условиями, царящими на данной планете). Опыт, накопленный в ходе регулирования деятельности совместных предприятий, можно использовать и для совершенствования национальных систем, выяснение условий функционирования может послужить катализатором в работе по гармонизации в этой области, проводящейся в масштабах содружества.

Текущая экономическая литература все чаще отмечает различия в финансово-ценовых системах стран СЭВ. Мы упоминаем об этом обстоятельстве потому, что оно непосредственно касается заинтересованных в совместном предпринимательстве сторон.

Внешнеторговые сделки заключаются странами СЭВ в их коллективной валюте — переводном рубле. Очевидно, что условием такой сделки является взаимная выгода, получаемая от нее, в пересчете на национальную валюту стран-членов СЭВ, учитывая их системы экономического стимулирования и финансирования. В этом отношении различия в условиях цен и финансов влияют и на внешнеторговый оборот. Если сделка состоялась, то в качестве регулятора условий обмена выступают очищенные цены мирового рынка и национальные затраты, таким образом, уровни и пропорции национальных систем цен не оказывают прямого влияния на интересы партнеров.

Но для совместного предприятия, функционирующего на базе заинтересованности в прибыли, уже далеко не безразлична величина произведенного чистого дохода, реализуемого данным предприятием при данных соотношениях цен, и доля этого чистого дохода, остающаяся в его распоряжении при данной системе бюджетных связей.

Поскольку участники совместного предприятия могут при своих внешнеэкономических расчетах иметь активы в переводном рубле, не имея валюты страны, где размещается предприятие, то их взносы и возможные трансферты прибыли тоже могут производиться в коллективной валюте. Однако для определения экономического эффекта совместного предпринимательства и размеров участия в нем, необходимо знать — и определить — эквиваленты переводного рубля в национальной валюте.

теризуется использованием возможностей системы внешних и внутренних условий. Выполнить задания, возложенные на предпринимательство, можно только в данной среде, а его эффективность может быть измерена только в сопоставлении с имеющимися там средними условиями.

Из всего этого вытекают финансовые проблемы, возникающие в связи с созданием и функционированием совместных предприятий.* Прежде всего: образуется ли на данном предприятии при данной национальной системе цен чистый доход, соответствующий капиталовложениям?

На этот вопрос можно сразу же дать четкий ответ. Если упростить проблему, то можно сформулировать следующий тезис: исходя из заинтересованности в прибыли имеется в виду создание таких совместных предприятий, на которых действительно образуется прибыль в условиях финансово-ценовой системы страны по запланированному месту его расположения. Мы имеем в виду не наличие искусственной среды, созданной специально для совместного предприятия, или наличие микроединиц, которые приводятся в движение индивидуальными регуляторами. Преимущество хозрасчетной формы предприятия заключается как раз в самостоятельном ведении хозяйственной деятельности при наличии автоматизмов, действующих в определенных рамках национальной системы цен и финансов.

Если бы создание совместного предприятия было бы возможно лишь при наличии комплекса индивидуальных распоряжений, это походило бы на то, когда преждевременно рожденного ребенка помещают в инкубатор. Сравнение хромает тем, — и как раз это имеет большое значение, — что предприятие практически никогда нельзя оградить от массы регуляторов, индивидуально устанавливаемых вышестоящими органами и согласованными в международном порядке.

В «защитной среде» не предприятие будет приспосабливаться со временем к хозяйственной деятельности, происходящей в нормальных условиях, а условия должны приспосабливаться к требованиям совместного предприятия. Это — неправомерное ожидание даже в том случае, если мы признаем катализирующую роль совместного предпринимательства и международных хозяйственных объединений в решении общих финансовых проблем.

Мы предполагаем создание совместного предприятия, ориентирующегося на получение прибыли и *действительно* рентабельного, приспосабливающегося к экономике места расположения предприятия, — где принятие участниками обязательств, участие в капиталовложениях и распределение результатов происходит в соответствии с их интересами.

О квотах, пропорциональных интересам

В чем заключается на уровне народного хозяйства заинтересованность в создании совместных предприятий? Как определить пропорциональные интересам взносы в уставный капитал отдельно взятых совместных предприятий? Решение о создании такого предприятия зависит не просто от соотношения ожидаемой при-

*Некоторые из проблем, рассматриваемых в данной статье, уже затрагивались в одной из статей автора [3].

были и вложенных средств. Последнее не безразлично, но здесь учитываются и другие аспекты. Наиболее вероятным прежде всего является то, что создание совместных предприятий вызывается потребностями в производстве (добычи) продукции, пользующейся в настоящее время самым большим спросом. Основание совместного предприятия связано не только с интересами производителей, но и с заинтересованностью потребителей.

Тип сложившегося в СЭВ совместного предпринимательства — международная хозяйственная организация (МХО) имеет дифференцированный и многогранный профиль. Согласно Уставу, в круг деятельности МХО входит организация и координация кооперирования производства пользующихся большим спросом и современных видов продукции, выполнение функций главного подрядчика, сервис, налаживание и развитие сотрудничества в области проектирования и исследований, а также — иногда — фактический выпуск продукции.

Интерес стран-членов СЭВ как прямых или косвенных основателей (предоставляющих необходимые средства) определяется объемом продукции, который они намереваются реализовать или приобрести на рынках друг друга в рамках организованного таким способом сотрудничества. Если на основе доли участия в запланированной (или ожидаемой) прибыли нельзя непосредственно определить долю вноса в капитал, то при установлении этих квот можно исходить из объема и процентной доли взаимного оборота по данному кругу продукции.

Было бы трудно дать точный ответ на возможный вопрос о том, для кого важнее совместное предприятие; кому «выгоднее» обмен: импортеру, который получает новый, более выгодный источник приобретения товаров, или экспортеру-производителю, который имеет от реализации пользующихся спросом товаров изрядную выгоду? Точно определить взаимную при этой форме предпринимательства выгоду невозможно. Интересы производителя и потребитель в равной мере играют свою роль при принятии решения. Поэтому при определении участия в уставном капитале целесообразно исходить из оборота, *координируемого* совместным предприятием, или из объема *фактически реализованной* продукции. Исходящий из заинтересованности в импорте подход часто и не совсем обосновательно вызывает возражения со стороны тех, кто подходит к процессу интеграции с точки зрения микроединиц, самостоятельно принимающих хозяйственные решения. Для них инвеститор и производитель (экспортер) — это один и тот же субъект. Они видят разницу между предпринимательством внутри страны и вложением капиталов за границей только в различии степени рентабельности, поэтому они отрицают сочетание двойной заинтересованности.

Однако нельзя забывать о том, что для относительно бедных капиталами стран СЭВ на первый план в период осуществления капиталовложения — даже если в перспективе речь идет о весьма выгодном предприятии, — выступает тяжесть обеспечения капитала. Даже в случае соблюдения требования повышенной рентабельности страны СЭВ идут на зарубежные капиталовложения лишь при наличии тщательно продуманной и более-менее четко сформулированной

натуральной потребности в импорте; следовательно, необходимо согласовать обе точки зрения (заинтересованности в экспорте и импорте).

На наш образ мышления накладывает отпечаток сложная действительность. Если бы мы имели в виду только такие совместные предпринимательства, которые только координируют, или берут на себя только функции главного подрядчика, или занимаются только производством, нам было бы легче решить, кто прежде всего заинтересован в данном капиталовложении. Было бы меньше споров об экономическом обосновании величины участия и, что не менее важно, практическом определении квот. Споры, конечно, могут утихнуть и в силу того, что мы будем иметь в виду создание экономически эффективных, рентабельных предприятий, действующих на базе заинтересованности в прибыли. Это тоже свидетельствует о том, что в будущем при создании запланированных совместных предприятий, следует более тщательно выбирать соответствующие их функциям формы — начиная с бюро по координации и кончая совместным производственным предприятием.

Механизм сотрудничества СЭВ и совместные предприятия

Среди вопросов, возникающих в связи с деятельностью совместных предприятий СЭВ, одним из главнейших является выяснение связи хозяйственной единицы, приспособляющейся к национальному регулированию, с механизмом международного сотрудничества. Почему международная координация планов, связь с системой внешней торговли ставит для совместных предприятий финансовые проблемы? Ответ на этот вопрос можно найти в особенностях механизма сотрудничества, в современном уровне развития товарно-денежных отношений.

При существующей системе международных расчетов актив по обороту определенной группы продукции (превышение экспорта над импортом) представляет для народного хозяйства иммобильные валютные требования, так как компенсация возможных сверхплановых поставок — товарами или платежными средствами, непосредственно обмениваемых на товар, — пока еще вопрос нерешенный. По всей вероятности, создание иммобильных требований не входит в намерения учредителей какого-либо международного объединения. Поэтому особенно важно, чтобы решения, принимаемые руководством объединений, предварительно согласовывались участвующими в нем предприятиями с компетентными органами их стран во избежание неувязок между их поставками и планомерным внешнеторговым сотрудничеством стран.

Что касается внешнеторговой деятельности, то целесообразным представляется принцип, согласно которому поставки должны включиться во внешнеэкономические отношения страны по месту расположения производственного предприятия. Из-за определяющей роли двухсторонних внешнеторговых договоров система многосторонних клиринговых расчетов сохранила многие характерные черты двухсторонних связей. В этой системе нет места совместным предприятиям.

Возьмем конкретный пример. Представим себе МХО, которая является организатором и главным подрядчиком по кооперированию производства крупного комплектного оборудования (например, энергоблоков). Предположим, что заинтересованные предприятия всех стран-членов СЭВ участвуют в сотрудничестве как поставщики деталей и узлов в рамках кооперирования производства. В качестве импортеров страны выступают через некоторые, более-менее продолжительные периоды времени, чередуясь друг с другом. Если объединение является самостоятельным партнером, — имея самостоятельный счет в переводных рублях не только для расчетов с предприятиями, но и с макроединицами, — то недостатки многостороннего клиринга в скором времени вызовут затруднения. Страна, которая позже всех удовлетворит свои потребности в импорте, в сущности предоставляет кредит остальным странам. Она продает, но не покупает; экспортирует, но не импортирует. Свои требования по отношению к совместному предприятию (как к покупателю) она не может использовать в другом месте для погашения задолженности. Возможность балансирования товарных поставок ограничивается ассортиментом продукции предприятия, порождая таким образом вынужденных кредиторов.

Этого можно избежать, если в своих инвалютных расчетах совместное предприятие является такой же органической частью экономики страны по месту своего расположения, как и во внутренних расчетах. При балансировании оборота между совместным предприятием и его членами (или другими предприятиями) можно тогда рассчитывать на экономический потенциал всего народного хозяйства страны, а ассортимент встречных поставок будет существенно расширен.

Таким же является и вопрос о взаимоотношениях международных кредитных учреждений СЭВ (МБЭС, МИБ) с совместными предприятиями. Ничто не препятствует тому, чтобы МХО получали международные кредиты на условиях, соответствующих распоряжениям банков СЭВ, но предварительно они должны позаботиться об обеспечении товарного покрытия. В интересах максимального роста национальные экономики обычно полностью используют имеющиеся в их распоряжении материальные ресурсы. У них нет значительных резервов; факторы производства нельзя одновременно и быстро мобилизовать. Одни лишь свободные производственные мощности, одни лишь резервы рабочей силы, одни лишь потенциально имеющиеся возможности освоения природных богатств — не резервы, которые можно мобилизовать за короткое время.

Это не специальная проблема, присущая лишь совместным предприятиям. Точно так же, как в области расчетов мы наталкиваемся на преграды в расширении базы для многосторонних расчетов, так и в международной кредитной системе обеспечение товарного покрытия для погашения кредитов тоже является общей проблемой.

Если народные хозяйства, исходя из возможностей, предоставляемых плановым хозяйством, уже максимально используют свои производственные ресурсы,

запланировав при этом сбалансированный оборот, то кредит не сможет возбудить производство дополнительной продукции.

Если бы совместное предприятие с точки зрения своих валютных расчетов было самостоятельной единицей, то его поставщик мог бы еще надеяться, что потребность в кредите ощущается только *предприятием*, то есть, что например, экономика страны месторасположения совместного предприятия не обязательно характеризуется дефицитом товаров. Тогда можно было бы израсходовать полученные поставщиками кредитные деньги, которые в дальнейшем поступали бы в обращение в качестве валютного требования страны, где расположено совместное предприятие. Однако в системе, носящей и признаки двухсторонних расчетов, сразу же возникает вопрос: к кому может быть обращено требование? В конечном счете именно должнику — совестному предприятию — следует обеспечить товарами погашение кредита, извлечение кредитных денег из обращения. Но оно не способно на это, ведь как раз поэтому ему потребовался кредит.

Обращение национальной валюты где-то задержалось. Кредиты, предоставленные совместным учреждениям в переводных рублях, *кто-то* должен взять на себя. Учитывая связь системы расчетов МБЭС и системы двухсторонних внешне-торговых расчетов, целесообразным кажется включение совместного предприятия во внешнеэкономические связи страны по месту своего расположения, чтобы сальдо его текущего счета в переводных рублях рассматривалось вместе со счетом в МБЭС страны — места расположения. Таким образом, кредит МБЭС потребуется только в случае, если расчетный счет данной страны в переводных рублях тоже станет пассивным.

В качестве заключительного вывода этой темы можно сформулировать, что специфика отношений между совместными предприятиями и системой международного сотрудничества определяется не особым статусом первых, а в основном границами последнего.

Точно так же, как в случае национальных систем, нельзя ожидать того, чтобы общее приспособилось к специфическому, чтобы система международного сотрудничества приспособилась к механизму, в котором нуждается совместное предпринимательство. Для жизнеспособности этих предприятий требуется генеральное международное соглашение, содержащее основные правила их деятельности и их статус, определяющее специфику их включения в национальные экономики, льготы, предоставляемые им, точки соприкосновения, в которых иногда общее следует привести в соответствие с частным как с точки зрения механизма международного сотрудничества, так и с точки зрения систем внутреннего управления.

Такие стремления непрестанно возникают в сотрудничестве стран-членов СЭВ.

Как высший консультативный орган по вопросам права, включающий в себя юридические органы и специалистов в области права стран-членов СЭВ, — Правовое совещание, — так и Постоянная Комиссия СЭВ по валютно-финансовым вопросам занимаются этой темой.

Уже по многим вопросам они разработали примерные уставы. Документы, принятые Правовым совещанием, определяют основные типы совместных предприятий, их статус, включение в международную экономико-юридическую среду; правила создания, деятельности (общего и оперативного управления ими), ликвидации предприятий, способы регулирования юридических споров.

Постоянная Комиссия СЭВ по валютно-финансовым вопросам СЭВ разработала возможные способы финансирования — способ оплаты расходов по содержанию и распределение этих расходов между членами совместного предприятия, если (или пока) предприятие не переходит на хозрасчет; кроме того, Комиссия разработала принципы ценообразования, установила способ отчетности и составления балансов, а также платежные обязательства, налоги и сборы, взимаемые с совместных предприятий (плата за коммунальные услуги, местные налоги и взносы).

Однако регулирование многих вопросов отодвигается этими соглашениями (рекомендациями, примерными уставами) на более поздний срок. К ним относится и вопрос пересчета национальных валют и бюджетных связей.

Пересчет национальных валют на переводной рубль

Знать стоимостные соотношения национальных валют и переводного рубля необходимо уже в момент рождения совместного предприятия для расчета уставного капитала и прибыли. Иначе было бы сложно вычислить, заинтересована ли и в какой степени какая-либо из сторон в финансовом отношении в деятельности совместного предприятия.

Существующий метод пересчета валют*, применяемый в связи с деятельностью совместных учреждений и предприятий, служил другой цели. Он применялся не для предварительных расчетов, а для последующего распределения расходов; на коллективную валюту пересчитывалась не фактически образовавшаяся прибыль и не действительная «цена» капиталовложения, — расходы по капитальному строительству, включая прибыль строительной организации, — а фиктивная цена (и, таким образом, прибыль), рассчитанная на базе предполагаемой в данной стране средней производительности труда и служащая исключительно для международных расчетов.

Другой важный постулат, подразумеваемый данной методикой, — это то, что эквивалентность международных расчетов возможна только при применении дифференцированных коэффициентов.

Способом участия в строительстве совместных объектов до настоящего времени обычно было предоставление конкретных *потребительных стоимостей*, требуемых для данных объектов. Отклонение международных цен от контрак-

*Речь идет о так называемой «берлинской» и «варнинской» методике; последняя является уточненным вариантом первой.

ных приводило к тому, что в национальных ценах на долю таких продуктов, оборудования или работ приходился иной процент общей сметной стоимости, чем при расчетах в переводном рубле, по внешнеторговым ценам. Поэтому принцип распределения инвестиционных затрат заключался в том, что за основу нужно было принимать смету не в национальной валюте, а в контрактных ценах, и делить ее пополам, на три, на восемь частей. (В этих совместных учреждениях обычно следуют принципу равных паев.)

Согласно методике, определенный процент расходных статей требовалось оценивать как по внутренним, так и по контрактным ценам. Средняя величина соотношения вышеуказанных расчетных сумм была тем коэффициентом, который применялся при расчетах по созданию и содержанию совместных объектов. Средневзвешанная величина стоимостных соотношений по статьям и группам расходов составляла индивидуальные, различные для отдельных предприятий коэффициенты, применяемые ими при пересчете валют.

Можно ли в настоящее время уже выйти за рамки этого регулирования, можно ли в расчетах совместных предприятий применять единые коэффициенты, курсы национальных валют или же в интересах жизнеспособного функционирования совместных предприятий и во избежание существенного нарушения интересов партнеров необходимо сохранить принцип дифференцированных коэффициентов, производных цен и фиктивной прибыли?

В соответствии с соображениями, высказанными выше, мы предполагаем, что создаваемые совместные предприятия должны приспособляться к системе цен и финансов по месту своего расположения. Их капиталовложения, основные средства и надолго отвлеченные оборотные средства должны стоить по национальным ценам столько, сколько они действительно стоят. Потребности в капиталовложениях должны определяться именно этими затратами, а не условной сметой. Мы исходили из того, что создающиеся в будущем совместные предприятия будут получать прибыль; следовательно, при пересчете национальных валют следует учитывать эту фактическую величину.

Так как во взаимных расчетах нами учитывались бы не производные цены и не специальные расходы по капитальному строительству, и распределялась бы не фиктивная прибыль, то едва ли будет обоснован тот элемент прежней методики, согласно которому чистый доход следует калькулировать в форме надбавок к заработной плате.

Что касается вопроса единого или дифференцированного курса валют, то основной вопрос — это выяснение того, возможно ли при нынешних системах цен стран-членов СЭВ существование валютных курсов вообще. К критериям системы цен, допускающей функционирование курсов валют, следует отнести получение при реализации пользующихся спросом товаров доходов, пропорциональных вложенным средствам и позволяющих осуществить расширенное воспроизводство; отсутствие больших и сознательных «отклонений» в величине чистого дохода; ее должную гибкость.

Сведения, накопленные (часто только косвенно) о системе цен стрфт-членов СЭВ, указывают на то, что функции и механизм цен различны в отдельных странах; национальные системы цен по-разному расходятся как друг с другом, так и с уровнем и соотношениями внешнеторговых валютных цен. С точки зрения применения единого коэффициента весьма существенно, что содержание прибыли в национальных ценах различно по отраслям и по более крупным группам продукции (в сущности, независимо от конкретных характеристик и технического уровня продукции).

Если бы во всех странах-членах СЭВ между внутренними и внешнеторговыми ценами существовала связь типа коэффициента цен (валютного коэффициента), если бы национальные системы были достаточно гибкими, если бы соотношения прибыли и вложенных фондов в национальных ценах были более выравненными по отраслям, то во всех фазах и всех операциях по учреждению предприятия, его функционированию и расчетах по результатам можно было бы применять единый коэффициент.

В нынешних условиях надо различать пересчеты национальных валют в связи текущей хозяйственной деятельностью и в связи с трансфертами капитала и прибыли. Эквивалент текущих расходов и выручек в национальной валюте — строго придерживаясь принципа приспособления — целесообразно устанавливать в соответствии с существующим на месте расположения предприятия порядком.

Если валютное требование становится частью валютных требований страны по месту расположения предприятия, если финансирование импорта осуществляется банком места расположения, точно так же, как и финансирование текущей потребности в оборотных средствах, то совместному предприятию имеет смысл придерживаться тех же финансовых норм, которые существуют для остальных предприятий. Деятельность совместного предприятия должна отвечать общим требованиям эффективности. Исключением из общих норм хозяйственной деятельности может быть только «зеленый светофор», предоставляемый совместным предприятиям в области материально-технического снабжения и обеспечения валютой. Ведь основание совместного предприятия потеряло бы всякий смысл, если бы оно не смогло осуществить свои рациональные цели из-за нехватки средств. Это следует считать необходимой и минимальной льготой, предоставляемой совместным предприятиям, создаваемым на базе согласования межгосударственных интересов.

Не исключено, что такое ранжирование потребностей совместного предприятия в некоторых случаях может оказаться обременительным для платежного баланса, валютных и прочих резервов страны-месторасположения. Тем не менее следует подчеркнуть, что такое международное регулирование является предпосылкой функционирования совместных предприятий. Страна по месту расположения берет на себя не обязанность по постоянному содержанию совместного предприятия, а только обязательство удовлетворять *при наличии у предприятия*

национальной валюты его потребности в продуктах и иностранной валюте на общих для всех условиях. (Можно предположить, что эти условия зависят от степени изобилия или дефицитности благ, — в том числе и валюты, — осуществляя тем самым автоматическую селекцию.)

В зависимости от масштабов предприятия возможно и такое решение (его упоминают и утвержденные документы), когда в интересах уменьшения валютного бремени часть постоянных потребностей в оборотных средствах упредители совместного предприятия заведомо обеспечивают в иностранной валюте.

Заметим, что это тоже показывает, насколько учреждение и функционирование совместного предприятия является предметом принятия решения на макроуровне при существующих в настоящее время экономических условиях стран-членов СЭВ. Централизованное распоряжение валютными средствами является общей характерной чертой системы управления народным хозяйством во всех странах-членах СЭВ. Такое решение может быть принято основателями совместного предприятия — членами МХО — только при согласии своих валютных органов.

Следует, конечно, иметь в виду, что коэффициент, применяющийся для определения эквивалента в национальной валюте валютной выручки и импортных расходов совместного предприятия, в значительной мере влияет на величину полученного результата (прибыли). Однако мы предполагаем, что партнерам ясно это обстоятельство еще до основания совместного предприятия! Следовательно, если при существующих условиях, учитывая ожидаемые валютные затраты и поступления, они не сочтут его рентабельным, то они могут отказаться от участия в нем. Это одна сторона дела.

Другая сторона — это коэффициент, применяемый при вычислении эффекта. В этом случае имеется определенная возможность для поправок искажений, вносимых национальными системами цен. (Если поправок будет очень много, то воздействие этого вмешательства нельзя было бы учитывать. Целесообразнее такие поправки концентрировать на двух основных пунктах — величине коэффициента пересчета капиталов и прибыли, и — об этом будет сказано ниже — на принципах и размерах налогообложения.)

Если бы в странах-членах СЭВ имелась соответствующая этим требованиям и пригодная к ориентации решений (действительно воздействующая на принятие решений) система цен, то вопросы валютных расчетов при текущем финансировании и переводе капиталов и прибыли не обособлялись бы настолько резко. Открылась бы возможность для применения единого валютного коэффициента, выполняющего функции курса валюты; международные расчеты стали бы значительно проще. Однако само по себе существование совместных предприятий едва ли побудит страны-члены СЭВ к приспособлению систем своих цен к вышеуказанным принципам. Точнее: отнюдь не это побудит страны СЭВ к совершенствованию в этом направлении внутреннего регулирования своих экономик.

Пока в системах цен не произойдут вышеописанные существенные изменения, — а это зависит от множества объективных факторов, — можно считать правомерным требование, чтобы коэффициенты, применяемые при переводе капиталов и прибыли, отражали дифференцированные величины данного круга продукции или отрасли. Если согласно выполненным контрольным расчетам коэффициенты пересчета национальных валют на переводной рубль по основным видам инвестиционных благ и планируемого выпуска продукции только в небольшой мере отклоняются от средней по данной стране величины, а средняя величина по «меньшему кругу» не окажется «лучшей», или, по крайней мере, иной средней величиной, чем величина, рассчитанная на всю сферу внешнеэкономических связей, то в духе предусмотренных Комплексной программой задач имелась бы возможность добиться определенного прогресса в области применения курсов национальных валют. Если мы ставим задачей создать в настоящее время жизнеспособные предприятия, то необходимо учитывать специфику национальных систем управления, цен и финансов.* А это может быть обеспечено применением дифференцированных коэффициентов, используемых при расчетах капитала и прибыли, и корректирующих существенные отклонения национальной системы цен.

Однако в перспективе правильно ставить целью создание общих условий для применения курсов валют. Этого требует и необходимость повышения эффективности во всех областях процесса интеграции. Измерять же экономическую эффективность и рациональность решений можно только с помощью единого мерила.

Бюджетные связи совместных предприятий

Самая важная особенность бюджетных связей совместных предприятий — это то, что капитал, необходимый для их деятельности, ассигнуется не из государственного бюджета места его расположения, а предоставляется учредителями совместного предприятия.

Перераспределение доходов национальных предприятий через госбюджет, происходящее в широких масштабах во всех странах СЭВ, не касается совместных предприятий и международных хозяйственных объединений из-за наличия обоособленной от национальной собственности. Исходя из этого, налогообложение совместных предприятий отличается от налогообложения предприятий, находящихся в национальной собственности. В то же время совместное предприятие не может

*Такую формулировку дает и *И. Виние* в своей статье о системах валютных курсов в странах СЭВ: «При применении валютных коэффициентов следует обязательно учитывать различия и особенности в интересах осуществления как можно большего числа рациональных начинаний при соблюдении взаимных интересов и обеспечении эквивалентности расчетов в процессе интеграции производства в рамках СЭВ» [4].

рассчитывать и на финансирование расширенного воспроизводства из бюджетных средств; оно должно опираться на кредиты и собственные средства.

В отношении совместных предприятий СЭВ принцип приспособления мы должны понимать по-другому, чем в капиталистической экономической среде. Нет и не может быть речи о том, что совместные предприятия тогда будут находиться в одинаковых с отечественными предприятиями условиях конкуренции, если они облагаются равными налогами. Это существенное различие вытекает из отличающихся друг от друга функций капиталистического и социалистического государственного бюджета. Охватываемое и осуществляемое бюджетом социалистического государства перераспределение доходов является гораздо более широким, оно распространяется не только на экономическую деятельность государства в области управления и организации, а также фотды общественного потребления. Государство в качестве *собственника* также использует и перераспределяет значительные по величине доходы.

Поэтому понятны и обоснованы стремления стран СЭВ, направленные на формирование всеобщего, но до определенной степени отличающегося от отечественных предприятий, регулирования деятельности совместных предпринимательств. В отношении совместных предприятий СЭВ эти отдельные мероприятия требуют гармонизации. Однако здесь мы должны иметь в виду и то, что большое различие наблюдается не только между правилами, имеющимися в отдельных социалистических странах по отношению к совместным предприятиям, но и между системами налогообложения и бюджетных связей национальных предприятий.

Если коротко рассмотреть тенденции развития систем налогообложения в странах СЭВ, то можно отметить множественность не только ставок налогов, но и форм и структур каналов изъятия чистого дохода.

Страны-члены СЭВ по своим системам налогов и изъятия чистого дохода в настоящее время делятся на две большие группы:

1. Основная форма — налог с оборота и отчисление от прибыли. Их дополняют другие, введенные позже формы налогов (СССР, ГДР, Румыния, Болгария, Монголия).

2. Налоги как параметры экономического решения, то есть как финансовые требования (нормативы). Их главные формы: налог с оборота, имущественный налог, начисления на зарплату, налоги на прирост оплаты в зависимости от роста производительности труда и, наконец, подоходные налоги (Венгрия, Чехословакия, Польша).

С учетом всего этого было бы нелегко унифицировать формы налогообложения совместных предприятий стран СЭВ с различным местом расположения. Мы можем поставить цель или требование — обоснованное с экономической точки зрения — определения величины тех налогов, которыми можно обосно-

зано облагать совместные предприятия в пользу государственного бюджета страны по месту расположения данного предприятия. Другими словами: следует установить границы обложения доходов (в том числе прибыли) в пользу госбюджета страны места расположения предприятия и той их части, которая остается в собственности совместного предприятия.

Существенным элементом будущего регулирования является то, что речь идет не о включении какой-нибудь независимой от эффекта хозяйственной деятельности, твердой ставки изъятия доходов, а о *дележе* производимого (реализуемого) чистого дохода. Здесь необходимо изымать источник покрытия тех общих потребностей, которые обычно берет на себя центр в определенной экономике для обеспечения функционирования микроединицы.

Для установления этой величины прежде всего необходимо выяснить, что следует считать валовой прибылью совместного предприятия, подлежащей налогообложению. Правильнее всего установить ее как разницу между выручкой и издержками (расход материалов, зарплаты, накладные расходы, в том числе отчисления на социальное страхование, возможный налог с оборота). При формировании согласованного регулирования следовало бы предусмотреть образование фонда риска в процентах от уставного фонда.

При определении обоснованной доли дохода, поступающей в госбюджет по месту расположения совместного предприятия прежде всего следует учесть роль фондов общественного потребления, так как инфраструктурный фонд для функционирования предприятия в самом широком смысле создается в стране по месту расположения путем подготовки кадров, обеспечения жилищного и коммунального обслуживания, развития сети здравоохранения и т. д. Исходя из этого следует установить процентную норму отчислений от прибыли.

По-видимому будет правильным, если такие виды налогов, которые призваны служить развитию производственной инфраструктуры непосредственной среды (местные налоги и коммунальные сборы), будут взиматься с предприятия. Если власти по месту расположения стремятся этим направлять и оказывать влияние, нужно, чтобы совместное предприятие «взяло» эту высоту, удовлетворяло этим требованиям, и даже после уплаты этих налогов добивалось благоприятной рентабельности. Точно так же не вызывает сомнения, что текущие медицинские услуги и взносы в пенсионный фонд (отчисления на социальное страхование) — если предположить, что совместное предприятие вступает в трудовые отношения с гражданами данной страны, — тоже должны взиматься с него в размерах, соответствующих нормам места расположения.

Что касается изъятий, имеющих характер поимущественного налога, включая плату за фонды, то возможны два решения: совместное предприятие освобождается от налога, и эти доходы, пропорциональные капиталу, увеличат фонд деле-

жа между госбюджетом и совместным предприятием; если же эту сумму рассматривать как минимальную отдачу, в любом случае приходящуюся на долю членов предприятия, то можно представить, что эта сумма вычитается из доходов, подлежащих дележу (как прибыль), и возвращается предприятию. Оставление платы за фонды предприятию гарантирует твердую, хотя и скромную прибыль, пропорциональную капиталу, что было бы весьма привлекательным для членов предприятия.

Если совместные предприятия и можно освободить от внесения платы за фонды, то от ее начисления не следует; в калькуляции цен это необходимо для создания одинаковых с отечественными (национальными) предприятиями условий.

Трансферты прибыли, величина части доходов, оставляемой предприятию для его развития, в принципе не требуют нормативного определения. Вопрос требует лишь совместного решения, и это решение целесообразно принимать единогласно правлением совместного предприятия (МХО).

Страна по месту расположения совместного предприятия — если этого требуют интересы обеспечения внутреннего снабжения или политики в области занятости, — может поощрять реинвестиции через ставки налогов или разрешением ускоренной амортизации.

Конечно, развитие совместных предприятий и повторное вложение их прибыли должно служить интересам участвующих в совместном предпринимательстве национальных экономик. Замена национальной собственности международной сама по себе не является целью. Это обосновано лишь постольку, поскольку такое решение является наиболее эффективной альтернативой удовлетворения потребностей. Возникновение по всей вероятности здесь высоких требований приведет к селекции, вследствие чего через определенное время окажется возможной соответствующая репатриация прибыли.

Прибыль, приходящаяся на долю членов совместного предприятия, должна распределяться пропорционально вложенному капиталу (на основе паевого участия). Из прибыли, остающейся на предприятии, целесообразно образовывать социально-культурные фонды и фонды личного поощрения, согласно нормам по месту расположения предприятия. Эти нормы тесно связаны с политикой данной страны в области жизненного уровня. Остальные средства следует отчислять в фонд развития предприятия.

Следует сказать еще несколько слов и о других бюджетных связях. Речь идет в сущности о дотациях на продукцию, реализуемую внутри страны и за рубежом. В отношении внутренней реализации можно исходить из следующего. Если в сложной системе цен и финансов данной национальной экономики на определенном участке народного хозяйства — вследствие сознательного отклонения цен — рентабельность производства ниже среднего уровня, а общие интересы требуют создания совместного предприятия, то государство по месту его расположения может предоставить дотацию для нормального функционирования предприятия, не требуя ее возмещения при налогообложении. Ведь можно предполо-

жить, что на другом участке (другой отрасли или производстве) этот минус, вызываемый отклонением цен, в конечном счете будет возмещен в данном народном хозяйстве соответствующим плюсом!

Субсидирование экспорта — это уже вопрос особый. В интересах развития многосторонних расчетов, многостороннего балансирования можно считать целесообразным, чтобы страны СЭВ развивали в одном направлении свои финансовые системы. Желательно создать такую гармонизированную систему, в рамках которой экспортные субсидии в виде возврата налогов компенсировались бы за счет поступлений от импорта. В этом случае определенная часть субсидий полагалась бы и совместному предприятию. Однако этот вопрос тесно связан с общим развитием валютно-финансовой системы, поэтому он требует дальнейшего тщательного исследования.

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A FEW FINANCIAL QUESTIONS OF CMEA JOINT ENTERPRISES

K. BOTOS

The article reports on the national economic criteria of CMEA joint enterprises foundation and the financial problems of enterprise economy. It states in the introduction that international joint enterprises, i. e. the foundation of such enterprises, are in CMEA countries essentially dependent on central decisions. A national economy is interested in a foreign enterprise if the profitability of the latter exceeds the rate of profit attained by home enterprises. This is a high claim and checks the intensity of the international flow of capital. The author expresses the view that the socialist integration process is characterized mainly by capital regroupment concomitant with investment coordination within each national economy.

In the international economic unions founded at the present stage of CMEA cooperation the conditions of enterprise economy must be created. The invested capital must be in proportion with interestedness, accounts related to foundation and functioning must be fitted into the foreign trade relations of the company seat, i. e. into the planned foreign trading cooperation. The latter is necessary because multilaterality is as yet limited within the CMEA. From the financial aspect the two least settled problems are those of currency conversions and budget relations. Without international regulation of these no international joint enterprises can be founded on enterprise initiative. The

author expresses the opinion that, at the present stage of cooperation, differentiated coefficients have to be used in the accounts of the joint enterprise, yet he remarks that in the longer perspective it will be expedient to set the aim of creating conditions for uniform rates of exchange. As for the budget relations of joint enterprises and unions the author suggests for guiding principle that the limit has to be drawn between profits due to the budget of the country where the enterprise seat is and those remaining in the possession of the joint enterprise. For establishing the share of the former the rate of social common consumption can be taken into consideration. The division of further enterprise profits between members and re-investment is decided by the Board of Directors of the joint enterprises.

T. BÁNFI

THE SDR: AN APPROACH FROM THE VIEWPOINT OF MONETARY THEORY

The author tries to define the nature of SDR from the viewpoint of monetary theory starting from the operating mechanism of SDR. Having refuted SDR as a kind of money he outlines the reasons for the necessity of further development, and its conditions. Then, having separated the notions of world money and international money a verification of the necessity of an issuing mechanism of international money deviating from that of national money is given. Finally, the effect of SDR on international liquidity and inflation is analysed.

The antecedents of the creation of the special drawing rights (SDR) are generally known. The mechanism of the operation of the SDR system is known as well, therefore it will be covered only briefly. On the other hand few analyses have been published about the SDR as a category of the quantity theory of money, especially in Hungarian economic literature, and even the published papers are strongly controversial. This paper is devoted primarily to the definition of the SDR according to the quantity theory, and only secondarily to the relation between SDR and international liquidity, and between SDR and inflation. The latter's secondary importance is seen from the fact that due to the present 'weight' of the SDR, the practical results are about neutral.

The operational mechanism of the SDR in outline

The global fund of the SDR was originally determined in a value of 9,5 billion (SDR 1 = \$ 1) which was introduced in the first three years at instalments of 3,5 - 3 - 3 billion dollars. The total fund was distributed among the International Monetary Fund (IMF) members according to their regular IMF quotas. It was forecast that the total SDR fund would be increased but this has not been carried out so far.

The SDR is not directly available for transactions, its holder is only entitled to draw convertible currency through the IMF from a given other country. Neither private banks nor individuals are allowed to participate in the SDR circulation.

The IMF countries can utilize the distributed SDR in three ways, two of which being essential: if the balance of payments of a member country is in the red, it is entitled to draw convertible currency for the partial or total settlement of the liabilities; with the approval of the partner country it may be used for repurchasing the country's own national currency.

The SDR is utilized through the mediation of the IMF which at the same time guarantees that countries with active balances of payments are bound to pile up a similar share of SDR. A bottom is set for using and a ceiling for accepting SDR in order to thus

prevent or at least restrict the 'freezing' of the functioning of the system. The countries with deficit are under obligation to repurchase 30 per cent in case of a 100 per cent utilization, i. e. 70 per cent of their quota is available on yearly average of the base period. The active countries are committed to accept SDR up to 200 per cent of their quotas, i. e., their maximum stock of SDR may amount to 300 per cent of their own quotas. 1,5 per cent interest is paid in SDR by the countries utilizing SDR to the partner countries.

It was attempted to maintain the stability of the SDR's value with gold clause: the original equality $\text{SDR } 1 = \$ 1$ was already a derived rate, namely, the gold parity of a unit of SDR was determined as equivalent to the gold content of the dollar at that time (0,8886 grams). In the meantime two important changes have taken place:

1. The almost symbolic 1,5 per cent interest rate was cancelled in June 1974, and the current SDR interest rate was made dependent on the market interest rate. (If the government interest rate level of five given countries ranges from 9 to 11 per cent, then the SDR interest rate is 5 per cent; any 1 per cent deviation therefrom changes the SDR interest rate by $3/5$ per cent.)

2. The gold clause was substituted by value determination according to a currency basket. The value of a unit of SDR depends on the market rates of exchange of 16 countries' currencies – weighed by their percentual shares in world exports (the USA weighs 33 per cent, the GFR 12,5 per cent, Britain 9 per cent, etc.).

Qualification of the SDR

Economic literature is not unambiguous about the judgement of the SDR from the viewpoint of the *theory of money*. There are views considering the SDR to be of the nature of *paper money*, while other authors consider it to be *credit money*. *Against* both opinions, in my judgement, the SDR is *neither* paper money *nor* credit money.

It is characteristic of paper money that their emission (that is, the flow of money) precedes the real flow (production), and this is why too much money is circulated in comparison to the actual requirements of commodity turnover. The excess money may diminish or even disappear if the emission of paper money induces real flow, i. e., if additional production follows. But this is only a specific case, consequently paper money usually induces an increase of prices. There is no detectable identity between the issuing of SDR and this type of paper money mechanism either in form or in contents. The overall amount of the issued SDR was distributed among the countries belonging to the system (the proportions of distribution are disputable but that is another problem), i. e. the monetary reserves of each member country increased. The main point is that the holder of SDR may utilize its SDR quota only if its balance of payments is in the red, i. e., if it is durably short of liquidity. The reason of durable illiquidity is excessive imports relative to exports or/and a relatively big volume of long-term capital exports. The occurrence of the real flow is verified directly by the first, and indirectly by the

second (imports were consumed, capital was invested), and this in turn means that the flow of money was subsequent to the real flow, that is, the SDR can be neither paper money nor an asset of similar type. If a country with an active balance of payments were also allowed to utilize its SDR quota, then the above argument would be inadequate but as in such case utilization is prohibited (and is presumed to remain so), this is sufficient here to contest the paper money character of the SDR. True, like paper money, the SDR has an inflationary effect (this will be discussed later), yet it cannot be considered to be paper money for this feature alone, on the one hand, inflation may be caused not only by paper money and, on the other hand, the essence of paper money is the mechanism of emission, and its inflationary effect is already a consequence of the form of emission.

When negating the SDR's paper money character I argued that while the priority of the money flow is typical of the mechanism of paper money emission, the utilization (i. e., emission) of SDR follows a flow of commodities already completed, consequently the two mechanisms cannot be identical. On the other hand negation of the SDR's paper money character could be understood as an admission of the SDR's credit money character, provided that the priority of the real flow to the money flow were the only determinant of the features of credit money. However, the priority of the real flow is only a necessary but an insufficient precondition to the credit money character, thus this is an insatisfaction evidence for the SDR to be credit money.

Not alone the sequence real flow — money flow is characteristic of credit money but also that the beneficiary of credit uses the received amount as a means and not as income, (that is, the objective of the owner of the money is production and not final consumption); thereby the credit is redeemable after selling the produced new commodity, the money is thus returned to the bank and is annulled. I will revert to a full-scope comparison of the features of international money and credit money. Here it is enough to understand that if the SDR is available only in case of an adverse balance of payments, and if structural national illiquidity and over-liquidity are characteristics of the international monetary system, then the countries with active balance of payments have to accumulate SDR, and thus the SDR cannot return to the issuer and the circle will not be closed either.

Simultaneous denial of the SDR's paper money character and credit money character suggests the conclusion that the SDR is not money, because there is no other (third) category of money without intrinsic value known in monetary theory. It is easy to realize that this suggestion is correct, that is, the SDR is not money. The essence of money is the unity of the functions of measure of value and medium of circulation. For the SDR to be money it ought to satisfy both functions, so it is sufficient to prove the lack of one function to negate the money character of SDR.

Each of the following three factors prove that the SDR does not satisfy the function of medium of circulation: the SDR cannot be used directly in international payments; it can be used in an indirect way (exchanged into convertible national currency) only between central banks; its use is limited for the case of deficit in the balance of payments.

Thus, the SDR does not satisfy the function of a medium of circulation, *hence the SDR is not money but something else.*

The gross amount of the SDR, in first approach, is an illiquid monetary reserve. The illiquid SDR becomes liquid if a country exchanges her SDR quota partly or totally into convertible currency, but this may happen only in the case laid down in the statutes: if a member country's balance of payments shows a deficit. Then the country may ask for convertible currency — through the IMF — from one of the countries with active balance of payments, up to its SDR quota. Thus the illiquid monetary reserve — the SDR — is not turned into money, only it can be exchanged for money. Therefore, the SDR can in no circumstance be considered as money.

There may be less conventional cases of the use of SDR, but these do not modify the aforesaid. The SDR can be used, together with convertible currencies, for repayment of IMF credits; for refunding the costs arising in the course of the functioning of the SDR system; as well as for repurchasing the national currencies from other countries with their approval. In the first two cases the SDR goes from the member countries to the IMF, and the IMF, too, can obtain convertible currency against the SDR, while the third way of utilization cannot be considered to be general because it would be unreasonable for a country with adverse balance of payments — whose approval is required — to exchange the convertible currency at its disposal into SDR and thereby to increase the illiquid part of its reserves at the expense of the liquid part.

The SDR can be defined more precisely only if its total quantity is divided into two parts: the 30 per cent part of the quota to be repurchased and the 70 per cent part which may be durably used.*

The 30 per cent part of the quota may be considered to be purely an invert of short-term credit: contentually, it is identical with IMF stand-by arrangement, and the only difference in form is that according to the stand-by arrangement the member country exchanges convertible currency for its own national currency and not for SDR (this difference persists also for the refunding of credits: national currency or SDR must be re-exchanged for convertible currency).

The 70 per cent part of the quota corresponds contentually to an invert of conventional overdraft. Yet, by its form it is different: the conventional overdraft — as shown by the denomination — is given on the basis of a signed agreement of the member countries, while according to the other form the member country gets convertible currency for SDR. The conventional overdraft is used both for bilateral and for multilateral clearings: also the range of use of the 70 per cent part of the quota may be considered as multilateral clearing whose participants are the IMF member countries.

In the case of both the conventional overdraft and the SDR, if the member countries are permanently divided into groups of debtors and creditors, both the overdraft and the SDR credit will be durably unidirectional.

*Of course after rescission of repurchase obligation the total quantity may be considered as durably used.

To sum up: the SDR is neither paper money nor credit money, nor is it even money; from the total SDR fund 30 per cent of the quota may be considered as a *pure bank credit*, and 70 per cent as *overdraft* (technical credit).

Necessity and conditions of improving the SDR

Against the statements of relevant literature, in the previous section I tried to prove that contentually the SDR is not money at present. Comparison of the contents of SDR and of money could have been one way of proof, while the second way – which I selected to verify my earlier statement – was to compare the two fundamental forms of money: credit money and paper money with SDR.

The reason for selecting the second method – though this explanation might seem to be unnecessary excuse – was in part that literature does not discuss the SDR's money or non-money character but states that it has the characteristics of credit money or of paper money, in part it was that by proving that the credit money and paper money character of SDR is untenable grounds have been provided for drawing conclusions in respect of monetary theory.

Contentually the SDR is not money today, but the SDR system can be improved (no matter whether by the name SDR or something else), a new international money may be brought into being. The new international money could fulfil the functions of world money and conversely: as it would satisfy the functions of world money, it could become international money.*

There are different reasons for developing the SDR in the direction of international money, two of which I consider essential and worth stressing. The *first one* is the following: the functioning of one or more national currencies as world money would be detrimental to the interests of the member countries in the monetary system. In part because the country whose national currency is at the same time world money would enjoy advantages against the other countries, it could durably consume more at the expense of the other countries, because it could afford a durably adverse balance of

*In the context of the notion of international money I have to clarify the meaning of the adjective "international". So for the notions of international money and world money were treated as synonyms, i. e., both meant the same thing: the qualified currency satisfying the functions of world money. The two kinds of terms did not cause problems because the functions of world money were satisfied partly by the national currencies and partly by gold which, according to its origin, is also a world money of national emission (production). With the introduction of the SDR system the issuing of a new world money was made potentially feasible and if the SDR (or its advanced version under any name) will become real money, then a new mechanism of emission will develop: international money will be issued by an international institution. To avoid ambiguity it is advisable to use the term international money for indicating the international character of the emission of money, and the notion world money for denoting the money that fulfils the functions of world money. Accordingly, the notion of world money is a broader category than international money, it covers the international money and those national currencies which fulfil some function of the world money.

payments (it is another point that in such a monetary system it needs to be durably adverse); in part because only a national currency can satisfy the functions of international accumulation medium, thus the spending capacity of the member countries' monetary reserves would be the function of the monetary policy of one or more countries. *The other reason* is the desire to make the position of international liquidity independent of the different countries' national liquidities.

The expectations listed as causes can be satisfied *partly*, and *only partly* with the creation of the international money.

The quantity of international money, that is, the proportion of the international money related to the total world money requirement of the world market is, in my opinion, affected not by theoretical but by practical considerations. In the international flow of goods and capital the functioning of the national currencies as world money simplifies the system of payments and remittances, namely, there is no need to exchange or and convert the international money into national currency. For example: if a West German company purchases in the USA, payment in dollars simplifies the settlement because there is no need to exchange the international money into dollars, or to convert the \$ price of the commodity into international money. Of course I know that choice of the "simpler payment" is only a subjective assumption which cannot be proven unambiguously, yet I consider it to be a realistic alternative because there is no argument against accepting a national currency as world money in its function of international medium of circulation. Anybody *may* accept a national currency for international payment if he purchases within a short time for the amount received, and within this time the purchasing power of the national currency does not decrease; anybody would be pleased to accept national currency if its purchasing power was likely to increase.

Different is the case with the international accumulation function of world money. In its accumulation function a relatively long lasting immobility (at least if compared to that in the function of circulation medium) is specific of world money. It is in the interest of the countries to preserve the purchasing power of the monetary reserves, to avoid a decrease in the reserves' purchasing power. This concern can be safeguarded only and exclusively by international money. No country can guarantee stability of the national currency's purchasing power, nor is any country capable to do so because that would mean giving priority to the international requirements over the national ones. Subordination of the national interests should be the stronger the greater the country's importance in international economic relations.

So I assume that the world market's demand for world money will be satisfied by a combination of national currencies (in different proportions) and international money. The function of international medium of circulation will be satisfied generally by national currencies, while the function of international accumulation medium will be satisfied by the international money alone. General interests will be partly met; advantages of countries whose money is world money will diminish; stability of the purchasing power of the countries' monetary reserves will be guaranteed; international liquidity position will become partly independent of the different countries' national liquidities.

I don't think that *total* satisfaction of the general interests could be a realistic alternative. This could be done by satisfying the demand of the world market for world money fully in international money. The *reason* is that general interests are of a national economic level, they cannot be reduced to the microsphere, to economic units, since they do not interfere with the interests of the economic units (not considering the possibility of administrative interference, the introduction of foreign exchange control).

Creation of the international money and its functioning as world money have both contentual and institutional conditions.

The institutional conditions are: to appoint the international institute with the authority of creating the international money; to lay down the organizational and operational statutes of the appointed international institute; to determine the countries belonging to the system, the terms of joining and quitting.

The contentual conditions are: determination of the rate and form of payment of the interest payable after liabilities and claims accruing in international money; of the price standard of international money; of the quantitative and qualitative relationship between international money and national currencies; of the issuing mechanism of international money.

Though appreciating most of the institutional and contentual conditions, I will emphasize and study in detail the issuing mechanism of international money because this is what I consider to be the most important problem and the one most difficult.

The theoretical conclusion derivable from the qualification of the present contents of SDR

Determination of the issuing mechanism of international money is identical with determination of its credit money or paper money character, provided that we set out from national (internal) money mechanisms. I deem this assumption *necessary* because monetary theory does not recognize other forms of emission of money without intrinsic value (also in relevant literature international money – and SDR, if considered as money – is squeezed into one of these two categories). I also consider it *permissible* because it cannot distort the ultimate conclusion. Namely, if only the credit money character of the international money is contestable then it is paper money, and if its paper money character is contestable than it is of credit money character, provided that also a positive proof is possible in both cases. If neither the credit money nor the paper money character of the international money can be proven, then the international money must fall into another category, implying that the issuing mechanism must be different as well, i. e., characteristics of the two basic types of national money cannot apply to international money (but this can turn out only *ex post*).

On the above basis, the international money may have four qualifications according to the theory of money: *credit money – paper money – credit money and paper money – some other kind of money* with features different from the above ones.

The international money cannot be paper money. It is characteristic of the emission of paper money that the flow of money is not preceded by a real flow, i. e., the issued paper money is not necessary but even superfluous for transacting the turnover. If it is not required by turnover then the money is not absorbed by the turnover, it must be forced upon the latter, and with the aid of governmental regulations. The world market would definitely not tolerate any money forced upon circulation and, on the other hand, there cannot exist any international institution with the authority to force paper money upon the world and thereby produce a redistribution of income where only that institution would be the winner and the member countries would be the losers – at various rates. Negation of the paper money character of international money implies that both the credit money and the paper money alternatives are excluded from the listed possibilities.

Nor is it expedient to consider the international money to be *credit money*. The following are specific features of the credit money mechanism[1]: money is put into circulation through credit; the beneficiary of the credit uses the money received as means and not as revenue; by the use of the means new goods are produced and with its consumption – after it – money returns to issuer.

The mechanism of international money cannot correspond with that of credit money for the following reasons.

Let us assume two countries (A and B) and that the two countries had no international transactions. If country A wants to buy from country B then country A has to apply for credit from the international institution which issues the international money. The country A availing itself of the credit thus received international money created by the issuer, and for which it can purchase, e. g. in country B. After purchasing the commodities A's volume of commodities has increased and a debt equivalent to the price of the commodities has emerged, while the volume of commodities of B has decreased and it disposes of international money equal to the price of the commodity. If reasonable, country B will not put the international money received in reserve but spend it on purchasing goods, say, from country C, so it flows to country C. Country A still owes to the issuing international institution, but the money it owes is in country C. Similarly to country B, country C does not keep the money but purchases goods for it. Now we could say that it purchases in country D, then country D in country E and so forth, but, in stead, we may state that in order to repay its debt, country A has to sell goods to country C (had we carried on with the sequence of trade relations we could have reached country X whereto the goods ought to be exported in the value of the world money held by country X; country X could as well be country C – as it was assumed – but it could be any other one, the facts remaining unchanged). If the price sum of the goods exported from country A to country C is equal to the quantity of C country's international money, then the issued international money flows back to country A, which can pay it back to the issuing institution, and thereby both the international money and the debt of country A cease to exist. If the system is closed this way, i. e. the international money flows back to the issuer and ceases to be money, then the issuing

mechanism may be called credit money mechanism and the international money credit money. In my opinion the payments turnover between the member countries of the international monetary system is not completely balanced, namely, the possibility of the flow-back of money is in general not provided, and there may emerge *permanent* creditor and debtor positions. This happens because the using of money as a means and not as income, indicated as the second feature of the credit money mechanism, cannot be proven in every case. Using money as income means – in the case of national money – that with its agency final demand is induced on the market of consumer goods. If the drawer of the credit does so, he will not be able to pay back his debt, namely, he could only repay it if from the real income he consumed only the part left after deducting the sum of the debt. But in this case the credit money mechanism does not provide for the – usually growing – money requirements of turnover but only means an advance on subsequent consumption. Partly for similar reasons, the international money of country A in the example cannot be considered credit money; namely, it is not sure that the commodities bought from country B do not contain goods satisfying final consumer demands, moreover, the imports of a country surely contain consumer goods, i. e., international money can be used in part as income.

Again, if it can be used as income, then country A consumes more than it produced by the rate of such use. In this case international payments can be balanced through the control of consumption, by creating and realizing exports corresponding to the value of imports: in the next period country A may consume less than it produces. Due to the negative elasticity of consumption the countries are usually unable to carry this out. All right, but it was also assumed that imports and exports are separated in time, and the counter argument – denying the possibility of reducing consumption – is rooted in this separation in time, in the assumption that imports precede exports. In fact, the coincidence of imports and exports must be reckoned with and then there is a new chance for balancing the international payments – for repaying the international money received as credit – i. e. the ratio of capital means of production to consumer goods in exports must be the same as, or at least may not be durably different from, that of imports.

Consequently one of two conditions must be satisfied for the international money having credit money mechanism: either only means of production may be imported, or the composition of exports and imports by means of production and consumer goods must be the same.

There is no realistic probability for the first condition to come true, while the second one is not impossible but cannot be proven either. I believe that the second condition is more usually not satisfied because of a lack of transmission between the macro- and micro-spheres: the identical (or at least similar) composition of imports and exports is a requirement that can be realized only on the level of national economy. As long as exports and imports are the sum totals of partial-exports and partial-imports transacted by economic units, the composition of exports and imports will be determined by the needs of these economic units.

The credit money character of international money is further impaired by an international feature which does not manifest itself in national contexts or if it does it is insignificant and thus negligible. This factor is the countries' *different* standard of production and technology.

Even if the countries imported only means of production, or if the proportion of means of production were the same in their exports and imports, owing to the different standards of knowhow and technology the international payments would be as a rule unbalanced (there would be lasting debtor and creditor positions): the country with more advanced technology is capable of producing a bigger value for exports with, or from, the same means of production — than the one with a lower standard of technology.

To sum up: the issue of international money according to the mechanism of credit money, i.e., that it has the characteristics of credit money, cannot be absolutely excluded, but this depends on such objective conditions which are not likely to materialize in a reasonable time.

Under the prevailing conditions the international money can have neither paper money nor credit money character but can be “only” of international character and “only money”. Its issuing mechanism is determined by the prevailing conditions.

The international payments turnover must be taken to be rather closed, i. e. such in which the claims and liabilities of the different countries are equal or do not differ for a long time. The contentual condition of issuing the international money — mentioned in the previous paragraph — may be now amended: the measure of permissible indebtedness is to be determined. The measure of permissible debts per country could be controlled directly (with administrative devices) or indirectly (with strict terms) and this is in fact the same as to say that the total claim for international money of the countries belonging to the system is distributed among the member countries according to predetermined quotas and the countries are to “live” on the received quotas.

SDR and international liquidity

The SDR was introduced with the desire to improve the international liquidity position: in part, by substituting dollars, to make the world money requirement of the world market independent of the US balance of payments position, in part to preclude the compulsion that the member countries could accumulate but national currencies, mainly dollars; this afforded advantages to the USA and implied disadvantages for the other countries. It was advantageous for the USA since it could durably consume more than its produced national income, and it was detrimental for the countries piling up dollars because the real value of their monetary reserves was steadily decreased by the instability of the dollar.

The purpose of creating the SDR was to fulfil the function of international medium of accumulation, thereby providing for the stability of the real value of monetary reserves and reducing the unjustified advantages of the USA.

The objective could not be achieved, not only because of the insufficiency of the SDR's internal system but also because the total quantity of SDR was only a fraction of the world market's demand for world money, and the distribution of the total sum according to IMF quotas did not and could not solve the internal conflict of the monetary system.

Let us now see if there was any change in the position of international liquidity and what type.*

The total quantity of SDR was equivalent to \$ 9,5 billion which was distributed among IMF members over three years time at the rate of \$ 3,5-3-3 billion. After the devaluation of dollars, then the introduction of valuation according to the currency basket, both the total value of SDR and the quotas changed, and have been permanently changing. For instance, the total amounted to US \$ 11,405 billion on December 31, 1974.

One side of international liquidity is the existing amount of world money. For determination of the international liquidity position the existing and the required amounts of world money are to be compared. Table 1 contains the ratio of the various types of monetary reserves to world imports [3].

Table 1
Ratios of monetary reserves to world imports
December 31, 1974.

SDR	Gold	Billion dollars			
		Basic credit utilization	Currencies	Total reserves	World imports (cif)
11.40 SDR/import	43.52 Gold/import	4.58 BCU/import	155.45 Currencies/ import	214.96 Reserves/ import	781.40 Reserves/ import
1.46	5.57	0.59	19.89	27.51	27.51

The relationship between demand for world money and the amount of world money available can be only approximated by a comparison of the above data. Nevertheless, partly because of the difficulty of determining the demand for world money, and partly because the ratios calculated from the approximate data are highly different, I feel relieved from lengthy computations. The table illustrates well the present insignificance

*The international liquidity position is interpreted the same way as in a previous article of mine [2]. The notion of international liquidity is somewhat modified: the other side of international liquidity is the set of national liquidities; further, instead of the one figuring in said article I prefer the following formula for the determination of national liquidity:

$$\frac{\text{yearly exports}}{\text{net stock of short-term debts}}$$

of SDR. The total amount of SDR is 5,3 per cent of total monetary reserves, and 1,46 per cent of world imports, while this latter ratio is 5,5 per cent for gold, 19,89 per cent for currency reserves, and 27,51 per cent for total monetary reserves.

For the other side of international liquidity, i. e., the national liquidity positions, approximate calculations are, for similar reasons, sufficient instead of a precise analysis.

Table 2
Comparison of monetary reserves and SDR quotas

Country	In billion dollars		
	Total monetary reserves	of which: SDR	SDR/reserves in percent
USA	16.06	2.37	14.76
France	8.85	0.25	2.80
Italy	6.94	0.22	3.18
Britain	6.94	0.84	12.15
Argentine	1.32	0.103	7.83

Table 2 contains a comparison of the monetary reserves and SDR quotas of countries with adverse balance of payments (according to the present rules only such countries may avail themselves of SDR).

It is clearly shown by the weight of the SDR quotas in total and by countries that there cannot be any considerable change in the international liquidity position, it is invariably characterized by the structural national illiquidities and over-liquidities. Otherwise, there couldn't be any qualitative change, nor could one come about even if the total amount of the SDR were increased because the causes of the fundamental contradictions of the system persist, and thus continue to act.

With unchanged conditions, an increase in the total sum of SDR and its redistribution according to some quotas would only allow the countries with adverse balance of payment to temporarily increase their indebtedness (corresponding to the rate of the quota increase), or to change the pattern of coverage of the existing liabilities in favour of SDR. In both cases the SDR would become partly or completely 'frozen', and the international liquidity position would remain unchanged. An increase of the amount of SDR alone would be a solution only if general international illiquidity were characteristic of the international monetary system.

SDR and international inflation

The problem is merely theoretical for two reasons. Partly, due to its proportion, the SDR cannot be capable of inducing a detectable rise in the price level, thus to select this factor and analyse its effect can be but a logical exercise. The question is still justified

because the present structure of SDR has an inflationary effect and as such may lend itself to wrong conclusions. In our days inflation is the worst evil threatening the national governments. And if it is true that an international money – such as the SDR – has an inflationary effect then the conclusion is obvious: no such money is required, the international monetary system does not need anything of the kind. As a matter of fact, the inflationary effect is obvious only in the given construction and is not a necessity in case of another type of regulation.

In the present system two causes determine the SDR's effect on the international price level. First: structural national illiquidity and over-liquidity are characteristic of the international monetary system; second: the SDR may be used by countries with adverse balance of payments, i. e., by those inflicted by national illiquidity. A simultaneous materialization of these two causes will by all means have an inflationary effect.

Let us assume two countries, A and B, where A is having an adverse and B an active balance of payments, thus A owes B, e. g. the sum of y dollars. If both A and B are given an SDR quota amounting to y dollars and if this can be used only by the country in the red, then A may increase its debt to B by y , so the price total of the goods directed to B country may increase. If the price sum grows because the volume of goods increased then the SDR has no inflationary effect, but the price sum will increase most probably because of a simultaneous increase of two factors: unit prices and volume. The basis of the assumption is the SDR quota allocated, causing an increase of demand in country A for the goods of country B, and the extra demand is manifested partly or entirely as surplus demand on the market of country B.

If the two conditions are not satisfied simultaneously, or more exactly: if the structural national illiquidity and over-liquidity cease (this is why it is not reasonable to restrict the availability of SDR to the countries with a deficit in their balance of payments), so does the cause inducing the inflationary effect. An SDR, the issuing of which were independent of a single country's financial policy – a stable international money could perfectly satisfy the function of international accumulation medium and also partly the function of circulation medium, while the national currencies functioning as world money would act exclusively in the quality of circulation media (a form of the assertion of Gresham's Law!) Inflation would not necessarily exist in this system, simply because international money plays the role of world money. I surely have ventured another assumption in this paragraph: that the SDR would not be the present one but something profoundly different contentually, namely, a genuine international money.

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СПЕЦИАЛЬНЫЕ ПРАВА ЗАИМСТВОВАНИЯ С ТОЧКИ ЗРЕНИЯ ТЕОРИИ ДЕНЕГ

Т. БАНФИ

Автор пытается определить с точки зрения теории денег характер специальных прав заимствования (СПЗ), исходя из механизма их функционирования. Вопреки мнениям, встречающимся в литературе, автор считает, что СПЗ — не деньги и поэтому они не носят характера ни бумажных, ни кредитных денег.

По своему нынешнему содержанию СПЗ не являются деньгами, но систему СПЗ можно и следует совершенствовать. Следует, так как, с одной стороны, функционирование какой-либо национальной валюты в качестве мировых денег противоречит интересам других участников валютной системы (покупательная способность валютных резервов этих стран в этом случае зависит от финансовой политики одной страны), а с другой стороны, правомерным является требование, чтобы состояние международной ликвидности не зависело от национальной ликвидности отдельных стран. Можно совершенствовать, так как функции мировых денег могут выполняться и международными каким-нибудь интернациональным учреждением, если налицо условия для их создания и функционирования.

На основе характеристики нынешнего содержания СПЗ автор делает три вывода с точки зрения теории денег: 1. Международные деньги не могут быть бумажными деньгами. 2. Международные деньги также нецелесообразно считать кредитными деньгами. 3. Размеры допустимой задолженности отдельных стран следует непременно ограничивать непосредственно (административным путем) или косвенно (посредством строгих условий), что по существу равноценно положению, что глобальные международные потребности в деньгах принадлежат к системе стран распределяются согласно заранее определенным квотам, а страны-члены осуществляют «хозяйствование» полученными квотами.

По мнению автора, роль СПЗ в формировании международной ликвидности является незначительной по двум причинам: совокупная сумма СПЗ незначительна по отношению как к общей сумме валютных резервов, так и к мировому объему импортного оборота; распределение совокупной суммы не отвечает структурным потребностям международной ликвидности.

Инфляционный эффект СПЗ пока еще является лишь теоретическим, так как из-за своей доли они не способны вызвать ощутимое повышение уровня цен, а при определенном изменении настоящего регулирования даже можно предотвратить инфляционное давление.

Таким образом, если СПЗ будут международными деньгами, — эмиссия которых независима от финансовой политики отдельных стран, — то стабильные международные деньги смогут полностью выполнять и функцию международного средства накопления и частично функцию средства обращения, в то время как национальные валюты, функционирующие в качестве мировых денег, находились бы в обращении исключительно как средства обращения (в качестве одной из форм действия закона Грешэма).

REVIEWS

V. NYITRAI

THE 49 MAJOR HUNGARIAN INDUSTRIAL ENTERPRISES BETWEEN 1971-1975

In November 1972 the Central Committee of the HSWP surveyed the progress of industry in Hungary and came to the conclusion that in the future attention should be centred primarily on those major industrial enterprises which *fundamentally determine* the process of industrial developments, as a whole. The resolution gave a brief outline of those 50 economic units—major industrial enterprises and trusts integrating several enterprises — which produced almost the half of total industrial output and whose dynamism and efficiency are of vital concern for industry, since the relationships of these undertakings and trusts branch out practically in every nook and cranny of national economy, and they also play a decisive role in exports.

This resolution was based on an analysis of the development between 1968-1971. The introduction of the new economic mechanism in 1968 imposed a far heavier burden on capital-intensive enterprises than on labour-intensive ones in the year of introduction. The original assumption was that we still had sufficient labour reserves in the given period but the management of assets had to be substantially bettered as compared with the level of the sixties. The charges on the assets — heavier than in the years before — hampered the financial position of the highly mechanized enterprises because of their technological characteristics and, even more, the material interest of the workers of these enterprises. After the reform the smaller industrial enterprises and cooperatives could more flexibly adjust to new conditions. This revealed itself above all in the fact that they could react to market impacts more quickly, and since the majority of their products belonged to the contractual (non-limited) price form, they could assure higher incomes to their workers through the profit-sharing system. Consequently, in the early seventies a non-desirable shift in labour structure could be experienced: a part of the qualified workers and technical employees (mostly young, graduated specialists) went to work to smaller and better paying companies and cooperatives rather than to major industrial enterprises operating under worse conditions. And this process started simultaneously with the dwindling of industrial labour reserves and when replacement — mainly of highly skilled workers — became more and more difficult.

All these circumstances signalled to the economic policy leaders that they should be more attentive lest a tendentiously unfavourable situation for the collectives of the most important major enterprises should arise, chiefly as regards direct financial interests (wage and profit-shares) and social benefits granted through the funds of the enterprise.

The list of the major individual enterprises and trusts has been compiled in accordance with the recommendations of the ministries and in due consideration of the remarks of financial and planning organs. The selected economic units had little in common as concerns their technological level, world market competitiveness, labour supply and, last but not least, efficiency. They comprised those rapidly progressing major enterprises which, so to speak, incorporated industrial development in the last decades as well as those major enterprises and trusts whose position and development was by far not free from problems (neither at the time of selection, nor, in a few cases, even today). The then 50 economic units (now only 49, since during the implementation of exactly this resolution, the "Red Star" Tractor Factory was wound up and its plants merged in other industrial organizations), undoubtedly have common features from certain aspects, but different ones, too, from others.

The common ones are – from the above aspects – that they include the most capital-intensive and relatively less labour-intensive economic units of industry. Their role in export went beyond their share in production (in 1970 these enterprises produced two thirds of all industrial exports).

The enterprises and trusts are different in that they can operate production factors with different efficiency; they differ from each other in the extent of contributing to the budget or in making use of state subsidies; they also have different development prospects and market conditions.

The November 1972 resolution of the Central Committee of the HSWP did not involve (nor does today) that these economic units, rather a heterogeneous set, should receive any kind of preferential treatment. No doubt, some of the concerned company managers harboured such illusions in the period following the selection. Some believed that inclusion in the list would mean an advantage inasmuch as state subsidies or credit amounts would be larger as compared to other enterprises. The experiences of the past few years have dispelled such fallacies and now it is already legitimate to state: the aim of the selection was to focus the attention of both the sectoral ministries and functional organs on these economic units without their violating any of the elements of the economic regulatory system functioning in the whole Hungarian industry. Paying attention also meant that the functioning, positive and negative effects of each regulatory element were specially observed, which formed the basis for some current modifications (e. g. change in the base of charges on assets).

Nature and development of the selected enterprises

The enterprises picked out for further study comprise the greater part of the extracting and primary manufacturing industry. They include (on the basis of employment) 85 per cent of mining with all the coal mines, the whole electric energy industry and 82 per cent of metallurgy with our largest iron metallurgy works, as well as the Hungarian Aluminium Trust. Within manufacturing the proportion of the selected enter-

prises is highest in the chemical industry; their role is somewhat minor (38–40 per cent) in the engineering, building material and food industries.

Among those selected we find traditionally concentrated major industrial enterprises, trusts as well as units which had been centralized during the the 1962–64 industrial reorganization and where in the late sixties and early seventies the inner restructuring and the concentration of production processes were still well under way. In the case of the latter enterprises the assertion of the new system of incentives had to be carried through simultaneously with inner restructuring, with rationally reforming the production pattern of the formerly medium-sized and small plants, with strengthening big corporate organizational forms. All these circumstances set enormous tasks to these enterprises.

Some major enterprises of the Hungarian industry were also selected which had been commonly judged already in 1971–72 as unable to solve the ever more urgent tasks of restructuring with their own resources. Their development, accordingly, necessitated the utilization of concentrated state resources, too (e. g. Ganz-Mávag, the Hungarian Shipyards and Cranes Factory).

In the late sixties the selected companies produced, in total, almost the half of state and cooperative industrial output, employed 39 per cent the labour force and operated 65 per cent of all fixed capital equipment. These proportions hardly changed in 1971–72. Since the selection the majority of the enterprises has been developing dynamically. This is briefly shown in Table 1.

To correctly assess the situation and the progress until the end of 1975 we must be aware of the fact that in the period following the resolution the crisis in world economy significantly affected the greater part of these basic economic units, in many cases more gravely than the less material- and energy-intensive enterprises. Therefore, it is definitely favourable that though the first category contains a great many of enterprises requiring not only a large amount of fixed assets but also much energy, the rate of progress was not broken by the unfavourable effects of world economy.

The following factors contributed much to the remarkable results of the dynamic enterprises, achieved in a relatively short time:

- 1) The Central Development Programs, which are based almost exclusively on the capacities of the selected major enterprises;
- 2) corrections in some elements of the financial regulators;
- 3) a better system of wages and stimulation for workers' collectives;
- 4) strengthening of management, complexity and far more comprehensive approach of company decisions and medium-term plans and their adequate adjustment to high-level decisions.

Of course, these factors do not exert their influence separately but are highly interrelated. Even a ranking would be too difficult to make, since we can quote examples for such well-considered, detailed, realistic central decisions weighing the expectable situation and conditions which did not materialize at the planned rate and extent because company initiatives, the participation of corporate collectives in the execution were

Table 1
*Some important indicators of the selected enterprises
 and trusts by categories of production development*

	Gross output at comparable prices	Employment	Average stock of fixed assets	Gross output per persons employed	Gross output per unit of fixed assets
1975 in percent of 1970					
Dynamically developing enterprises	178.5	110.9	172.7	167.3	103.4
Enterprises developing on the average	140.2	101.8	155.1	144.4	90.4
Moderately developing enterprises	109.5	95.2	117.2	122.2	93.4
Selected enterprises total	135.4	100.8	146.4	141.3	92.5
State and cooperative industry total	136.8	101.0	146.0	140.5	93.7

missing. But reverse examples can also be found: however good company decisions may be and however strong and disciplined corporate collectives are, they cannot bring success to an action which is not supported by an appropriate system of management and incentives. For the dynamically developing enterprises to "leap ahead" within the group, the mutually reinforcing interaction of the above-mentioned conditions was needed. This may be demonstrated through several examples (of course, without a claim for completeness).

The Central Program of Road-vehicle Manufacturing placed emphasis on enterprises whose majority belonged to the selected ones (Hungarian Railway Carriage and Machine Works, Ikarus Works, Csepel Motor Works). In the course of execution these enterprises started with fairly different conditions, and their efficiency was diversely influenced by the altered forms of the economic mechanism. Implementation of the program did not set off thus smoothly, yet its evolvement and the termination of the period covered by the Central Program met with full success. The secret of success was unquestionably the fact that the enterprises were granted considerable central investment subsidies, they also disposed of a properly elaborated and mutually adjusted system of decisions, for utilizing the funds. During implementation they did not for a moment abandon improving their technical and technological standards, with a view to maintaining competitiveness in export markets or even strengthening their position under aggravating trading conditions.

This example is worth studying carefully, all the more so, as during the drafting and adoption of the program its advantages were not obvious for everyone, opinions and appraisals were at variance concerning its evaluation. Buses represent typically material-intensive products, hence for our country poor in raw materials they may not seem a lucrative line. We had not all too favourable domestic traditions in motor-car construction. The final product is produced under exceedingly wide domestic and international cooperation, which necessitates well-scheduled, highly qualified, coordinated manufacturing. Well-scheduled output and coordinated internal division of labour were, however, far from being one of the basic characteristics of the Hungarian engineering industry. Finally, those sceptical about the program questioned our competitiveness from the points of view of both quality and assortment. Nevertheless, the practical implementation has refuted the sceptics. The action based on cooperation within the socialist integration yet at the same time including some production cooperation with and purchases of licences from the West yielded outstanding results, the effects of which will further increase even after the termination of the program. All that was realized by highly competent enterprise collectives that not only rose above their tasks but were capable of improvements, in a system of incentives reflecting properly the interests of the national economy and of the affected enterprises.

We could go on quoting other enterprises which took part in other central development programs, and changed over to an accelerated and more efficient development after the selection.

Besides them there is a great number of enterprises which did not participate in central development programs, yet realized developments with remarkable results making avail of their own development funds and state loans. Medicor Works is one of them, their assortment of products keeps pace with modifications in the most pretentious market requirements, hence their products are not only saleable on every market but can be produced with advantageous productivity and profitability as well. The selected pharmaceutical factories also belong to this group, their export rentability was in the past years higher than the average (mostly in socialist relation), this also established the material interestedness of corporate collectives, and they were able to produce practically all the means for development.

Among the selected enterprises there are some which could not develop appropriately either because of central decisions or because of inner problems. To the former belong the coal mines, a part of which was restrictedly developed within the framework of the program for reshaping the structure of energy, utilization and the mines, whose production was not profitable, were gradually closed down. At these enterprises intensive attention was paid primarily to assuring that the unfavourable consequences of stagnation or reduction should have little or no effect on the living standards of the workers of the enterprises and, accordingly, the state took the accompanying burdens upon itself. Among the moderately developing enterprises there are some, which — owing to their objective and subjective possibilities and constraints — cannot cope with their inner problems. They cannot be helped by simply being more attentive to their troubles.

Nonetheless, in a few years it may be revealed what motives, causes, components (either subjective or objective) *prevent* these enterprises from developing properly, where intervention in enterprise activity is needed. There was among them an engineering company where management had to be reorganized, another (Red Star Tractor Factory) which it was expedient to wind up, there were again others which were "reinforced" by credits along with intensifying the directing-controlling role of the ministry.

Thus in the years since the selection development tendencies of the major enterprises have become differentiated more expressly, and central control and regulation has been able to better adjust the factors and conditions of development to the nature of these major enterprises.

From among the factors conducive to a differentiated development of the major industrial enterprises it is worth having a closer look at the labour and machinery background of development as well as at the wage situation and its changes.

Labour force and capital stocks

In the observed economic units the distribution of labour is more favourable than in other fields of industry both on average and in the most important branches. In September 1975 46,6 per cent of the workers employed in the state and cooperative industry were skilled, 39,7 per cent semi-skilled and 13,7 per cent unskilled; in the 49 selected economic units the proportion of skilled workers is higher, 48,2 per cent that of semi-skilled and unskilled lower (the latter 12,9 per cent). With these averages, deviations are even more prominent in the most important branches. In the engineering industry we may notice that in these economic units mechanization and automation are evidently more advanced than in small enterprises, as in the engineering industry 38,4 per cent of the workers are semi-skilled on average, while in the selected economic units, the proportion of the semi-skilled rise over 43 per cent. In the chemical industry the proportion of the skilled workers is higher than in the selected economic units, it runs to more than 47 per cent as against the average 43,8 per cent, and in this branch the proportion of both the semi-skilled and the unskilled was lower in the selected enterprises. In the majority of the branches – except for only the selected enterprises of the light and food industries – the proportion of the unskilled is lower than the average for the whole industry. This also indicates, that mechanization of auxiliary processes, more up-to-date methods of material handling and of storing are more widespread in the selected industrial economic units than in other areas of industry.

One of the characteristic features of the deviations in the level of employment is that the share of white-collar employees per thousand manual workers is generally higher in the selected major industrial enterprises and trusts than in the non-selected minor economic units, enterprises, cooperatives. In the sixties the deviations were even larger than today. In the state and cooperative industry 294 white-collar employees worked on average per thousand manual workers in 1970, at the selected enterprises their number

was 319. The difference arose from the fact that the major industrial enterprises have a relatively extensive department for technological development, that administration is much more complicated, and that several of them have the right to export themselves, and consequently, the commercial department is larger. Apart from these necessary discrepancies, it was more conspicuous in these major enterprises that under the system of so-called "average wage control" the administrative staff became diluted through the employment of low-paid unskilled young persons.

But in the past five years the increase in the selected enterprises was lower: in 1975, on average, 325 white-collar employees fell on thousand manual workers in industry, at the selected enterprises 349, and this means a 9,4 per cent increase over 1970; at the same time the average rise in industry was 10,5 per cent. The present difference may be considered justified since major industrial enterprises and trusts have, as a rule, more complex organizational structures, which often requires greater necessary administration. The majority of the enterprises works, namely, in many parts of the country, with several plants, and this also contributes to the higher ratio of white-collar employees (not only technical and administrative but also of auxiliary and non-industrial employees).

In certain branches this proportion is better than that mentioned above. In the engineering industry in 1970–71 the number of white-collar employees per thousand manual workers was 7 more than the average of the selected enterprises, at present the proportion is almost the same at the selected and at the non-selected state enterprises, and cooperative societies. The structure of labour forces at the selected enterprises has thus changed to better comply with the resources of the country, the overgrowth of administration began to be better utilized, though the extent of change is not in every case satisfactory.

If we look at the structure of the number of white-collar employees more closely, the picture emerges that in the selected enterprises in general – most of all in the engineering companies – the number of administrative employees grew less than in the whole industry on average. We must stress, however, that the differences are not too great, the growth in ratio is considerable in both fields. In the whole state-owned and cooperative industry the administrative staff was 30 per cent higher in 1975 than in 1970, at the selected enterprises the rate of growth came near to 26 per cent, and there were only meagre changes at the beginning of 1976.

Beside labour another equally important factor of production is machinery. In this regard we can similarly report progressive development in the past five-year plan period.

The stock of fixed assets and primarily the mechanization of the selected economic units exceeded in 1975 the level of the end of the previous 5-year plan period more than any other field of industry. About two thirds of the investments in state and cooperative industry, in 1970–74 were steered to the 49 observed enterprises and trusts. In some of the selected units significant new investments were carried through, e. g. in building material producing enterprises, where the stock of machines and equipment was in 1975 two and a half-fold of that in 1970. In the chemical industry the stock of machines and equipment doubled since 1970, partly because the sectors of the chemical industry taking

part in the olefin program are also included; in other branches of the chemical industry the increase was considerably lower. Within the engineering industry selected enterprises involved in the computer program showed an outstanding increase in the stock of assets (therein of machines).

Tracing the factors of production it is also necessary to mention in today's energy situation how much these most important industrial enterprises and trusts are energy-intensive, whether their production and development requires higher energy consumption than other enterprises of industry do.

No matter which source of energy we choose, it is predominantly consumed at the selected enterprises. Some examples: in 1975 the selected enterprises used up more than 90 per cent the coal consumed by the whole industry; 100 per cent of crude oil, 97 per cent of natural gas consumption, 71 per cent of electric power and 90 per cent of fuel oil. These proportions have still been further increasing in the past few years, that is to say, on the one hand the dynamic growth of production has absorbed more energy, on the other, these enterprises have been most intensively influenced by changes in the structure of energy consumption, by the rise in the share of crude oil and natural gas. This statement holds not only for the selected enterprises of the electric power and the chemical industries but also for the branches of the engineering industry. Since the greatest part of primary energy consumption is concentrated at the most important industrial enterprises, it is well justified to pay greater attention to the rational exploitation and economical management of energy at these particular units, especially with the present high level of world market prices and with a view to expectable price rises.

Wages

A very important element of the 1972 November party resolution was formulation of the requirement that the wage level of the collectives at the major enterprises constituting the backbone of industry and, in the first place of skilled workers, should be increased with central aid more than that of workers of the small units, as small enterprises can adapt more flexibly and thus grant higher profit shares to their workers, which is a force that may draw away the most qualified labour reserves exactly from key areas.

In the years between 1968–71 it could often be observed that the wages of workers having the same qualifications grew faster in industrial and extra-industrial areas which were of less importance for a branch than at major enterprises of the main line. After the Central Committee resolution the wage adjustment of industrial workers early in 1973 made a positive and considerable change possible. As a result the average wage of the workers at selected enterprises was on the average 10,9 per cent higher in 1973, than in 1972, while the increase in the wages of the non-selected enterprises of the state and cooperative industry was only 9,1 per cent.

The rise in wages among the selected enterprises showed a strong dispersion already in 1973, since in addition to central possibilities and allocations the enterprise character-

Table 2
Monthly average earnings of workers in industry

Branch	in Forints in 1970		in Forints in 1975		1975 in percent of 1970	
	selected	non-selected	selected	non-selected	selected	non-selected
	enterprises		enterprises		enterprises	
State owned and cooperative industry total	2303	2005	3249	2710	141	135
Engineering industry	2114	2082	3008	2860	142	137
Construction material industry	2066	2077	2869	2767	139	133
Chemical industry	2075	2047	3040	2895	147	141
Light industry	1900	1865	2723	2457	143	132

istics and decisions also influenced proportions. Workers of the three enterprises on which the road vehicle program is based earned 13–14 per cent more in 1973 than in 1972, workers of the chemical combines earned about 15 per cent more, while those of the pharmaceutical factories earned only slightly more. In the next two years this tendency continued, naturally at a slightly moderated pace, as the gap had already been closed by the March 1973 wage adjustment. Selected enterprises developing dynamically in this period could continue to guarantee their workers an annual 9–12 per cent increase in wages.

As the results of these three years show, at the end of the five-year plan period 1971–75 the wage conditions of the workers of major industrial enterprises reflected not only the standard of their qualification and individual output but the national economic importance of the area where they were employed, as well. This is illustrated in Table 2.

These data also indicate that the income of the workers of major industrial enterprises grew faster in every branch than that of workers of minor units and cooperatives, and in several branches the present level of income is higher at the major enterprises.

The incomes of white-collar employees showed similar features, though here differences between the selected and non-selected units were – understandably – smaller.

The significance of the results achieved is further increased by the fact that since 1972 staffing problems in industry have worsened, exploitation of internal reserves is now of much greater importance than it was four years ago. One of such reserves is to make

avail of labour where it can be most efficiently utilized, where it can yield the socially best results. No doubt, this also means that major enterprises should keep skilled, experienced and trained labour and moreover create the possibilities for their replacement. Though in this respect the situation is not all too favourable, as replacement of skilled labour through vocational training is difficult in general, conditions in terms of income proportions are unquestionably better than prior to the November 1972 resolution.

Efficiency and its changes

The measures taken by the state control agencies after the November 1972 resolution, and the decisions implemented either through the central development programs or company initiatives were aimed primarily at improving the efficiency of these economic units so important for industry. The concept of efficiency can be approached from several aspects. In a given price system the efficiency of production is reflected in the proportion of the realized net social income to production inputs and within that to the utilized wages or/and equipment. Over and above this changes in the efficiency of economic units are characterized by whether the levels of their productivity and of the efficiency in exploiting assets are, separately or in combination, tendentially on the increase, that is, how enterprises make use of the production factors at their disposal under given conditions. Efficiency cannot be separated from competitiveness either, and in this context the share and development of contribution to exports is significant.

In 1975 the 49 industrial economic units produced 88,6 per cent more *net social income* than in 1970. Such a rate within five years is already remarkable in itself, but even more so if we consider that net social income in the whole state-owned and cooperative industry rose in the same period by a mere 63 per cent on average; so that the increase of net social income was at the non-selected enterprises substantially smaller. In branches in which development was based on central resources, e. g. in the engineering industry, where the road vehicle construction developed dynamically in this period, or in the chemical industry where the olefin program was put into operation in this period, or in the light industry where enterprises made avail of a considerable amount of state subsidies for reconstruction, realized net social income more than doubled at the selected enterprises and trusts. In contrast, the creation of net income at the non-selected enterprises of the same branches rose less swiftly: in the light industry it was less than 50 per cent. On average, in the engineering and chemical industry it was between 66–80 per cent.

This change which, nevertheless, can now be regarded already as a permanent tendency yielded the result that while in 1973 the selected enterprises produced not quite 40 per cent of the net social income of industry, their share reached 44 per cent in 1975. It means that the large production units of the industry, in keeping with their importance, take upon themselves a higher share of state burdens and can progressively base their development on their own resources.

Table 3
Profitability at the selected enterprises of industry

Branch	Net social income (Ft)					
	per 100 Ft			total cost		
	per 100 Ft	total cost	per 100 Ft	wage cost		
	1970	1975	1975/1970	1970	1975	1975/1970
State-owned and cooperative industry total	20.13	20.38	101.2	159	182	114.8
49 selected enterprises, trusts	15.64	17.34	110.9	141	184	131.0
Of which						
Engineering industry total	25.42	30.32	119.3	161	219	136.4
– selected enterprises, trusts	21.79	26.68	122.4	163	235	144.2
Light industry total	22.11	21.01	95.0	140	155	111.4
– selected enterprises, trusts	19.66	22.86	116.3	151	230	151.9

The 31 per cent increase in net social income per 100 Ft wage cost can be attributed to the effect of several factors. The production structure of the 49 enterprises underwent some minor changes already between 1970 and 1975. Companies applying both more up-to-date and valuable technologies have come to the fore as did those in which the share of labour input decreased or increased only to a lesser degree compared to mechanical work. Effects of the *more intensive way of development* become distinct in the following example which demonstrates that at the selected enterprises of the engineering industry every 100 Ft of wages paid yielded 235 Ft net income despite the fact that the companies affected did not belong to the most capital-intensive ones in industry. This is highly remarkable if we consider the data of 1970: the level of net social income produced with 100 Ft wages costs was then almost the same at the selected and non-selected units of the engineering industry.

At the selected enterprises of the chemical industry the net national income produced with 100 Ft wages amounted to 545 Ft in 1975 and the increase was faster than at the non-selected units. Concerning light industry this tendency is even more salient, with a special regard to the phenomenon that a part of the selected companies took part in the reconstruction of light industry. That is to say they mechanized the production process more intensively, though in this respect companies still have ample reserves (e. g. in the less-mechanized auxiliary work processes).

The export activity of the selected major industrial enterprises is decisive from the aspect of the whole industry, for already as early as in the period preceding the selection they had a substantially greater share in the foreign trade of industry than in industrial production. In 1970 export accounted for 20,7 per cent of total revenues of the selected companies (in industry this proportion was 17,2 per cent on average) and by 1975 this share rose further to 22,2 per cent at the major enterprises. Within industry these selected major enterprises participate most vigorously in the socialist integration and we do not exaggerate if we say that our participation in the integration will in the future rest principally on their activity. In 1975 exports to rouble areas ran to 55 per cent of total export and were thus 69 per cent more in value terms than the exports of 1970 to the same area.

Among the selected enterprises not only the dynamically developing ones are export-oriented but those moderately developing as well. From among the three groups the export share of the averagely developing enterprises is the lowest though its rate of increase is also considerable. At the moderately developing enterprises the export share is significant, too, yet it is rising definitely slower than at the dynamically or averagely developing ones. Although these data allow of no far-reaching conclusions, it seems obvious, that the dynamically developing selected enterprises allot, apart from state subsidies, their own resources to a major extent to stepping up exports, including export to socialist countries too, as this latter part amounts to more than 70 per cent of the total export of the dynamically developing enterprises, it is the solid market they can reckon with and rely upon in the long run. At the averagely developing enterprises socialist export constitutes near 50 per cent or slightly more of total exports. These enterprises deliver fairly great quantities to capitalist markets, thus they must take account of all the impacts affecting the volume of their sales on these fluctuating markets. At the moderately developing, yet export-sensitive, selected enterprises a large part of export is put on capitalist markets. The export of these enterprises was rising in these five years by only 14,7 per cent on annual average, capitalist export therein a little more slowly.

Conclusions

To sum up, the observed enterprises have been developing in their entirety – and most of them separately as well – favourably as regards both the tendency and the rate of progress. The sectoral and functional organs weighed the development of each major industrial enterprise or trust, the hindering or regressive factors more thoroughly than before. One – and perhaps the most important – result of this more intensive attention was the emergence of new, more up-to-date forms and methods in sectoral directing activities.

A definite differentiation occurred among the major industrial enterprises, and a study of the motivating factors of development also pointed out the need for more differentiation among certain elements of the regulatory system. At the commencement

of the 1976–80 plan period deviations in the conditions between the major industrial enterprises under observation and the smaller economic units are not so great (and what counts as well, not of the same direction) as at the inception of the preceding plan period, that is, in the years before the resolution was taken. The present world economic problems, the demands for improving the equilibrium of the national economy require greater efforts, more careful management, and more efficient production from both the major and minor units of industry. To this the central organs grant more support (both material and intellectual) than before. The major industrial enterprises are facing these problems from a more favourable position within the national economy than earlier, and their relative position is today more in agreement with their national economic importance and with the degree to which they utilize their internal resources, as well.

BOOK REVIEWS

CSIKÓS-NAGY, B.: *Socialist price theory and price policy*. Budapest, 1975. Akadémiai Kiadó. 371 p.

The book published in Hungarian in 1974 gives a comprehensive review of the problems of socialist price theory and price policy. Moreover, the two topics are not separated from each other, but socialist price policy is built on, deduced from and explained by socialist price theory. On the other hand, when discussing socialist price theory experiences of price policy are taken into consideration and theoretical theses are verified by them.

Part I entitled "Value and price" and Part II entitled "Law value and price function" are mostly of theoretical character.

Part I reviews, as a matter of fact, the Marxian labour theory of value and the price policy conclusions to be drawn from it. The reaction of the practice of socialist price formation on theory can be well seen here, for example, in the standpoint concerning Smith's dogma. The author points out that Marx's critique on Smith's thesis, according to which the value of a commodity is composed of incomes and dissolved in incomes, is justified from the point of view of examining the reproduction process where reproduction of the value of constant capital cannot be disregarded, but we would be wrong in drawing from this conclusions on price theory. Computer practice has shown that the constant capital element of value can be numerically reduced to wages and net income and in the practice of price policy the computation of real production costs, i. e. that of production costs reduced to wage-level is very important.

Part II deals with the system of economic control and management and this is more than promised by the title. Here the subject already reaches beyond price theory and price policy, which are broad in themselves. This widening of the subject is justified, because, on the one hand, the author analyzes the system of economic control and management first of all from the point of view of price theory and, because on the other hand, socialist price policy cannot be understood without analyzing the socialist system of economic control and management. Moreover, it cannot even be separated from the latter, since "The price theory investigates the system of economic control in connection with the functioning of the law of value in socialism" (p. 72).

The author defines the socialist system of economic control and management as a complex of the planning system, regulating system and organizational system, within which national economic planning has primacy. He disapproves of views which have confronted utilization of socialist planning and that of socialist market mechanism and "have wanted to give the impression that the discussions about the economic reform were an alternative between socialist planned economy or socialist market economy" (p. 79). He points out that "practically, the main point always is the synthesizing of plan and market for market economy without plan or planned economy without market are out of question" (p. 80).

Planning itself is made with prices and the kinds of prices used are also expressions of an economic approach. The author distinguishes planning by volume-approach, value-approach and efficiency-approach, respectively. According

to the first one planning is made at constant prices, in the second one at current prices, while in the third one by taking into consideration shadow prices obtained from mathematical programming.

With regard to the methods of government regulation the author reviews three basic models:

The first one is the model of the system of control and management with plan directives. The period of government regulation based on the system of obligatory plan targets lasted in Hungary until 1953. After that criticism on this system became more and more frequent. The second model is market-conform government regulation. The essence of this is that "the state can avail itself of all means in order to influence market conditions, but cannot restrict the price-automatism" (p. 111). Therefore, this is actually an economic policy narrowed down to financial (fiscal) policy. This model is not suitable for socialism since planned development cannot be ensured by market-conform economic policy.

After all, it is the third model that is considered best by the author. This is planned market regulation which "reconciles plan and market on quite another basis than the mechanism based on plan directives, the allocation function of the market mechanism is restricted conclusively and markedly in this case, too" (p. 115).

After that, the author reviews the problems of the third field of government activity connected with economic control and management, namely, those of state organization. Two questions are discussed; stimulation for improving productivity and profitability as well as competition and monopoly. Concerning the first one, the author states that although political consideration turns the scale in favour of productivity in the debate on productivity and profitability, this, however, does not mean that work organization should be based on the raising of productivity at enterprise level. This would be irrational since it would lead to distinction between work done within or outside the enterprise, respectively. "On the other hand, the category of profitability of enterprises may be a yardstick suitably synthesizing work in general, for it connects the work of an enterprise with work performed previously

without which production could not have been carried out" (p. 121).

"It is obvious that he who upholds the view of productivity of enterprises takes a stand not against profitability, but against productivity on national economic scale, that is he offends just against that principle whose cause he wants to advocate" (p. 121).

Speaking about competition and monopoly the author points out that "in socialist planned economy the tendency of "total" monopoly asserts itself" (p. 124). This is expressed in two ways: One is organizational integration when one or only a few enterprises represent an entire branch of industry, while the other is specialization in lines of production, when the sphere of activity of each enterprise is exactly determined by the state. "In the specialization system the individual enterprises organize production feeling - legally speaking - safe that they do not have to compete even if there exist enterprises which could turn out the same commodities they produce" (p. 124).

If socialist planned economy is organized in the system of planned market regulation then, beside the fact that monopoly is the basic organization form also here, the state tries to limit harmful effects resulting from monopolistic organization and to ensure limited competition that may arise between enterprises and products as well.

After having presented the complex problems of economic control and management, in *Part III* already concrete questions of price control are discussed. Firstly, the author reviews price planning, namely, the price plan itself, then sectoral price plans, long-, medium- and short-term price plans. A special part deals with the very interesting question of planning changes in price level.

The author distinguishes open and concealed changes in price level and is of the opinion that concealed changes in prices are more unfavourable than open ones since they cannot be measured and controlled, thus control by society can be less enforced. The reasons for concealed changes in price level are discussed with the assumption of unchanged individual prices. Three forms of concealed price changes are mentioned, namely: 1. the commodity pattern changes with prices remaining unchanged; 2. the quality of

goods changes with prices remaining unchanged; prices of new articles (assortments) are set relatively higher than those of the old ones.

The unfavourable phenomenon of concealed price increase had a great part in that several socialist countries had revised their price policies and replaced the principle of price reductions by that of price stability. In the long run, however, the price level is rising and not decreasing in most socialist countries, although from time to time also price reductions are carried out. The reasons for this may vary by country and period. Nowadays, there are three main factors causing price-increases to an extent differing by countries, namely: inflation on the capitalist world market, increasing costs of researches and development as well as commodity supply elastically adjusted to demand. From among the above reasons the last one needs most explanation. The author means by this that the more a socialist country tolerates shortage economy the easier it can realize price stability.

In the part dealing with price management the author discusses also the questions of price regulation and price-control proper. In the following parts he gives a detailed and analytical review of the particular price forms, namely, producer prices, purchase prices and foreign trade prices. *Part IV* entitled "Producer prices" deals with the producer prices of agricultural products and industrial goods as well as with the price of circulating commodities, namely with the commercial profit margin and transport tariffs.

Part V deals with the purchase prices of capital goods and consumer prices of consumer goods, touching on several interesting questions here. Such are, for example, the questions of social and political preferences, social allowances and those connected with income distribution.

The last part of the book, *Part VI* entitled "Foreign trade prices" deals, as a matter of fact, with questions of the CMEA-market. In the course of this, results of price debates within the CMEA are utilized.

With his book the author himself contributes to the development of the theory of socialist economy and, besides, he gives the reader a guide-book to the problems of socialist price theory and price policy of encyclopaedic character.

É. RADNÓTI

GADÓ, O.: *The economic mechanism in Hungary – how it works in 1976*. Budapest, 1976. Akadémiai Kiadó. 202 p.

Under the 1971–1975 five-year plan the basic objectives of economic policy – economic growth, consumption and accumulation – were implemented in greater conformity with the plan than was the case with previous five-year plans. However, in this period the conditions of the economy became much more difficult. Owing to changes in world market prices, especially in relative prices, and partly to their effect on CMEA prices, the Hungarian economy suffered considerable losses in 1974–1975. The author: "As a result of the deteriorating terms of trade in the last two years of the period, a considerable part of the increment of the national income was absorbed by national economic losses."

It has been a frequent subject of discussions in Hungary recently to what extent topical economic problems are caused by the deterioration in the terms of trade and to what extent by internal disproportions and shortcomings of economic activity. According to the author (Vice-President of the National Planning Office) this form of the discussion seems to be fruitless since the development of the terms of trade is more or less given for the Hungarian national economy. Therefore, whatever the main cause of economic problems may be, he emphasizes, that the solution can be found only in raising the efficiency of activities and increasing Hungarian export potentials.

Principles and main directions of the modification and modernization of economic regulators are based precisely on these considerations and can be formulated by stating that assertion of external market effects on the domestic economy should be strengthened, together with a simultaneous stimulation for higher efficiency and a consolidation of economic equilibrium.

It is, namely, obvious, as Gadó points out, that economic equilibrium and the possibility of increasing domestic utilization, including consumption, depends greatly on how far the production of commodities demanded on every market can be stepped up and how far the volume of not sought for or uneconomically, costly produced ones can be reduced or how far their production can be made more economic,

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usually through significant reconstruction and technological development. With the domestic endowments and the given scale of production, such development of the production pattern at an accelerating rate almost imperatively requires more extensive participation in the international division of labour. Implementation of the programme of economic integration of the CMEA-countries provides a sound basis and full opportunities for this.

When developing the entire system of corrected regulators of economic control and management introduced in 1976 and its individual components (e. g. adjustment and regulation of producer prices, income regulation, control of investments) great emphasis was laid on the relationship that modernization of the production pattern can be solved only in the context of the entire plan, by defining the objectives and means, through central decisions and economic regulation.

Solution is made more difficult by the fact that the total labour employable in the Hungarian national economy cannot be increased in the near future and in the field of material production even a decline must be envisaged in order to satisfy the growing demand for labour in non-productive branches. True, there are still many possibilities and reserves inherent in a better organization of work, in a purposeful improvement of productivity, in a better utilization of the working time, as is pointed out by the author. He draws attention to the fact that both economic regulation and purposeful government control activity must be applied so that economic organs should use the available labour more rationally and labour that can be saved in some places should flow to where it is most needed in the interest of efficient development.

Management must also react to the significant rise in the prices of materials, and this is apparently a lasting trend, since the volume of primary energy and raw materials available on the basis of the collated plans within the CMEA is limited and the share of materials to be procured more expensively from non-socialist resources is growing.

Ottó Gadó emphasizes that in applying and developing the control system we should be aware that it is the decisions on growth and regulation policy together that serve the im-

plementation of the objectives formulated by the conscious leadership of society. In the Hungarian planned economy the basic problems of the direction and rate of development, of income distribution and utilization are centrally decided. One way of this is precisely economic regulation which mediates the central will (objectives, limits of management, directions of utilization) to the enterprises. Economic development over the last eight years has proved that with these methods a fast and efficient economic growth can be attained and it can be also adequately assured that development be in conformity with the plan.

We must be aware of the fact, too, the author continues his chain of thoughts, that with the changes in economic conditions regulation must be updated within the shortest time after the change has been recognized, since the interests of the national economy can be only expressed in this way. In this sense, now not the economic regulation system of the fifth five-year plan-period (1971-1975) is in question, but the regulation in force from January 1, 1976. Not even the denomination should suggest that the regulation would remain unchanged unconditionally throughout the five-year period. Nevertheless, the regulators worked out are in harmony with the system of goals and conditions of the fifth five-year plan not only in their tendency, but also as regards the rates applied, the Vice-President of the National Planning Office emphasizes.

This is expressed, for example, also by the fact that while the earlier price modifications left the distribution of income among the enterprises as well as between the state and the enterprises, respectively, unchanged, the price modification of January 1, 1976 can be characterized by stating that the above income proportions have been rearranged and the centralized portion from the net social income available for the state is growing.

One of the most important aims of changes in producer prices is that orientating ability of prices should improve in order to promote rational management. The modifications of prices and financial rules must secure in combination that the relative rates of profit realized in prices should better reflect the real differences in the efficiency of production and more

income be accumulated with enterprises and in industries which are more efficient also from the national economic point of view and that their faster development might be thus ensured. Producer prices must reflect domestic inputs and the relative prices the relative inputs, respectively. Only in this way can the modification of prices fulfil its role of forcing the economic units to rational management.

The increase of the centralized portion of social net income and thus the decrease of the rate of profit available for the enterprises improve also the direction of financial stimulation. Before the modification of regulators a higher rate of profit involved a strong stimulation for increasing the volume of production but did not create adequate incentive for reducing costs. It is expected from the modification of enterprise income regulation connected with the modification of prices that with a lower rate of profit the sensitivity to costs increases, providing a stronger stimulation of enterprises for reducing production costs, saving on materials, increasing the productivity of labour, better utilizing the fixed and working assets. This is in harmony with the most important objectives of the fifth five-year plan. Consequently, the harmony between national and enterprise interests will improve also on this account.

In connection with the profit motive the author calls attention also to the fact that a static levelling of profits mitigates, but does not abolish the dispersion of the growth rates of enterprise profits. These differences are not intended to fully determine the differentiation of possibilities for wage increases in the various sub-sectors. This is why with the improvement and modification of the regulating system possibilities of a wage increase are to be less closely linked to the development of enterprise profits than earlier.

In the period of the fifth five-year plan a more active and flexible exchange rate policy will be followed. Its task is to maintain the stability of the value of the forint. At the beginning of the 1970s foreign trade price coefficients functioning as exchange rates remained basically unchanged, or only followed at most the devaluations and revaluations of the convertible currencies or their floating. As against this practice, in the period of the current plan the commercial rates of ex-

change will move under certain conditions. They will follow not only the changes in the relative exchange rates of foreign currencies, but also the differences between the domestic and foreign price changes prevailing in the competitive sphere (i. e. as regards exportable goods and services).

In his book giving a picture and analysis of the Hungarian system of economic control and management comprehensively, in its interrelations and its details as well, the author emphasizes all the time the important role of the central control agencies and the necessity of improving the efficiency and harmony of their activity beside control with economic tools.

In his opinion it is obvious that no more than stimulation can be attained with the regulating tools to realize the objectives of economic policy – which are based on a choice from among the alternative development possibilities offered by reality. Therefore, beside regulation central control must avail itself of other tools as well. The author emphasizes, that efforts should be made that eventual measures becoming necessary be clear, understandable to all and free from bureaucratic features. Only in this way can such an economic environment be created for the economic units in which their own measures and decisions will meet, in their totality, with the interests of the national economy.

J. LÉVAI

HAGELMAYER, I.: *Pénz és pénzpolitika a szocializmusban* (Money and monetary policy in socialism). Budapest, 1976. Közgazdasági és Jogi Könyvkiadó, 290 p.

The author published a revised and enlarged version of his book "Pénz a szocializmusban" (Money in socialism) published in 1964. His views formerly expressed on the essence of money in socialism have not changed basically, rather his statements have been more precisely formulated and enriched by generalization of experiences obtained during the last years. On the other hand, the part dealing with the role of socialist money in external economic relations is new, where the author tries to link questions connected with the domestic and external roles and functions of money, speaking also here

against an artificial separation of the domestic and external relationships of money.

The author discusses money and monetary policy in socialism in a historical and logical process, systematized in 4 parts, namely, according to the following topics: 1) commodity production and money, 2) money and gold, 3) money and its functions in a socialist economy and 4) socialist money in external economic relations.

In *Part One* dealing with the relationship between commodity production and money the definition of the character of socialist money is not attached to the solution of debated problems of socialist commodity production, although the author considers this connection important. Therefore, as regards the reasons of commodity production he expounds that they do not result from differences between public and group ownerships but from the relative underdeveloped state of the forces of production not allowing yet distribution according to needs and requiring both group- and individual incentives. Material interestedness postulates the division of a part of public property into independent economic groups and this lends such a character as if producers were separate owners. Social property segregated into into relatively independent parts excludes the possibility of conceiving socialist labour as direct social labour. This possibility is given in socialism and adequate production ensures full realization, but the separate interests of enterprises do not always coincide with the national economic interests which may cause problems later on, therefore their work is not of directly social character.

From the point of view of the role of money the author's statement, according to which in all socialist countries products face consciously acting consumers and money obtained from work, cannot be neglected. Money income means a certain amount of work performed and its demand for commodities expresses a social value judgement. The meeting of demand with supply also indicates market effects that have to be taken into consideration in the course of planning. In other words, it is not enough to acknowledge the socially necessary character of work from the side of money income, but the same must be ensured also on

the side of commodities, if we do not so a financial tension occurs. Namely, the role of money can be debated, in general, but it has always had an active part in the following three fields: a) on the market of consumer goods, b) when choosing a job and a working place and c) in the realization of products in foreign trade.

Therefore, no plan can be successful that disregards the reaction and active repercussion of the market. Thus a basic criterion of planned economy is an exact appraisal of changing demands and mobilization of resources in order to meet requirements ranked on the basis of socialist interest.

Part Two dealing with the relationship between money and gold discusses the concept according to which if there exists commodity production in socialism then there is money, too, and if there is money then it is gold. The author refutes in detail this standpoint which can be maintained less and less.

According to historical experience gold has been more and more pushed into the background and there is an ever greater discrepancy between the amount of banknotes issued and the gold reserves. Exchange of banknotes for gold has ceased and everywhere a paper currency deprived from inner convertibility is functioning. Therefore, the question can be raised with good reason: how can this measure value?

In order to prove the thesis the author assumes, at first, that money is gold also in socialism. In order to be able to measure value also the value of gold must be known, therefore, the amount of social labour embodied in it and necessary for its reproduction has to be determined. But the same must be done for each commodity so that comparison be possible. The author rejects the argument that, since value is not measurable by working time, the measuring of value can be solved only by gold. However, there are problems on the money side, too, since it is not gold that participates in circulation. It is not enough to say about paper currency merely that as much is needed for circulation as much gold is replaced by it. But who can determine how much gold is required for circulation?

There are four arguments in favour of gold as money, namely: 1) value can be measured only by value; 2) socialist currency has gold parity;

- 3) gold is produced as money-commodity;
 4) only gold can satisfy all functions of money.

The author refutes the arguments one after the other since

– the assertion of value-measurement by gold through a “historical chain” gives no answer to present price developments, new prices whose values could have never been measured in gold.

– There is no relationship between gold parity, the level of prices and purchasing power parity. The gold coverage of banknotes cannot be interpreted, it is the commodity cover that is important.

– Gold is produced not as money-commodity, but as any ordinary commodity.

– Socialist world money is the transferable rouble which cannot be converted into gold and has no connection with gold.

Therefore, the author draws the conclusion: gold can measure value only if it is functioning also as a means of exchange. Gold measures value either spontaneously or not at all. However, gold in its physical character is not a means of exchange in any socialist country, therefore it cannot measure value. An ideal measurement of value does not exist either, because even this cannot be separated from participation in the mediation of the exchange process.

Part Three has the title “Money and its functions in a socialist economy”. Referring to the closing chapter of the previous part the question is raised: if socialist paper currency does not embody any value, is it a money substitute at all? Can a non-existing money have a substitute? The answer is: socialist paper currency has replaced gold and acts in a form well distinguishable from the latter.

What makes this simple paper money? The paper currency separated from gold may become money only if it is coupled with the state monopoly of note issue, and socialist money becomes money in reality by performing the functions required from money by commodity production. In other words, socialist money represents social labour and becomes a measure of value by its forced circulation. Therefore, a unit of money represents a determined part of social labour.

The law of value, the author explains, can be excellently reconciled with the paper cur-

rency, since it only requires that relative prices should express relative values. Namely, individual and social value judgements are necessarily value judgements attached to proportions. If the socialist state has committed itself to a certain price then, resulting from the law of relative prices, its action is determined with regard to all other prices, but also in respect of wage incomes. Namely, one side of value measurement consists in measuring relative values, while another side is the price level, more precisely, the average price in terms of man-hours established between wages and consumer goods.

Free price is a condition for the functioning of the law of value; fixed prices are justified when the enforcement of social preferences requires restriction of the law of value. Thus, the official fixing of prices means a restriction of the value-measuring function of money. The preference system of state subventions and withdrawal of receipts through profit taxes deviating from the average has a similar effect.

One of the most interesting parts of the book is when the author discusses the Marxian formula for determining the amount of money necessary for the transaction of circulation and the numerous practical problems connected with it, and then expounds his standpoint on credit theory.

With the development of finances there is a part of transactions where the selling of commodities does not mean, at the same time, their realization and credit is the bridge that enables later payment. This creates the bill of exchange and then the banknote. In socialism the state has become almost the only creditor. But, from what sources and how can the socialist state bank of issue grant credits?

The author does not share the view that credit means exclusively the redistribution of assets temporarily released. Growing circulation requires that also the amount of money increases. But, from what sources does the state bank give money if it has no money itself and only keeps accounts? Money is credit money, and therefore it enters circulation through credit. The “source-theory” falls into self-contradiction when, on the one hand, it accepts that repayment of credit means the cessation of money, and, on the other hand, it states that the granting of

credit is no creation of money. According to the author's definition credit is a means of supplying circulation with money and of redistributing the available material values (up to the extent of incomes temporarily not spent).

After that the author discusses the major means of the capitalist banking system, issuing banks and of the anticyclical policy of the banks of issue (reserve ratio, interest policy, open market operations). Then he presents also the socialist banking system stating that the trend of development points from the one-level banking system towards the two-level one. He emphasizes that the functions and means aimed at influencing the business situation have to be ensured for the central bank.

Socialist money is also accumulated and saved, but this means no hoarding of treasure. Savings can be formed with the population, the budget and the enterprises as well. Savings of the population, whatever their material form may be (cash or savings deposits), create possibilities for the expansion of extended reproduction. Budget savings (surpluses) or deficits have a similar role as the savings of population. Budget revenues not spent decrease the possibility of credit repayment, while deficits increase it. There is thus a close connection between budget savings and changes in the credit stock. A restrictive monetary policy leads to budget deficits, while budget surpluses to greater credit debts. Credit granted to the budget is not in conformity with the money mechanism based on credit, since the possibilities of its repayment are very limited. On the other hand, savings of the enterprises are a monetary form of assets and thus do not increase the funds of the national economy.

Production of the money commodity in socialism would amount to wasting a part of social labour if the capitalist world market did not exist. Socialist price formation is relatively simple at present: we take over the current world market prices, eliminate from them cyclical effects and fix them for a certain period, while each country follows a separate domestic price policy.

According to *Part Four* of the book the taking over of capitalist prices can be disputed, but they might be conceived as a real economic category, since in the socialist countries condi-

tions have not yet matured for the construction of an own price basis. Multilaterality is not yet enforced in reality, rather bilateral relations are predominant.

Enforcement of the principle of price stability restricts the functioning of the law of value and makes price changes abrupt, furthermore it deprives prices from their stimulating role. This has led to a yearly fixing of prices, replacing the contractual prices valid for five years.

The author emphasizes that separation of external from domestic prices is understandable because of the interests related to the stability of domestic prices, but is not to be approved unconditionally. In such a situation enterprises do not feel the impulses of world market changes, consequently they cannot properly orientate themselves, energies to be derived from interest and compulsion are lost which can in no other way be replaced. Yet, it is the budget that carries and transmits the burden of changes. In this case price increases impose a burden on the entire economy, while in case of direct effects this devolves on the users and consumers of products which have become more expensive. From among the two evils the latter is preferable.

In bilateral settlements between socialist countries the situation of the weaker party determines the volume of the commodity turnover. Multilateral relations make possible to increase the turnover without upsetting the balance of debts and claims. However, for this it is necessary that

- the identity of a unit debt and a unit claim be ensured in each relation, i. e. each country should calculate with identical price level and relative prices

- They should structurally complement each other in demand and supply and no structural debtors and creditors should develop.

In case of multilateral settlements foreign trade between two countries is not determined by the position of the weaker party, but by the extent of structural levelling of the countries involved.

The book written in a witty and clear style claims the interest not only of the initiated, but also of readers with an average economic background.

E. HUSZTI

FEKETE, F.—HEADY, E. O.—HOLDREN, B. R.: *Economics of cooperative farming. (Objectives and optima in Hungary.)* Leyden — Budapest, 1976. A. W. Sijthoff — Akadémiai Kiadó. 138 p.

The work of an authors' collective of three — consisting of a Hungarian agricultural professor of economics and his two colleagues from the USA — gives a true picture of Hungarian cooperative development for the foreign readers and also produces valuable theoretical and methodological conceptions which are new in several respects. The book reviewing also international literature on the subject is based on the doctoral dissertation (Ph. D.) of the Hungarian author defended at Iowa State University.

The study gives an analysis of the historical development and socio-economic determinants of cooperative farming, furthermore such optimum solutions are deduced which, by quantifying economic objectives and possibilities, may characterize the cooperative form of agricultural organization. Objectives, limiting factors and interestedness relations are examined at the level of large-scale cooperative farms, household plots, cooperative members (households) as individuals as well as of the cooperative as an organizational (decision) unit. Cooperative problems of Hungary and the application possibilities of up-to-date economic mathematical methods also directly motivated the message of the book.

Chapter I, as an introduction, outlines the research background and main objectives of the study.

Part One characterizes the social transformation and organization structure of Hungarian agriculture in four chapters. Thus, Chapter II analyzes the 1945 land reform and comes to the conclusion that with the system of large estates also most of the quantifiable problematic deviations had disappeared, but "the harmful effects of the system of dwarf-holdings" very soon became tangible. Chapter III studies the socialist transformation of Hungarian agriculture between 1948 and 1961, but mostly during the last two years of the period and characterizes the proportions and role in the economy of state, cooperative and private sectors, respectively. Chapter IV concentrates mostly on the yield

aspects of the land reform and the input and yield relations of socialist agricultural transformation. In this chapter the radical changes occurred in farm size and in the number of agricultural organizational (decision) units are described as well as the organization of the newly developed socialist agriculture is characterized. Chapter V outlines within a relatively simple programming framework those objectives and constraints which might implicitly have existed at the time of the land reform and during the socialist agricultural transformation.

Part Two systematizes major socio-economic characteristics of agricultural cooperatives and develops various cooperative models. Within this, Chapter VI is a comprehensive investigation of the dual character of agricultural cooperatives: cooperatives as social organizations and cooperatives as economic organizations (agricultural big enterprises). It is taken into consideration that cooperative members are simultaneously co-owners (farming partners) and labourers of the collective farm as well. The cooperative farm consists of two constituent parts: the large-scale collective enterprise and the small-scale household plots of cooperative members (cultivated practically by the family). The large-scale cooperative enterprise can be conceived as such a special type of economic venture that is characterized by collective decision-making at the top level of enterprise decisions and from the point of view of state control by so-called cooperative democracy.

Chapter VII formulates firstly the general "behavioral" model of cooperative farming then — as a central construction — builds up the linear programming model of agricultural cooperatives. Finally, a simple cooperative model with emphasis on investment and technology is presented. The main conclusion is that mathematical programming models can be used also as a further basis for orientation in researches on economic questions of cooperatives.

Part Three consisting of four chapters applies cooperative optimization at three levels: large-scale cooperative enterprises, individual cooperative members (households) and cooperatives (made up of the large-scale cooperative farm, household plots and cooperative households) as organizational units.

Within this, one chapter deals with the theoretical and methodological aspects of cooperative programming. On the basis of the relevant literature alternative cooperative objectives and production functions are briefly reviewed and analyzed. A non-linear programming model is set up in algebraic form and a linear programming problem is presented as an example. It is many-sidedly demonstrated that the complex problems of cooperative optimization can be approached by quantitative analysis and mathematical programming can be used — mainly in collective big farms — as an efficient means of optimization.

The next chapter discusses optimization in the large-scale cooperative enterprise on the basis of the following six cooperative models: 1. "pure enterprise model" maximizing profits (which can be compared formally to the model of socialist state farms), 2. cooperative model of the petty commodity producer (family-farm) type, maximizing gross income per cooperative member, i.e. the difference between the value of output and costs other than wages, 3. the so-called intensity model, maximizing output per unit of land area, 4. maximum output model, maximizing gross production value attainable with given resources, 5. so-called efficiency model, minimizing costs and 6. cooperative growth model optimizing the increase of collective wealth.

A special chapter (Chapter X) systematizes the quantifiable economic objectives of cooperative families (households) and deals in detail with alternative employment opportunities available for cooperative members and their family.

Finally, the last chapter deals with the equilibrium problems of various constituent parts of the cooperative organization (collective large-scale farm, household plots of members and cooperative households) and discusses some aspects of economic policy referring to cooperatives. This chapter deals also with the maximization of social net income produced by a cooperative as well as with the equilibrium problems of household farming, furthermore with the possible conflicts between cooperative management and members.

Even this brief summary of the book indicates that it gives a review of the development of Hungarian agriculture over almost three

decades and a general survey of the present features of cooperatives.

An outstanding feature of the wide-range analysis is its approach closely connecting economic and social aspects. This complex approach is expressed, for example, when explaining the dual character of cooperatives, but also when discussing farming and enterprise problems: in the analysis of interestedness relations, in the examination of individual and cooperative group-interests and when casting light on the connections between the equilibrium of cooperative organization and economic policy.

In the study mathematical forms and means of analysis are consequently used. Economic categories of socialist cooperatives are given precise, quantifiable interpretations. First of all almost all factors of cooperative farming are fitted in the sphere of notions of linear programming and marginal analysis, and their connections are discussed in this framework. The authors make good use of the advantages inherent in mathematical formulation (unambiguous, precise definition of notions, clear emphasis on the relevant elements of relationships, etc.) in the entire book.

It can be said about the work as a whole that it is an exciting undertaking which tries to amalgamate approaches of economic policy, economic history, theoretical economics and economic mathematics, respectively, with the aid of a specific solution. In this sense the book can be considered positively as a pioneer venture justly claiming interest both in the West and the East.

I. BENET

FISCHER, L. A.—UREN, P. E.: *The new Hungarian agriculture*. Montreal—London, 1973. McGill-Queen's University Press. 138 p.

This small book can be regarded as an exception from several points of view in the rather abundant Western literature dealing with European socialist countries. Firstly, the approach to the topic is rather unusual. The presentation of Hungarian agriculture is approached from a triple territorial aspect: after a general discussion of the country's situation the county

Somogy is presented, and then three selected cooperative villages of Somogy are surveyed. By this territorial approach – used also by Hungarian economic geography in its investigations – the book gives more than an analysis of comprehensive statistics and makes the reader thoroughly familiar with socialist large-scale farming. This is a great advantage of the book, since a Western agricultural specialist can easily evaluate data on mechanization, fertilizers or yields, but can rarely imagine how a cooperative as farming unit and human community works. Another particularity is that the authors excellently know Hungarian literature on the subject – one of them, *L. A. Fischer* is of Hungarian origin – and very well understand the historically developed and the present particularities of Hungarian agriculture. Finally, the absolute scientific correctness of the authors must be stressed. They have some views that can be disputed, but their opinion is always well-founded.

The book written in an enjoyable style gives a good picture of the vitality of Hungarian agriculture and of its rapid development after so many shocks.

The beginning of the book is not very promising. The introductory chapter (with the ambiguous title: Hungary between East and West) wants to sum up in 9 pages the historical lessons of more than 100 years, which is an all too ambitious task. Development after the Liberation is also dealt with in a simplified way, while introduction of the new economic mechanism is qualified as a too great change.

Chapter 2 (Background to change) gives a tangible picture of the pre-war agriculture in Hungary and the county Somogy: starting from the natural environment of farming and including also the frozen semi-feudal ownership relations. The anachronistic character of former Hungarian agriculture comes to light. Literary excerpts colour the description.

Chapter 3 reviews the democratic land reform of 1945 and its consequences. After an analysis of the political importance of this land reform the authors state: Hungarian agriculture became a sea of such small farms whose modernization was hardly possible at all. The government had to decide soon whether it should

accelerate the capitalization of big peasant farms or begin with collectivization. It logically followed from the political character of power that this latter solution was chosen. The authors briefly review the economically unfounded, forced collectivization in the first half of the 1950s, then the successful reorganization into large-scale farms between 1959 and 1962. The rapid industrialization envisaged by the first five-year plan imposed enormous burdens on agriculture and development of agricultural production came to a sudden stop. It must not be forgotten, however, that, despite all exaggerations and mistakes Hungary succeeded in establishing a considerable industry in that period. Even if the first five-year plan had followed a more efficient investment policy, the capital required could only have been drawn away from agriculture (and personal consumption). There was no other source of industrialization.

Chapter 4 reviews the organization of large-scale farming, then presents a state farm and 3 co-operatives from Somogy County working under deviating natural conditions and representing various economic levels. The role of household plots is dealt with in some detail. Contrary to most Western authors they correctly state that household plots are integral parts of the cooperative farms (e.g. fodder supply for animals in the household plots is ensured by the collective farm). They do not consider realistic, however, that such an important part is attributed to household plots in Hungary even in long-term plans. In their opinion, with a new generation soon replacing the old one, there will be less and less people willing to spend all of their leisure time on household plots.

Chapter 5 deals with the system of agricultural planning and economic regulation. Several such problems of development are mentioned which had still existed a decade ago – e.g. agrarian over-population, weaknesses of vertical integration – but became insignificant since then. No doubt, the performance of elderly cooperative members can impair the efficiency of agriculture even today and production could be maintained also with a considerably smaller employment than at present. In our country, however, rational compromises are enforced between social policy objectives – as e.g. full

employment, levelling of the living standards of particular social layers – and purely economic goals. Thus, elderly cooperative members are given possibilities to work even at the expense of optimum efficiency.

The last two chapters (Chapter 6 and Chapter 7) outline the transformation of village settlement and of the agricultural landscape. In these chapters the authors use the traditional human geography approach. (This old discipline of geography systematizes the traces of the activity of society to be seen on the surface of the earth.) New elements of socialist agricultural landscape, as extensive fields, large buildings, new road networks etc. are gradually spreading. The authors also mention the expected effects of the circumstance that the confines of agricultural big farms do not coincide with former village frontiers. Less attention is paid to expected or imaginable changes than it would be necessary, although the same might be said about Hungarian literature, too.

I think that the authors do not deal with the basic feature of rural transformation, namely the changing rural society, to an extent justified by its importance. They disregard, for example, the fact that the Hungarian village is no longer a purely agricultural settlement (what is more, on the national average even the majority of rural population is of non-agricultural occupation), the majority of co-operative families are "mixed" ones, with one or more members working outside agriculture and this greatly influences their social behaviour. The large-scale organization of agricultural work brought about, at the same time, a new division of labour within the agricultural population: it has been homogenized from the point of view of class relations and differentiated from that of occupation. The authors do not pay due attention to these fundamentally important changes.

To sum up, we can say that this book of modest volume is a correct and high-standard summary of the enormous transformation of the Hungarian agriculture and the Hungarian village.

GY. ENYEDI

FAZEKAS, B.: *A mezőgazdasági termelészövetkezeti mozgalom Magyarországon* (The agricultural cooperative movement in Hungary). Budapest, 1976. Kossuth Könyvkiadó, 315 p.

The subject of the book is not the entire Hungarian agriculture but its cooperative sector, and for that field a manysided and comprehensive analysis is presented. The genre of the book is hard to define: elements of monography, agricultural policy, economic history and agrarian economics are blended into a homogeneous unit.

Another feature of the work is the abundance of facts and data given in support of the subject. The quantity of the demonstrated statistical material and its expert treatment call for the reviewer's sincere acknowledgement. 65 tables are contained in the book, complemented with appendix tables with the most important data series regarding the economic activities of the cooperative farms between 1950 and 1975.

The book consists of five chapters and gives a precise analysis of the years between 1945 and 1975. Chapter I deals with "The antecedents of the agricultural cooperative movement". Prior to World War II with all the cooperatives operating in the villages taken into account, the author estimates their number on the present area of the country at more than 4000. However, he stresses: "Except for a few, generally short-lived initiatives, there were no agricultural producers' cooperatives in Hungary before the liberation" (p. 17). Therefore, it is only natural that the peasantry had no real knowledge nor positive experiences about cooperative farming.

The author states about the period 1945–1948 that the development of agriculture was influenced by factors of opposed effects: in part, the war damages were a great retrogressive force, while the zeal of peasants who obtained land knew almost no limits and gave an unprecedented impetus to production.

Chapters II and III deal with the socialist transformation of agriculture. The first stage is given as between 1949–56, the second as between 1957 and 1961. The speedy but highly

inconsistent development of the cooperative movement between 1949 and 1953 is presented. The agricultural policy of these four or five years was characterized by the following negative features deriving from the shortcomings of general and economic policies.

The statement of the Hungarian Workers' Party at its 2nd Congress that "the decisive strategic task before the party and the country is to eliminate the dual character of our economy and to create the unified socialist foundations of our economy through the socialist transformation of agriculture" is considered to be rash and inconsiderate (p. 70).

Striking data are listed to illustrate the lack of objective economic conditions and its consequences (p. 69). Such a consequence was for instance that agricultural production was supposed to increase by 54 per cent till the end of 1954 in comparison with the year 1949, while the actual increase was only 11 per cent. The lack of conditions is shown by the fact that the capacity of the stock of agricultural tractors grew by less than one-third of that planned. The use of fertilizers was 56,5 kg/ha at the end of the plan period, or less than 50 per cent of the planned amount. Agriculture's own development resources were channelled into other sectors of the economy.

The mass violation of the principle of voluntariness also had a role in the organization of cooperative farms. Most of the cooperative farms and all of the state farms increased from the lands offered by the exploiters, by the working peasants and by state institutions. The peasant policy of the party was based on the principle that under the conditions of the dictatorship of proletariat class struggle would steadily intensify, and therefore, the oppressing functions of the dictatorship had to be enhanced. This bore administrative measures, over-restriction of the *khulaks*, and the extension of this restriction onto the middle peasantry.

Regarding the first stage of the socialist transformation of agriculture (1949–1956) the following is stated in summary: "The first socialist large-scale farming experiences were obtained through the state farms and the efficient cooperative farms. The consolidated socialist large-scale basis representing about 20 to 21 per

cent of the whole agriculture and developed in the years from 1949 to 1956, became later on the essential prerequisite for successful socialist transformation. The reserves existing in agricultural production already between 1949 and 1956 were explored only in and after 1957 when the political and economic measures concerning the peasantry and agriculture were developed in a direction corresponding to the interests of the peasants." (pp. 96–67).

In Chapter III the author presents an analysis of the concrete implementation of socialist reorganization of agriculture in the years of mass collectivization (1959–61). Already here he discusses the differentiation of agricultural cooperatives and the situation and role of household plots. Demonstration of the close relationship between policy and economy is a merit of this chapter.

The concluding chapters are devoted to the consolidation of cooperative farming (1962–67) and to the developments after 1967. The two last chapters make up for nearly 50 per cent of the book. Chapter IV is about the correlations between agricultural policy and production. It gives detailed analysis of the system of state subsidies in the stage of consolidation. The relation between the cooperative farms and the household plots is presented with special care. The changes in the forces of production in the cooperative farms are shown. Within that, great attention is paid to certain problems of manpower management. With respect to investments the high rate of replacement is emphasized. "A considerable part of the investments made by cooperative farms replaced fixed assets withdrawn from production in the period of consolidation, to substitute for draught animals and for missing manpower. . . though the cooperatives' stock of fixed assets became remarkably modernized, yet it did not increase at the extent indicated by investments" (p. 191).

In the period 1962–1967 the use of the different circulating assets also increased. The composition of materials applied in production changed: while in 1961, 64 per cent of materials was of agricultural and 36 per cent of industrial origin, the new rate was fifty-fifty in 1967, i. e., the industrialization process of production began in agricultural cooperatives.

Chapter V deals with the up-to-date large-scale farming of the cooperatives. The reader is guided from 1967 up to the present days, and very exciting problems are exposed. First of all, in connection with the economic mechanism introduced in 1968, the author discusses the main problems of management in the agricultural cooperative sector. He touches upon the problems of landed property and leasehold. He refers to the Act IV of 1967 which called for the gradual establishment of unity in the cooperatives' landed properties and leaseholds, and created the cooperative estate, a new form of holding.

Some problems of concentration and specialization are discussed. It is mentioned that concentration had been progressing even in earlier stages of the development of agricultural cooperatives, but attained special impetus after 1968. Owing to concentration such large-scale frameworks were created that allowed for the industrialization of agriculture. The number and importance of the various organizational units and other independent divisions increased.

In this chapter *Fazekas* gives a detailed analysis of the main achievements of cooperative

farming in plant cultivation, animal husbandry, and auxiliary branches after 1967. He points out that between 1968 and 1975 the large-scale cooperative farms were showing a growth above the general development of agriculture. (A 40 per cent increase of production value against 1967.) An inherent symptom of cooperative farming has been – for some time already – a faster development of animal husbandry in the common farms than of plant cultivation. It is an important statement that the budgetary connections of the cooperatives changed also advantageously. The growth of production was not originating from state subsidies, but the subsidies were required for its accomplishment.

Though the genre of the book is hard to define, still, Béla Fazekas' chapters are addressed first of all to the agrarian economists. Together with being historical and complex in the good sense of the term, the work is penetrated with the economic analysis of development and in its course the author draws a number of conclusions of unquestionable scientific value.

I. BENET

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- PALÁNKAI, T.: A nyugat-európai integráció (West European integration.) Budapest, 1976. Közgazdasági és Jogi Könyvkiadó. 268 p.
- RIPP, G.: A válság gazdaságtana (Economics of crisis.) Budapest, 1976. Kossuth Kiadó. 314 p.

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