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L. HÉTHY

ECONOMIC POLICY AND WAGE-SYSTEM IN HUNGARY

How much do the wage system and wage regulation (together with other mechanisms of economic regulation) contribute to the realization of goals contained in the current five-year plan of Hungary, i.e. how much do they further the joint requirement of re-establishing economic equilibrium and of a more efficient management? How far do they serve for the realization of long-term economic policy objectives, including beside these tasks (expectably) also a return to more dynamic growth? Does the present structure of wage system and wage regulation properly serve social and political efforts? How much does it contribute to the reconciliation of various (individual, collective, e.g. enterprise, etc.) interests, to strengthening the unity of action and to maintaining political stability? How does it further the realization of long-term objectives in the development of socialist social relations, thus the development of collectives, the strengthening of workshop democracy, the development of a socialist way of life and values?

The development of labour incomes and wages is at present of central economic, social, what is more, of political importance in the development of our socialist society. Precisely on this account, the dual task that has come to the fore in Hungary again nowadays is worthy of attention: the wage system* and within it wage regulation falling under the sphere of authority of the central control of society and some other elements of the wage system should be adjusted to objectives of the present 6th five-year plan (1981–1985) on the one hand, and to long-term economic policy tasks on the other. In order to be able to make some progress in solving this dual task we are unavoidably faced with answering some basic questions – over and beyond discussing technical details of wage regulation and of the wage system, from the aspect of economics that was made already previously. And, since the future emerges from the present and the past, furthermore, an appropriate selection of ways of future action requires a realistic evaluation of the present and the past, also these basic questions refer decisively to the evaluation of the present situation and of the practices followed up to now.

*The notion of wage system is not exactly defined in the socialist economic theory. The interpretation seems to be acceptable according to which it is a system of tools for the realization of prevailing wages policy that materializes the totality partly of central tools and partly of those used in the enterprises. To the central tools belong the regulation of wages and earnings, central wage policy measures (thus wage increases affecting branches and occupational groups) and prescriptions (for example, the system of wage tariffs), while to enterprises belong the regulation of wage forms and performance requirements (working norms), bonuses and the system of rewards, etc.

This analysis examines those elements of the wage system over which the central control of society has direct influence and even among them first of all the most important one, namely, wage regulation. This approach is justified by the fact that our investigations are aimed at revealing possibilities of action of central control agencies. Obviously, this does and must not mean that the importance of enterprise tools of wages policy should be neglected, or that the importance of enterprise initiative not to be replaced by the functioning of central agencies should be underestimated. Another restricting factor of our analysis is that it is focussed on state enterprises and on socialist (state and cooperative) industry.

Contradictory economic, political and social requirements

In our socialist society politics has a decisive role in the functioning of the economy. And, in *the economy one could hardly find a better and more characteristic example of the joint enforcement of economic and socio-political requirements than the wage system and wage regulation.* Economic and socio-political preferences affecting this field can only be enforced always (even nowadays) in a contradictory way, often explicitly to the detriment of each other, which is due also to the fact that only a part of these economic and socio-political preferences were formulated in economic policy like a programme. Some of them – though tacitly – were mediated and enforced by the functioning of political mechanisms penetrating the entire economy. In this process some (usually political and social) requirements were sometimes attributed unjustified importance – partly because of limitations and mistakes of control and partly for other reasons – while others (usually the economic ones) were pushed into background, also unjustifiedly. As a matter of fact, a *balanced enforcement of these requirements could be expected from control and management with good reason even if natural contradictions may not be eliminated* – in the case if politics possesses a concept properly taking viewpoints of the short and long-term development of society and economy into consideration and acts accordingly.

Without aiming at completeness (that would be anyway impossible) in the following I wish to point out some of these requirements which have recently been formulated towards wage regulation in politics and society and whose consideration seems to be important:

1. Enterprises should be given possibilities to develop and operate within their own sphere of authority efficient systems of inner interestedness and incentives; the efficient utilization of manpower within the enterprises should be stimulated.

2. From the side of manpower wage regulation should further the transformation of the product pattern as well as the spreading of up-to-date and competitive products.

3. It should promote the maintenance of equilibrium between purchasing power and the available consumer goods, in other words, wage emission not covered by performance should be impeded.

4. Wage regulation should be fitted into the logics of the entire system of economic regulators and further by its own effects the efficient functioning of the entire system of economic control.

To all this the tacit requirement mediated by the political mechanism may be added according to which wage regulation

5. should be a tool for resolving conflicts and clashes of interests as well as for resolving social tensions at factories and enterprises.

All this is more and more completed also by the requirement of maintaining full employment.

As a matter of fact the ensemble of the same requirements were destined also for determining the functioning of such other elements of the wage system falling under control as the incentive system of top executives of enterprises, or the system of wage tariffs.

The content of this system of requirements is determined by historically modified economic, social and political conditions and by the resulting tasks of economic and social policy. Thus, nowadays, when increasing the productivity of labour and the efficiency of labour inputs in general is a primary economic policy concern *the viewpoint of efficient stimulation is ranked higher.* At the same time the relationship between individual requirements is permanently characterized by both reliance on each other and contradictions. Thus the basic contradiction in wages policy looking back to a longer historical past may be found between viewpoints of dynamism (efforts, changes, but not necessarily growth) and those of equilibrium. This latter sets against the requirement of stimulation the equilibrium of employment, production and consumption, supply of goods and the sum of wages, etc. This contradiction – appearing in the form of conflicting interests and tensions in social and political movements – has become especially sharp in Hungary nowadays, since the realization of efficient stimulation is required in overcoming economic difficulties more than ever, but in a situation when economic equilibrium is more unstable than previously; and this restricts possibilities of stimulation from the very beginning.

On the ensemble of economic viewpoints influencing the development of wage regulation relying on or contradicting each other similarly connected and conflicting social and political requirements and principles are built: thus that of distribution according to work requiring an increased differentiation (on the basis of performance) in wages and earnings, or that of social equality qualifying any high income non-desirable from the very beginning, etc.

Equilibrium to the detriment of dynamism

It is self-evident and natural that the practice of wage system, and within this of wage regulation, is determined by the contradictory ensemble of economic and social or political preferences. The subject of debates may (and should) only be how these requirements are enforced in reality, to what extent control and management succeed in

keeping them in equilibrium, solving their contradictions positively so that their joint enforcement corresponds to objectives of economic and societal policies.

As to the contemporary state of the wage system and wage regulation in Hungary *we have achieved indisputable results in two fields: during the last one and a half decades full employment has been maintained and there has been a more or less satisfactory balance between purchasing power and the supply of consumer goods,* i.e. on the whole there has been no wage emission that has not been covered by performances or production (considering the national economy as a whole). (It is a different question whether wages were paid where their covering was produced, i.e. where the work performed justified it.) And these are no insignificant achievements even in our days; the state of equilibrium maintained by wage regulation in these two fields is an important part of the equilibrium system of the national economy. What is more, maintenance of full employment, moderation of inflationary tendencies and preserving the purchasing power of money as much as possible are important pillars of the general feeling of society and of the political atmosphere, too. Therefore, the often formulated evaluation in Hungary according to which the wage system and wage regulation properly serve the economic policy objectives seems to be justified related to these fields.

The picture is by far not so favourable in the field of other economic requirements considered from the aspect of dynamism, of necessary changes. The progress in structural transformation is slow – also for several other reasons –, efficiency is not improving satisfactorily. Little progress has been made in Hungarian enterprises in utilizing labour reserves better, there is a continued and considerable under-utilization of human and (in connection with it) of machine capacities, there are serious problems with working discipline as well as with the attitude of working people and collectives to enterprise and national economic objectives. Of course, the evaluation is differing by branches (for example, problems connected with working discipline are most serious in the building industry), nevertheless it also holds for the entire industry.

All this is connected, on the one hand, with the fact that a considerable part of Hungarian enterprises have not built up and could not build up such inner incentive systems to this very day that would allow workers to obtain additional wages in proportion to their additional efforts. Lasting problems of financial incentives concern manual workers and employees, subordinates and leaders as well. A considerable part of enterprises do not properly make use of enterprise tools of wages policy and could not put them at the service of more efficient management up to now, several times they were not properly interested in it or had no real possibility for it.

On the other hand, restrictions prescribed by central wage regulation concerning the utilization and increase of wages (independently of whether local performance justifies it or not), aimed at meeting the requirements of equilibrium have an important part in the development and persistence of enterprise problems of stimulation. If, however, wage regulation induces enterprises, instead of mobilizing considerable reserves inherent in the labour force, precisely to freeze them, then its fitting into the entire system of economic regulators may be queried indeed. As a matter of fact, the latter

considers precisely the raising of economic efficiency – through the mediation of the new price system and other mechanisms – as one of the priorities requiring among other things also the raising of the productivity of labour and the exploitation of reserves inherent in the labour force.

Central obstacles to an efficient stimulation

To what extent and in which way does the functioning of central wage regulation impede the establishment of efficient inner systems of incentives within Hungarian enterprises?

One of the fundamental – not so much economic, but rather sociological – laws of the functioning of economy is that the logic of the functioning of larger systems basically determines the way of functioning of smaller systems which are parts of the former. In respect of interestedness and stimulation this entails that *if the principle of performance is enforced in the entire national economy and in inter-enterprise relations* – i.e. individual enterprises enjoy higher or lower wage levels, obtain possibilities for wage increases, etc. depending on the measure and success of their efforts – *then possibilities are favourable within individual enterprises for the same factors to determine the relative earnings of individuals and groups, i.e. the principle of performance is enforced here, too.* Of course, taking the independence of enterprises into consideration movements at the level of the national economy are not automatically followed by inner enterprise processes, but, on the other hand, processes contradicting to the logic of such movements may be realized only by some enterprises temporarily – as "islands" or "exceptions strengthening the rule". (These latter are often mentioned as "examples to be followed".)

In economic policy it is not only accepted at present that there may be differences in wages of individual enterprise collectives depending on the results of the entire enterprise (even between those having the same profession and working in the same jobs), but differentiation of such nature between enterprises is explicitly urged for. Also the contemporary practice of central wage regulation is aimed at promoting this. In principle it is suitable – mainly since the changes introduced with January 1, 1980* – for properly remunerating efforts of individual enterprises and enterprise collectives through their wage levels, since wage-increasing possibilities of these latter are linked not only with profits reflecting management results, but – also in principle – the "brake on average wages" is set rather high, furthermore it is made possible that enterprises put their means available for wage raising into reserve or advance higher wages in order to make their management more successful, etc. In practical enforcement, however, the following general problems are arising:

*At present four types of wage regulation are enforced in Hungary: a detailed presentation and criticism of the functioning of these types are beyond the tasks of the present study. See [1], [2], [3].

1. The enterprise profits continue to reflect the real success of management and the efforts of collectives only eventually, profits formed in the new price system are usually considerably lower than previously (which is justified at the level of the national economy), but are (unjustifiedly) levelled off and enable, in general, smaller wage increases than allowed. This has been "expected" by the way also by superior authorities of the enterprises in the recent one and a half years.

2. Possibilities for wage increase are determined, also further on, by the increment of profits related to those of the previous year, which does not remunerate continuous results of management and enduring efforts. Wage reserves or wage advances are possible for the enterprises only in principle – because of the strict limits built into their terms of management.

3. Approximation of the rise in wage attached to the increment of profits causes problems especially in an economic situation when production is stagnating in a considerable part of enterprises, when several enterprises are faced with sales problems and additional assets (among others precisely wages) would be needed to overcome this difficult situation. (Which may be imagined not only from central sources with a better differentiation of enterprise profits and more flexible regulation.)

4. With rising costs of living and consumer prices there is an increased pressure on central authorities and enterprises to carry out wage-increases independently of performances (i.e. not differentiated according to performances, in other words, unconditionally).

These circumstances jointly (and not the limitations alone) result in that wage levels of enterprises are levelled off also further on, no close connection may be found between their performance and the wage level achieved even in the present system of wage regulation. What is more, even the mere existence of such a connection is dubious. Thus, it is no wonder, either, that a similar relationship may exist only eventually also between performances and wages of individuals and working groups within the individual enterprises. Since, if central wage regulation is not able to enforce performance principles in the wage level of enterprises consistently (through other elements of the regulatory system, income regulation and price regulation), then it may hardly be expected that enterprises should be interested in and capable of realizing this within their own frameworks. And, under such circumstances it is hardly justified to argue – as it is often done – that wage regulation, as it says, provides all possibilities for enterprises to elaborate and run efficient inner incentive systems, but they "do not make use of these possibilities".*

On the other hand, the particularity characteristic both of the entire national economy and of relative earnings within the enterprises (and delimiting the success of any effort for stimulation) is levelling the lack of differentiation.

*A direct consequence of this argumentation is the false action alternative according to which "attention of enterprises should be drawn to possibilities offered by wage regulation", "they should be shown the way to proper action", etc.

The phenomenon of performance withholding

Resulting from the fact that *in the functioning of central wage regulation social requirements largely independent of stimulation and contradicting* it (first of all the control of wage emission and with smaller emphasis the maintenance of full employment) *were pushed one-sidedly to the fore, wage regulation has become much more a tool of levelling wages, than that of differentiation according to work done.*

Making an enterprise comparison, the functioning of central wage regulation reminds us mostly of that of a task-wage system with a "ceiling". (The essence of this is that no additional performance is paid for over a certain performance level – say 105 per cent.) A wage system with upper limit in itself is by no means wrong. However, it is a precondition of its application that it should be introduced for such thoroughly elaborated and organized production process where performances of workers are determined by technologically founded norms, that is where performance beyond the upper limit may be achieved only by breaking technological rules, qualitative requirements, etc. But, the Hungarian national economy may obviously not be regarded as such a highly organized technological system having already explored all possible reserves. Just on the contrary: there are lots of reserves in it that could and should be explored and this is a central endeavour of economic policy. This is also a reason why the "ceiling" character of wage regulation indicates the lack of properly founded performance requirements, as well as deficiencies in measuring performance and in organization, just as also in factories upper wage limit or simply time-wages amounting to the same are often applied precisely in lack of properly founded norms – for fear of wage drift.

Central wage regulation with a "ceiling" necessarily leads to the "ceiling" character of the inner incentive systems of enterprises. If an enterprise may not obtain adequate additional wages from its own profits as a remuneration for additional performance, then this can only be ensured to a limited extent even for workers achieving higher performance within enterprise frameworks. And this contributes to the fact that Hungarian enterprises – though agreeing in words – are often reluctant to apply really stimulating inner wage systems in practice and prefer time-wages even there where task-wages could be applied. But, what is even worse, they are often interested in that a lack of organization (shortage of materials, or tools, poor quality of maintenance or lack of work) impedes the raising of performances and wages in fields where task-wages are applied; and, if this does not happen, then even such tools are explicitly used for restricting wages as the adjustment of norms which would be called upon to serve other purposes.

Using wage constructions with a "concealed ceiling" is characteristic of most Hungarian enterprises, merely solutions and tactics are different. Weak firms may blame disorganization phenomena of the production process for the restriction of wages (by which they may even maintain or occasionally increase disorganization). Well organized and managed enterprises rather make use of the correcting mechanism of repeated norm adjustments (which seriously hurts distribution according to work, since with wages levelled off performance requirements are increasing at one place and are not at others.

However, Hungarian public opinion oriented to problems of distribution is already less sensitive to this latter problem). And, *time-wages are persisting;* in the spreading of task-wages no considerable progress has been made in recent years despite efforts of central authorities (and even where some progress has been made, it only has in such forms of task-wages which practically mean time-wages, as, for example, time-wages with performance premium).

This particularity of central wage regulation and of enterprise incentive systems brings about performance withholding at the level of enterprises, working groups and individuals as well. This phenomenon is not deliberate, but rather instinctive in the majority of cases, nevertheless it is an existing and natural obstacle to any economic policy endeavour aimed at revealing so-called inner reserves or at increasing the productivity and efficiency of labour. Namely, the essence of performance withholding is just the contrary: to restrict reserve formation and efficiency.

The previous and also the contemporary practice of wage regulation – impeding the development of proper incentive relations both in the entire national economy and within the enterprises – causes more and more problems to the control and management of society in Hungary nowadays, since increasing the efficiency of economic activity is a requirement formulated more and more powerfully amidst the more and more difficult economic conditions. And, this cannot be imagined without a better and conscious utilization of manpower, of the manual and intellectual capacity, initiative, venturesomeness and creativity inherent in people – in individuals and collectives. What is more, we have to realize more and more that *even present economic difficulties in Hungary may only partly be attributed to the unfavourable development of the world market situation. They are to a considerable extent due to the fact that the efficiency of economic activity has long been unsatisfactory – among others precisely because of unsolved stimulation. Deterioration in the terms of trade only accelerated (and should accelerate) the recognition of deficiencies in this field.*

Material perspective and compensation mechanisms

Relations between wages of individuals and collectives are not merely an issue of stimulation and efficiency, nor simply an economic one, but more: a social, what is more, a political problem. Namely, this relationship basically determines nowadays to what extent and in which way the individual and the collective join the efforts aimed on the one hand – in the short run – at eliminating economic difficulties and on the other – in the long run – at furthering economic development and building of socialist society in general.

It is obvious that mobilizing for economic policy objectives is not primarily a problem of political enlightenment: it is in the factories and in the society as a whole where conditions should be created and maintained by means of which promoting social objectives and national economic interests is closely connected with promoting partial

interests of individuals and collectives. In other words: *an active and lasting participation of individuals and collectives in surmounting national economic difficulties may be ensured only if they can achieve simultaneously also an improvement in their own economic problems and material situation by their own efforts, if they can better get along.* And, in the creation and maintenance of this relationship wage regulation and the development of the wage system, respectively, are tools of primary importance for social control.

When arguing in favour of our economic policy objectives the existence of this relationship is considered as self-explanatory. Our procedure is justified by the historical experience that the economic development and economic policy of the last twenty-five years have really brought about an overall, unprecedented material enrichment of the population. Nevertheless, some reservations should still be formulated in respect of the industry and socialist enterprises, first of all concerning the future that requires increased efforts.

If we approach the problem from the side of individuals and collectives, it should be perceived that – at the present level of economic development and even despite the results achieved – masses of people are faced with more or less serious financial problems. In Hungary this is illustrated by the housing situation or the difficulties of young people in starting on their career. The primary source where socially active individuals or groups may (should) hope the solution of their financial problems from is their own work and the wage obtained for it. What financial perspectives people see for themselves in the enterprises is nowadays depending – with some simplification – partly on their own material needs (often causing tensions at the given level of our economic development), partly on the possibilities provided by the enterprise and, last but not least, on the system of financial incentives there. The picture is very differentiated, namely:

1. There are layers of workers for whose members even the levelling system of incentives in enterprises is satisfactory – mainly resulting from the low level of their material aspirations, the relative satisfaction or secondary importance of their needs. Here belong large numbers of executives (usually living under good financial conditions who may hardly be stimulated financially); and, out of other employees the young living still alone, old people living alone already, furthermore women whose earnings have only a "complementary" role in the family budget, etc.

2. There are layers covering large numbers of employees – among intellectual and manual workers as well – where material needs are great (young people founding a family, wishing to obtain a flat, furnishing their flat, etc.). For those belonging to these layers the incentive system of enterprises – resulting from its particularities described in the foregoing – can offer no financial perspective. Therefore, it is no use that they are ready and able to make additional efforts, when it makes no sense because of the impossibility of obtaining additional wages.

The solution – simultaneously dissolving also the social tensions inherent in the problem – is usually a double one:

– Within Hungarian enterprises *such correcting mechanisms* have been formed that ensure for employees or groups of employees seeking financial perspectives the money, or at least a part of it, which they could not obtain otherwise, in some legal, semi-legal, eventually even unofficial way. Such a tool is, for example, overtime work by means of which also the enterprise may overcome (and conceal) its own problems of lack of organization. This (over and beyond its obviously unfavourable effects on those concerned) is accompanied by the fact that certain layers of employees obtain financial perspective to the detriment of others, while, of course, enterprises try to shift the consequences onto the national economy.

– In recent years the authorities have largely tolerated and in certain respects later on (correctly) legalized the functioning of a so-called second or auxiliary economy in Hungary, where a part of groups having found no financial perspective within the frameworks of enterprises regularly invested a part of their saved labour force and thus satisfied their demand for additional income. The "second economy" was, of course, open only to those who worked in trades currently in fashion (first of all in the building industry) or for whom demand and supply relations of the labour market were favourable.

Thus it results to a great extent from particularities of the wage system, and within this of wage regulation, that the authorities are forced to draw such auxiliary tools into the reconciliation of interests and into maintaining the unity of interests and action over and beyond channels of enterprises and economic organizations destined for this as the "second economy" that has an "auxiliary", "complementary" part also in this sense. However, its utilization requires not only economic, but also social and political sacrifices. Namely:

1. The "second economy" itself has a loosening effect on the anyway not too strict working discipline of state (mainly building) enterprises and further undermines the efficiency of work done there.

2. Even the existence of this correcting mechanism does not guarantee that all those should find some financial perspective in our society who could not find any within the frameworks of socialist enterprises.

3. If a considerable part of enterprise employees cannot get along within the collective, and in order to achieve this has to look for other possibilities outside the working place permanently, then there will be serious obstacles in the way of collective interests, collective action and in the development of collectives, in general. It results also from this that collectives frequently exist only on paper, socialist brigades are often formal, a kind of erosion of collective values may be experienced, while enforcement of usually individual interests outside the working collective is a breeding ground for individualistic values.

4. The enterprise is not simply an important medium where people perform their activity and obtain income, but also that of public life and politics. Hungarians are discussing politics mostly not where they live but where they work, participation in political and social organizations is realized here, etc. The weakness of enterprise collective

impedes not only the economic efficiency of the organization, but also that of public life and politics.

Therefore, the circumstances developed may not be considered unambiguously favourable either from economic or from social and political viewpoints.

At the same time, a paradox has developed at national economic level whose removal may hardly be imagined at present: enterprise and national economic relations are not able to ensure any concrete perspective of prosperity for several workers or groups of workers within the frameworks of state enterprises – largely resulting from the aforementioned particularities of wage regulation. At the same time the leading forces of society try to mobilize the same people for better and more efficient work precisely within the frameworks of state enterprises with reference to bringing about a general, abstract prosperity for society. And precisely those who otherwise have the ability and willingness to additional efforts. It is regrettable that both are still mostly lost for society or at least for enterprises nowadays.

Levelling of wages instead of differentiation

It has been a specific contradiction of the last one and a half decades in Hungary why no progress could be achieved, though the negative features of the wage system and wage regulation have been well-known, so to say commonplaces.

As an answer to the above question various obstacles of technical character are enumerated like difficulties of measuring individual, group and enterprise performances. In some respects continuous efforts are made to introduce measuring and make it better founded, to improve indicators of profitability of enterprise management, work norms in several fields of manual work, etc. At the same time there are fields where so to say even the determination or endeavour is missing to do so: due to deficiencies in the inner control systems of enterprises the level of work of units within the individual enterprises (occasionally of factories or workshops) usually cannot be measured, hardly any attempts were made to determine performance requirements in non-manual (administrative) jobs, though this would be possible. A satisfactory solution of measuring performances at national and enterprise levels is really a task whose importance cannot be emphasized enough nowadays.

Even if we admit the difficulties of measuring performances, I believe it would be a mistake to look for basic reasons here. Namely, this is primarily not a technical problem. The problem is much more due to the fact that contemporary interest relations in organizations and in the society as a whole are not favourable for any progress (among others not even for the solution of problems of measurement). Namely:

1. The primary condition of any progress is a realistic assessment of problems. Negative effects of unsolved financial stimulation appear in concrete forms in the enterprises. These, however, are not interested in recording them, among others precisely

due to the aforementioned particularities of wage regulation, but for other reasons as well, since this would mean the admission and revealing of their reserves.*

2. Since enterprises are interested in concealing their reserves and they are even doing so, they simultaneously prevent central authorities from being able to follow up real effects of central wage regulation in the enterprise medium. Though enterprises repeatedly signalled these effects during the years passed, since the submitting of any evidence supporting their complaints would have simultaneously meant the revealing of their reserves, their signals seemed to be empty "laments" for the authorities. (Sometimes they really were, because enterprises have always been interested in exterting wage preferences and other allowances – independently of their economic justification.)

3. As a consequence, the viewpoint of efficient stimulation has always been pushed into background in the activity of central authorities when repeatedly revising the construction of wage regulation, and such requirements were given one-sidedly priority as the ensuring of equilibrium between purchasing power and the supply of consumer goods and, in certain relations, more and more the maintenance of full employment nowadays (since the maintenance of national economic equilibria has remained a key issue in economic policy also further on).

In the resulting levelling of wages and in the lack of differentiation also several other social and political factors had their part. Their coming into being and survival are such phenomena that naturally result from the following circumstances.

Wage differentiation according to performance is a process full of conflicts and social tensions which is required by the long-term interests of society, but there are only relatively few who enjoy its benefits in the short run, while there are many who are indifferent or even objecting to it, be they either enterprises, individuals or working groups. (Since there are only few "outstanding" workers for whom it would be unambiguously favourable in the short run, while there are many performing on the average, thus being mostly indifferent, and it is explicitly against the interests of those with poor performance.)

The sharpness of social conflicts to be expected in connection with wage differentiation is nowadays even increased by the fact that in the 6th five-year plan period of 1981–1985 the level of real wages is expected to stagnate. Thus, if an increased differentiation occurs in wages, an improvement in the material situation of certain individuals and collectives – i.e. stimulation – can only be achieved at the expense of an absolute deterioration in that of others.

The management of Hungarian enterprises – including also control by political and social organs – did not prove prepared enough for facing conflicts inevitably concomitant

*In the contemporary situation, however, enterprises are not even able to reveal their reserves precisely because of unsolved stimulation. What is more, it is not even sure that they would be able to do so with more favourable economic control and wage regulations either. This is otherwise also impeded by problems unrelated to stimulation at several places – resulting among others from anomalies of organization, cooperation, inner management and decision-making system of enterprises, selection of managers, etc.

with wage differentiation, even in a more favourable stage of development than at present. The contemporary "still water" exempts both economic managers and officials of local political and social organizations from this inconvenience.

Facing these tensions and conflicts has entailed the serious risk both in the past and also at present that the increase of wage differentials proves to be vain – resulting from the unsatisfactory measurement of performances of and within the enterprises as well as from the unfavourable development of other circumstances of management –, what is more, it becomes a source of social injustice.

This is why the levelling of wages is an alternative action for enterprises and the leading forces of society which – in the short run – evoke less tension, conflict, social, economic and political risks. And this is why – among others – central wage regulation has become a tool of levelling in Hungary in the course of the last one and a half decades, regardless of the fact that its construction has become in the meantime more and more complicated and has changed several times precisely with the aim of efficient stimulation and the enforcement of the performance principle.

The situation developed is maintained by strong interests attached to its conservation even nowadays and is sanctioned by an apologetic ideology; according to this, the wage system and wage regulation are functioning satisfactorily "as a whole" and "basically". This ideology seemed to have been supported, as a matter of fact, also by the practice of economic development quite up to the mid-1970s (though even then several doubts had already been formulated concerning the economic, social and political effects of wage regulation), but it can be maintained to an ever decreasing extent nowadays. Though we do not believe that leaving the present situation unchanged would immediately lead to a considerable increase of economic difficulties, yet we are convinced that it will more and more impede their remedy in the long run.

Social judgement and values

As regards the wage system and wage regulation not only social clearsight is missing in Hungary at present, but in this context also several such problems of attitude have to be faced which are a burden both on scientific thinking and ideology as well.

In itself, any economic model or economic policy programme is only an empty imagination. For becoming a reality the appropriate action and activity of people – individuals and collectives – are needed. Interestedness or stimulation is one of the economic and simultaneously social and political tools which are destined for ensuring this. *For the elaboration and functioning of incentives management has at least two important points of orientation: the available tools (scanty by their nature) and the people whom it wishes to influence with these tools.* Concerning the best way of using these tools a principled thesis, perhaps a little simplified from the social aspect, but well founded on the whole, gives some guidance. It has often been formulated in recent years: "where there are differences in wages and these differences express performance and differences in the work performed, there also a stimulating force may be found".

The wrong view often met in contemporary economic thinking in Hungary is an inadmissible further simplification of this thesis sounding about like that: "where there is any difference in wages there also a stimulating force may be found". The often proclaimed programme of "wage differentiation" has become a purpose in itself – perhaps precisely because no progress is made in this field. As a matter of fact, in stimulation, should it refer either to national economic or enterprise level, emphasis should not be laid on wage differentials alone, but on those expressing the work done, the performance, and attached to them. However, consideration of wage differentials from this aspect has already been mostly pushed into background. Nowadays it almost never arises, for example, whether the wage differentials within the enterprises whose development is allowed by central wage regulation are able to express those quantitative and qualitative differences that may appear in the work performed by people in various jobs – from auxiliary workers to director general.

The answer to the question is obviously that the wage-scale in force is not suitable for that in many respects (and this makes first of all the stimulation of executives in key positions in economic activity impossible). Nevertheless, even if we are sure that the answer is negative, formulation of this question and answering it are not superfluous so much the less as this should be one of the starting points for further action.

Considering the problem not so much from the economic, but rather from a wider social aspect it should be pointed out as well – somewhat correcting the thesis mentioned – *that it is not simply wage differentials proportionately expressing differences in performances that are stimulating. It is rather the wage differentials that are considered stimulating by people or groups of people, or that may be considered such objectively under contemporary social and first of all economic relations.* And this depends on the development of their material and other needs determined by contemporary social and economic relations, on the given conditions of living and on how much of attainable wage increment enables them to get along better under these circumstances.

It may be easily imagined even under socialist conditions, for example, that an enterprise manager could demand several times as much remuneration at present as that of an unskilled worker – on the basis of the quality of his work performed, strictly interpreting distribution according to work. Still this enormous wage difference is not needed in order to make the earnings of the manager stimulating, but so much is enough, as means for him a tangible distinction from the viewpoint of meeting his material needs and adequately indicates the respect of society. And, this is decisively not an issue of subjective judgement, but that of objective economic and social relations. The wage-scale may be considered narrow in this and only in this concept: wage differentials to be achieved do not stimulate partly because they are often independent of performances of people and collectives, and partly because their measure does not have enough stimulating force.*

*Which wage differential or wage increment has some stimulating force in Hungary nowadays is indicated by relative wages developed in the "second economy". (Of course, only if speculative effects driving up earnings are filtered out.)

One of the fundamental failures of approach in the central regulation of wages is that not enough attention is paid to those whom we wish to stimulate, namely, to people. Instead, we have only abstract economic orientation points (very important, but unsatisfactory in themselves): the necessity of differentiation of wages, the amount of available means, etc. The question does not even arise how much money would be needed for efficient stimulation and how this could be properly used. Instead, we restrict ourselves only to repeating "we produced so much income and that much of it may be distributed". Of course, we do not object to this latter statement being justified, but to its defensive one-sided approach. Namely, it is due mostly to the monocracy of this view that the stimulating function of the wage system and of wage regulation is pushed into background by its "distributory role". In the judgement of economic problems in recent years an economic approach has had a more powerful effect than ever before *which handled their social (in other words human) and political connections not according to their importance or eventually explicitly neglected them. This concept cannot be successful in any economy in the longer run and may cause serious difficulties under Hungarian relations (where the role of politics is determinant as against the economy),* especially when analyzing such economic problems which are *par excellence* social and political. And, problems connected with interestedness, stimulation or labour force are undoubtedly such ones.

The necessity to reconsider economic and socio-political requirements

In judging the present situation as well as in elaborating a way of progress, the continuation and outcome, respectively, of the traditional debate on wage regulation (otherwise valuable from the viewpoint of economic theory) may seem to be much less important. Thus, whether out of the known alternatives of wage regulation some central wage regulation or a wage regulation automatism attached to some indicator of enterprise performance will better correspond to our economic policy objectives (since the justification and necessity of the latter may hardly be disputed), and whether, if this is enforced, it should be a regulation of the wage-level or of the wage-bill, etc. *Namely, it is about much more than that: how the requirement of efficient stimulation, of the performance principle and that of distribution according to work pushed into background by other (in some other way also important) social preferences, may become determinant factors in wage regulation and thus in the wage system, too.* Namely, it may hardly be disputed that only such a wage system or wage regulation can correspond to requirements of changing economic conditions and the solution of concomitant difficulties which is oriented towards promoting better performance, increased efforts and initiative as well as towards revealing reserves. However, this is not an issue of wage regulation, but that of the entire wage system and of the economic, social, and political requirements in the

spirit of which central authorities and enterprises (together with political and social organizations) develop them.*

Social and political requirements determining the construction and functioning of wage regulation have to be reconsidered as follows:

1. It should be clearly seen that resulting from inner contradictions of the system of requirements some can often be enforced only to the detriment of others (especially amidst contemporary economic difficulties). Therefore, it is necessary to identify those ones again which should be given priority under present conditions and to the detriment of which concessions may be made. (Special emphasis should be laid on requirements of efficient management and stimulation nowadays, thus the contradiction between dynamism and the necessity of change as well as equilibrium arises especially sharply, furthermore, the justification of the viewpoint of being free from conflicts may be queried.)

2. Expected effects of the "reweighting" of requirements should be assessed (for example, eventual deterioration in the financial situation of certain individuals or social groups concomitant with increased wage differentiation, high incomes, changes in consumers' habits, the arising of new conflicts and tensions in workshops, enterprises or society, etc.), whether they may be undertaken at all from social or political viewpoints at present.

3. Possibilities should be sought after how the enforcement of certain social requirements – which cannot be disregarded by wage regulation and the wage system – can be ensured in such a way that viewpoints or stimulation should be less or not at all hurt (for example preservation of the balance between purchasing power and the supply of consumer goods), and how others may be eventually shifted to other tools or methods (for example, maintaining full employment).

4. It should be reconsidered how the contemporary inner interest relations of enterprises and the interest system of society may be further developed in such a direction that they should not impede, but further or at least tolerate differentiation of wages according to performance. A decisive precondition of this is that the entire society – from central authorities to working groups at enterprises – have a clear picture of actual performances, that is, some progress has to be made in the solution of the problem of measuring performance.

5. Those features of approach and ideology should be strengthened which guarantee changes of this direction in the functioning of economic control and management and even more in that of political and social organizations.

At present the Hungarian national economy is at the beginning of a new epoch. Just as the recognition had been made in the mid-1960s that successful activity could not be

*It is unjustified also on this account when exclusively such proposals are expected from those criticizing the present situation concerning new patterns of wage regulation which are from the very beginning "free" from contradictions of the present.

further followed with previous methods of economic control and management, we had to come to a similar recognition in recent years: methods and tools of economic control and management which previously served our economic policy objectives, after all the realization of goals of socialist building well or at least acceptably, are in several respects no longer corresponding to requirements. This recognition has led to various changes in the forms of economic regulation, thus first of all in that of the price system. At the same time, it seems that *all these changes have avoided one of the most important elements of the system of tools of social management, the wage system and wage regulation, even up to now, though the lack of harmony between requirements and existing practice is especially striking in this field.*

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If, in the knowledge of the foregoing, we revert to the basic issues formulated in the introduction of the study we may have doubts whether our wage system and wage regulation are suitable and to what extent to properly support the realization of the 6th five-year plan as well as our long-term economic and social policy endeavours from the side of incentives. However, a fundamental revision of the wage system and wage regulation – since this would be needed – cannot take place from one day to another. Precisely resulting from the size and character of the task it may hardly be expected that in the course of implementing the 6th five-year plan a thorougly considered and founded change could be achieved in this field (and, because of this, it is not likely that it would be worth undertaking any more important alteration of the wage system and wage regulation). However, it seems to be inevitably necessary *with a view to the next, 7th, five-year plan and to the long-term objectives of economic policy that scientific theory and ideology be prepared to lay the theoretical foundations of an overall change.*

And the first step of this preparation is a realistic appraisal of the present situation.

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ЭКОНОМИЧЕСКАЯ ПОЛИТИКА И СИСТЕМА ЗАРАБОТНОЙ ПЛАТЫ

Л. ХЕТИ

В настоящее время перед венгерским народным хозяйством стоит большая экономическая, социальная и вместе с тем политическая задача — приведение системы заработной платы, в том числе ее централизованного регулирования, в соответствии с требованиями экономического развития и экономической политики. В статье анализируются проблемы функционирования существующей системы заработной платы и ее регулирования, корни этих проблем, а также их последствия. Автор указывает, что система заработной платы и ее регулирование определяются такой системой экономических и политико-социальных предпочтений, в которой заложено много внутренних противоречий. Так, централизованное регулирование заработной платы, в частности, должно способствовать (или во всяком случае позволять) созданию на предприятиях и эффективному использованию ими наличной рабочей силы(и фондов), но в то же самое время это регулирование должно способствовать поддержанию равновесия между покупательной способностью и товарным фондом потребления, торможению инфляционных тенденций, сохранению полной занятости, а также, по возможности, смягчению конфликтов внутри предприятия и в обществе в целом.

Функционирующая в венгерском народном хозяйстве в течение последних полутора десятилетий конструкция регулирования заработной платы и, соответственно, система заработной платы внесли существенный вклад в реализацию предпочтений экономического, а также социально-политического характера, служивших поддержанию равновесия (сохранение полной занятости, торможение инфляционной тенденции и т. д.), однако они не смогли должным образом удовлетворить ту группу предпочтений, которая была призвана обеспечить динамизм, в том числе основное требование эффективного стимулирования. Централизованное регулирование заработной платы уравнивало и закрепляло — независимо от фактической или возможной производительности — на довольно низком уровне заработную плату на отдельных предприятиях, что привело к тому, что и сами предприятия были вынуждены уравнивать и закреплять — независимо от фактической или возможной выработки — на весьма низком уровне заработок отдельных групп работников. Это способствовало как на уровне предприятий, так и на уровне отдельных групп, а также отдельных работников широкому распространению явления искусственного сдерживания выработки, что в свою очередь неблагоприятно оказывалось на экономической эффективности. Более того, те трудящиеся, которые в рамках данной системы стимулирования не имели материальной перспективы на своем предприятии, стремились к этому вне предприятия, то есть в т. н. вторичной экономике. Таким образом как на отдельных предприятиях, так и в обществе в целом создалась ситуация, закрепляющая неблагоприятное как с экономической, так и с социально-политической точки зрения положение. Это также подтверждает необходимость пересмотра органами центрального управления экономических и социально-политических предпочтений, определявших до настоящего времени систему и регулирование заработной платы в соответствии с требованиями современного экономического развития. А в качестве этих требований — наряду с поддержанием равновесия — все больше выступают экономическая эффективность и динамизм.

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SOME HUMAN FACTORS OF INNOVATION IN HUNGARY*

The relative level of salaries of engineers etc. has been declining in Hungary almost continually and at an extremely rapid rate. At present the earnings of engineers not in leading positions hardly exceed that of skilled workers. The poor financial appreciation of the work of engineers is related to the "overproduction" of engineers, to the "abundance" of engineers, i.e. to the circumstance that up to recent times enterprises have not sufficiently felt the urging necessity of technological development – and also to certain ideological and political problems.

The really creative technical experts should be given a much higher remuneration than at present. One of the ways might be to give a royalty to the experts in key positions in respect of innovation from the economic results coming about as a result of their activity is also hindered by the fact that enterprise managers are themselves little interested in innovation of major portent. This too, has to be changed.

The current and foreseeable deceleration of economic growth should not – in all probabilities – slow down but speed up the world-wide progress of technology. The very conditions that slow down production, i.e. scarcity of raw materials and energy, the environmental pollution having reached a critical amount, etc., might accelerate technical progress. Technical progress will be the main determinant of competition in the world market, much more so than ever before. In recent decades the technological backwardness of Hungary, the technological gap between her and industrially advanced countries has widened in industry. Within this average handicap, the gap widened even faster than on the average right in the so-called progressive industries carrying and transmitting technical progress. A basic condition of catching up is to stimulate the technical creativity and to overcome its obstacles. One of these obstacles is insufficient personal interest in that process of those in creative technical jobs.

The level of incomes

The incomes, the financial positions of those performing creative technical work are substantially above average round the world, and outstanding in many countries. In the advanced industrial countries their earnings are a multiple of those doing routine work.

*The present article is based on a study made for the National Board for Technical Development entitled "Conditions and factors of stimulating technical creativity". The study was written by Katalin *Szikra Falus,* Pál *Bánsági,* Péter *Bihari,* László *Nyikos,* Gizella *Sikora Tóth* and Árpád *Tóth.* For the coordination of the study Edit *Jávorka* was responsible.

For example, in the Federal Republic of Germany the average monthly gross wages of industrial workers were DM 1652 in 1976 and the gross salary of a junior qualified engineer and of a qualified engineer were DM 2500 and 2910, respectively. [1] In France, in the Paris area, engineers earned on the average 5.8 times the minimum wages and in the countryside 5.5 times that, in the mid-seventies. Also in France, in 1975 the average income of engineers equalled 3.12 times the average income of skilled workers, 3.66 times that of semi-skilled and 4.44 times that of unskilled workers. [2] In the manufacturing industry of the United States engineers earned about the double of an average worker's income.

The income differentials between workers with higher and lower qualifications are decreasing all the world over, and that is inescapably influencing the relative position of the engineers, too. However, this trend does not seem to follow a straight line, at times and places powerful countereffects are manifest. This was experienced, e.g. between 1970 and 1976 in the FRG: while the nominal income of industrial workers grew by 47 per cent on average that of engineers went up by 63 per cent. In Britain the income of manual workers made up 69.4 per cent of the income of electrical engineers in 1974, and 66.8 per cent [3] in 1977. In the Soviet Union the average wages of workers have even recently grown at a faster rate than that of engineers or technicians and, in same sectors, like e.g. in mechanical engineering the former caught up with the latter. This is, however, regarded by some experts as an unfavourable phenomenon and it is thought necessary that the income of technical employees should grow faster [4].

In Hungary the relative level of the salaries of technical cadres fell almost continuously and at an extraordinarily fast rate.*

The first salary adjustments following World War II have deliberately aimed at essentially reducing the wide income differentials that had developed during the previous capitalist regime and more specifically the income differential between manual and intellectual occupations. Subsequent to the first few months of the currency stabilisation, i.e. in October 1946 engineers earned between 2.7 and 2.8 times the average monthly earnings of workers. The tendency of levelling continued. The increase of wages was markedly higher in all segments of industry than that of the salaries of engineers and other engineering employees. (The latter notion includes lower technical experts and executives without higher education.) From 1949 to 1956 the average monthly income of industrial workers grew by 92 per cent while that of other engineering employees by a mere 52 per cent. At the time of the general adjustment of wages on the 1st of March 1957 the average monthly income of industrial workers was increased by 20.4 per cent and that of engineering employees by 11.8 per cent. At that date the income of engineers

*As far as historical perspective and the analysis of the up-to-date Hungarian income relations are concerned the author has heavily relied on a study commissioned by the National Board for Technical Development and written by Gizella Sikora Tóth: *„Az ipari nagyvállalatoknál alkotómunkát végző műszakiak ösztönzése"* ("The incentives concerning technical experts doing creative work at large industrial companies.")

Table 1

Earnings of technical engineering employees in industry in percentage of the earnings of workers[a]

Year	Earnings of engineering employees in percentage of workers' earnings	Year	Earnings of engineering employees in percentage of workers' earnings
1938	301	1970	151
1949	195	1975	148
1955	172	1976	144
1958	158	1977	141
1960	157	1978	139
1964	154		

Source: KSH Időszaki Közlemények, 1966. 14. A lakosság jövedelmeinek alakulása 1950–1980. Központi Statisztikai Hivatal. Foglalkoztatottság és kereseti arányok. Központi Statisztikai Hivatal. (Periodical Publications of the Central Statistical Office. No. 14. 1966. Personal incomes 1950–1980 p. 48)

[a]The scope of engineering employees also includes those in technical jobs but without higher qualifications.

exceeded the average income of workers in mechanical engineering only by about 30 per cent. However, the income of engineering cadres was higher than that of other groups of intelligentsia even under such circumstances. The income of a subordinate engineer (not a manager) was higher than those of physicians, teachers or economists. By 1964 the incomes of engineering staff and manual workers were slightly approaching, by 1 to 2 per cent, by 1967 the income differentials grew but marginally, but by 1971 these differentials increased substantially, influenced by the mere differentiating incomes policy of the new system of economic control and management, i.e. the income of engineering employees grew, at least temporarily, much faster than that of workers (mainly owing to the differentiating distribution of the profit sharing fund, favouring those holding higher executive posts). Consequent upon the November 1972 resolution of the party Central Committee, however, this trend turned the other way round. This resolution was conceived in the atmosphere of the immense labour shortage (more specifically of manual labour) perpetuated in the circumstances of extensive development and the subsequent shortage psychosis. As a result, workers in large factories and the workshop-level executives (foremen) got, in 1973, a substantial centrally directed wage increase of which other factory cadres – among others those in engineering jobs – were left out. Another centrally instructed increase of 24 per cent of wages and salaries was carried out in 1974 for researchers and research operatives, excluding those in the factories. In 1975, taking the income of industrial workers for 100, the highly qualified specialists holding non-managerial posts had incomes of 135 and their incomes exceeded the most skilled industrial worker's wages but by 8.6 per cent [5].

In final analysis, relative incomes of experts with higher qualifications employed by companies have in the past decades drastically decreased in every essential dimension, i.e. in relation to all industrial workers, to skilled workers and to employees with secondary education.

In 1949, employees in technical posts earned as much as double of the wages of industrial workers. In 1957, this difference amounted but to 60 per cent, in 1975 to 35 per cent and in 1979 to 27 per cent.

In 1949, a supervised (non-managing) engineer still earned 50 per cent more than a turner, in 1957 31 per cent more. In 1979 the non-managerial experts earned, on the average, only 11.6 per cent more than skilled workers. (Counting with amounts of real wages the relative reduction of wages would be probably even greater for the increase in consumers' prices hit the non-manual workers harder due to the peculiarities of their consumption pattern. This can be shown unambiguously for the period between 1975 and 1979.)

The earnings of experts with higher qualification were, in 1964, still by 43.3 per cent in excess of those with medium qualifications, the respective figures being 39.7 per cent in 1971 and no more than 20 per cent in 1979.

This shrinking of the wage differentials was much greater in Hungary than in some Western countries and it is also outstandingly high among socialist countries. Nowadays, the earnings of a non-managing engineer hardly exceed the wages of skilled workers and not unfrequently remain below that. For instance, at one of the Hungarian mechanical engineering companies, the average wages of only engineers with more than twenty years of experience on the job amount to as much as the average wages of skilled workers.*

It was not only engineers but also other kinds of intellectuals whose relative financial situation has worsened to a significant degree in the recent past. This problem is shared by all intellectuals who have no chance to make earnings on the side** However, the deterioration of the situation was markedly great in the sphere of technical experts. Contrary to common belief, in Hungary the majority of engineers are in no better financial circumstances today than teachers. The latter have generally better chances to carry on extra activities within the sphere of their profession and resulting in extra incomes due to their having more free time and looser time schedules.

*In the early seventies, Gizella Sikora Tóth and members of her team did a so-called "satisfaction survey" in a large iron and steel company. They were in search of answers to questions like with what and to what extent engineers are satisfied or dissatisfied at their workplaces. A similar survey was made in 1978 at another company. When looking at the results of both surveys, it is found that while in the early seventies engineers were disillusioned primarily with the substance of their work, that is to say, it was not to their tastes that during an essential part of their office hours they had to do work not requiring their qualifications, by 1978 the main reason for their dissatisfaction was the absence of promotion and better earning opportunities. These findings of the surveys may have been influenced by random circumstances, too; still it is against reason to doubt that the obvious deterioration of the financial situation of those questioned also found its expression in them.

**(I.e. in the second economy – Translator's note.)

Table 2

Relative wages of employees in the state-owned industry in 1979

Denomination	Monthly average wages (Forint)	Wages in various grades of employees as percentage of the wages of staff in non-supervisory posts of level "A"	Wages in various grades of employees as percentage of the wages of skilled workers	Wages in various grades of employees as percentage of the wages of unskilled workers
Managerial posts, level "A"	8828	186.2	203.7	300.7
Managerial posts, level "B"	7275	153.4	167.9	247.8
Managerial posts, level "C"	6050	127.6	139.6	206.0
Executive posts, level "A"	6564	138.5	151.5	223.6
Executive posts, level "B"	5627	118.7	129.9	191.7
Supervised staff member, i.e. in non-supervisory posts, level "A" (with higher qualification)	4741	100.0	109.4	161.5
Supervised staff, level "B" (with secondary school qualification)	3943	83.2	91.0	134.3
Semi-skilled worker	3393	71.6	78.3	115.6
Unskilled worker	2936	61.9	67.8	100.0
Skilled worker	4333	91.4	100.0	147.6

Source: Foglalkoztatottság és kereseti arányok (Employment and relative earnings 1979.) Budapest, 1980. p. 178 Central Statistical Office.

It is a widespread opinion that it is especially the beginner engineers whose salaries are unsustainably low. In fact, the problem is more complex. True, in Hungary the earnings of engineers are more closely tied to age (seniority) or to the length of experience than in the industrially most advanced countries. (For example, in the Federal Republic of Germany the monthly income of engineers in the age group of 40 to 50 is higher than of those over 50.) All the same, also the earnings of engineers with longer experience are low unless some of them get managerial posts. The difference between the earnings of young and of older engineers is less than foreseen by the central wagescale system. A salary of 3 thousand Forints per month enjoyed by beginners is, naturally, extraordinarily low but the salaries between 4 and 5 thousand Forints received by people with ten or fifteen years' experience is equally unreasonably low. During the seventies the most unfavourable change in earnings concerned the engineers older in age and having longer service, inasmuch as their wages grew more slowly than those of beginners on the job. No increase in the salaries of the beginner engineers can be solved if the salaries of engineers with longer experience and having already produced definitive results remain unchanged. Simultaneously, it would indeed be necessary to slacken the mechanical linking of salaries to age and the length of service.

Engineers not in managerial or executive posts, i.e. supervised ones are not only having low basic salaries but their majority are also receiving lesser amounts of bonuses and other extras. The amounts of bonuses and premia are graded according to the post of the individual in the company hierarchy. In one of the companies in the countryside, for instance, those in higher managerial posts got in 1979 bonuses and premia amounting to 37.5 per cent of their basic salaries, production executives received 18.9 per cent and other staff had 9.5 per cent. At another Hungarian company active in the heavy industry managers directly subordinated to the director general had extras amounting to 20 per cent of their basic salaries, heads of workshops got 17 per cent and other staff received 6 per cent. In the past few years an essential part of all companies failed to classify supervised engineers to such posts as are liable to carry any bonuses. Thus their income sank, in essence, to the level of the basic salaries and this happened even in key jobs as R and D, construction and design, technology, etc.

All in all, an engineer who does not get a kind of managerial post will have an extraordinarily limited scope of advancing financially. Here, much more than in the case of any other group of intellectual workers, it is next to impossible to substantially improve one's financial lot except by climbing into a managerial post. This situation is greatly disadvantageous from many points of view. Firstly, even those are striving after managerial jobs, and some do get there, whose gifts do not include the talent of leadership and could be more usefully employed in non-managerial jobs. At the same time, many precious members of the reasearch and development sections are lost through this channel. If it is proving difficult for the employee to get a leading post at his own company, more likely than not it will be found possible at another one. This phenomenon is contributing to the picture that even large companies seldom if ever possess research, development, construction and design teams of the proper standard

innovatory cadres, and that R and D divisions are suffering from "shortage of intellectual capacity". The mere fact that the only way of remunerating outstanding performance leads through being appointed to a sort of managerial position or being promoted from a lower managerial post to a higher one has a vital role in the multiplication of managerial posts, in the artificial addition of unnecessary managerial posts to the existing ones. According to what is shown by a survey of the Trade Union of Mechanical Engineering Industries, one third of the experts with secondary school or university qualifications occupy managerial or executive posts of one kind or another in the metal working industries. Similar situations may be found in other branches of industry, too.

The unfavourable financial situation of all engineers generally, hits harder exactly those who have a primary role to play in technical progress and innovation. At many companies, the situation of engineers employed in development and designing jobs is less favourable than of those on the workshop floor. This difference has continued growing during recent years. While the earnings of those directly supervising the production process (foremen) grew by 44.5 per cent from 1975 to 1979, the non-managing (supervised) staff of higher grades (where also developers and designers are categorised) had an increase of 26.5 per cent only. (Such an increase of those directly responsible for production at the workshop level could not but happen in the wake of a comparatively faster growth of the income of manual workers, primarily because of the introduction of allowances for afternoon and night shifts.) In 1979, the level of the all-inclusive income of production floor managers surpassed that of highly qualified non-supervising technical and administrative staff by almost 20 per cent. At the same time, engineers in the industrially most advanced countries earn about twice as much as foremen. Thus, e.g. in France the average earnings of foremen were 49.1 per cent of those of engineers in 1975 [6]. As a contrast, at the heavy industrial company already mentioned, for example, the workshop level production supervisors had basic wages of about 30 per cent higher than those of the so-called (non-managing) qualified staff. This is the reason why a great number of young engineers with high education volunteer for foremen's responsibilities including some of them whose capabilities would qualify them for solving technical problems of higher standards. (In this particular phenomenon, the fact that in Hungary direct production managers are entitled to other privileges, such as, e.g., the provision with flats in a fashion similar to that applicable to manual workers, also has a role.) At the same time, development and design laboratories do not have adequate expert staff. At the Lenin Metallurgical Works no adequate young people can be found to replace the research engineers and developers about to retire, those to be found on the premises are not inclined to leave better paid posts right in the production.

It is, however, quite frequently happening that people are quitting R and D sections to take up jobs at production floor level. In the course of the major "satisfaction survey" carried out at large companies in 1978, a greater degree of dissatisfaction was found in respect of every factor covered by the survey on part of those active in the spheres of research and development than with people at various levels of production supervision jobs and organization of production. Frankly, it is also part of the picture that produc-

tion foremen are, in the given current circumstances, working more, at least most of them, and are doing this under higher tension than those engaged in research or development. It is the foremen that are affected in the first place by internal or external disorganisation, it is they who have to ward off the consequences of such lack of organisation day by day.

It is not only the income of technical experts doing creative work that is low, other components of their financial situation are unfavourable too, first of all the availability of flats. Engineers are excluded from the most favourable manner of obtaining a flat, i.e. under the "workers' flat construction programme". It was found by the survey already mentioned, at a mechanical engineering company in 1978 that it was exactly among the holders of jobs of key importance from the point of view of innovation that a very high proportion, almost 80 per cent did not possess a flat, and within this circle the ratio of those with higher qualifications was outstandingly high. Trying to solve the problem of how to get a flat frequently takes up 5 to 10 years from the professional life of a young creative engineer and these are the most productive years of his career. Under these circumstances, their supervisors do not and cannot really raise expectations requiring their full dedication and the best of their knowledge towards those in technical creative jobs.

The poor financial recognition of the engineers' work in Hungary is closely connected with the "overproduction", "abundance" of engineers. There is a frequently witnessed scarcity of labour in manual, mainly in very exerting manual workplaces but, at the same, this does not apply to people with higher technical qualifications. The said phenomenon is also connected with ideological and political problems. Among other things, the connection exists with regard to the view which considers it wrong if intellectual workers at companies earn more than manual workers or their salaries increase faster. The relative earnings of intellectual and manual workers are continuously watched by the majority of large companies in Hungary and it is being regarded an unambiguously positive achievement when the difference between them is diminishing or disappearing. It reads in the action programme of 1980 for wages policy of one of the major vertically integrated Hungarian heavy industries company: "The relation of average wages of manual workers to those of non-manual workers being an indicator under scrutiny when considering company performances from the point of view of awarding the title of Illustrious Company, the wages policy of the company was determined year after year by the effort of more moderately increasing non-manual average wages." It does appear, however, as if there had been some slight improvement in this sphere recently. Companies are getting sensitive to the compelling need of technical progress and are aware of the fact that it has, among others, wage policy conditions. In 1979 and 1980, the priority of manual occupations was abandoned when increasing wages, manual and non-manual workers are, as a rule, getting equal wage increases. Possible conflicts that may accompany a faster increase of the wages of intellectual, creative workers are, however, not faced.

Also tied to the rungs of the ladder in hierarchy are, not only financial remuneration but, to a great extent, also the social esteem and moral appreciation. One who is not in a leading position (manager, executive, etc.) is getting a slimmer ray of social glory, medals, honours, etc. There appear to be question marks also when it is asked whether those in creative jobs are asked for their opinions, and if so, if such opinions are really kept in mind when taking upper-level decisions. Some attention is actually paid by company managements to listening to the opinions of manual workers at various platforms of workshop democracy, and they are being held responsible for doing so by political and social organisations, but seeking the opinions of engineers is not unfrequently missing even in respect of questions precisely within the field of *their* competence. The non-recognition of the importance of technical creative work is implied by their classification itself: clerk.* (All technical staff except those in leading positions are classified as economic [meaning commercial, financial, administrative as against technical] clerks, viz., levels I, II, III or IV of the grade: "economic clerk", irrespective of their specific job descriptions.) This implies much more some kind of bureaucratic office activity rather than really creative work.

The poor financial and social appreciation of technical creative work is to a great extent responsible for the counterselection manifest in engineering occupations, inasmuch as there is a great number of incapable people and of people with poor or medium capabilities who manage to settle in this profession and also inasmuch as even those having appropriate talents will not perform as best as they could. It is not surprising that not infrequently the opinion can be heard that while it is true that the financial and social appreciation of technical experts is poor but this is what they deserve on account of what has just been said. The insufficient appreciation leads to counterselection and poor performance which, in turn, make it difficult to ensure the proper recognition. This is a vicious circle and breaking out of it requires well-considered strategy.

The employee's personal interest in innovation

The low average level of incomes constrains, by itself, the scope of providing incentives for employees in creative technical jobs. Likewise, the already existing very narrow possibilities of differentiation are not too helpful for promoting innovation, even if used. According to what was found by a survey made by the Győr College for Transportation and Telecommunication Technology, out of all people questioned, 15 per cent of production engineers explained that creativity, capability and propensity to do creative work played no role whatsoever in workplace promotion or in advancing in income; more than half of the questioned thought that this role was very slight or

*This is the nearest equivalent of the currently used Hungarian term *ügyintéző*. That it had to be translated all through the text as "staff" or "non-managing" = "supervised" was done to avoid misleading the reader. This itself is a case in point made by author. (Translator's note.)

medium. It was also found by the survey that out of the total of fourteen possible factors of salary advancement the creative and innovatory dedication took the thirteenth place. These were preceded by factors like being exact on time, political support, length of service with the company, familiar connexions with higher executives, belonging to the influential lobby, etc. Other surveys, too, support the view that differences in earnings are but loosely related to being responsible for creative duties. This is also pushed to the background when bonuses are distributed. For example, at one particular machine-building company the first places among the tasks conditional to bonuses, are taken by targets connected with current production, implementation of the annual plan of sales turnover and net profits, while long-term development tasks come only after these. Other companies show similar pictures.

Regular bonuses are received but by a very small portion of non-supervisory engineers, the jobs involving regular bonuses follow the ranking in hierarchy: going down the rungs the amount of bonuses steeply sink. For example, in Borsod county large companies extend regular bonuses to top managers and direct production leaders exclusively. It was only found in a few exceptional cases that technical staff doing substantial jobs although not supervising others had their regular share in bonuses. Non-regular bonuses and other extras are, however, being received by a wide circle of technical employees. Most of them get, under various titles and pretexts, sums amounting not too much individually or in sum total. This is fragmenting the funds serving incentives. People get used to receiving, on a great variety of grounds, small amounts of money for which no substantial performance is required. Very widespread is the system of previously offered prizes and bonuses. Generally, the conditions of getting them create but short-term interests while in the case of truly creative work it is not correct to set short-term goals from outside. The goals have to be set by the creative intellectual himself on the basis on what has been achieved so far and what experiences could be gained. Furthermore, in the case of this type of work an unplanned result may also be very precious, possibly even more precious than a planned one. Besides, pre-set prizes are being paid, as it is shown by experience, even for performances *just* managing to meet the conditional task, even for weak solutions, and outstanding solutions bring no more than the pre-set sum, either. So much can be achieved with the minimum possible exertion, consequently what it is incentive for are meagre solutions.

The wide use of pre-set prizes have something to do with the fact that this way indicators, figures (pre-set conditions of such bonuses, the formal documentation of the fulfilment of the target, etc.) serve as a "cover" for the manager, thus ridding himself of the delicate task of having to appraise the standards of performances that would require of him a high level of expert knowledge and a willingness to accept responsibility. In fact, in the case of intricate technical creative activity, just as with any other complex creative work, it is seldom if ever possible to set normatives, quantifiable standards of performance, thus there is generally no way of exactly measuring performance. The non-existent yet sometimes enforced "exact" measuring rod should be replaced by allowing freer play than at present to the personal evaluation of the immediate supervisor. No

system of indicators can ever substitute for this. (It goes without saying that it is only a well qualified, capable manager (executive) having also the human qualities here required who can make a realistic evaluation of performances of his staff. A part of executives in Hungary today do not meet such standards. However, getting deeper into this subject would exceed the scope of this paper.)

At present the level of income of intellectuals engaged in creative work is low, on the whole it is not proportional to the importance of these tasks. The conditions of increasing earnings at one go and substantially for the whole stratum, that happens to be quite populous, are missing today and will not be there in the near future either. Anyway, a general readjustment of salaries, irrespective of better performance, would not bring with it the desirable incentive effect. Therefore, it would be necessary to begin with essentially increasing the earnings, the income gaining possibilities of those showing outstanding performance, and occupying key posts in the innovation process. To do this, it would be primarily necessary to differentiate much more strongly through basic salaries and premia depending on the superior's assessment. The really creative technical experts whose number is estimated at about 5 to 8 per cent of all technical experts should get much higher basic salaries than now outside and above the routine nomenclature. The relevant legislation incorporates a possibility of "advantaged" (above nomenclature) salaries right now. There are ways of doing this. 1. Recategorising the engineer as technical and economic adviser. In principle, by doing so the present anomaly could be eliminated where by essential advancement in financial position cannot be achieved except by getting into managerial posts. In reality, however, the jobs of technical and economic advisers serve as a "cold storage of cadres" where people who had previously been "lifted" out of the company to higher posts of the establishment and re-transferred there later and people who were demoted from managerial post are placed. On the other hand, if such posts are really given to talented, creative engineers, they are really made into advisers in the literal sense of the term, i.e. they become "contributors" to the general manager or some other top manager. Thus it is again the innovation that is losing. 2. The establishment of an above-nomenclature ("personal") salary applicable to that particular individual. In principle, this, too, should be capable of systematically appreciating outstanding technical performances, however, in practice, this is not used much to serve this aim either. Those receiving individually set salaries must not number more than 10 per cent of all employees of the company, and, under the pressure of labour shortage, these means are, more often than not, used by the companies to retain or to attract manual workers. At one machine-building factory in Borsod county 95 per cent of those receiving individually rated salaries above the nomenclature are skilled workers, the remaining 5 per cent being heads of factories, i.e. major units within the company. No one out of the 300 non-supervising engineers gets personal salary rating. This awkward and distorted situation is probably also connected with the current situation where companies cannot quite utilise outstanding talents in other than leading posts.

Sharing in the results

Creating incentives for experts holding key positions in the innovatory process could be primarily assisted by basic salaries and premia depending on the personal assessment of the manager. However, other forms of incentives should also be allowed some room, such as dividing up part of the results that is reliably presented by accountancy.

There could be differences in the success of work done by creative technical experts so that one may produce the multiple of the gains of the other, differences can be as much as 1 to 10, 1 to 20 or even more. This cannot be followed up by salaries alone. Rewards for inventions and innovatory suggestions may serve as a system of appreciating singular outstanding results. However, not all technical performance, however essential, can be formulated into a patentable invention, and this should not even be regarded as an aim. *It does, however, appear justified to go beyond the usual framework of wages and bonuses in respect of a certain part of technical progress achievements that cannot be categorised as inventions or innovations and, where conditions thereof exist, allow a share to the experts playing key roles in the innovation process from the financial revenue resulting from their activities and this could be done directly like a commission.* (This share could possibly be fixed as a certain percentage of the incremental profit yielded by a new design, a new technology, etc.) This does exist in Hungary even now, in a very limited circle though, it is legalized. The amount received by the creator in the case of a commission-type of sharing in the profit may amount to a multiple of the now prevailing amounts of premia and bonuses and should thus create a real and powerful incentive. This is particularly important in a period when the now unfolding competition of smaller sized companies might entail the draining of the large companies precisely of the best experts. A further advantage of this system would be found in that the paying of commissions would have a secure cover. This commission would not be paid on the basis of interim reports, some of them much too often sounding like triumphal statements; on the contrary, in this case payment would be made on the basis of actual profits duly realised in the markets (number of pieces sold, sales turnover, etc.). This would stimulate experts to adjust to the highest possible degree to the real market conditions, something that is frequently missing nowadays.

There are a great many obstacles to the direct sharing in financial results. Right at the start there are obstacles and difficulties* in company bookkeeping and financial management that are not satisfactorily prepared to separate incremental company profits due to technological development and there is no indication to efforts toward this end. (There is no interest attached to showing profits to the account of activities by which they are made.) One more reason why the exaggerated centralisation, amalgamation of

*The fundamental obstacle that technical progress does not always yield profits for the company, so there is no incremental profit to share with the creator, is a topic to deal with is not the intention of the author in this article.

companies that had been carried out proved harmful, and so is the stalling, at places whithering away, of the system of economic accounting of factory units (units had rudimentary balance sheets and profit and loss statements). It would now be practical to reactivate economic accounting in company units precisely in order to promote innovation. For instance, in designing institutions it would be justified to establish economically accounting planners' units because the personal interest is more direct there than in companies. Legislation recently issued about business circles open up possibilities for such organisations to freely undertake contracting. In order to enhance personal initiatives more fruitfully it deserves consideration to allow the operation of such autonomously managed and economically accounting units within research and development institutes and institutions of higher education.

The other (and main) obstacle to the materialisation of direct sharing in revenues from innovation is, in fact, outside the economic sphere. It is rather of an ideological, political character. It is a repugnance felt to excessively high incomes even though there is proof that they are backed by a value created making up a multiple of that exorbitantly high income.* Egalitarianism brings in its wake fewer and minor conflicts for the company and its managers than the appreciation of outstanding performance. While Hungarian legislation fully permits high incomes for creators *via* direct sharing, it is quite exceptional that they actually materialise due to what has just been said. For example, one major machine building factory in Hungary included recently in its collective agreement that constructors should share in the sales developed by them. However, when it turned out, that these shares amount to 20 to 30 thousand Forints, the percentage rates were retroactively reduced. This very widely felt grudge to even deserved high incomes is blocking technical progress across a wide spectrum. Something that should be kept in mind, among others, from the point of view of innovation, too: there is no reason to be afraid of certain people making much money, we should rather be afraid of having too little to distribute. *People should be allowed to earn much provided that they produce a profit for the whole of the society that is a multiple of their incomes.*

Some company experiments intended to introduce a commission type of bonus system proved to be failures because it was found that financial results depended to a great extent on market conditions, competition, price fluctuation, i.e. on factors beyond the scope and independent of technological development activities. Under such circumstances, it was then found that it was not justified to allow a share to the engineers. As a matter of fact, with what our circumstances are, an engineer, more frequently than not, does really work independently of conditions prevailing in the market. A development project is quite often not motivated by market information

*Such excessive incomes are more acceptable in Hungary today in the "second economy" rather than in large companies. This is presumably due to the fact that incomes from the second economy are concealed, they can be suspected rather than known, whereas in state-owned companies or cooperatives they are all public and under the control of the whole community (through social organisations).

(convertible foreign exchange receipts, price, volume, profitability, etc.) but rather by autonomous technical viewpoints or prestige. This is, however, a serious deficiency. If development is market-oriented and it is clearly among the duties of the engineer to take into account foreseeable market conditions and adapt to them to the greatest possible degree, then it becomes quite natural that it is also he who has to bear the consequences of such assessment and adaptation, that his remuneration also depends on the accuracy of his surveying the situation and his success or failure in adapting projects to it. Naturally, chance will always have a role but this is but a natural concomitant of risk-taking.*

Personal interest of company management in innovation

Every manager makes his staff interested in the realisation of what he himself is interested in. Obviously, he will provide incentives for his collaborators favouring innovation if that is also in his interest in one way or another. Unfortunately, in Hungary, company managers have, until recently, been hardly interested in innovations of major scope, sometimes their interest worked the other way round. Primarily, it is the "incrementalism" (that is to say, interest in keeping up and slightly surpassing the level reached in previous periods, more particularly, in the last year) and also the specific rules of the game of central economic control and management that are not too favourable for managerial attitudes striving for changes, seeking new ways. A successful innovation brings few advantages for the top management of the company while its realisation is always accompanied by a great number of difficulties and an eventual failure may be the cause of serious embarrassment. This problem was the subject of consultations by the Sociology Department of the School of Political Science of the Central Committee of the Hungarian Socialist Workers' Party with 100 company managers in the mid-seventies. The results were as follows: the income of 30 per cent of the company managers remained unchanged after successful innovations and the income of another 53 per cent changed but to an insignificant degree. That is to say more than 80 per cent of the top managers were not financially interested in innovation to a satisfactory degree. (Slightly better was the situation with the managers directly supervising implementation. Here the not satisfactorily interested made up "only" 55 per cent.) All this follows from the fact that the income of the top managers is but slightly dependent on the profit of the company,

*Development with an eye on the market has still to fight a difficulty in Hungary and that is the rigid division of labour between the engineer and the merchant or economist. The view is still surviving persistently that the job of the engineer is to develop, and the job of the commercial people is to sell. Experience of industrially most advanced countries shows that the development engineer must also very well know the market and adjust his work to it. In Hungary the roles and the functions of the researcher and the engineer in development frequently intermingle. In capitalist countries these are more distinct roles. There the engineer, unlike the researcher who is not exposed to such kinds of requirements, is definitely a marketing man whose duty is to select from the ideas of the researcher and develop them according to what is good from the point of view of sales.

and even this negligible interest is tied to the short-term, viz. annual profit. It would serve the purpose better if incomes of managers did not depend on the annual* profit but were rather linked to the revenues over several years. Attempts have already been made at such solution but it never came through. When profit remains very good over a stretch of time one should not be repugnant to pay incomes that would currently be considered too high, even incomes amounting to multiples of those enjoyed presently by top managers. This *is* a condition of the high remuneration of technical creators doing outstanding job and thus of making them interested. Namely, few managers will, for understandable reasons of human weakness, fullheartedly support a situation where his subordinate, however excellent, gain the multiple of his earnings.**

Another not negligible worry is in that no interest of managers is connected to any achievements beyond the time of their retirement. It would be worth considering to make leaders interested in results appearing after they will have retired. This is primarily justified precisely from the viewpoint of technological development, that is anyhow a process apt to bring results in the long range only. The long-term interest of managers not owning shares is unsolved in capitalist countries, too. This interest is missing in the case of the professional leaders of major corporations – as can be read in the literature. Specialists seem to be keenly intrigued by this. One can read about a proposition made in the United States according to which a part of the pension of top managers should be made dependent on the current profits of the company so as to influence his attitude when still active towards long-term profitability [7].

It is one of the major deficiencies also from the point of view of innovation in Hungary that selection for appointment of top managers and retaining them in their posts later does not always happen on the merits of the actual economic results, their activities as managers are not always assessed exclusively on the basis of the real performance of the company. There is no doubt about it, that there was a change for the better going on in the past few years from this point of view, yet the interest of top managers in more closely linked, to this very day, to the confidence of higher governmental and social organisations that are not necessarily and not all the time appreciating the economic point of view, and to the support of social organisations representing the company community, rather than to real performance. In order to get and to keep their positions

*Read: annual incremental profit – (translator's note).

**Despite public belief, the earnings of company managers are not too high in Hungary and are comparatively, i.e. in relation to other categories, decreasing. While in 1975 the earnings of top company managers (general-managers, managers and deputies) were on the average three times those of manual workers, by the end of the seventies they were but two and a half times that. The raising of the earnings of non-managing technical experts was also delayed in the last few years by the stagnation or slower than average growth of income of those in managerial posts. The very same situation was also blocking the differentiation of supervised staff incomes. Namely, there is a close link between wage differentials by hierarchy and wage differentials by performance. If hierarchic differentials are small, it is not possible to differentiate among subordinates according to performance, either. Should this last happen, many non-managers would soon have incomes higher than of managers, a situation that cannot be upheld for too long.

managers need, under any circumstances, the support of the company community, of the organisations representing that community. However, the egalitarian inclinations are more or less unavoidably there on the horizon of the community and these tend to be strong. They may be more strikingly manifest where performances are difficult to measure exactly, and the technical creative work happens to be just like that. Communities and organisations representing them are often inclined to "hold back" any appreciation of outstanding performances by individuals or teams, to restrain the manifestation of outstanding creative persons or groups. A manager should stand up against such pressures but he has a very limited scope to do so. Various platforms of workshop democracy and announcements thereon are likewise strengthening the egalitarianist trend. (As a manager of medium rank at a company put it: "Workshop democracy seems to be misinterpreted here: it amounts to egalitarianism.") In order to improve the success of innovation, there is a need for a company management capable of representing the company interest even against the short-term interests of workers and of fighting egalitarian aspirations stemming from the community.*

The conditions of technical progress, and one of its many aspects, the stimulation of technical creative work cannot be separated from the system of functioning of the national economy as a whole. *No direct support to technical progress will produce the required results if the propensity to innovate, the demand for innovation is missing from the economy.* The problems of technological development cannot be solved in separation, merely by specific methods of its management. A substantial improvement of the efficiency of technical creative activity calls for a further development of the functioning and control system of the economy into a more or less clarified direction, that includes liquidation of the characteristics of an economy of shortages, free play for competition, ensuring a higher degree of autonomy for enterprises, creation of their interest in long range developments and their propensity to take risks and a better expression of social usefulness by profit.

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*Many of the company managers asked by the author of this present study said they were fully aware of the need for a better financial appreciation of outstanding technical creative work but due to the general atmosphere in the company they could take any action in this direction only if corresponding central instruction or at least directives were to be received.

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О НЕКОТОРЫХ ПЕРСОНАЛЬНЫХ ФАКТОРАХ ИННОВАЦИИ В ВЕНГРИИ

К. ФАЛУШ СИКРА

В Венгрии происходило неуклонное и весьма быстрое понижение относительного уровня заработной платы технической интеллигенции. В настоящее время заработная плата инженеров, не занимающих руководящих должностей, едва выше заработной платы квалифицированных рабочих. Возможности материального роста инженеров, если они не будут выдвинуты на руководящую должность, весьма ограничены. Положение инженеров, работающих в области развития и проектирования, на ряде предприятий еще менее благоприятно, чем инженеров, занятых на производстве (например, технорyков). Низкое материальное вознаграждение за инженерный труд связано с «перепроизводством» и «избытком» инженеров, с тем, что вплоть до последнего времени венгерские предприятия не ощущали насущной необходимости технического развития, а также с определенными идеологическими и политическими проблемами.

Инженерно-технических работников, занятых подлинно творческим трудом, следует вознаграждать гораздо выше, чем в настоящее время. Одним из возможных решений может быть непосредственное долевое участие специалистов, занимающих ключевые позиции в инновации, в хозяйственных результатах, полученных благодаря их деятельности. Усилению материальной заинтересованности творческих работников инженерного труда в эффективности их деятельности препятствует также и то обстоятельство, что и руководители предприятий также недостаточно заинтересованы в осуществлении значительной инновации. Это положение также следует изменить.

Значительное повышение эффективности творческого инженерного труда требует дальнейшего развития всей системы функционирования и управления народным хозяйством, совершенствования его организационной структуры.

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A. INZELT

ECONOMIC SENSITIVITY IN TECHNOLOGICAL DEVELOPMENT IN HUNGARY*

This article sets out to deal with two fields (the first two cases in Schumpeter's definition**) of innovation: with the introduction of new products and of new technological processes. In general, research is usually focussed on the extent to which an enterprise is interested in innovation. Here only one aspect will be analyzed: to what extent the expectable economic results are considered in the decision making process of Hungarian enterprises when new products or production processes are in question.**

The consideration of efficiency is hindered in decision making by a number of technical factors. However, the role of economic considerations is not determined by the technical problems of measurement itself, but by the circumstance whether the economic units are interested in thoroughly assessing the expectable degree of efficiency. The question is whether the first place in the order of importance is awarded in the management of the enterprise to economic efficiency, to the improvement of competitiveness, or whether these are preceded by other goals, e.g. by the fulfilment of production targets in physical terms, the increase of export sales at any price, or by the technological elegance of the solution, etc. These factors determine whether the enterprises weigh up the expected improvement and future development of efficiency in deciding their steps in research and development. It is also a point whether the speeding up or slowing down, or halt of an action already begun is related to the changes in expectable efficiency owing to changes in circumstances (changes in the patent situation,

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**The concept of innovation, according to Schumpeter who coined the term, embraces five cases: "1. The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good. 2. The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. 3. The opening of a new market, that is, a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. 4. The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. 5. The carrying out of the new organisation of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position."

sales possibilities, market changes, declining prices, modification of the demands and plans of cooperating partners etc.).

In the following I wish to analyze the role of efficiency in two types of applied research:* in the case of original and of reproductive research.

The efficiency of research can only be definitively assessed in the practical realization of the innovation. The high costs of research, the compulsion to make a choice among subjects makes it necessary that we analyze the expectable efficiency of the research phase, too.

The efficiency of the sale of the result of research is only a partial indicator, an explanatory factor of the process of innovation. Its magnitude is greatly influenced by other, closely related factors describing the efficiency of innovation (making a good choice among possible targets of research, the process of production, marketing, sales, the scope of application etc.) This would not be changed by a better solution to the measurement problem of the efficiency of research.

The experience of enterprises

In the following the role of efficiency will be analyzed in the context of the continuous research and development activity of the enterprise sphere. It is here where decisions on the development of new products, new production technologies, or those on the purchasing of licences, know-how, and on the investment involved by the introduction of research (or licences purchased) belong. The requirement of weighing the efficiency aspects is well justifiable in case of such decisions. However, in the cases enumerated above forecasts of the expectable degree of efficiency involve a differing reliability as the time-interval of the forecasts, the scope of available information, and their probability etc. are different.

The role played by efficiency in the R + D decisions of ten enterprises was studied, generally through their recently initiated projects.** The short period did not allow an assessment of the final efficiency of the actions in a number of cases. In case of actions taken 10–15 years ago, in turn, changes in persons, information distorted by the long time etc. made the assessment very difficult. Besides, perhaps the fresher experience of the enterprises under recent economic circumstances offers more practical lessons for the coming period than those produced by former periods (in a different world economic situation, under a system of economic control already abandoned, owing to changes in

*In the research process applied research is preceded by basic research. The decisions on basic research (whether to prefer chemical *vs.* biological research; which branches of biology should get preference etc.) are of an immense importance for long-term development, for the whole development of research activity in general. As the problems of decision making on basic research have little, if any, in common with microeconomic efficiency, I waive their analysis in this paper.

**The case studies were made by Gábor *Havas*, Annamária *Inzelt*, László *Orosz*, Tamás *Szatmári* and Klára *Székffy*.

industrial development preferences etc.). Simultaneously, the shortcomings owing to the restriction of the study to the more recent past were compensated for by the advantage that the actual role of efficiency in decision making could be established realistically.

In the case studies we tried to measure the economic efficiency of the actions analyzed, as we regarded the development of efficiency an important criterion of decision making and evaluation. However, measurability was limited by the fact that the methods of such measurement have not yet been brought to satisfactory perfection.

Before starting to finance a research project, the enterprise (the organization providing the funds) may have a choice from several promising research projects. In the case of a decision on financing the options of economic evaluation are fundamentally different in the cases of original *vs.* reproductive research.* It is not incidental that original research is mainly found in the pharmaceutical industry. This branch concentrates significant intellectual and material resources necessary for the research activity. In turn, the new products, and research activities of the engineering enterprises surveyed here belong to the reproductive category.

Original research

Original research and development in Hungary is partially carried out in enterprises, but mostly they are concentrated at research institutes, universities etc. In case the enterprise is not the sponsor of a project, it has no say in the choice from among research subjects, according to the findings of the case studies, in spite of its deeper market information. This is a significant factor in the delayed or missed application of Hungarian inventions.**

One problem of the selection is that not only the expectable efficiency is hard to assess in the phase of research but the envisaged standard of the technological solution as well. The economic losses incurred by the failure of the research project are only quantifiable for the research expenses. Economic losses may be incurred, however, from the evasion of risk-taking. A good example is supplied for this by the story of the fat amines research at the Pét Nitrogen Works.

*Research aimed at the development of a new product or technology may set the task of attaining different degrees of innovation. If the research brings success, the result may attain the degree of novelty as "revolutionary", "technological reform", "original", "advance on available techniques", "new for the producer". Hungarian jargon at industrial enterprises dubs the revolutionary and reformed products and technologies as *"originalities"*, while the latter three are classified as *"reproductive"* results of research. In this study, we regarded the differentiation according to the degree of novelty necessary from the aspect of the standard of research and development as well as from that of the desirable marketing activity. However, for our present subject, the decision making mechanism of R + D, it was sufficient to make a basic difference between original and reproductive groups of research. This difference sufficiently reflects the different problems of decision making.

**On the system of relations between enterprises and research institutes, see [2].

The idea of introducing the production of fat amines, capable of reducing adhesion with fertilizers, first emerged at the Nitrogen Works in 1963. Better sales, a higher competitiveness of their principal product, nitrogenous fertilizer, could have been promoted by a stuff reducing adhesion, developed in their own laboratory. The only initiated research was, however, stopped by a letter from the branch ministry. According to the opinion of the chemical experts of the ministry, it was a false idea to complement an inorganic material (nitrogenous fertilizer) by an organic one (fat amine) from a technical point of view. Thus, the Pét Nitrogen Works had to give up the development project.

At the end of the 1960s, the Department for Technological Development of the Ministry of Heavy Industry turned to the Pét Nitrogen Works with the revived idea of developing and producing the antiadhesive component, i.e. it withdrew its former ban. The branch ministry was forced to change its mind, that is, to lift the ban, by the fact that Hungarian chemical plants used an increasing quantity of imported materials for the reduction of the adhesion of fertilizers, as failure to do so would have rendered the marketing of their products abroad increasingly difficult. Had the development of the anti-adhesive material taken place in this country at the time when it was suggested by the interests of the enterprise, the realization of considerable advantages would have been possible even on a national economic level.

In case of original research, efficiency is hard to interpret as information is missing on the measurement of the expectable degree of efficiency by decision makers.

Reproductive research

Reproductive research, as its name reflects, is aimed at the repeated development of the result of an original research project (e.g. in the field of computer production, the so-called bubble memories have been developed, an independent production process of which is presently developed in several countries).

Following from the reproductive nature, the expectable degree of efficiency can be estimated before the start of the research activity as the result aimed at has already been achieved by others. The choice among domestic production on the basis of reproductive research, purchase of a production licence, or the continuous import of the product must be made on the basis of the economic result expectable from domestic reproductive research. The current costs of the already initiated research can, time after time, be compared to those of the alternative of purchasing a licence. In the case of this group the analysis of the expectable efficiency may be required, which is assisted by evaluation on the basis of technological and economic criteria.

According to our experience in enterprises the decisions on reproductive research are rarely influenced by an evaluation of profitability. Usually merely the technological feasibility is paid attention to.

An example of this is the research started for the reproduction of a product with the use of imported parts in an engineering enterprise. On the basis of findings of experiments it was thought that equivalent to the original foreign sample could be developed on the basis of their own forces. Thus, the purchase of the know-how was deemed unnecessary. The question whether development or the purchase of a production licence was more economical was totally left out of consideration, in view of the technical feasibility.

A good example of a well-founded choice between purchasing a licence and developing reproductively is provided by the preparation of the ZF type gearbox production.

The Factory for Driving Mechanisms and Painting Instruments launched Hungarian research and development (at the Research Institute for Motor Industry) and the preparation of the purchase of a production licence from abroad parallel to each other, continuing them up to the point where the most appropriate way of progress could be determined with sufficient reliability. Domestic research results failed to reproduce the product which was regarded technologically up-to-date on the world market. Comparing the modest results of domestic experiments with the well-proven design offered by the foreign company, taking into account reliability as well as the desired and possible time of launching the production, the council of the heads of departments of the Ministry for Metallurgy and Engineering decided to buy the foreign production licence.

Thus, it was an important reason for stopping reproductive research that a technologically satisfactory result was not expectable by time preferable from the economic aspect.

A relatively new aspect of the choice between reproductive research or buying a licence is the fact that the realization of a successful reproductive development and its result is increasingly difficult on the market under the conditions of international competition. This feature is already affecting the research policy of Hungarian enterprises. The danger of being squeezed out from Western markets puts an economic aspect – saleability – into the focus. An enterprise, which reached its market successes so far by its adeptness in fast reproduction in the first place, has changed this practice lately in order to maintain its competitiveness and to keep its markets. It advocated the purchase of the production licences of such products its experienced specialists could easily, rapidly and cheaply reproduce, enabling the emergence of the product on the market still in the upward phase of the product's life curve. According to their experience, however, the marketing chances of successfully reproduced products are getting increasingly worse. The very fast obsolescence of their products, characteristic of this industry, is only a secondary factor in this; the marked division of the market is an even more important factor. In order to maintain their relations with multinationals, or, at least, to avoid the hopeless competition with the giants, they renounce the reproductive development and sales even of such products that are not protected by patents in their original versions.

We must add that the expectable profitability of new products developed reproductively is not beyond question even in the case of exports to socialist countries. Although such products are still in the upward phase of their life-span in socialist countries, their prices are not determined by this stage but by that on the world market (usually the phase of saturation or downward trend). For this reason, the highly research-intensive and relatively short-lived products of certain branches turn out to be unprofitable when developed reproductively and sold in the socialist countries, however large quantities the markets of these countries can absorb. In the case of such products it is worth considering whether domestic production for the relatively small market of Hungary is more economic than the import of the product.

Good returns may be expected in the case of such reproductively developed products, sold on the markets of socialist countries, which have a long phase of saturation and by the time the product is launched on the socialist market a decline in prices (or in costs) cannot yet be expected. Only these ones may promise a realization of the advantages of this market (large series production, booking of orders for long time ahead etc.).

The choice between reproductive development and the purchasing of production licences also involves selection among licences. Unfortunately, the weighing of economic aspects, of efficiency is hardly placed higher in the hierarchy in case of reproduction based on production licence either. Our experience corresponds to that of others [3]. Each enterprise buying a production licence makes calculations for the profitability of the selected alternative of licence purchase. As the decision is usually taken before such calculations are made, the latter usually plays no role in the selection among available licence alternatives. Why are such calculations made at all for an already selected licence? The enterprises mainly calculate the various indicators prescribed by the authorities giving permission for the purchase of a licence and financing the necessary development and the analyses are rather aimed at proving the existence of the profitability standard set by higher organs for the developments of enterprises than the realistically expectable returns. This approach characterizing all research and development activities, formed by the former system of enterprise incentives, is the greatest single problem of the efficiency computations of the period surveyed. The efficiency computations, produced by the enterprises requiring a lot of time and mental energy are not made for the own use of the enterprise, but they are prepared for external organs playing one kind of a role or another in the process of decision making.

It is in the interest of the enterprises – if they are really entrepreneurs – to elaborate the actually expectable degree of efficiency, and profitability as precisely as possible, to elaborate the most reliable forecast they can. In several enterprises such calculations are actually made, "for internal use only", providing the basis for decisions on development strategy. Such calculations serve for basis of decisions only when the development project is to be realized exclusively from the own funds of the enterprise, with domestically produced capital goods. In case external organs also take part in decision making, the enterprise is less interested in drawing up the possibly most reliable

forecast. This interest becomes subordinated to its other interest, according to which such profitability forecasts should be made as correspond to the "expectations" of the supervising, licence issuing organs and ease access to credits, state assistance, tax refunds, various licences etc. This is partly why the results of projects mostly fall behind the values of indicators forecast for the given phase as calculated at the time of decision making.

In connection with the efficiency of research activity we deal separately with the interrelation between the division of labour among research and development institutions and the fruitfulness of research itself. It is true for several reasons for the production relations between producing enterprises that they prefer "in-house" production to cooperating with other domestic producers. A similar feature can be observed in the case of research activities: external experts and institutions are rarely used. Research relations are hindered, beyond the general weakness of cooperation, by the present system of the evaluation of the results of research activities, which renders the integration of outside intellectual capacity (that of research institutes) difficult.

The individual evaluation of research workers is mostly determined by scientific degrees and the amount of their publications. The results of practically useful work on commission are rarely open to publication, thus, such work enjoys a smaller prestige. Material advantages, in turn, hardly if ever compensate the individual or the institute for this disadvantage. Anyway, these material rewards are not very considerable. Because of the centralization of incomes (taxation) the financial parameters of such contractual work are so disadvantageous that only a fraction of the amount paid by the customer may get into the pockets of those directly performing the work and of their assistants.

The greater part of the amount paid is diversed to channels over which the customer has no control, consequently, he has no influence on its utilization in the interest of financing the contracted research work. This works against cooperation especially in cases where experiments require investment and development at the contractor institute. The producer enterprise, aiming at the establishment of long-term contacts with a research institute finds it disadvantageous that the part of the contracted value remaining with the research institute as a source of development fund is used for financing investment projects not related to the activities of the original customer.

Cooperation in development is frustrated not only between the producer enterprise and the research institute, the case is no better with the joint projects of producer enterprises with research facilities. Their problems are closely related to those of production cooperation.

For example, in the case of the Budapest Chemical Works it would be more advantageous for this enterprise if it could adopt the results of base material research even by getting shipments of it from the pharmaceutical factory that had developed this intermediary product, and its formation could be carried out by them, involving their own applied research and capital investment, and others would waive the creation of similar research and production capacities as, in their view, parallel capacities have little chances to be fully utilized. The price relations, however, (with the exception of the prices of toxic materials), allow only the finished product to be really profitable. This

conflict of interests delays the introduction of new products on the market and the attainable profit is reduced by this delay.

(E.g. only a third of a certain forming capacity was utilized at the time of our survey, as other enterprises chose to establish their own capacities instead of bringing their products for this operation. In this case, then, the harmony between production and development was impaired by relative prices.)

The cooperation of organizations depending on one another in the division of labour is significantly less efficient than desirable in the development and introduction of new products and technologies. Insufficient division of labour in the Hungarian economy is not restricted to the sphere of research and development, it is also characteristic of production relations. In the sphere of research, the continuous striving after novelty renders the establishment of cooperation between institutions even more difficult than in the sphere of production. The creation of mutual interest, of better cooperation would be extremely advantageous for the general development of the Hungarian economy, for the improvement of the efficiency of enterprises. Although often very successful, the phenomenon described as follows by the chief engineer of a large enterprise in charge of development cannot be elevated to the level of a general motive of common research and development:

"The utilization of production experience, the further development of products is not fostered by interests but by professional enthusiasm. Development depends, instead of on common interest, rather on personal relations."

Common development based on organized relationships is realized mainly among such institutions and enterprises the activities of which are complementary to one another and without such cooperation none could attain the desired results. The motive of joint work is not economy on time and expenses in reaching the targets but merely performance of the necessary complementary research. It is usually an important factor in the emergence of cooperation that only one of the parties possesses the valuable instruments or professional expertise necessary for a part of experiments needed for the research project. The advantage for the national economy realized in the successful cooperation lies in the elimination of a parallel purchase of valuable experimental equipment and their operation at a low level of exploitation. Such complementary research cooperations are usually successful. The establishment and maintenance of relations are greatly fostered by various professional societies (e.g. Electrotechnical Association, Committee for Outdoor Fittings etc.). The positive approach to cooperation is ensured by a subjective factor, common professional interest, which may, in places, take over the role of common business interests.

An enterprise carries out common research with a designated partner, whose task is to organize experiments concerning the application of the product in question and the summing up of the results. The institution managing the experiments is not interested in their success, as, on the one hand, it does not share in the producer's profit in case of success, and, on the other, it may never become a user of the product. Consequently, improvement of the product does not involve any advantage for the institution. This

causes the lack of professional interest as well. The enterprise maintains this research relationship developed according to the instructions of the supervising organs in spite of its inefficiency. It fills the gap by continually trying to find other, more efficient forms of cooperation. So far they have drawn the greatest advantage from involving the potential users of their products in experiments. According to their experience, the reports given directly by potential users as interested parties turned out to be more meaningful than those provided by official institutes. Competitions are annually opened for young specialists with prizes between 250–300 thousand Forints for carrying out experiments in application. (This form of experiments is, at the same time, the best publicity as by the time of the introduction of a product on the market a part of future users has already got acquainted with the product.)

The efficiency of research activities would probably be enhanced, and the number of successful innovations would be raised by a system of incentives better serving the identification of research, development, and design units and their specialists with the development goals of the enterprise. This would also help change the present structure of the institutions depending on one another in the realization of innovation.

Competition in the research sphere

The harmonization, and national coordination of research projects is called upon to improve the efficiency of research activities on national level. The most important means of coordination of research activities in Hungary is the compulsory registration. The registration and publication of research subjects makes possible for those working at different research centres to learn of the work of one another, to have access to information about partial results and to establish, if necessary, a division of labour. The not insignificant bit of information that the solution of the problem is also sought elsewhere might stimulate the acceleration of research, or urge the concentration of resources, or even lead to the halt of duplicated research. According to our experience with enterprises, the compulsory registration of research subjects as information concerning competitors had a lesser effect on decisions of the enterprises and failed to contribute to the improvement of the efficiency of research activity. Nevertheless, it acquired an important role in the relationship between the enterprise and its supervisory body: the latter, thus, was in a position to decide on the continuation or halt of the research activities initiated by the enterprises, independently of whether this activity was partially or exclusively financed by the enterprise.

Although elimination of duplicated research of all kinds may enable the exclusion of competition from the research sphere, still, a number of disadvantages must be reckoned with. The research cost saved through the elimination of competition also does away with the struggle to cut the time necessary for the research project, which, especially in the case of original research having a relevance also in international competition, may lead, because of the time lag, to the loss of extra profit. In the initial

phase of a research project it is hardly foreseeable which research team will succeed fastest, or least expensively, in finding a solution.

A few years ago in the field of pesticides production (first launched by CHINOIN among pharmaceutical factories) there was no previous research sharing. The production of the pesticide called Glifozát was simultaneously developed by CHINOIN, the Budapest Chemical Works and by ALKALOIDA. CHINOIN was barred from research by the branch ministry and competition was allowed only between the two other enterprises. In the end, two successful processes for Glifozát production were developed, starting from two different basic materials. The point of the story was that although Budapest Chemical Works was allowed to develop the product, but, following another decree of the branch ministry, it could not cream off the results of the successful research as production was allowed – to the company Nitrokémia. The halt or continuation of development was not determined on the basis of the expectable efficiency (smaller expenses, sooner results).

The present system of coordination tries to exclude competition right before the registration, as even the research fields are divided among productive enterprises.

In case of reproductive research, where even a success rarely promises "extra profits", the tendency towards elimination of duplicated research is rather advantage than a hindrance. Elimination of the duplication of licence purchase is, in turn, unambiguously advantageous. (Parallel purchase may take place in case the original decision was wrong and a continued application of the technology bought is uneconomical). A general improvement of the overall profitability of licence purchases could be achieved by a fast access to information and by common application based upon the already existing records of compulsory registration within CMEA countries.

Development, investment

After reaching the result of research, the enterprise faces a new decision. It has to make a choice among research results, and basic goals and ways of development.* It has to decide where to allocate its development resources among the fresh results of research (e.g. transistorized television or small computers etc.)**

In case the development alternatives are the results of own research the choice of the enterprise is not limited to developing or not, but is extended by the possibilities of development on its own or jointly, or the sale in licence form etc., according to the criteria below:

*On a more detailed analysis of development problems see [4].

**The selection among development goals – what to develop and what not to develop – cannot always be answered by the enterprise itself. Hungarian economic policy and the control mechanism do not trust such long-term decisions, leading to a macrostructural change, to enterprises. The requirement of efficiency must not be pushed to the background merely by the level on which selection among development projects are made.

- the expected time and length of running up,
- expectable demand,
- analysis of the patent situation on the market,
- the expected date of the launching of its product and that of the competitors,
- relative price compared to analogous products,
- whether its product can attain a "novelty-price",
- expectable profitability of the product,
- whether additional capacity is at hand or can be freed within the factory in case demand grows,
- investment made necessary by development.

The above, incomplete list shows that the problems to be assessed are largely the same that the decision makers have to analyze in order to attain optimum efficiency before a research project has been initiated. A renewed assessment is necessary because during the time elapsed the circumstances may have changed and the decision can be better founded after research has been finished as more and more reliable information is available for a better forecast than before the start of research.

In case the introduction of a research result is opted for, the period of product development begins. Development tasks and related decisions are, to a great extent, dependent on the degree of novelty of the research result. The manufacturing technology and production techniques of a revolutionary new or reformed product produced by the research must be worked out in the phase of development; the mode of application must be found through experiments in this phase and the production licences, if necessary, must be applied for at the authorities also in this phase.

Sometimes the introduction of a new product does not need any production development. We do not deal with this case here.

In case of original research results the launching of production, sale and the introduction of the product on the market can be very advantageous in the semi-large scale* phase of production (e.g. 'Cavinton', and prostaglandines). The extra price obtained through the novelty of the product may abundantly compensate for the extra costs incurred by the insufficient perfection of technology. However, when a product has passed its phase of introduction in its life-curve, it cannot be really competitive if its production stays in the semi-large scale. This is also one cause of the slow introduction of new products, of the excessive stability of the productmix. It is often encountered in Hungarian industry that a new product would require considerable technological development, but it is not carried out or only partially. Failure to carry out technological development is in close relationship with all the well-known tensions in the investment sphere.

After decision to realize production on a large scale is taken, technological and financial planning, the preparation of investment follow. This is a phase of decision

*Semi-large scale: between the experimental workshop and large-scale plant production as far as the production scale, technology, the organization of work and the size of batches are concerned.

making which has a relatively proven methodology for the forecasting of efficiency. In many cases we were given detailed calculations about the efficiency* of the chosen version of the development project. The bare fact that such calculations on efficiency have been made at all could be regarded as positive, but for the experience that efficiency played a minor, if any, role when the choice among the versions was made.

The most concise example for these phenomena is provided by the example of the decision making on development at the Hungarian Cable Works: in connection with the development several choices for the various development rates and product scales of the plants were up to decision. There was a choice even between technologies. The large computer centre in the framework of the project, the moving and modernization of the Development Institute as well as the development of plants were all alternatives to choose from.

The selection among versions was made, at a series of sessions of executives, without any calculations as to the costs and results of the various solutions, which, in turn, were not even put on paper.**

Besides, in the phase of the investment activity, in a significant part of cases efficiency rather declines than increases. Usually a protracting of realization, poor preparation and other causes, leading to the rescheduling of investment projects are widespread phenomena. The investment process usually deteriorates the overall efficiency of the whole development. The case of the relatively successful Fundazol investment project is a characteristic example of this.

In the period from the beginning of the investment till the semi-finished stage of realization (July 1979) the technological standard of production underwent a worldwide improvement (also involving a modification of the product, a decrease of the grain size). The changes in the product and in manufacturing technology required the purchase of new machinery (air-flow mill, Opton Videomat analyzer). Partly because of this, partly for other reasons (e.g. instead of the domestic purchase of a boiler, it had to be imported from abroad; construction and water supply costs increased in the meantime etc.), investment costs jumped by 66 per cent.

Because of the 11 months' lag of the investment the above mentioned factors reduced the realizable profits to such an extent that the National Bank of Hungary was reluctant to accept the request of the enterprise concerning the rescheduling of credit as not only the relative advantage of the investment disappeared in comparison to other investment projects but even the profits/assets ratio fell below requirements.

*In certain cases, though, the appropriateness of some of the indicators used for measuring efficiency was questionable.

**The authors of the article in the periodical "Figyelő" mentioned already had the same experience in the analysis of the decision making activities of another enterprise concerning the purchase of production licences and know-how: "In the process lacking a widely based technological and economic selection, offers were crossed out which, although disadvantageous from one aspect, would have been more economic to develop on the whole than the version finally chosen in the process of selection." [3]

Profitability is reduced and adjustment to the demands of customers and to the market situation is also impaired by the fact that the development of complementary processes supporting the R+D action is usually neglected. The additional developments are missing not only with regard to the suppliers of materials, parts, intermediary products, and of investment goods but usually also within the enterprise. CMEA cooperation is also characterized by long delays of consequential developments and, thus, purchasing and sales encounter problems for years (e.g. the rescheduling of the Agrochemical Convention). The fruits of a successful development can be nullified by the delays in other phases if its relation to them cannot be changed.

A striking example of the tensions on the domestic investment market is provided by the investment project of KONTAKTA in the production of electronic parts, begun in 1974. An outlay of Ft 152 million was planned and completion was envisaged by 1976. The enterprise managed to complete the investment in 1980 (thus, in six years instead of the planned two), and the costs reached Ft 186 million.

One of the problems in the field of investments is that rules governing the formation and utilization of the technological development fund, serving as a source, render the use of the financial means difficult. Enterprises should be allowed to use the technological development fund more freely, more flexibly.

In case of dynamically developing industries, because of the long period needed for the realization of investment projects, the credit facilities linked to a strictly defined project also became a factor deteriorating flexibility. In branches that frequently change the product-mix (like the pharmaceutical industry) investment projects not related to single products are needed.

The "construction box" practice of investment, the building out of the basic infrastructure (steam, water, salt solution etc. pipes), and the construction of the factory buildings as well as a machine store filled with machinery needed in general technologies would help flexible response to the changing conditions of efficiency in investment realization. The part of profits lost in Hungary because of the lag of investment realization behind the life curve of the product could be partly regained.

The National Bank of Hungary modified its credit policy in several cases when financing the development projects of pharmaceutical factories. Today credits are no longer awarded to specific targets. The contract refers to the product covered by the application for credit as to a model. The bank insists on the promised returns concerning repayments and in revisions as against a specific product referred to in the credit agreement. This stimulates the flexibility of technological planning and urges the investor to produce the most profitable product after the investment has been completed.

In investments not only the state of the building industry, but also the underdevelopment of the domestic industry producing investment machinery (e.g. in the production of chemical machinery, of automation instruments), the low professional and organizational standards of institutes preparing the realization plans also hinder the process of development.

The changes in efficiency are also greatly determined by the level of and the time required for decision making. Controlling organs and other institutions dealing with development take part, in addition to the large development projects of great importance, bearing on the whole of the national economy, also in decisions typically pertaining to the enterprise, the microeconomic level. The experience of the ten enterprises points out that too many people take part in decision making, while perhaps those who would be really needed, are left out.

- It was not reported by any of the enterprises that the research institute cooperating with the enterprise would have taken part in the post-research decision making concerning development and investment.
- It was rarely found that the user partner, however well-known, was involved in the development decision. The enterprise further processing the product or investing in the technology was only participating in the decision when it was practically in a monopolistic position with regard to the enterprise considering development and was, thus, able to determine the realization of the results of the development by its readiness or refusal to accept the new products. (E.g. Hungarian Cable Works, the Post Office, Hungarian Electricity Works, Csepel Motor Factory, IKARUS etc.).
  Apart from this, the user only participated in the preparation of the decision on an initiative originating from outside the enterprise – in case the controlling organ or the National Bank of Hungary required a declaration of the opinion of users.
- Partners among foreign trade companies usually took part in the preparation of decisions. Their role was double: on the one hand, as importers they took part in the R+D process (purchase of production licences, know-how; the import of investment goods etc.), and, on the other, as exporters they played a role in the realization of the future results. It is a welcome fact that the involvement of the foreign trade organizations playing the latter role in the decision making process on investment has become increasingly regular even in cases where the related import and export activity is carried out by different foreign trade enterprises. A shortcoming of their participation is, however, that it is still more or less formal. Their statements do not imply any form of risk-taking. They rarely stimulate the innovating activity of the producing enterprises through their marketing activity, their formal participation hardly lessens the risks of the latter. This is also borne out by the opinion of industrial enterprises, according to which foreign trade companies prefer, from among development alternatives, the adaptation of foreign technology (import business in the short run) to domestic development (export business realized later).
- The potential construction contractors may be regarded as strange characters in the stage of the preparation of decisions. The role of the construction enterprises is undoubtedly important in the success of actions. The documentation of their non-binding, informative commitment in the phase of preparing the decision, not involving any liability in a later phase (i.e. in realization) is but a formal contribution to the selection of the development actions.

– Branch ministries took part in all phases of the research and development actions with various degrees of intensity and efficiency. In the period studied new conflicts were created by the participation of the Ministry of Foreign Trade in the decisions in innovations. This ministry has a right to express its opinion in the phase when the decision on development is taken; in the process of the realization of the development and investment it has a power of decision. Because of fluctuations in the external economic situation, it may agree with the idea of purchasing from import at the time when it expresses its opinion, while it may disagree with it in the realization phase. However, with the progress of realization the choice becomes increasingly limited, determination increases. A modification in the meantime increases costs, delays completion etc. This is also a frequent cause of the gap between the planned and the actually realized efficiency of investment projects.

The time needed for decision making is not indifferent from the aspect of efficiency, of flexible adaptation through development actions. In Hungarian practice a decision concerning some research and development project takes a long time. The participants and the mechanism of decision making hardly vary according to the nature and importance of decisions. The great number of participants does not reduce the socio-economic risks involved in an action, it merely reduces the risks taken by each participant in decision making.

According to our findings, the enterprises are not sufficiently interested in the economic success of the research and development actions. The analysis of expectable efficiency hardly motivates their decisions taken before and during the realization of the innovation. The improvement of the economic efficiency of research and development actions cannot be really expected from compulsorily calculated indicators. In order to realize more successful research and development actions, a new growth path is called for which makes room for the evolution of the entrepreneurial qualities of the enterprises. Economic environment and control should ensure that the striving after economic efficiency emerges as an internal necessity rooted in the rational activity of the enterprise. To achieve this, an efficient organization of the enterprise, capable of innovation, an adequate enterprise size and transformation of the system of internal control and decision making are indispensable. A common economic interest must be created among the organizations forming the chain of innovation activities in which one relies on the other (research, development, production, sales, aftersales service organizations). This may be helped by many different forms of organization depending on the nature of the branch, on the size of the producing enterprise etc. These factors combined may contribute to reducing the time needed for the realization of research and development actions, to an improvement in efficiency, to a greater competitiveness of the industry.

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ЭКОНОМИЧЕСКАЯ ЧУВСТВИТЕЛЬНОСТЬ В ТЕХНИЧЕСКОМ РАЗВИТИИ

А. ИНЗЕЛТ

Автор рассматривает две существенные области инновации: проблемы введения новых, еще не известных потребителю видов продукции и проблемы применения новых в практике данной отрасли промышленности или данного предприятия методов производства. Особое внимание уделяется анализу венгерских НИОКР и закупок лицензий.

Автор ищет причину низкой эффективности инспользования результатов научных исследований и новых технологий, делая различие между оригинальными и репродуктивными исследованиями. Важнейший вывод статьи состоит в том, что при принятии решения по вопросам научных исследований и в ходе ввода в практику научных достижений относительно мало внимания уделяется своевременному анализу ожидаемой эффективности, поэтому ожидаемая эффективность играет необоснованно незначительную роль в практике подготовки решений в Венгрии.

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P. BIHARI

ON (STRUCTURAL) UNEMPLOYMENT

Unemployment is a form of appearance of the imbalances of the national labour market. Structural disequilibrium means excess demand on some segments of the labour market and excess supply on others.

Structural disequilibrium is a category of societies with commodity production using modern forces of production. Also in socialism, structural disequilibrium develops necessarily at times, together with the resulting structural unemployment. Then unemployment will be the "production task" of some members of the community. Therefore, unemployment must not mean a basic difference in position relative to those given other production tasks. Unemployment under socialism can be characterized as humane efficiency. In the field of employment the historical achievement of socialism can be the elimination, moderation of the economic and non-economic disadvantages which up to now have always accompanied unemployment.

The theory and practice of employment has been one of the main topics in Hungarian economic literature for a long time now. Within this field we can read many new, or newly defined old theses, even today. Combinations of words well-known just a few years ago – such as the excessive fluctuation of the labour force, or the "floater" or "migrant" – are almost completely forgotten today. Others, like rationalization of production, are again being used. Recently practice has forced a more fundamental contentual clarification of full employment under socialism. This work wishes to contribute to this subject: it sketches a possible theoretical framework for the analysis of unemployment, and, on this basis, draws conclusions with regard to socialism as well.

Definitions, indicators

Based upon the ILO definition I regard as unemployed those persons, who are not – or are only partially – employed, although they are looking for a job and are able to enter employment immediately.* I shall state a few hidden inferences of this definition in an explicit form:

*Of course, depending on the aims of the analysis, other definitions are also possible. For instance: unemployed is the person who is not employed because he could not find a job suitable for his qualifications and/ or his wages and conditions of work are not up to the level usual at his previous, or desired, place of work.

– Not all of those without a job are "unemployed". The disabled, the housewife not wishing to enter employment, or the slacker, the truant, are not "unemployed".

– At the same time those, who refuse employment offered to them, are to be regarded as unemployed. (In actual cases it is not easy to decide how long a person is looking for a job and when he turns into a work-shirker.)

– It is only a special case of unemployment (if such a case ever comes about) when there is absolutely no work to be had.

– Only those people can be unemployed, who are not in employment. The following example illustrates the background for this obvious tautology: a teacher qualified to teach in a high school is unemployed if the only teaching job vacant in his home town is in an elementary school and he refuses it: but he is employed in the ordinary way if (perhaps driven by bread-and-butter worries) he accepts the job. Here an important thesis could be advanced: the less society cares for its unemployed, the smaller is unemployment itself; in an extreme case – i.e. when there is no such care at all – even full employment could be achieved, since those, who would otherwise be unemployed, would have to accept just any kind of a job. The causes of unemployment are to be found in production – but, with any given set of circumstances, the fact how many of the redundant workers become actually unemployed and how many will be absorbed in other ways (emigration, keeping away from the job market or even death of hunger, etc.) and whether they will be driven to give up their place in production or else whether they will be forced to and willing to accept worse conditions of employment – all these depend on society's care as well. Therefore in order to make meaningful comparisons between the relations of employment in different countries, a knowledge of the system of providing for the unemployed within that society is essential.

– At last, the definition does not exclude scarcity of labour coexisting with unemployment.

Unemployment can be measured by absolute data: by the number of the unemployed. To compare unemployment between countries or periods in time the proportion of the unemployed to those employed or to the active population (rate of unemployment) is normally used. However, the length of time spent unemployed varies according to individuals, qualification categories, geographic regions and periods.* The changes in the average waiting time must also be expressed by the indicator of unemployment.

Therefore it will be useful to regard the proportion of unemployed defined in the following way as the unemployment indicator: the proportion of those without employment all through the examined period of time (year) as measured against those in employment. Fractions, periods shorter than a year will also be included if we multiply the proportion of the unemployed (rate of unemployment) with the value of the average period of unemployment extrapolated to 12 months. (If for example half of the

*E.g. in France this indicator was 7 months at the beginning of the 1960s, while it was 9.5 in 1978 [4].

employed population were without a job for various periods of time averaging half a year, then the yearly proportion would be $0.5 \times 0.5 = 0.25$; which means that the rate of unemployment is the same as if a quarter of the working population were without a job all through the year.* Thereby the meaning of full employment can also be defined. When the value of the unemployment indicator is 0 it means that nobody is without a job for any period of time. We may call this absolute full employment – just to distinguish it from the definition of full employment ordinarily used today.) Here, of course, we disregard the groups of those who cannot or do not want to be employed. These groups differ in size by countries and periods, but they can always be found. Thus unemployment and absolute full employment are negations of each other: if there is no unemployment, absolute full employment has been realized – if there is no absolute full employment, there is unemployment.

In reality, absolute full employment does not occur. Even within socialism in spite of the realized "full employment", certain people can become unemployed. The practically used concept of full employment does allow for a certain extent of unemployment – just so much as not to cause major social problems, although it can raise soluble "organizational problems". We can speak about relative full employment – or simply about full employment – so long as society does not have to take care of the unemployed as unemployed (through unemployment benefits, permitting employment abroad, etc.).

Now I shall make an attempt at giving a – rather sketchy – description of such a system of theoretical conditions and interrelations, which could serve as a framework for research into the causes of unemployment.

Unemployment and labour market

On the basis of the history of the mass of the unemployed, increasing during times of slump and decreasing during boom, the causes of unemployment are seen by many as lying in the cyclical nature of production, or more generally, in its fluctuations – leaving aside now the peripheral causes. By all means, this can be a cause, but not *the* cause of unemployment. Were it not so, we could not understand unemployment existing during times of – and even at the peak of – a boom. And it would be totally incomprehensible for us if the number of unemployed increased rather than decreased following a slump. (As it indeed happened in leading Western countries – with the exception of the United States and West Germany – after the 1974–75 recession.) These facts, especially the movement of unemployment as opposed to that expected on the basis of quantitative changes in production, point to a different set of reasons. Therefore, unemployment is to be analysed *partly within, and partly without the framework of the cycle of reproduction.* This approach is also supported by the evidence of statistical data.

*The rate of unemployment "perceives" the changes in average waiting time only in a very damped way.

Unemployment is a form of appearance of the states of disequilibrium of the labour market aggregated on macro-economic level. The balance or imbalance of the total demand for, and total supply of, labour can be defined in a global and a structural way. Here prices and wages will only be needed as accounting units. Let us now examine what we may mean by the *global* and the *structural* imbalances of the *total* demand for, and *total* supply of, labour. Thereby we shall also be able to see whether unemployment really represents a state of global and/or structural imbalance.

The totality of the labour force and of jobs is not homogeneous. Labour force is represented by individuals differentiated by qualifications, locality, age, sex, etc.; and employers have different kinds of jobs as well. Therefore the perfect competition of "everybody against everybody else", the competition extending to all labour and all the jobs can never come about. Certain posts can only be filled by certain groups of the labour force, owing to the specific nature of the required qualifications or informal training. Therefore it is not competitive groups that appear on the labour market; the allocation of labour is not "continuous"; the labour market is broken up into segments [7, 8]. The individual market segments (which are at the same time local markets) are not perfectly closed markets in reality. It cannot be said that every single group of labour can appear only on a definite segment of the labour market. Some groups of labour can find employment on more, others on fewer segments of the market. Competition is possible between the various market segments. It surely exists between some of the segments. There is no absolutely free competition, but there is no perfect segmentation either: there is *limited competition.*

The total demand for and the total supply of labour can be described as a list, in the form of vectors. The individual components of the – *ex ante* – vectors of demand and of supply show the number of jobs in demand and on offer in any given market segment.* The components of the vectors are placed in such an order that elements with the same – i^{th} – index should mean *ex ante* demand for the same – i^{th} – job and its supply. The vectors are of the same dimension, since should one of the components have no "pair" in the vector – i.e. there is only demand for, or supply of, a certain job – then the appropriate element of the other vector is 0.

The *ex ante* total demand for labour is described by the a_j^d ($j = 1, \ldots n$, n 0, a^d 0/vector (job vector) consisting of n elements; while the *ex ante* total supply of labour is described by the $a_i^s/i = 1, \ldots n$, a^x 0/vector (unemployment vector), which also consists of n elements. May I note that in the demand vector I also take into account all those jobs with a positive sign which have not been filled exclusively due to the lack of adequate labour supply. By this operation – as we shall see later – the size of

*Here we shall not deal with drawing the line between the various market segments, whether according to professions, geographic regions, or a combination of these and other criteria. I make use of the statement referring to the limited competition insofar as I assign the individual elements to market segments.

unemployment will not be altered, since we decrease global unemployment by the same amount that we increase structural unemployment.

Now let us introduce the *nxn* A-matrix of – *ex post* – actual employment. The column index of the matrix shows certain components of the vector of the – by now *ex post* – demand for labour, that is, the available jobs, while its row index shows the professions, which are components of the – also *ex post* – supply of labour. Thus any a_{ij} element of the matrix shows how many of the ith occupation have found employment by filling the jth post. The diagonal elements show, how many people have found employment in their "own" market segment, while the non-diagonal elements provide information about "infiltration" in between market segments. (In the case of perfectly closed market segments we would get a diagonal matrix.) Limited competition does not exclude perfect separation between certain market segments; in this case there is a 0 in the relevant places. The number of 0 elements of the matrix and the relationship of the diagonal elements to the non-diagonal ones allows one to draw conclusions as to the scope of the competition. The ith line of the employment matrix shows how those in the ith occupation are divided up amongst the ^{n} number of market segments. From the jth column it can be seen people of which occupation have filled the jth job.*

Let us introduce the following notations:

$$a^{s} - A \cdot 1 = r^{s} \text{ and } a^{xd} - 1^{x} \cdot A = r^{xd}.$$

It holds that $r^{s}, r^{d} \geqslant 0$ (for, regarding an optional number of jobs and occupations it is not possible to fill more vacant posts and it is not possible for more people to find employment than the value of the *ex ante* vector). The positiveness of the jth element of r^{d} means that there are some of the jth job which are vacant; and it can be seen from the positiveness of the ith element of r^{s} that not all of the ith occupation could find a job (regarding work not only in one's own occupation as having found a job).

It also holds that at the place having the same ordinal number in the r^{d} and r^{s} vectors there will either be a 0 in both vectors, or a 0 element in one of the vectors and a positive element in the other. Therefore if we regard a function of the negative transposed of the $a^{xd} - 1^{x}A = r^{xd}$, and add the two vectors given thereby, then the negative elements of the resulting vector – marked r – show a shortage of labour, its positive elements show unemployment and its 0 elements point out the market equilibrium

*We can also draw conclusions as to the rate of employment incongruency from the lines (and from the columns). In the case of the ith occupation we can determine the rate of incongruency on the basis of

$$\frac{a_{ii}}{\sum_{j=1}^{n} a_{ij}}$$

between demand and supply* on the market segments in question. No value will be altered as a result of addition, since at least one of the addibles is always 0:

$$r^s + (-r^d) = r.$$

I speak about a global equilibrium on the sum total of the labour markets if it holds that

$$1^x \cdot a^s = 1^x \cdot a^d, \qquad \text{I}$$

and about a structural "equilibrium"** if it holds that either

$$\text{II/a} \qquad r \geq 0 \text{ or} \qquad \text{II}$$

$$\text{II/b} \qquad r \leq 0$$

Global and structural "equilibrium" occur simultaneously when I and II hold simultaneously,*** of which it can be seen that

$$r = 0 \qquad \text{III}$$

I speak about structural imbalance appearing when there is a global equilibrium if r^s and $r^d \geqslant 0$ (in r there are both positive and negative elements) and if I also holds. From here it follows**** that

$$1^* \cdot r = 0. \qquad \text{IV}$$

I talk about the opposite case, that is, about global disequilibrium appearing simultaneously with structural "equilibrium" if either

$$\text{V/a} \qquad 1 \cdot r \neq 0; \qquad r \leq 0 \qquad \text{or}$$

$$\text{V/b} \qquad 1 \cdot r \neq 0; \qquad r \geq 0 \qquad \text{V}$$

*By equilibrium I mean the state of the market characterized by the correspondence of supply and demand at accounting prices.

**Because: $a^s - A \cdot 1 - (a^{*d} - 1^*A)^* = r$; multiplying both sides by the summarizing vector 1 we get: $1^* \cdot a^s - 1^* \cdot A \cdot 1 - 1^* \cdot a^d + 1^* \cdot A \cdot 1 = 1^* \cdot r$; that is: $1^* \cdot a^s - 1^* \cdot a^d = 1^* \cdot r$. Since I holds: $1^* \cdot r = 0$. And – since II obtains – this can only be true if $r = 0$.

***Of course, here we are only talking about a market equilibrium in quotation marks; the sign of inequality allows for shortage of labour as well as for unemployment. "Equilibrium" means only that global shortage of labour or unemployment is not a result of the difference in the supply and demand structure of the labour force, but the other way round: the structural differences between demand and supply are the results of a global imbalance. (Every imbalance has structural origins. In my terminology imbalance of non-structural origin can mean a balance structurally.)

****Cf. previous foot-note.

Then there is a case of simultaneous global and structural imbalance if the system of conditions

$$1 \cdot r \neq 0; \qquad r^s \neq 0; \qquad r^d \neq 0 \qquad \text{VI}$$

holds at the same time.

Time surpluses and shortages obtaining at the particular elementary labour markets will be added up on the macro-economic level. The connection between the two aggregates is characterized by inverse proportionality (cf. *Figure 1*). The following can be said of the path and of the notable points of the curve:

– The greater the number of – actually existing and, due to the shortage of labour, not even established – vacant jobs, the lower is the number of unemployed persons, and *vice versa.* Of course, the curve can also be shifted. If, for example, with the same number of vacant jobs the number of unemployed is greater than previously, we have been shifted to a higher curve. (This is shown by a broken line on *Fig. 1*).

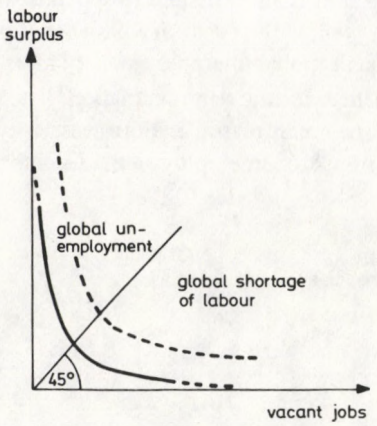

Fig. 1
The relationship between shortage of labour and labour surplus

There is a similar figure in [11] p. 242.

– The point of intersection of the curve and of the line starting from the origin at 45° is the state of structural disequilibrium while there is global equilibrium. This is case IV.

– On the area above the line starting from the origin the number of unemployed exceeds the number of missing labour, independently of which curve we are considering; that is, there is a global labour surplus above the line, and there is a global shortage of labour underneath it.

– The points of intersection of the curve and of the axes show a global imbalance, a global shortage of labour ($r \geqslant 0$) and global unemployment ($r \leqslant 0$) while there is structural "equilibrium". The broken line on the figure is used to emphasize that these intersections are fictitious: *just and only the case of global* disequilibrium cannot occur. (The pure global shortage of labour would be a case of absolute full employment. Pure global unemployment is the case when there are no vacant posts at all.)

– The origin means that both II/a and II/b hold at the same time, when I holds naturally; that is to say, there is a state of equilibrium both structurally and globally.

– Any point of the curve – with the exception of the notable points mentioned so far – shows case VI: the simultaneous occurrence of structural *and* global disequilibrium.

That is, the two explanatory factors of unemployment, the global and the structural disequilibrium of the labour market, have their impacts while not excluding each other. Unemployment of global origin (resulting from global imbalance) can be increased by the effects of structural factors, just as unemployment of structural origin (resulting from structural imbalance) can be made worse by unemployment of global origin.* On the basis of *Fig. 1* it is also possible to separate the two effects. This task can easily be done in practice as well, if the necessary data are at our disposal: unemployment minus shortage of labour equals global unemployment. This is shown by *Fig. 2.*

The structural imbalance of the labour market has a special significance when analysing unemployment. The main reason is that ceaselessly effective structural causes result in the constant occurrence of unemployment. Unemployment arising out of these

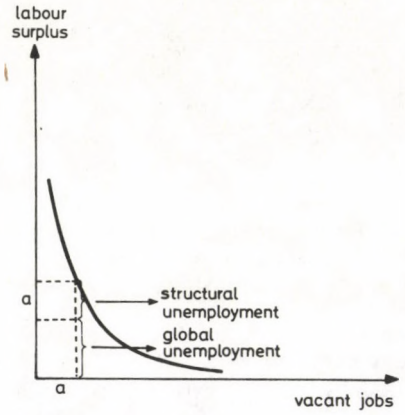

Fig. 2

Separation of the two types of unemployment

*The causes exert their influence not only in connection with, but also upon each other. It can be supposed that the greater the global shortage of labour, the higher are one's chances of finding a job; i.e. the smaller is the extent of structural imbalance.

causes can be set off only by a quite exceptional upswing of the economy, just as it was only in very exceptional circumstances that countries and periods had no unemployment. The other reason for our special concern for unemployment of structural origin is that "unemployment is becoming more and more obviously structural in nature, and, looking for ways of finding a solution, it is not possible to count only on a recovery of the economy" ([13] p. 78). For these reasons we shall now speak only about structural imbalance and structural unemployment.

On structural imbalance

In this point I shall examine case IV, that is, I shall disregard global disequilibrium, for example the cyclic movements leading to this. However, I cannot disregard changes in production; I merely suppose that the number of jobs on offer changes in accordance with the number of those looking for jobs.

On certain labour markets there appears a labour surplus; on others, there is a surplus of jobs. *It is possible that the labour supply at any time does not satisfy and yet exceeds the demand for labour of production.** The number of jobs is in part too great, in part too small: in trades representing branches hit by recession there is unemployment, while in newly born trades there is a shortage of labour. The coexistence of unemployment and labour shortage is a typical feature of employment today.** The essence of the structural imbalance of the labour market is that labour – of, for example, the required qualifications – is often lacking for certain trades, while certain groups of labour cannot find jobs – requiring, for instance, the given skills. This is expressed in IV. At these workplaces these workers could not produce, or only at a loss.

Further on, independently of the actual situation I shall consider the *contribution to the increase of the national income,* the non-negative marginal product, as the *lower, minimal threshold of efficiency of employment* in communities of commodity producers. I shall attempt to show that – when this condition holds – such groups of labour and of jobs will from time to time be formed, which will not correspond to each other within the given period (due to differences in what is given and what is required with regard to areas, qualifications, age.*** (Otherwise anybody could be employed for any kind of work,

*Marx wrote "... there is a complaint of the want of hands, while at the same time many thousands are out of work, because the division of labour chains them to a particular branch of industry." [12]

**In France, in 1977, for example 10% of the companies were unable to increase production because of a shortage of labour, and 25 per cent of them had definite difficulties with recruiting labour – and that in spite of an unemployment figure of over one million [4]. According to *Driehuis'* calculations, in 1975 structural factors accounted for 25% of the unemployment in the Netherlands, for 39% in West Germany and for 30% in the other EEC countries [3].

***A difference between the qualitative characteristics of the employee and of the job does not, of course, always lead to a violation of the efficiency criteria. Exactly these cases are symbolised by the a_{ij} elements ($i \neq j$) of the A matrix.

at any time.) If the above statement is proved when the lowest possible efficiency requirement is satisfied, then the assertion of perhaps stricter economic requirements, of a higher threshold of efficiency, which obtains in reality, gives a greater emphasis to the occurrence of structural unemployment.

Continuous changes in structure are natural concomitants of production, in socialism as well as in capitalism. Even a generally favourable tendency of the market will not mean an equally favourable outlook for every trade and especially not for every basic economic unit. From this the faster or slower development of one or another trade or company, a regrouping of means amongst the trades, will follow. The structural changes in production, shifts in proportions amongst trades lead to a flow of employees and to changes in the rate of distribution of the various activities. Changes in the demand for labour can only be followed belatedly and with some error by the labour supply. The system of education, training and retraining will never be able to exactly satisfy the labour requirements of the economy because of the time needed for adjustment and because of the impossibility of really detailed foresight. Also, the output of one or more years of the system of education and training provides only a fraction of the labour requirements of the economy. The dynamics of the supply of and demand for labour differ from each other. In this field one can only aim at the best possible approach with the minimum of error.

Technical progress leads to similar results. Due to the technological development certain skills, parts of expert knowledge become outdated, certain trades gradually cease to exist, and, at the same time new requirements are born in the remaining trades as well. The fact forcing people to change jobs is often that, due to changes in technology, old employees are unable to carry out their duties, because they had been trained for something else. Although the rationalization of production, the technological development saving jobs belong to the analysis of global disequilibrium, we have to note here that retraining, the condition of appearing at another market segment for those who have been excluded from some market segment, takes a certain time. Since it cannot be seen in advance who are the people who should be retrained,* it is certain that some of those to be retrained will be in between two jobs for a while. Thus technological development, through its effects upon the structure by qualifications of labour supply and demand, also leads to the structural disequilibrium of the labour market.

The change in production structure implies a change in the geographical structure of production as well. Meanwhile, production adapts itself partly to the regional structure

*In this connection the economic limits should also be mentioned. The retrainer (the company or the community) makes decisions by weighing economic points of view as well. It is not an impossible outcome that the training of new labour is more profitable than retraining the old. It is an important point that a young man – due to his age – will be able to make use of the acquired knowledge for a longer time. (But if the old and the new types of work overlap to some extent, some part of the knowledge of the old can be saved or indirectly used, the profitability of retraining the older worker increases.) ([10] pp. 315–333).

of the given labour supply, and partly adapts this structure to its own needs. This, however – just like the regrouping of the means –, cannot happen without a lag or hindrance, it cannot be immediate nor perfect. Fundamentally not, because competition is not perfect amongst the labour markets of the various geographic units. Since labour is insurmountably locally bound* in many ways, the change in the geographic structure of production leads to the formation of labour surplus in some areas and to bottlenecks in others. By eliminating differences amongst certain areas, new differences will arise in others. The change in the geographic structure of production is concomitant with a long-term structural imbalance although from time to time appearing amongst different areas.

Often the structural imbalance of the labour market is considered as a temporary disturbance, as a short-term (meaning: transitory) phenomenon. However, the above argument leads to the contrary conclusion that since the cause – the change in the structure of production due to technological development – is continuously exerting its effect, the structural imbalance of the labour market is constant, only its direct forms of appearance are transitory. One imbalance will be succeeded by another, as a result of which the supply and demand structures may attain a state of equilibrium, when several points of time are simultaneously considered – and not by starting from an "appropriate" point of time, since no such point exists.

Socialism and structural imbalance

We have used such general interrelations in our argument that the thesis – which is also supported by certain facts of the Hungarian reality – can be stated also to apply to socialism: from time to time it is unavoidable that the aforementioned causes of the structural imbalance of the labour market should be produced. During certain periods of time the maximal result of production to be achieved with the resources at our disposal presupposes a less than full employment of the employable labour, since certain individuals – due to their qualifications, abilities, age, sex, etc. – will necessarily have such skills that society will not be able to exploit at a given moment in time, a part of the labour resources in accordance with the minimal requirements of efficiency. This relationship is determined by the advanced forces of production. Besides the determination of the social aims of production and of the actual criteria of efficiency, social relations, social planning have a say in forming the size of the unexploited labour resources. The actual structure of demand for labour can only be approximated by manpower planning based upon a foresight of technological development, changes in the structure of production and in demographic factors, upon which the training of skilled

*According to the findings of a study, more than half of the unemployed heads of families in France would not be able to accept otherwise satisfactory job offers, if it were concomitant with changing their places of residence [2].

labour and of experts can be founded – although this approximation with regard to the main proportions can be fairly close. Nor can the supply structure of labour be planned with absolute certainty and exactness.

The causes producing structural disequilibrium can be deduced from the development of the forces of production in socialism as well. Yet practical experience shows that there are hardly any sources of labour left untapped. The causes are present, their effects are very weak, since the transmission mechanisms are missing. By hindering the assertion of these causes, actual economic practice undermines the assertion of the efficiency criteria. The result is normally full employment realised with a global shortage of labour.

In those societies where unemployment does not have a legitimate form – saying that there is a shortage of labour, full employment has been realised, unemployment need not be taken into account* – even structural unemployment can occur only in extreme cases, as an exception. Everybody has to find employment,** disregarding qualifications, place of residence, conditions of work, etc., because society does not take care of its unemployed (since there aren't any); as a result of which we meet employment, which is distorted and is not in accordance with qualifications, and what is more, with the criteria of efficiency either. However, this high "propensity of forced substitution" of labour – which is based upon the economic compulsion that society does not take care of the unemployed – cannot by itself lead to full employment. That is only the supply side. If we look at the present practice of socialism, we find a virtually unsatiable hunger for labour on the demand side. This is supported by such well-known facts as: profitability turned upside down, i.e. profitability of production at the company level which is unprofitable at the social level; surplus reserves of labour; systematic central assistance to the continuation of inefficient production. Systematic theoretical study of these phenomena can now also be found in economic literature.***

The (almost) indefinitely great demand for, and (almost) indefinitely great supply of labour result in (almost) full employment *only together*, and can do away with a shortage of labour and labour surplus in spite of the presence of the causes of structural imbalance (presupposing global equilibrium). For an indefinitely great supply of labour is in vain if demand – in accordance with the high threshold of efficiency – is limited, and an indefinitely great demand for labour is also in vain, if – due to the system of

*Labour shortage excludes unemployment only if the labour market is examined exclusively the global way. In reality, there have always been unemployed in the midst of a global shortage of labour.

**Of course, the market behaviour of labour – not merely influenced by economic factors – is not homogeneous. The "propensity to forced substitution" of different groups of labour is also different. However, the emphasis is on the sum total: generally, regarding the average, this propensity is high if society does not take care of the unemployed, that is, if there is (relative) full employment. Yet, there will be some, who will not be able to find employment, even if they wanted to.

***Apart from János *Kornai* [11] this is done by R. István *Gábor* ([5, 4, 6]) and Sándor *Oroszi* and József *Veress* [14] while arguing with each other.

unemployment benefits – supply is limited; in both cases, structural imbalance will emerge.*

Full exploitation of the sources of labour can cause losses to society: it can cause worse results than what would be produced with less than full employment. In certain cases it is exactly less than full employment which is the condition of achieving the optimum result. And who shall become unemployed in the course of the realisation of social rationality – that can be decided by economic calculations. Here it must be taken into consideration that society will have to care for the unemployed as well, which ties up resources without an increase in the goods available for distribution. On the other hand, with an employment which undermines efficiency and results in losses, output is often way below the inputs at the social level, perhaps not even the value of the means used up can be returned. *It is on the basis of a comparison of the differences between the inputs and the results that it can be judged whether during a certain period of time full employment or some unemployment is more rational for a society in the economic sense.* From here it also follows that production at a loss at the company level is surely worth substituting by unemployment, if it does not contribute to the increase of the national income. On the basis of what has been said so far, we have no reason to exclude the possibility of a negative marginal product caused by the employment of certain individuals.

Questions will, of course, arise. If rationality at the social level dictates that there should be no unemployed, how can this interest be mediated to the basic economic units, which could employ certain groups of labour perhaps only at a loss to themselves? The main question we have reached now, can be put the following way: During a given period of time – when work with a negative marginal product exists – what shall society choose? Full employment impairing efficiency, and decreasing national income or unemployment? *Efficiency or humanity?* Also a socialist society has to face this choice from time to time. However, this question need not be raised in this alternative form. Not only because full employment might mean pseudo-humanity: humanitarianism to the advantage of the minority, at the expense of the totality; wronging the community in the interest of employing individuals. But also because – and I shall return to this point – less than full employment is not necessarily inhuman, not even for those who are unemployed because they cannot be efficiently employed.

Structural imbalance is not an expression of a disadvantageous economic situation, it is not due to planning mistakes – although it might, of course, have such causes – but

*We must note, however, that business conditions in Hungary have recently changed in such a way that socially efficient employment is slowly attaining the rank of actual economic interest for the basic economic units as well. As a sign of these changes we may consider the regroupings, especially the inter-enterprise regroupings of labour increasingly done at enterprise initiative, as a sign of these changes. But these can only be the first steps. For as long as the only possibility is the employment of labour, some of the employees will still be employed under the threshold of efficiency, in spite of the regrouping of labour carried out to raise efficiency.

an ordinary result of production. Under the conditions of socialism, if – or rather, to put it more strictly – if and only if the most important social task is the realization of a rational management of the economy (at least corresponding to the minimal requirements of efficiency), it is necessary that unemployment should occur. Then and only then! Exactly in the interests of attaining this basic social objective! Some will contribute to the desired production result by remaining outside production. The division of labour might prescribe for them to stay in the reserve, and take part in retraining programmes. To this extent *their unemployment is a production task* – deriving from the social objective.*

I have to make two important comments here.

1. Less than full employment is merely one, and probably not even the most important of the means for realising rational management of the economy. Unemployment by itself does not result in efficiency, if it is not coupled with a flexible labour supply policy (cf. [1]), greater mobility, well-founded manpower planning – just to take examples from the field of labour management. Unemployment as well as a flexible labour supply policy can only be *elements of a comprehensive strategy.* By themselves they can hardly be of use, but as elements they are indispensable. Indispensable, because they have a very specific sphere of effects. They cannot substitute for each other, but they complement each other.

2. From less than full employment it does not follow that society would be indifferent towards the rate of unemployment. This is impossible, *if* the aim of production is to increase the national income. If this is the case, then all those, but only those, who can contribute to raising the national income, will have to be drawn into production. *Maximization of employment* is, therefore, a social aim. Social programming may prescribe the achievement of a conditional maximum. Maximization of production lasts until the last employment with a positive marginal product is attained.** It is possible that during certain periods the non-negativity of the marginal product is "not an effective limit" to the maximization of employment. In such cases maximum and full employment coincide. We have seen, however, that this limit – although defined in the widest possible sense – does become effective from time to time, and *if* society really treats it as a limit (and this is a matter for decision), then maximum employment will be less than full employment.

Thus unemployment can be a task of production. Unemployment comes into being as a result of production, in the interests of production. Thus the rule of collective appropriation of the goods produced collectively, with the participation of the unemployed, determines the share of the unemployed in the produced goods. According to the above, unemployment does not mean deprivation of the means of subsistence. The

*Pál *Gervai* has come to similar conclusions as well [9].

**Here we emphasise once more that the positivity of the marginal product is a working hypothesis. The real efficiency requirements of society may differ from it, and then the conditional maximum develops at a different place.

unemployed get their share from the result of production on the basis of their task in production, and not out of charity. Since – in cases when the primacy of production aims is kept in sight – employment cannot be provided for everyone, the distribution of income will have to include those without a job as well, in the form of income guaranteed by the state. And this should be done in such a way that those who became unemployed due to the momentary needs of production should suffer no loss of real income *merely* because of this fact.

What should society do with the groups of labour which cannot be efficiently employed during the given period? G. H. *Popov* in the Soviet Union is also trying to find an answer to this question in *Pravda.* Efforts are made at an economical labour management at the enterprises included in the famous experiment in Shtchekino, by applying special incentives. In connection with the method – especially, if the enterprises are really allowed to act in accordance with their own interests – the question arises: what happens to the people discharged in the interests of raising productivity, who – due to the lack of suitable jobs – cannot immediately find employment? According to Professor Popov's suggestions: "here we can make use of the 80 Rubles to be paid by the enterprise to the state (i.e. for every discharged worker). Of course, none of the discharged workers is going to sit idle, not even for a day . . . Until new employment can be found the town organisations responsible for securing employment will employ the discharged workers at town development projects, vegetable distribution centres, or they can be sent to assist in agricultural work, using this money. Of course, those who perform work inadequate for their qualifications for any length of time at all, receive a sum equivalent to the minimum wage as enacted by law" [15]. In Hungary it would not be useful to moderate the partial and temporary disharmony caused by the separatedness of the commodity producers and the jobs ceasing and created through the revival of the administrative methods of temporary accommodation. The demand for returning to work can be brought about by methods other than eliciting various disadvantages to bear upon the unemployed.*

In socialism unemployment cannot entail uncertainty of existence, the situation of the unemployed cannot be basically different from that of those entrusted with other tasks of production. The essence of unemployment in socialism is *humane efficiency.*

Today the contents of humaneness are: ensuring material safety, socially organised training for the next production task and non-negative social evaluation. Unemployment is, however, concomitant with a separation from the familiar community, with a feeling of being superfluous and inferior, with the impossibility of self-realization through joint work. Not taking into account the burdens that go along with being unemployed would mean an "economist" approach to the problem. Unemployment is not merely a question of economic rationality. Without, however, wishing to depreciate the significance of these

*Theoretically it can be solved (with small error) that one should be unemployed then and so long as for him employment, in accordance with the socially accepted criteria, is found. This is supported by experiences with Western unemployment insurance systems as well.

noneconomic burdens I would like to note* that these undesirable phenomena are well-known without unemployment as well (particularly amongst the disabled, retired and sick people), and are as yet hard to deal with. Nor are they new in the sense that they would mean unemployment full of conflicts from the outset. Employment as against unemployment has its own particular conflicts. Even very similar conflicts can arise. The impossibility of self-realization, the feeling and fact of being superfluous and by-passed can come into being in the course of common work as well. (It can be supposed that this problem is the greatest for those "producing losses".)

Those who hold that socialism and unemployment are "in principle" incompatible arrive at this standpoint most often on the basis of a positive and a negative approach.

The essence of the former is the belief that in socialism, as a result of the nature of the relations of production, economical employment is possible for all and at any time; society needs every working hand for building the country every minute. This belief was only strengthened by the significant global labour shortage emerging. However, it can be seen from other experiences and scientific research that social ownership of the means of production and planned economy based upon it cannot – at least, today – shape the development of the forces of production according to the criteria determined by the threshold of efficiency. *Unemployment can be justified precisely by the main argument for full employment, namely: the achievement of maximum production result.*

According to the other main argument, unemployment belongs to capitalist production: the occurrence of unemployment within socialism would mean a retreat, a way of getting nearer to capitalism. This argument explicitly or tacitly implies the recognition of only one kind of unemployment: unemployment is identified with one, but by no means the only one, version, i.e. with the one inherent in the capitalist form of economy, and even of that with the most negative variation, that of unemployment in 19th century capitalism.

Under capitalist relations unemployment is the result of commodity production based on exploitation. Whose work cannot be exploited, will not be employed either. In the 19th century the unemployed were not considered as full members of the community, due to their uselessness (in this sense). Because they were excluded from production they were forced to the peripheries of society as well. This was shown in the legal disadvantages of the unemployed, their severely negative moral evaluation, which then resulted in that a part of those who became unemployed once were excluded from the labour market for ever. The most severe and most obvious fact of this exclusion is the *uncertainty of subsistence.* As a result of the organised social care – "the ransom of the capitalists for the undisturbed individual expropriation of production" – the consumption of the unemployed lagged way behind the social average, stayed at the destitution level, and they themselves increased the camp of the paupers. The logic of capitalist accumulation produces unemployment; and unemployment, in its turn,

*Research into the non-economic disadvantages arising out of unemployment is an important task. As yet, we can only make careful comments in this connection.

increases social tension, weakens the cohesion of society, against which – exactly in the interests of capitalist accumulation – protection is needed. The capitalist state – for providing for the unemployed has been a state activity ever since the beginning of the 19th century – searches for a relative state of equilibrium in accordance with the actual power relations in between these two contradictory imperatives, these enduringly irreconcilable reconcilables.

In this paper I tried to show that less than full employment by itself should not be regarded as a retreat towards the historic past, since its causes are also rooted within the historic present. The phenomenon that some people are unemployed although looking for work and able to start work immediately is a phenomenon that expresses the essence of both capitalist and socialist production. However, the same phenomenon has *different contents and different manifestations* under different socioeconomic conditions. The unemployment under socialism differs radically from that under capitalism, both with regard to the reasons of its coming into being and to its way of realization as sketched here. Unemployment is not identical with unemployment in capitalism, especially not with its 19th century version.* Socialism is not compatible with unemployment in capitalism, but it is with its own. In the field of employment, the historic achievement of socialism can be the elimination or moderation of the severe economic and non-economic disadvantages that have accompanied unemployment in history up to this very day.

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*Unemployment in present-day capitalism is also not the same as it was a hundred years ago. Even if we only look at the consumption of the unemployed, changes are remarkable. It is not just that their real consumption has increased, but while the unemployment insurance companies formed at around the beginning of the 20th century paid max. 30–40% of the previous wages for a few weeks in case of unemployment, today it is not rare that max. 40–70% of the wages are paid for one or one-and-a-half years. In spite of the spectacular extension of the upper limits – and this is a significant point – social resistance to unemployment *primarily* is based even today on the *economic* disadvantages arising out of unemployment.

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О (СТРУКТУРНОЙ) БЕЗРАБОТИЦЕ

П. БИХАРИ

Безработица представляет собой форму появления нарушения равновесия на рынке рабочей силы, агрегированного на народнохозяйственном уровне. Отсутствие структурного равновесия на рынке рабочей силы, состоящего из отдельных частей, конкурирующих между собой лишь в ограниченной степени, характеризуется превышением на одних частных рынках спроса и одновременно — предложения на других. Структурное неравновесие является категорией общества, ведущего товарное производство с применением современных производительных сил. И при социализме, поскольку основная общественная задача состоит в достижении наибольших возможных производственных результатов с помощью имеющихся в распоряжении ресурсов, время от времени возникает структурное неравновесие и вызываемая им структурная безработица. Тогда производственной задачей отдельных членов общества становится «безработица». Доля безработных в совместно созданных благах определяется прабилом коллективного присвоения общественного продукта. Поэтому положение безработного не может существенно отличаться от положения тех, кто заняты производительным трудом. Безработица при социализме может быть характеризована как гуманная эффективность. Историческим достижением социализма в области занатости может быть ликвидация или смягчение тяжелых экономических или неэкономических последствий, которыми до сих пор всегда сопровождалась безработица.

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G. KERTESI

TWO TYPES OF DEVELOPMENT OF SMALL-SCALE INDUSTRY IN HUNGARY

The number of small enterprises has been decreasing for some time. The study is an attempt to explain this through the example of the most important kind, the commodity producing industrial cooperatives. From the aspect of enterprise behaviour three types can be distinguished: 1. Cooperatives with mixed production pattern, incapable of dynamic development, 2. extensive-type of cooperatives which are growth-oriented and 3. intensive-type of cooperatives of enterprising nature. The study analyses the two latter types from twelve aspects of enterprise behaviour. The conclusion is that the extensive type which is inclined to swallow up other small cooperatives is likely to succeed because the authorities support it. The intensive type, on the other hand, is often defenceless owing to its internal strategy and external relations.

Hungary's small-scale industries have been much talked about in the past few years. Quite a few people have thought to discover in small-scale industry the kind of flexible adaptability to market conditions and market demand that other sectors of the economy, too, would do well to imitate. The more predominant view, however, is to see small industry primarily as a means of stopping the gaps that necessarily attend the dominance of large companies. Small-scale industry, it is argued, can fill small, specialized orders that bigger firms would not find profitable enough, is able to adapt quickly to market conditions, widens the range of the available products, saves the country foreign currency by producing goods previously imported, adds above-average quality goods to the country's list of exports, acts as highly specialized "background" industries to the big companies, and so on.

That small industry is "special" in all the above ways has become something of a commonplace among Hungarian economists. But if small companies really do have such an important role to play in the economy, how can we account for the decline in their numbers? This study is an attempt to shed some light on this question through examining the most significant type of Hungary's small industries, small industrial cooperatives. The study is based on case studies of four light industrial cooperatives conducted in the late 1970s. The cooperatives will be referred to as *"Balaton"*, *"Dunamenti"*, *"Sztár"* and *"Vörös Hajnal"*; and an attempt will be made to draw general conclusions from the concrete trends observed.*

*The author expresses his thanks to Ágnes *Hárs*, József *Hegedüs*, Mihály *Laki*, Péter *Pete* and Klára *Székffy* for letting him use the results of their studies.

The trend to concentration among industrial cooperatives

If we take a look at the long-term time series reflecting the number of industrial cooperatives over the past two decades or so, a fall in the number of units will be quite evident (see *Table 1*). Except for the years between 1968 and 1971, when the economic reform boosted the number of companies in general, there has been a sustained and definite fall in the number of industrial cooperatives, and a concomitant rise in the number of employees per cooperative.

Though we do not have exact data on the number of mergers, from the relatively stable number of workers employed in the cooperative sector, we may conclude that there are incorporations behind the fall in the number of cooperatives and the rise in the average number of workers.

The data in *Table 2* reveal a similar tendency in light industrial cooperatives; these account for 60 per cent of the cooperative sector's production and employ two-thirds of its manpower. The two branches treated in the case studies [10] (the leather, fur and shoe industries and the garment industry) employ about 40 per cent of those working in light industrial cooperatives.

Common characteristics

Let us first examine the most important of the common characteristics that make it possible to elaborate a typology based on the comparison of the cooperatives treated in the case studies.

We find that all of the cooperatives are small, employing 150–400 workers. In the two branches of industry that they represent, the proportion of unskilled workers is increasing for lack of adequately skilled labour. This situation is reflected also in the internal labour market of the cooperatives. Since the proportion of unskilled workers is increasing – a consequence of the prestige loss that has been suffered by the various jobs; of the new regulations introduced in 1971–72, which had a negative effect on the cooperatives' manpower strategies; and of the ever more severe labour shortage of the 70s – and since the work processes permit hardly any vertical division, vertical mobility within the enterprise is rather low: almost all jobs are ports of both exit and entry.

The situation in these enterprises is much like the one described in the neoclassical model: anyone can fill almost any of the jobs, and most of the employees are satisfied with almost any kind of unskilled work. This is reflected in the strong fluctuation of the labour force in these enterprises. The workers tend to go wherever there is a more favourable relation between the work performed and the wages paid.* From the point of

*This peculiarity of the industrial cooperatives employing semi-skilled labour is characteristic mostly in Budapest and in bigger cities, i.e. at places where the labour market is big and the workers can choose from among various jobs.

Table 1

Changes in the number of industrial cooperatives, in the number of employees and in the number of employees per cooperative

	1957	1959	1961	1962	1963	1964	1965	1966	1967	1968	1969
Number of industrial cooperatives	1 302	1 277	1 164	1 092	993	882	811	799	784	792	813
Number of employees	–	–	164 799	167 046	169 311	175 066	176 497	184 857	212 058	223 873	231 256
Number of employees per cooperative	–	–	142	153	171	198	218	231	270	283	284

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Number of industrial cooperatives	821	833	828	825	816	793	737	701	658	670
Number of employees	223 349	240 636	233 785	234 749	239 310	239 184	233 529	235 790	235 341	230 892
Number of employees per cooperative	290	289	282	285	293	302	317	336	358	345

Table 2

Changes in the number of light industrial cooperatives and in the average number of employees per cooperative and in the number of leather-, fur-, and shoe manufacturing, and garment manufacturing cooperatives

	1957	1959	1961	1963	1965	1967	1968
Number of light industial cooperatives	703	680	632	534	474	447	448
Average number of employees per light industrial cooperative	151	154	180	212	258	314	331
Number of leather, fur and shoe manufacturing cooperatives	–	–	–	139	114	106	104
Number of garment manufacturing cooperatives	170	161	150	131	118	111	112

Source: [4, 5, 9]

view of the enterprises, this means that they have to struggle for labour on a sharply competitive labour market. They could overcome the serious shortage of labour of the 1970s only by adopting suitable development strategies.

Another common characteristic of these enterprises is that before the 70s they went through a number of mergers and de-mergers. These organizational changes in the cooperative garment industry and even more in shoe manufacturing can be regarded as preconditions of the reconstruction completed in the early 70s. The main characteristic of this latter change – one in conformity with the long-term development concept elaborated in the early 60s – was that cooperatives which were earmarked for expansion with the aid of loans and subsidies and for becoming medium-sized commodity producing cooperatives were urged to give up their service activities.

A number of cooperatives made the most of these centrally provided opportunities: they chose the extensive path. Others lost out in the competition for development subsidies or deliberately followed cooperative traditions and chose the intensive way of development.*

In the following I shall attempt to describe the two strategies in terms of the most important differences in enterprise behaviour, and to show how these strategies effect the enterprises' chances of survival, of the cooperative's remaining an independent economic unit.

*The two types of cooperatives treated henceforth are by no means the only possibilities. There are cooperatives – mostly in smaller settlements – that do not have an independent strategy, they are short of capital, have a mixed production pattern, they are incapable of growth, their goal is to satisfy local demands and are under no circumstances subject to the local authorities' development projects. These cooperatives – not treated in the study – are often swallowed up by the extensive type.

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
447	446	440	436	432	419	402	377	367	358
329	327	316	319	329	337	352	375	381	380
103	–	99	99	94	91	79	74	70	69
109	–	109	109	109	110	107	103	101	99

The two types of behaviour

The behaviour of the cooperatives in question is examined from twelve aspects. For each aspect, the two extreme poles are treated; the extensive and the intensive type. Two ideal types are polar opposites from all twelve aspects; any given cooperative will, in reality, only approximate one of these two types.*

1. Plant size

The extensive type of cooperative is interested first of all in the quantitative growth of production. To achieve this end, this type strives at enlarging its fixed capital and employing more and more workers, and invests a lot in construction.** Cooperatives of the intensive type do not aim at turning out more and more products. They do not aim at expansion because this would bring about tighter control by the authorities (see points 6

*It does not follow from the logic of my argument that every cooperative should be labelled as either extensive or intensive. The closer a cooperative is to one of the ideal types the more likely that, concerning its independence, its future will resemble that of the given type.

***Dunamenti:* "They invested in a new industrial unit for 500 workers which can turn out half a million pair of shoes, . . . there was a sudden increase in the cooperative's fixed capital and also a change in its structure: from the three million before the investment production jumped to 15 million and by the mid-70s it reached 20 million." "The second stage of the reconstruction would have cost 21 million Forints according to the plans." "In 1978 the company's branch in Sárrét was enlarged which led to a 30 per cent increase in production. And what is most important, the cooperative can employ more workers." ([2], pp. 418, 423, 432).

and 8). Such enterprises hire new workers mostly only whenever there is a considerable drop in the number of employees; they are interested in preserving their small-scale production.* This type improves its market position by adapting better to market demands, by producing a better quality of goods, by choosing more flexible forms of cooperation, and by setting favourable prices.

2. Product pattern

The extensive type small enterprise produces inexpensive goods of poor quality on a relatively large scale and sells them to socialist countries, which have proved to be a large and stable market.** On Western markets, this type offers a bigger choice of products, with frequent *ad hoc* changes in the pattern of its products. The production of the intensive type of small enterprise is also rather diversified, the difference being that it tends to keep up a reliably high quality of some selected products. It also undertakes to fill less profitable small orders in the hope that the high quality of the product will persuade the partner to accept its relatively high prices.***

3. Organization

The quantitative growth of the extensive type of enterprise – an increase in the number of products turned out, of the workers employed and of the number of separate manufacturing units (especially those located in the countryside) – leads to the lengthening of the hierarchical chain. The circulation of information inside the enterprise becomes more complicated, decision making takes more time, and management-worker relations become less direct and more occasional; thus, the conflicts within the enterprise become more difficult to solve. Impersonal rules are introduced and weaken the personal ties and attachments that are otherwise characteristic of cooperatives; all this contributes to manpower fluctuation. In the intensive type, since the size of the enterprise is relatively stable, its hierarchy is not too complicated; there are at most two or three levels, with no strict specialization among them. The president of the cooperative, the

**Sztár:* "The decreasing number of workers made it urgent to set up a company's branch in the countryside, but this extensive development was hard to decide . . . The company's branch in Körösladány was the first step in a managerial hierarchy. The management knows this . . . its reservation to multi-level control also plays a part in that an increase in the number of workers is not planned for there." ([6] p. 73.)

***Dunamenti:* „The technology and . . . the character of the labour force reinforced the tendency to produce on larger scale simple goods of not too high quality which are inexpensive and will not be out-of-date very soon." „. . . except for 1978 the quality has been declining ever since 1974 which means a loss of 1 to 3 million Forints to the cooperative." ([2] pp. 430, 433.)

****Sztár:* "The cooperative turns out a limited number of products." "Because of the good quality and the exact deliveries, the Soviet partner not only wanted to buy more bathing suits but also kept to the *Sztár* make." ([6] pp. 62, 65.) *Vörös Hajnal:* "The British partner said. 'The Vörös Hajnal is the only Hungarian enterprise that is able to produce the most up-to-date man's shoes up to the British quality requirements'." ([7] p. 21.)

technical manager and the financial manager, who are the decision makers in matters concerning the whole enterprise, have personal contacts not only with the managerial staff but with the workers as well. This way they are able to act quickly and effectively to overcome production difficulties; the setup as a whole strengthens the workers' attachment to the cooperative.*

4. Inter-enterprise relations

Within a shortage economy, the relationships among enterprises are rather special. The enterprise as buyer is in a dependent position; to ensure continuous production, it has to order the materials, spare parts and equipment needed in advance, or – especially if it needs better quality – has to queue up for them, or accept them on unfavourable terms. As to marketing, there are significant differences between the industrial cooperatives and the state-owned enterprises on the one hand, and between the extensive and intensive type of cooperatives on the other. In Hungary, the cooperatives in most cases have a state-owned monopoly as a partner when selling their products (the foreign trade companies when they export, some state-owned company or one of the dominant wholesale companies on the home market). Since their products are unable to considerably influence the given market, they are often in a dependent position as sellers as well. Cooperatives producing spare-parts or semi-finished goods could, in principle, put pressure even on the bigger buyers. In most cases, however, they choose not to do so in order to avoid a merger – the large companies using their own importance to the national economy as an argument, could try to force such a merger on the grounds that the cooperative was an unreliable partner [11]. All this determines the inter-enterprise relations of the extensive type of cooperatives.**

The intensive type, however, can more or less avoid these forced relationships. Most important in this respect is the choice of production pattern: with high-quality products not produced by other companies, the enterprise can establish a strong position on the market. The other possibility is to build up direct relations with the (mostly Western) partners, for instance, by undertaking commission work,*** or by entering into inland

**Sztár:* "There is no hierarchical step between the three top managers and the other managers . . . the specialized activities are not divided into groups or departments . . . There are relatively few managers, . . . they know one another's work and they are able to replace one another." ([6] p. 63.)

***Dunamenti:* "The cooperative . . . is in a dependent position both as a purchaser and as a seller. With flexible purchasing of materials it can compensate for some of the losses suffered but has to calculate upon the rising prices on the market. However, it can hardly compensate any of these rises in output price rises . . . Its high costs partly account for this but it is basically the *Tannimpex*'s (foreign trade company) monopoly situation that makes impossible to change the output prices." ([2] p. 432.)

****Vörös Hajnal:* "We solve our difficulties by importing through the foreign partner those materials which we cannot get from the (foreign trade) company" ([7] p. 16, from an interview).

cooperations. In some cases, certain phases of the manufacturing process are accomplished by other cooperatives having excess capacities, with the intensive-type of cooperative in question itself finishing the product, and also doing the marketing.

5. Markets

As follows from the peculiarities discussed above, the extensive type of cooperative usually produces for export rather than for the home market, for the markets of the socialist countries rather than for Western markets, and for the Soviet Union rather than for the other socialist countries.* In the case of cooperatives with mixed production patterns, this is reflected in the relative dominance of certain products. Cooperatives of the intensive type also give priority to export production; they, however, produce for Western markets rather than for socialist ones, from among the socialist markets preferring the smaller ones rather than that of the Soviet Union.** The two types of cooperatives export to the socialist countries, and primarily to the Soviet Union, for radically different reasons. For the extensive type, this is the main market; it is stable, there is room for large-scale production, quality requirements are not too high, and prices are low. The decisive factor of this market strategy is security. The Western export is usually nothing more than taking the opportunity which arises (this explains the *ad hoc* changes in the product patterns of these relations), or, in other cases, the keeping up of one's not very significant share in the market. The source of growth, however, is not this, but the expanding socialist markets. For the intensive type of cooperative, the Western markets are the most important. They export to the socialist countries mainly to counterbalance the realization problems arising from periodic Western recessions; the aim is to avoid having to cut production.

6. Investment

The development of the extensive type of cooperative involves great investment activity. Year after year these cooperatives tend to accumulate large development funds

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Sztár: "The workers doing the Triumph commission work with machines given by the West-German partner. For the rent they got about 35 machines, among them specialized ones, which they did not give back after the bathing suit production was over but produced other goods with them. The other advantage of commission work, the smooth material supply was mentioned earlier." "They cooperate with four cooperatives, the partners get the bathing suits cut out, they do the assembling, while the finishing, control and packing is done by the *Sztár* cooperative" ([6] pp. 70, 72).

**Dunamenti:* "Around 240–250 thousand pairs of shoes are turned out in a year, 18 thousand pairs of men's shoes, the rest is women's . . . The women's shoes – which are produced on the assembly line, – are exported to socialist countries, first of all to the Soviet Union, then to Czechoslovakia and Poland" ([2] p. 435).

***Vörös Hajnal:* "Until 1977, around two-thirds of the output went to the western market (Britain), and the rest to socialist countries." The British market proved to be stable in the long run and extremely profitable ([7] pp. 19–20).

from their profits at the expense of the sharing funds.* (As we shall see in the following, they are forced to do so.) They almost always invest in providing new jobs. Consequently, a significant part of their investment input is spent on buildings and new machinery. As a result, they often do not have the money to modernize their existing machines, or have it only when they are granted larger loans, it follows that they usually have a very mixed machine park.**

The intensive type of cooperatives are very cautious about investment in construction.*** They spend their development funds on buying new machinery to replace the old ones (and sometimes on improving working conditions). Because they are permanently investing, the monetary burden is even over the years, and thus their possibilities for increasing wages are less limited. The intensive type of cooperatives prefer the Western partner to provide the machinery. In these cases, there is no need for the foreign exchange authority's permission; nor are there problems such as the long contract times or delayed delivery deadlines so common in the case of Hungarian companies or socialist partners. There is also often the added benefit of the partner's training the workers how to use the machines.

7. Financing

The differences between the two types of cooperatives in financing current production are not important enough to discuss. From time to time, both types apply for loans on their current assets, the extensive type perhaps more frequently. The situation is, however, quite different in respect of investment financing. The extensive type cooperative finances its investment from external resources – primarily from bank loans, but in the case of bigger investment projects, a significant part of the money may come from trade organizations which the cooperatives do not have to pay back.****

*Under current Hungarian economic regulations, the company's net profit is split up in two parts according to the preferences of the central authorities. The development funds on the one hand serve as sources of investment for the company, the so-called sharing funds on the other approximate the Western type bonuses (year-end pay-out to workers).

***Dunamenti:* "... with the investment the structure of fixed assets has also changed: the machinery building ratio used to be 20 to 1, and by the late 70s this ratio was 1 to 1. As can be seen, the investment went to construction, and because of the obligations to pay off debts the purchasing of new machinery was limited even long after the given investment project ... This obligation also limited the wage increases – thus destabilizing labour" ([2] p. 434).

****Sztár:* "The good quality, the keeping of delivery dates resulted not only in increased number of orders, but also the Star bathing suit became a brand and the customers insist on the cooperative's products. The cooperative – in principle – could have decided to set up new company's branches, invest, contract loans, i.e. to follow the practice of expansion ... The cooperative increased its production and maintained its monopoly position not by increasing the number of workers and the stock of fixed assets but by developing a flexible prime contractor system" ([6] p. 72)

*****Dunamenti:* "The biggest problem was to provide funds for the investment. Only a small part of the 15 million investment was provided from internal resources (3 million Forints). The rest was covered by loans and subsidies." "The second stage of the reconstruction was planned to cost 21

The intensive type of cooperatives, on the other hand, finance their investment almost completely from their own resources. They rarely apply for bank loans (it is a matter of policy), and almost never get support from the OKISZ (National Council of Industrial Cooperatives) or from trade organizations.* Since their investment in construction is minimal, they often have large reserves in their development funds, resources which they cannot invest because of the strict limits on the inter-enterprise circulation of capital loans.

*8. Relations with the authorities***

The main point here is that the bigger the external investment in a cooperative, i.e. the closer is the cooperative to being of the extensive type, the more problem it is that the organization that has provided the money (has helped obtain it by recommendations, resolutions or by emphasizing the cooperative's nation-wide economic importance) will, in some way, want to have a say in the spending of the investment resources thus obtained: in choosing the markets for the goods turned out, in the cooperative's relations with other enterprises and also in management questions.*** In this context it is understandable that the intensive type of cooperatives which insist on more freedom in choosing their own markets and in their relations with other enterprises make great efforts to stay financially independent.****

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million Forints, from which 11 million was bank loan . . . A trade organization helped them get a 9 million aid" ([2] pp. 418, 423).

**Sztár:* The cooperative has been functioning without loans since 1965. In the past four years it has financed the partners' production without any difficulties . . . The cooperative did not contract a loan even when this would have speeded up the investment process, since by advancing a loan other institutions – first of all the bank – would have a right to influence the cooperative's development projects ([6] pp. 69–70).

Vörös Hajnal: "Since 1959 we contracted loans two or three times for one or two months . . . We are proud that we have never asked for and never got loans or aid from the OKISZ funds" ([7] p. 30, from an interview).

**By "authorities" I mean organizations financed by the state budget, administrative bodies, trade and social organizations (branch ministries, National Bank, Ministry of Finance, Local council, OKISZ and other trade organizations) that can either directly or indirectly influence the activity or management of these cooperatives.

****Dunamenti:* ". . . the cooperative is unable to finance such a development project' . . . it had to make use of more and more external resources. As a result, the cooperative became more and more dependent on the one hand, and, on the other hand, to pay off debts is a burden on profits. Dependence on outside organizations means that the cooperative is even more inclined to increase production, as is the requirement of these organizations'" ([2] p. 434).

*****Vörös Hajnal:* "They not only try to escape the authorities' intervention but also to preserve their financial independence. They are not subject to control development projects, they do not contract loans and are not supported by the authorities" ([7] pp. 29–30).

9. Technology

The extensive type of cooperatives try to introduce the most up-to-date technology and labour organization (often assembly lines and shift work). The use of such technology is economical only under certain circumstances: for instance, the number of workers must agree with that prescribed by the given technology, and the material supply must be continuous. The absence of either creates excess capacity which increases per unit costs, and since modern technologies are relatively inflexible, the problem cannot be solved by *ad hoc* changes in the production process.* Technology of that sort does not require high standard professional knowledge, and is thus alien to skilled workers. Here, traditional trade skills have no value, these skills having disintegrated into their component work processes; this kind of enterprise relies increasingly on convertible labour force [8]. As a consequence, the wage level necessary to get and keep manpower is a function of the wage level on the local labour market and not of the wages paid in the given trade.**

The intensive type of cooperatives also try to substitute capital for labour, and are thus engaged in continuous modernization. They are, however, less ambitious in introducing new technology: it is not necessarily the most modern one that they opt for, but rather those technologies that make it possible for them to adjust to the periodic labour or material shortages,*** and those that are suited to the peculiar composition and skills of the cooperative's workers. This way the traditional skills lose less of their value, the workers' professional knowledge is put to use. This gives the cooperative certain advantages on the labour market, since the determining factor is the wage level in the given trade and not the wages paid in the local economic units.

10. Manpower management

The extensive type of cooperatives – since one of their main goals is to increase the number of their employees – are interested not in the stability of the labour force but in

**Dunamenti:* "We had a simple solution. We either shared the extra work between the two men who worked in the same special sphere as the one who had to be replaced or had someone else do it, someone whose work was easier to replace or to decide between the others. This cannot be done on the assembly line, such a lag disturbs the whole labour process so that it has to be reorganized, usually by slowing down the assembly line" ([2] p. 426, from an interview).

***Dunamenti:* "We are in a hard situation. We are on a piecework system, we don't get more than 11 Forints per hour on an average, while in the Chinoin, for instance, where the workers are paid by time, they get 12–13 Forints per hour, and it is a clean job, they have a five-day working week and only one shift" ([2] p. 427, from an interview).

****Vörös Hajnal:* "In the *Vörös Hajnal* assembly line production was not introduced, people work individually so "if someone is ill and cannot work then it won't cause any problems, the other still can do his job. On the assembly line if someone stops the one next to him cannot work either. They are much more productive this way than the assembly line production is" ([7] p. 24).

balanced fluctuation:* they are prepared to work with a big manpower turnover, to have significant "transit traffic". They prefer technologies and work organization which fragment trade skills into specialized work processes that contribute to the maximum quantitative growth and can afford to be disinterested as skilled workers accustomed to cooperative work organization leave the enterprise. Their indifference to the stability of the labour force is understandable if we consider the low costs of training for the relatively simple operations; the rate of growth can increase as long as the fluctuation is positive on balance. Their growth-orientation is obvious not only in their development projects but also in the way the enterprise is run. By employing new workers, and raising the number of shifts they aim at maximizing production to capacity level; to this end, they are willing to risk conflicts with the workers and the consequent growing fluctuation.

The intensive type of cooperatives, since they want to preserve their small size, prefer a stable labour force to a growing one. In order to keep the skilled workers who work with them, they adopt more traditional technologies, and rely on work organization geared to the existing labour force. Since this kind of technology and work organization is flexible, the extent of the capacity exploitation cannot be precisely established, but this type of cooperative does not really insist on working to full capacity; there is no determined effort to introduce shift work; if they cannot prevent fluctuation, in taking on new workers (when establishing new plants in the countryside) they spend considerable amounts on vocational training and attempt to establish a highly skilled stable labour force.**

11. Wage policy

Both types rely on direct piecework, usually at low per piece wage. In the extensive type cooperative, the inflexible technology hardly permits the workers to influence the work speed. Work performance is determined by the whole group of workers on the assembly line, the individual worker can do little alone. If the number of workers is less than what is technologically necessary, the assembly line can be slowed down by way of accommodation, if there are more lines, some of them can be stopped and the manpower redistributed. The first solution reduces individual performances and

**Dunamenti:* "While the conflicts caused by the new work organization and new technology and the fluctuation it leads to . . . did not cause problems for the management, the negative balance of fluctuation (1976: –6, 1976: –61, 1977: –23) was a serious problem" ([2] p. 425).

***Sztár:* "The cooperative did not employ the same kind of labour in Kőrösladány than it had lost in Budapest. There it was an inexperienced labour force which had a considerable income from agriculture and led a very different life. However, the rapid increase in incomes in Kőrösladány indicates that the inexperienced labour was successfully trained in a relatively short time. In 1975, three years after the company's branch was set up, commission work for Western partners was done here." "The management of the cooperative organized a course for trained workers to obtain skills. This did not change the workers' position in the work organization, but meant higher prestige and it seems this vocational training if not stops yet slows down fluctuation" ([6] pp. 68, 69).

wages; the latter establishes a production margin which, with piece–rates given, puts a ceiling on possible earnings. Both forms are often used because of problems with the supply materials and because of the high rate of fluctuation among the workers. The low piece-rates lead to low hourly earnings, with the result that the slogan "Let's make the same amount of money with the least work" is becoming widespread. This – together with money earning opportunities in the second economy – leads to ever lower work intensity in the enterprise. Raising the wages is limited by the great investment activity of such enterprises, their obligations to repay their loans. The earnings of manual workers were especially unfavourably affected by the wage management strategy often adopted (and used without exception between 1968 and 1972) namely, to increase profit sharing rather than wages.* This system benefits the managers whose number and influence is growing together with the hierarchical chain.

The traditional technologies used in the intensive-type cooperatives leave free scope for the "one worker – more jobs" system. This system – besides making for better adjustment to labour shortages – can contribute to increasing work intensity and thus to higher wages. Smooth and continuous material supply is the precondition of high hourly wages reached through increased work intensity and efficiency. Once it is provided for (see section 4), even physically exhausting work fails to result in a high rate of fluctuation. This system promotes the formation of primary work groups (see section 10), which is also a stabilizing factor. The management of these cooperatives tends to increase wages continuously. To this end from time to time they are even prepared to pay high taxes,** something they can afford to do, since their profit is not burdened with paying off debts.***

12. Management

In both types, the management's relationship to the workers is paternalistic. Nevertheless, in the extensive type – with the growing bureaucratization (see section 3) – the transactions are more complicated, the rules are more impersonal, and on-the-job

**Dunamenti:* "As in 1970 we committed ourselves to build the workshop, we had to pay off the debts to the bank. Every year we had to accumulate a development fund big enough to repay the loan and the rest was left to the sharing fund. We could not increase wages that much." "Between 1973 and 1976 we did not increase wages as much as we could have . . . we were afraid of exceeding the limits; and the tax would ruin us. Then there were years when we had 280 000 Forints left for bonuses" ([2] pp. 426, 428; from an interview).

**The tax imposed on the annual raise in wage level of the companies, which is paid from the company's profit, is a means of the central planning authorities to limit the disposible income of the wage earners. This tax is progressive: a per cent of extra raise in wage level, exceeding the central preferences, means a higher per cent of tax-rate.

****Sztár:* ". . . we were able to continually increase the wages of those who on piecework system. It turned out by comparing the rates that the wages of the productive workers increased considerably year after year, while that of the non-productive staff (among them of managers) stagnated or, what's more, decreased" ([6] p. 68).

conflicts are solved not within the framework of informal personal relations, but by the top management.* The intensive type makes use of the advantages inherent in the cooperative form. This more direct managerial form leaves room for the rapid circulation of information and rapid decision making, and the conflicts connected with wages and work performance are solved through personal connection in the framework of informal relationships.**

Chances for survival

Having examined the characteristics of the two types of small enterprises, we can attempt to answer the following question: What kind of chances do the small enterprises have for survival, for preserving their independent organizational framework? The extensive type of cooperatives, as we have seen – and whether quantitative growth is regarded as a starting point or as a consequence of the economic strategy makes no difference here –, are insatiable in their demand for the means of production, especially for labour. However, the increasingly severe shortage of labour is making it difficult to pursue an extensive manpower policy, the more so as the peculiarities of their manpower and wage policies restrict their competitiveness on the labour market. All this explains their predilection for mergers, for swallowing up other units. Since the authorities who support these cooperatives are not prepared to run the risk of developing surplus capacity in valuable fixed assets such as buildings and new machinery, nor of having quantitative growth stop, the cooperatives have every chance for going through with their mergers.

The intensive type of cooperatives have no spectacular growth rates or investment to argue for their independent existence; furthermore, as economically independent units, they have no patrons among the authorities to support them when the question of merger arises, especially since the authorities are likely to view their lack of quantitative growth as proof of their inability to develop. Their qualified labour force and monetary independence, on the other hand, makes the merger seem an easy way to save other economic units from bankruptcy – especially those who have a shortage of labour and are heavily indebted. Thus, the intensive type of cooperatives have little chance of preserving their independence.

This, however, is only part of the explanation for the ongoing concentration of industrial enterprises, for the mergers of small enterprises. Relying on the typology given

**Dunamenti:* "There was a strict check-up of norms and most of the foremen had to be replaced for they were afraid that people would leave if the piecework system was reestablished." "The management of the cooperative made a wrong decision when it forced the double shift . . . Double shift was forced for the sake of more production . . . That's why people left" ([2] p. 420, from an interview).

***Sztár:* The management is well aware that fixing the norms can be the source of a number of conflicts. These conflicts, if not solved, may increase the fluctuation. Therefore reasonable norms are fixed . . . The management makes the wage dispute as open as possible" ([6] p. 69).

above, we can only state that the intensive type of cooperatives, because of the peculiarities of their internal strategy and external relationships, are relatively defenceless in the face of proposed mergers, while the extensive type of cooperatives have a lot to gain from swallowing them up and are likely to succeed. Whenever there is a merger, the extensive type is likely to have initiated it, and the intensive type (or one with a mixed production pattern and poor in capital*) is the one that is incorporated. To check this theory and to explore the social factors leading to the incorporation of small enterprises, it would be necessary to analyze a large number of concrete cases of mergers.**

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*See note on page 74

**See e.g. [3].

О ДВУХ ТИПАХ РАЗВИТИЯ МЕЛКИХ ПРЕДПРИЯТИЙ В ВЕНГРИИ

Г. КЕРТЕШИ

Сокращение числа небольших предприятий — явление, которое наблюдается в венгерской промышленности на протяжении долгого времени. Автор статьи пытается объяснить это явление на примере промысловых кооперативов, являющихся наиболее важным по значению видом мелких предприятий. Он исходит из того, что кооператив не объязательно является моделью гибкого мелкого предприятия. В сфере мелких предприятий, как и в масштабе всей экономики, также налицо силы, действующие в направлении концентрации. Среди промысловых кооперативов можно четко выделить, по крайней мере, три типа хозяйственного поведения: 1. «пассивные», неспособные к динамизму кооперативы смешанного профиля, 2. ориентированные на рост кооперативы экстенсивного типа и 3. интенсивные кооперативы предпринимательского типа. В статье дается характеристика двух последних типов в соответствии с важнейшими критериями хозяйственного поведения. Используемые критерии: размеры и организационная структура предприятия, состав продукции, межхозяйственные связи, рынки, капиталовложения, финансирование, отношения с «ведомственными» организациями, технология, использование рабочей силы и фонда заработной платы, стиль руководства. Основной вывод автора состоит в том, что экстенсивные кооперативы в силу их стремления к количественному росту склонны к слияниям и имеют шанс преуспеть в этом, а интенсивные кооперативы — в силу их внутренней стратегии и внешних связей — относительно беззащитны перед попытками их поглощения. Часть слияний кооперативов объясняется тем, что эти особенности и на местах совпадают с намерениями руководящих, отраслевых и общественных органов.

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LIQUIDATION AND MERGER IN THE HUNGARIAN INDUSTRY

(A statistical analysis)

In the last three decades the chances of survival of the Hungarian industrial enterprises were influenced by market factors but these were strengthened or weakened by very strong non-market influences. As a consequence, in case of mergers the economic results of the incorporator were in the majority of the cases worse than those of the incorporated enterprise. The differences between the incorporator and the incorporated enterprises were greater between the sectors than within the sectors. After the merger the results of the incorporator enterprise often showed a significant deterioration.

This description and analysis of winding up and liquidation of enterprises may eliminate the public belief that "in Hungary it is not possible to go bankrupt".

Our aim is, however, more than just to prove the existence of these phenomena. By collecting the *criteria of non-viability* one can get closer to understanding the mechanisms of selection in the Hungarian economy. If we find out what is rejected by this economic environment, the "non-deviating" elements and also the regularities of the "quiet majority" may become better understood. It is not our objective to qualify the facts of merger or liquidation, or to say whether they are useful or not. We restrict ourselves to describing and companying the typical forms and frequent consequences of the phenomena, leaving the choice and the judgement to the reader.

We deliberately avoid using the concept of bankruptcy. Not only because several emotions unfavourable in view of an objective analysis are attached to it, but because liquidation and merger – contrary to bankruptcy and crisis of the enterprise – are events that can be *distinctly separated* from others.

By employing the twin notions of bankruptcy and prosperity we could hardly form unequivocal groups. We have good reasons to presume that the subsidies allotted to enterprises getting in trouble frequently hide the facts of bankruptcy and financial reconstruction. A further advantage is that by doing so we shall have the opportunity to present the factors increasing and diminishing the chances of survival, comparing the groups of the incorporator (i.e., capable of surviving) and the incorporated (i.e., incapable of surviving) enterprises.

In the course of research we have employed a variety of methods (content analyses, archival research, interviews etc.,); now we present the reader the most important conclusions of the statistical analysis.

The subject matter of our study is industry (state-owned, cooperative and private industry). The circumstances leading to the liquidation of enterprises in other sectors will, therefore, not be analysed. In compiling the time series we have taken into account the period following the industrial reorganization of 1962–1964 and even within this, the years of the seventies following the reform of economic control and management in 1968. The reorganization in 1962–1964 would deserve a separate study.

Long-term processes in the published time series

A decisive shortcoming of the data series published is – from the viewpoint of our research – that they present every time only the number of enterprises and neglect the foundations or liquidations determining this number. (Let us not forget that, if the number of enterprises decreases, this only means that in the given year the number of liquidations exceeded that of foundations.) Nor do these data series clarify whether the changes in one or another group of enterprises were due to liquidations or to the circumstances that some of them were regrouped or "grew" over into another group. Taking these disadvantages into account, let us review the time series.

In the past decades the number of enterprises significantly decreased. The number of state enterprises was 863 in 1964 and in 1979 it was 702; in the same period the number of industrial cooperatives declined from 882 to 670.* In the case of private entrepreneurs a decrease similar to that in the sectors of state enterprises and cooperatives was replaced in the late 1960s by an increase (their number was 66 687 in 1964, in 1969 it reached 81 214). This was later followed by a new turn, a slow decline still prevailing in our days.

From the viewpoint of *accelerations* and *slowdowns* the analysed period can be broken down into two sharply separate phases. After the wave of mergers in 1962–1964 the number of industrial enterprises and cooperatives diminished ever more slowly; in 1967–1968 when the new system of economic control and management was implemented, the decline stopped, what is more through a few years, up to 1971 the number of enterprises somewhat grew. (See *Fig. 1*). In 1972 a new phase of centralization began which was less significant than in the early 1960s, though it was rather vivid; this reached its summit in 1976–1977. In the late 1970s a new period started again: the number of enterprises diminished ever more slowly and in the state industry an increase could again be detected in 1979–1980.

*The number of enterprises in the building industry decreased from 158 in 1960 to 116 by 1979, and that of the cooperatives from 246 to 170. The situation was similar in agriculture where in 1960 there were 333 state farms and in 1979 there were only 132 left. In the same period the number of agricultural cooperatives decreased from 4507 to 1350. The number of enterprises in home trade was 1843 in 1960 and only 603 in 1979.

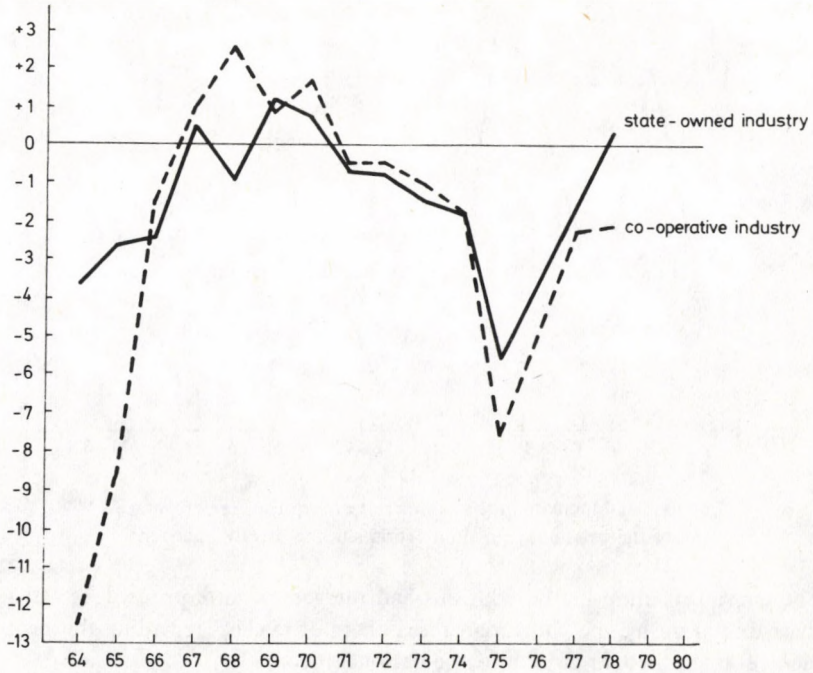

Figure 1

Decrease and increase in the number of enterprises, in percentage of the total number of enterprises, in the state-owned and cooperative industry

The curves showing the number of state-owned enterprises and that of cooperatives are very much alike – indicating that the reasons are independent of the form of ownership. Also the graph representing the number of enterprises in the private sector seems to confirm this (*Fig.* 2). Growth and decline, acceleration and slowdown developed in this sector parallel to the state-owned and the cooperative sectors, merely with a difference of one or two years. In private handicraft, reacting perhaps more sensitively to the changes of the economic environment the slowdown or acceleration in the decrease of the enterprises and the decline turning into growth *preceded* the changes in the state-owned and the cooperative industry.

In the private sector the number of enterprises developed partly in different ways. This is reflected by the fact that the number of private entrepreneurs working in construction grew from 12586 in 1960 in to 21782 by 1979. Private carriers were 2700 in 1960 and already 5533 in 1979. The number of private merchants was not declining either, it rather stagnated. (In 1960 there were 10848, in 1978 10770, and in 1979 11161 private merchants.)

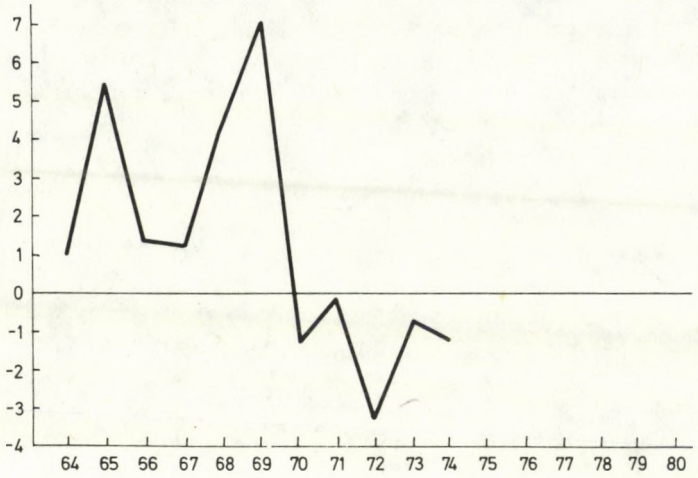

Figure 2

Decrease and increase in the number of enterprises, in percentage of the total number of enterprises in the private industry

The curve reflecting the liquidations and mergers of enterprises does not resemble the curves drawn up by the Hungarian researchers of cycles* regarding the processes of investment, foreign trade or growth of the national income.

In opposition to these, it seems that the turning points of the curves were not determined by the equilibrium position of the Hungarian national economy. The *turns* – and let us consider here the years where decrease turned into growth or when increase turned into decline, i.e., 1968, 1972 and 1978, – *were connected to major changes in economic policy and in the system of economic control and management.*

Let us see now whether a group of enterprises can be found which was not so significantly affected by the factors causing the decline. In the past 15–20 years, as was stated by several Hungarian researchers [1] [2] [3], in the first line the number of the smaller enterprises decreased in the Hungarian industry. The number of the industrial cooperatives employing maximum 50 persons decreased from 123 in 1968 to 15 in 1979, and of those employing 50–100 persons from 258 to 75.

Developments were similar in the state-owned industry. The number of enterprises which employed maximum 50 persons decreased from 108 to 35 between 1960 and 1979, while the number of those working with a staff of more than 10 000 grew from 8 to 14. In some individual branches of industry there was no possibility whatsoever to diminish significantly the number of enterprises. In the seventies already only a single enterprise was operative in each of the industries of household and cosmetics chemistry, the insulation of heat, sound and water, in the silk and vegetal oil industries; so the mergers could not be extended to these branches. The situation was not different in the

*András *Bródy*, Tamás *Bauer*, Attila K. *Soós*, György *Tényi*, Mária *Lackó* and others.

confectionary, the rubber and the lime and cement industries either, where two enterprises were acting in each branch in this period.

In turn a large number of enterprises were working in the engineering industry, in several subsectors of the light industries (e.g. in those of furniture and textile garments) as well as in the so-called other industries – offering the possibility of mergers – while in certain sectors (as the industry of metal mass wares) the number of enterprises considerably diminished between 1971 and 1979.

Liquidations and mergers in the seventies

In the foregoing we demonstrated that liquidations and mergers in the Hungarian industry were not evenly distributed in time and space and that

- the number of enterprises showed a particular fluctuation (the decrease in the number of enterprises accelerated in the mid-seventies and afterwards it slower),
- the reconstruction and merging activities were minimal in some branches and in others overaverage,
- the number of the small enterprises decreased rather rapidly.

We could take new aspects into account because the Industrial Department of the Central Statistical Office provided us (with the assistance of the Data Bank) with the *non-published* data on all organizational changes of enterprises between 1971 and 1979 in the state-owned and the cooperative industry.*

From among the processed organizational changes we did not take into account those modifications which were purely formal in the data-processing, e.g., when an enterprise received a new registration number for any reason. Nor was it considered a liquidation when an industrial enterprise was regrouped in to another sector of the national economy nor when e.g. an enterprise earlier classified as agricultural was reckoned with as an industrial one from a certain date.**

Nor did we deal with those changes which were treated in the data processing under the title "partial changes or separations without change of the composition of products". (In its majority this group contained cases when the enterprises changed took over or gave over some of their plants (establishments), while none of the enterprises was liquidated or ceased to exist in the course of reorganization.)

Our attention was directed to the following changes in organization:

- organizations liquidated without legal successors,

*We could use also the so-called "List of enterprises" which contains the important data of all industrial enterprises (number of employees, business digures etc.).

**The number of these changes should not be underestimated: between 1971 and 1979, 91 enterprises were placed from the industry into other sectors of the national economy and at the same time 42 were regrouped from other sectors into industry.

– mergers of several enterprises with changing product pattern,
– mergers of organizations in cooperation with one another,
– mergers of organizations having no cooperational relationship with each other.

In the first case the assets or capital of the enterprise fall back to the founder. In the following three the fixed assets of the enterprises were added up. Here the differences between the individual cases followed on the one hand from the changes in the product pattern carried out in the course of the merger, and, on the other – when this did not occur –, from the character of relations between the enterprises in question. (See Table 1)

The *event* of the merger and the *enterprise* taking part in the event are not identical notions, therefore we shall analyse at times the set of events and at times that of

Table 1

Organizational changes in the state-owned and cooperative industry
1971–1979

Type of change	1971	1972	1973	1974	1975	1976	1977	1978	1979	Total
Organizations liquidated without legal successor	11	2	3	3	7	–	4	3	19	52
Merger of several organizations with changing product pattern	14	9	9	14	23	23	29	13	6	140
Merger of organizations connected by cooperation	8	–	–	–	–	1	–	–	–	9
Merger of organization not connected by cooperation	1	–	–	–	3	42	21	12	6	85
Total	34	11	12	17	33	66	54	28	31	286

Source: Central Statistical Office, Data Bank

enterprises. It is more correct to speak about sets of enterprises because the situations before the occurrence of the events must be distinguished from those following the liquidation or merger.

For instance the enterprises without legal successor figure only in the set of enterprises prior to the events. Liquidations and mergers affected 532 industrial enterprises and cooperatives between 1971 and 1979, according to the state before the events; after the events their number fell to 232. For the sake of comparison, in 1971 there were 1651 and in 1979 1372 state-owned industrial enterprises and cooperatives in the country.

As seen from Table 1, the earlier observed fluctuation emerged also here. After 1972 the liquidations and mergers in the socialist (state-owned and cooperative) sector of

industry were increasing; this phenomenon was especially lively in 1976–1977 but its intensity finally declined in 1978–79.

Even the foundation of *new organizations* followed this line of fluctuation. Foundations of enterprises and cooperatives were more numerous in those years in which liquidations and mergers appeared in a greater number and *vice versa* (see *Table 2*).

Table 2

Foundation of new organizations
(state-owned and corporative industry)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	Total
Number of new organizations	39	4	6	3	12	16	18	8	28	134

Source: Central Statistical Office, Data Bank

From the data reflecting the liquidations and mergers a more accurate picture may be obtained also about the distribution of events by branches.

In mining, metallurgy, the electric power industry, the chemical industry, the building materials industry and in food industry the enterprises were rather rarely liquidated or incorporated, while in the engineering and the light industries the events interesting us occurred at a frequency exceeding the weight of the branches. Confronting, the set of all enterprises affected by the changes with those surviving them – i.e., the incorporators –, it appears that in some branches the decrease was outstanding. The branches of machinery and equipment, of metal mass wares and the miscellaneous wood-working industries as well as the footwear industry have lost a great number of enterprises. Also an extraordinary decrease took place in the canning industry where out of ten earlier enterprises two new ones were organized; in the branches of mineral and sodawater, and other refreshments all the twelve enterprises were incorporated by enterprises belonging to other industrial branches.

Even these structural transformations must not let us forget that *most of the Hungarian mergers occurred with enterprises of a similar or the same range of manufacture.* Mergers of enterprises belonging to the same subsector amounted between 1971 and 1979 to about half of the total number and the ratio of mergers within the individual sectors was even higher.

The small enterprises took part in such events more frequently than justified by their general weight and ratio, and their share in the group of enterprises subject to mergers or liquidations is much higher than in the total of industrial enterprises surviving the changes. Also much more of them ceased to exist in the course of mergers and liquidations; this is demonstrated not only by their small share in the number of enterprises after the events but also by the fact that among the enterprises surviving the

changes no state enterprise or cooperative could be found where the annual production was Ft 10 million or less. (See *Table 3*).

Table 3

Enterprise participating in mergers grouped by the volume of output in 1972–1979[1]

Size of enterprise million Ft/year	Before the change			After the change			Number of state-owned and cooperative enterprises of industry in 1978, percent	
	units	percent		units	percent			
0– 10	34	7.1		–	–		2.9	
10– 20	53	11.2	62.5	5	2.3	44.4	4.5	48.4
20– 50	122	25.7		46	21.8		23.5	
50–100	88	18.5		43	20.3		17.5	
100–200	32	6.8		25	11.8		13.3	
200–500	48	10.1		25	11.8		11.8	
500–1 thousand	25	5.2		24	11.3		11.0	
1–2 thousand	23	4.8		31	14.0		9.2	
2 thou. and more	11	2.3		10	4.7		5.9	
No data available	38	8.0		2	0.9		–	
Total	474	100.0		211	100.0		100.0	

Source: Central Statistical Office, Statistical Yearbook, 1978; Central Statistical Office, Data Bank

[1] With the mergers the data of the year preceding the merger were taken into account, so for 1971 no balance sheet data were available.

156 cases were found where it was unambiguous which of the enterprises was the incorporator and which was incorporated by the other. Compiling their data on employment and production the following table emerged:

Table 4

Difference in magnitude between the incorporator and the incorporated enterprise

The incorporator on the basis of output	On the basis of employment		
	greater	smaller	Total
greater	142	4	146
smaller	6	4	10
Total	148	8	156

Source: Central Statistical Office, Data Bank

In the majority of cases the incorporator enterprise proved to be greater than the one incorporated not only on the basis of output but also according to the number of employees. This is not surprising in the knowledge of either the foregoing, or of the international and historical experience. In opposition to public belief, *mostly not the very big enterprises swallow the very small ones but the "scarcely greater" ones do those not much smaller than themselves.* Many enterprises of sizes very close to one another merged in this period (see *Table 5*). The share of mergers within the same order of magnitude was 22 per cent, of those where the enterprises were graded next to one another, 25.7 and when there were two grades of magnitude between the two enterprises, it was 17.6 per cent, showing that the mergers of enterprises of similar size represented about two-thirds of all.

As regards the enterprises affected by the mergers it is also true that those under the supervision of ministries or of local councils or the cooperatives differ from one another by order of magnitude. In general the annual output was about 50–200 million Ft in the cooperatives, about 200–500 in the enterprises of the local councils and it was usually more than 500 million Ft in the enterprises supervised by ministries. Among other things, this attracted our attention to the distribution by type of *ownership* and by *regional* situation of the enterprises affected by mergers. Was not this the reason for the mergers of so many similar enterprises in that period?

In three quarters of the cases purely ministerial, local council-controlled enterprises or cooperatives were participants in the mergers. State-owned enterprises did not merge with cooperatives, mixture occurred only between enterprises under the control of ministries and of councils, respectively, in 47 cases (20 per cent).

The sources presented not only the form of ownership but also the individual ministries and county-councils controlling the enterprises. From among the 234 mergers the enterprises taking part in the event in 167 cases belonged to the same ministry, county-councils, or, in the case of cooperatives, to the OKISZ (the national supervisory organ of the industrial cooperatives). In the analysed period – it seems – it was easier to incorporate enterprises within the authority of the same hierarchy than from different spheres of hierarchy. (See *Table 6*).

Thus it was possible to break through the boundaries of control only between the ministries and local councils. The cooperative industry on the whole preserved its weight even after the mergers and liquidations.* *The loss in the units afflicted really the industry of the local councils* where from the 103 enterprises affected only 125 survived the events. The greatest gain appeared in the industry of ministries which increased its share from 25 to 39 per cent as a result of the changes.

This, however, does not mean – also taking into account the regional proximity and power relations – that the local councils of counties or those having county rights

*The industry of cooperatives is a little "over-represented" in our pattern. In 1978, from the 1385 enterprises of the socialist sector 49.4 per cent was the share of cooperatives while within the liquidated or merged 532 enterprises it was 52.4 per cent.

Table 5

Mergers by the size of enterprises affected in 1971–1979

Enterprise output value of output million Ft/year	With enterprise										
	0–10	10–20	20–50	50–100	100–200	200–500	500–1	1–2 thou.	2 and more	No data	Total
	million Ft										
0– 10	1	7	13	5	–	1	–	–	–	4	31
10– 20		7	16	3	3	3	1	–	–	5	38
20– 50			19	16	5	7	7	1	1	6	62
50–100				12	6	7	6	6	3	2	42
100–200					1	2	2	6	1	2	14
200–500						5	4	5	3	–	17
500–1 thou.							1	2	2	–	5
1–2 thou.									1	–	1
2 thou. and more											0
											210

Source: Central Statistical Office, Data Bank

Table 6

Enterprises merged, according to the form of ownership, 1971–1979

The enterprises affected	Events	
	Number	Percentage
Controlled only by ministries	38	16.2
Controlled only by local councils	23	9.9
Only industrial cooperatives	111	47.5
Controlled by ministries and local councils	47	20.0
Enterprises controlled by councils and cooperatives	–	–
Enterprises controlled by ministries and cooperatives	–	–
No data available	15	6.4
Total	234	100.0

Source: Central Statistical Office, Data Bank

Table 7

Distribution of enterprises liquidated and merged by forms of ownership and control 1971–1979

	Prior to change		After change	
	Number	Percent	Number	Percent
Industry of ministries	136	25.6	90	38.8
Industry of local councils	103	19.4	25	10.8
Industry of cooperatives	279	52.6	117	50.4
No data available	14	2.4	–	–
Total	532	100.0	232	100.0

Source: Central Statistical Office, Data Bank

and the council of the capital did not play a role in the mergers. In 68 per cent of our examples the enterprises and cooperatives affected were situated in the area of the same county, town, or in the capital; the share of "inter-county" mergers, breaking through the borders of public administration was only 25.6 per cent (in 6.4 per cent of the cases no data are available.)

Combining the data by control agency and regional situation and examining in how many cases between 1971 and 1979 the supervisory organ and authority of public administration of the region was the same and in how many cases were these different, the outcome is that in 144 (62 per cent) of the 234 cases the enterprises merged were similar in both respects, while the cases of "different supervisory organs – different counties" occurred only 31 times.

The growth properties of enterprises taking part in the mergers

Similarity is greater and difference is smaller between the incorporator and the incorporated enterprises than expected. The merger occurred mostly between enterprises which had their headquarters in the same town or county and usually belonged to the same branch or subsector. In addition, in the majority enterprises or cooperatives of the same size took part in the mergers. At the same time a transformation of the industrial structure and a now accelerating, now retarded centralization process could be observed in which it was primarily the small enterprises which disappeared. Even this gradual rearrangement must not cover up the fact that, due to the frequently little difference between the merging enterprises, we must look for new factors explaining the mergers.

One of these may be the rapidity of *growth* (expansion) of the participating enterprises. Roughly speaking, it would be logical that the dynamically developing enterprises swallow the *stagnating,* declining smaller ones.

Let us see, how far this widespread opinion is supported by statistical data.

To make the preceding period comparatively long, we examined only the mergers carried out around the end of the period, in 1978–1979, and even from among them the most complicated ones ("merger of several enterprises with changing product pattern"). Altogether 19 events, 38 enterprises were involved, that is less than one-tenth of the otherwise not too large sample. Also the time series is short – scarcely 5 years – though the time horizon of the enterprises, in our experience, is usually shorter.

We reviewed how the data on employment and production developed in the five years preceding the merger and, taking into account the frequency of falling rates, we qualified the enterprises affected as declining, stagnating or growing. We qualified them declining if there were 4 or 3 falls, stagnating if 2 falls occurred and growing if only maximum 1 fall occurred in the period. The majority of enterprises could be classified as growing in respect of production and declining or stagnating in view of the number of employees. (See *Table 8*)

There is no significant difference even between the groups of the incorporator and the incorporated enterprises. There was none among the incorporators whose production declined or stagnated; there were some among those incorporated where it stagnated. In somewhat more enterprises among the incorporators the number of employees increased; but we dare say that these particularities are only differences within similarity.

Table 8

Frequency of decline in the rates of the enterprises affected

	Number of employees				Total
	Declining	Stagnating	Growing	Inappreciable	
Incorporator enterprise	12	2	3	2	19
Incorporated enterprise	10	3	6	–	19
Total	22	5	9	2	38

	Production				Total
	Declining	Stagnating	Growing	Inappreciable	
Incorporator enterprise	–	3	14	2	19
Incorporated enterprise	–	–	19		19
Total	–	3	33	2	38

An essentially similar result was attained when we examined the *common* formation of the two growth indicators. In 9 out of the 19 incorporated enterprises the number of employees decreased and production grew but no firm was found where employment grew and production decreased. The situation is almost the same with the incorporators; in ten cases employment decreased and production was growing. In none of the groups was an inverse picture found.

As both sets are rather similar (in both of them the most frequent case is when a growing production is accompanied by a decreasing employment), mostly enterprises showing similar growth rates were participating also in the events in question. When considering the value of output, in every case similarly growing enterprises took part, but in view of employment the similar ones were almost twice as many as those where the tendencies were contrary to one another.*

When examining the number of falls** in the time series of employment and production together, both in the case of the incorporators and in that of the incorporated there is a great number of events where the enterprises affected are surprisingly alike. In 13 out of the 19 events the difference between falls in the incorporator and in the incorporated enterprises was maximum two.

*The development of the enterprises is called similar when the difference in the number of falls is zero and opposite when the difference is more than 4 in the analysed period.

**We call it a fall when output or the number of employees decreased relative to the preceding year.

Thus, our small sample did not diminish the sphere of frequent similarities but enriched it with a new element. Neither the *characteristics of growth* chosen by us *differed greatly between the incorporator and the incorporated enterprises.*

Of course, this does not exclude that the growth indicators may have changed *after* the merger. It is almost impossible to reckon with all the consequences (advantages and disadvantages) of a merger. Besides, a part of these effects does not appear immediately. This means that when we have confronted the data on employment and production of the *incorporator* (i.e., surviving) enterprises with the data prior to the merger, we were only able to analyse a part of even the direct effects.

We have examined what percentage of the growth of the last five years fell to the year after the merger. By the number of employees in 9 out of the 19 incorporator enterprises and by production in 10 of them the year after the merger showed a much higher growth than the proportional one-fifth would be. Thus, in about half of the cases the merger accelerated the growth of the enterprise. This was especially important in respect of employment, for in 8 out of the 19 incorporator enterprises the number of employees increased only after the merger.

To put it in another form: an incorporation reducing the defencelessness on the labour market in the short run may improve further survival chances of the enterprise struggling with the lack of factors of production (employment, capacity).

Mergers and profitability

Let us see whether it is true that the chances of survival are greater for more profitable enterprises and whether the latter swallow the deficitous or at least the less profitable ones.

From the original pattern a range of data characterizing the economic operation of the enterprises was available only on those belonging to the engineering industry. So our new sample will consist of 110 enterprises which participated in 55 mergers between 1970 and 1979.*

The successful economic operation of enterprises is characterized by two indicators. One of them is the *profit* per unit of capital – which is one of the possible indicators of returns – and the other is the *subsidy* per unit of capital which, in some form, is an indicator of troubles and difficulties. The indicators we selected do not reflect the position of the enterprises either completely or unambiguously, but they are not inferior to those where e.g. the income or profit is placed into the numerator and the number of employees in the denominator of a fraction.**

*In the original sample of the Central Statistical Office Data Bank 148 engineering enterprises were represented which took part in mergers. The difference is the result of the fact that in several cases the mergers occurred between enterprises of engineering and of other sectors. These ones are not discussed here.

**In the mergers of the engineering industry the weight of enterprises supervised by ministries and by local council is greater and that of cooperatives is smaller; this is connected with the fact that

The profit per unit of capital in the engineering enterprises affected by the mergers

In the following – somewhat arbitrarily – those enterprises will be considered as *better* where profit is *greater* in proportion to capital and the performance of that enterprise will be considered as *improving* where the profit proportional to the capital is growing from one year to the other (or year by year).

According to our indicators in the majority of cases the assumption that the incorporator enterprise worked more profitably than the incorporated one, did not prove correct and, what is more, as seen from the second column of *Table 9,* this applies not only to the year preceding directly the merger but to a relatively longer period, too.

Table 9

Net profit per unit of capital in the engineering enterprises affected by the mergers

Profit per unit of capital	Number of cases	
	in the year preceding the merger	in the average of three years preceding the merger
Higher in the incorporator enterprise	20	16
Higher in the incorporated enterprise	30	27
New organizations or inappreciable	5	12
Total	55	55

the share of cooperatives is above the average exactly in the light industries and in the so-called other branches.

It is the properties of the engineering industry that can serve as explanation for the fact that among the engineering enterprises affected by mergers the number of small enterprises is below the average. The share of these was 35 per cent in the mergers between 1970 and 1971. Still, one must be careful in the evaluation not only because of the small number of cases but also because of the differing inner proportions due to the properties of the engineering industry. The situation is somewhat improved by the fact that the *direction* of structural changes was not deviating from that in the mergers of the whole industry between 1970 and 1979. Also here the loser was the industry controlled by the local councils and the number of small enterprise significantly diminished.

How does the increment or decrease of the profit per unit of capital influence the chances of survival or merger?

Among the incorporator enterprises the frequency of those where the results were unequivocally improving was somewhat greater than among those that were incorporated (see *Table 10*). If we consider now both enterprises affected by the event, we see (summarizing the respective elements of the internal matrix of *Table 10*) that in contrast to the 22 cases where the incorporator showed a more favourable tendency of profitability, only 13 cases were found where the incorporated firm might be considered to be in a more favourable condition.

In other words, in the majority of cases the profit per unit of assets was "worse but improving" in the incorporator enterprises, while those incorporated could be characterized by a "better but deteriorating" profit.

Table 10

Net profit per unit of assets in the three years preceding the merger

In the incorporated enterprise	In the incorporator enterprise				
	Growing	Fluctuating	Decreasing	Inappreciable	Total
Growing	4	4	2	–	10
Fluctuating	10	2	7	1	20
Decreasing	2	10	2	–	14
Inappreciable	–	2	–	9	11
Total	16	18	11	10	55

In the period following the merger (see *Table 11*) the indicator of profitability employed by us was not only worse than before the merger in the majority of the cases, but, in addition, remained persistently so. This may have had a number of reasons independent of the merger. It is, however, probable that if the organs deciding on the merger, or the leaders of the enterprises expected an improvement of profitability from the act of merger, they must have more frequently felt disappointed than contented.

Let us come back only quite briefly to the period preceding the merger. We have seen that very often the profit per unit of capital was higher in the incorporated enterprises in the three years preceding the merger than in those swallowing them. This was so in all three groups different by type of ownership.

The really interesting thing in Table 12 is that the deviations of the indicators between the incorporator and the incorporated enterprises were ever greater *between* them. The data on profitability again call our attention to the significant differences between the spheres created by the regional and the sectoral control.

Table 11

Profit per unit of capital in the incorporator enterprise after the merger

	As compared to the year preceding the merger			
	Smaller	Greater	Inappreciable	Total
In the year of merger	31	18	6	55
1st year after merger	34	15	6	55
2nd year after merger	32	14	9	55
3rd year after merger	28	12	15	55

Table 12

Net profits per unit of capital in the three years preceding the merger (per cent)

	Incorporator enterprise	Incorporated enterprise
Enterprises supervised by ministry	12.7	18.9
Enterprises supervised by local Councils	26.4	28.1
Cooperatives	51.8	64.7
Total	25.5	37.3

Table 13

Magnitude of the subsidies per assets in the year preceding the merger

	Number of cases	Per cent
Greater in the incorporator enterprise	33	62
Equal	2	
Greater in the incorporated enterprise	15	25
Inappreciable	5	
Total	55	100

Subsidy per unit of capital in the merged enterprises of the engineering industry

According to our above definition the enterprise is considered *better* where the subsidy is *smaller* and that one is considered to *improve* its results where the specific subsidy is *decreasing*.

The conclusion is again that the incorporators are frequently not better but even worse than the incorporated enterprises. If we now review the achievements of the period preceding the merger, it turns out that in the preceding three years the performance of the incorporators was more usually weaker than that of the incorporated ones.

If we disregard the strange circumstance (which must be in any case analysed later by other methods), that in almost half of the events, i.e., in 24 cases, enterprises with fluctuating results were merged, the results were better in the incorporators in 7 cases, and in the incorporated enterprises in 12 cases.

Table 14

Subsidies per assets in the three years preceding the merger

In the incorporated enterprise	In the incorporator enterprise				
	Grew	Fluctuated	Decreased	Inappreciable	Total
Grew	3	2	2	–	7
Fluctuated	6	14	3	2	25
Decreased	3	3	7	–	13
Inappreciable	–	1	1	8	10
Total	12	20	13	10	55

The performances in the period following the merger did not differ from the experiences gained so far either. There is a significant number of enterprises where the subsidy after the merger did not decrease, moreover, it grew. This might be caused by several reasons, even independently of the merger, so all that can be said is that those people who expected a decrease of subsidies after the merger, were often disappointed.

Table 16 presents the subsidy relative to capital by sectors, in the average of the preceding three years. Here, in essence, the same is found as earlier: between the groups of enterprises under varying sectoral and regional control and especially between those of the state and of the cooperatives the difference in respect of the incorporator and the

Table 15

Subsidies in the incorporator enterprises as compared to the year preceding the merger

	In the year of the merger	1 year later	2 year later
Grew	22	22	24
Remained unchanged	4	6	2
Decreased	25	20	16
Inappreciable	4	7	13
Total	55	55	55

Table 16

Subsidies relative to the assets in the average of the three years preceding the merger (per cent)

Sector	Incorporator enterprise	Incorporated enterprise
Supervised by ministries	4.88	2.31
Supervised by local councils	0.00	4.29
Cooperatives	0.37	0.11

incorporated enterprises is greater than within the sectors. This again calls attention to the fact that the groups of enterprises can be characterized by their own regularities.

If, after having arranged the incorporator enterprises of the usual groups by magnitude, we calculate the average subsidy of the individual sectors, we shall discover that it increases more or less proportionally to the size of the enterprise. The deviation between the enterprises producing greater and those producing smaller volumes is especially large at the level of 500 million Ft output value per year. In other words: in order that a smaller enterprise becomes an incorporator it must show much less subsidy and much higher profit in proportion to its assets in the given period than a big enterprise undertaking a similar role.

Table 17

Subsidy and profits in percentage of capital in the incorporator enterprises in the year before the merger by enterprise groups (per cent)

Size of enterprise by output (million Ft/year)	Subsidy	Net profit
	in percentage	
More than 2 thousand million	5.46	12.34
1–2 thousand million	2.45	23.56
500–1 thousand million	*6.15*	11.97
200–500 million	1.32	*17.25*
100–200 million	0.02	45.45
50–100 million	1.35	41.10
50–20 million	0.09	56.51

Summary

In the analysed period the chances of survival of industrial enterprises were influenced also by the market factors. We may count among the latter the *production line* of the enterprise, its *capital power,* as well as its position in the market of the *factors of production* (number of employees and capacity). The market influences on survival were strengthened or weakened by very strong *non-market* impacts. It must be considered an effect of this kind that it was easier to find a partner for merging within the spheres of the same hierarchy than outside of it, as well as it is also very similar that in a period of strengthening central control – in the mid–1970s – many enterprises which had been up to that time viable or considered viable, ceased to exist. In a number of phenomena contradictory to the logics of market economy the *common prevalence of effects produced by state control was reflected, strengthening of weakening the influences of the market in a random manner. By this we mean the following:*

- the economic performances of the incorporator were, in the majority of the cases, worse than those of the incorporated enterprise;
- the differences between the incorporator and the incorporated enterprises were greater between the sectors by supervising authority than within the sectors;
- after the merger (also under the effect of several factors independent of the merger) the performance of the incorporator enterprise often showed a significant deterioration.

In the Hungarian economy not, or only incompletely integrated by the market, where in turn the plan instructions and the old forms of organizational wilfulness are no longer effective, enterprises not too different from one another could become

incorporators and incorporated on the basis of essentially different causes and with basically different results. Similar results as well as similar growth rates were sufficient for becoming either incorporator or incorporated enterprises.

Taking all this into account we tried to formulate our hypothesis regarding the major (typical) and minor ways of mergers and liquidations of enterprises in Hungary.

In the majority of (or, in the typical) cases the mergers were accomplished between enterprises

- in periods of centralisation
- with a similar line of production and in the same branch,
- under the same sectoral and regional control,
- with sizes similar or close to one another,
- with increasing production beside a decreasing number of employees.

An important task of further research will be to discover why this is – if is – the path for the majority, or the typical path? We assume that there exists also a path for the minority. In analysing that, we shall search for the answer to the question what conditions are needed in order that the enterprises participating in mergers should break through these "regular" paths.

ЛИКВИДАЦИЯ И СЛИЯНИЕ ПРЕДПРИЯТИЙ В ВЕНГРИИ

М. ЛАКИ

Число промышленных предприятий в Венгрии сокращается с 1949 года. В отдельные периоды (в 1962—64 гг., а затем в середине 70-х годов) это сокращение шло весьма быстро, в другие периоды замедлялось, а в некоторые периоды (например, в 1968—70 гг., в начале 80-х гг.) число предприятий даже несколько возросло. В ходе слияний и ликвидации быстрее всего сокращалось число небольших предприятий и промысловых кооперативов. Особенно оживленно происходил процесс слияния и ликвидации в машиностроении и в отдельных отраслях легкой промышленности.

Подавляющее большинство слияний происходило между предприятиями, относящимися к одной и той же отрасли промышленности и подчиняющихся одному и тому же министерству или местному совету, к тому же большинство этих предприятий находилось в одном городе или области. Иерархию управления удалось в основном пробить крупным государственным предприятиям, присоединившим к себе мелкие предприятия местного подчинения.

Сравнивая присоединившие и присоединенные предприятия, можно отметить, что для предприятий обеих групп в подавляющем большинстве случаев характерно уменьшение численности занятых и возрастание выпускаемой продукции. То есть нельзя утверждать, что динамично развивающиеся предприятия «поглотили» стагнирующие. В большинстве случаев у присоединивших предприятий удельная прибыль была меньше, и они получали большую дотацию от государства, чем присоединенные. Это указывает на то, что в Венгрии слияние и ликвидация объясняются многими факторами, нейтрализующими воздействие рыночных сил.

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G. HAVAS

PUBLIC SAVINGS AND PRODUCTION FINANCE*

The capital requirements of small enterprises and the desire of money saving people to preserve the value of their wealth could meet by setting up investment companies. The growth of savings has slowed down in Hungary and this in itself necessitates new and attractive forms of saving. The setting up of investment companies under socialist conditions is timely because the way of financing medium and small enterprises capable of adapting themselves to the market must be decided. If the funds come from the budget or bank credit then the clumsiness of the apparatus implies the risk of imparing their adaptivity. In case such companies were financed from funds originating from public savings then these small enterprises could be buyer-oriented. The reconciliation of investment companies with socialism raises many a question, eg. the scruple about earning money without working. However, these problems cannot be assessed in isolation; from the public point of view it is also necessary to consider the most expedient spending of high incomes, that develop also in socialism.

Actually any form of capital allocation is a marriage and, provided that the two mates, ie. professional knowledge and money, are luckily chosen, the offspring will be an up-to-date and profitably operated producing apparatus. Like in any marriage, finding each other depends on hundreds of motives and the multitude of factors also affect the outcome of the union.

There are plenty of ways all over the world of bringing together capital-thirsty manufacturers and individuals or households hoping to earn profit on their money; new varieties are added to old solutions and relative proportions are changing. The lending procedures of financial institutions accumulating savings, generally known in Hungary in the form of personal and housing advances made by the National Savings Bank, are of special importance from the point of view of this subject. Here the passive operation (accumulation of savings) and the active operation (lending) are usually separated, the "other" party is impersonal and unknown, for between them stands the intermediary financial institution.

Is it at all possible, and if so, is it advantageous to make direct links between these flows of money and to advertise the accumulation of savings for specified production purposes? This is the question I am trying to answer through more than one approach.

The inferences by which the different approaches are concluded and by which my positive answer to the question is eventually supported are, I suppose, "harder" than hypotheses but are not unquestionable enough to qualify them as theorems.

*Based on the author's study "Recommendation of a construction for the accumulation of savings and for forming intermediary investment (money lending) companies" prepared in the Institute for Financial Research.

Financing of prospective small enterprises

As a result of years of discussions and studies and also in spite of a number of unsolved questions, the need to strengthen the small and medium enterprises and to form new small ones can be regarded as generally accepted by the Hungarian economic opinion. In the competitive sphere this is a matter of necessity for enhanced flexible adjustment to needs and opportunities, for strengthening supply, for the escalation of competition, and for the path of cooperation and specialization in production.

Whether these small enterprises will be able to stand up to expectations or not depends, beside many other factors, on how detached they will be made from the hierarchic-administrative type control and, consequently, how far they will be enabled to become demand-oriented. When the funds required for their operation are raised from the state budget it is an inevitable risk that their aerials will be tuned to receive the signals of the state apparatus exercising proprietary functions, at the detriment of their market sensitivity, like in the case of the existing big enterprises. However, if the agricultural official who stated an analogy between the mechanism of the apparatus and the physiological rhythm of cows was right, this would mean that the immediate responsiveness to the market and the mobility expected from small enterprises would be discouraged from the very moment of starting.*

Conditions would be somewhat better in the case of bank credits, but not much better since in Hungary, at least till now, the bank has acted rather as an agent for the execution of state intentions than as an insitute of "business" nature, screening development claims according to profitability.

A small enterprise of the "satellite" type, ie., a regular supplier of one big enterprise or more, may safely expect the latter to transfer to it capital (development funds). The economic reform had envisaged a higher degree of capital flow between enterprises. As a matter of fact, such a practice of capital transfer has developed between a part of enterprises that maintain relations in the field of production. However, the idea that enterprises capable of not more than low-profitability investment would lend a part of their funds against high interest rates to other more lucrative business [2] have proven to be mistaken and I suppose this cannot be fitted into socialist economy, either in principle or in practice.

When sale is assumed to be the last link in the chain of vertical relations then the list of successful capital allocations must include the promising accumulation of savings in

*J. *Andics,* and T. *Rozgonyi,* write about this in a fine and concise way as follows: "The flow of information is decelerated through the long path of red-tape, ie., when decisions are taken at a higher level than the one where the problem to be decided actually emerges. Nor can it be excluded that the internal flow of information in organizations is not in conformity with the real necessities of the division of labour and of cooperation in other respects either, and thus it does not flow through the right channels and to the right locations of the points of decisions about the given question" [1].

which 37 Hungarian foreign trade enterprises pooled 1.1 billion forints from their development funds, enabling the producing members of the association thus formed to start production with up-to-date equipment gaining them additional export.* However, there cannot be much further expectation towards such capital flowing against the direction of commodity flow. Where the buyers' market is diversified and consequently cannot be accurately assessed at the time an enterprise is formed, or when the general public, this "creature with millions of hands" will be the consumer of the goods to be turned out, then *another new source of capital must be found.*

Consuming versus saving propensity and its malleability

One may start along the logical line that the general public could contribute the capital required for forming small enterprises for the purpose of a better satisfaction of their needs, but one will soon get stuck on this way. Such give-and-take relations can be imagined only in regions with distinct geographical frontiers and only in case of manufacturers of end products.

Soviet Professor *Popov* [3] had such a commodity relationship in mind when he raised the following: "Why couldn't we think of building another car factory with the funds of people longing for a car and then settle the accounts of the "shareholders" in terms of cars? ". He set out from the assumption that "interest in wages and, at the same time, interest in work cannot be maintained for a long time without clear ideas about what can be bought for the salary". "There isn't a sufficient volume of commodities in the market to satisfy the demand of the population for commodities. In such circumstances the incentive role of the salary starts to loose its strength." "There will be people who are no longer interested in making any effort in order to make more money." He was searching for forms of investment suitable for the stimulation of workers to earn more without experimenting with extravagant and wasteful habits of consumption inconsistent with public interest.

Commodity relationships between consumer and producer seem to be a promising basis for the purpose, however, this basis is *ab ovo* limited and narrow. Namely, when public interests are considered in a broader sense, it stands to reason that manufacturers of intermediary products, investment projects earning foreign currency, etc. should be involved in the new system of capital flow. From this point of view those personal savings could be taken into account first which are not accumulated for the purpose of covering future purchases of expensive and durable goods but for the sake of security and maintenance of wealth.

In Hungary the rate of growth of personal deposits was higher than that of incomes and in 1980 it amounted to 13.200 forints per each inhabitant of this country (including

*On the basis of the resolution adopted by the Council of Ministers on August 23, 1979, the "Interinvest" Deposit Company For Foreign Trade Promotion was set up one year later.

infants). In ten years the stock of deposits roughly trebled and increased from 48 billion forints in the year 1971 to 140 billion forints by the end of September 1980.*

Table 1 shows the formation of the stock of deposits, its growth rate and the savings rate, ie., the part of personal income not used for consumption.

Table 1

Total stock of personal savings in Hungary

Year	End-year total stock of personal savings (billion forints)	Increase of stock		Savings rate (per cent)
		Billion forints	Percentage growth over the preceding year	
1971	48.4	6.3	15	3.6
1972	54.5	6.1	13	3.3
1973	62.0	7.4	14	3.6
1974	80.8	8.8	14	3.9
1975	81.3	10.5	15	4.2
1976	92.9	11.6	14	4.4
1977	107.5	14.6	16	5.1
1978	124.9	17.3	16	5.6
1979	135.8	10.9	8.7	3.2

The magnitude of savings is first of all a function of earnings and in higher categories of earnings the income elasticity of saving is high. Samuelson states [4] that in the early seventies in the United States low-income people spent more than what they earned (dissaving), the "break-even point"** was found to be at 7.5 to 8 thousand dollars per year and beyond that amount a climbing rate of the marginal propensity to save*** was observed (see *Table 2*).

At a 20 000-dollar income level average savings were more than 2500 dollars.

Owing to rising personal incomes, the scissors opened wide between personal savings and personal consumption also in Hungary between 1960 and 1978. As shown by *Fig. 1*, the first one increased at a substantially higher rate.

*These assets do not contain interests capitalized in 1980: savings deposits are increased with capitalized interests only at the end of the year. This amounts to appr. five billion forints.

**Break-even point means the income level where net savings amount to zero (not negative any more and not positive yet).

***Additional savings generated by each additional dollar of income.

Table 2

Income elasticity of savings in the USA (dollars)

Yearly after-tax income	Net saving	Marginal propensity to save
8 000	0	$\frac{150}{1000} = 0.15$
9 000	150	$\frac{250}{1000} = 0.25$
10 000	400	$\frac{360}{1000} = 0.36$
11 000	760	$\frac{410}{1000} = 0.41$
12 000	1170	$\frac{470}{1000} = 0.47$
13 000	1640	

*Additional savings generated by each additional dollar of income.

The trend of savings was broken in 1979:

Year	commodity purchases	savings deposits
	per 100 forints cash receipts	
1978	68.78	7.50
1979	70.88	5.79

The major and predictably continuing motive of this change is the decreasing or stagnating growth of real wages. The raising of payment required for subscription to a car to 50 per cent of the price is another impediment presumably for one or two years.

It should follow from the income elasticity of saving that the stock of deposits must not be expected to increase in Hungary. However, it isn't enough to present global trends in this respect but also consumption habits, income differences and structures of deposits must be taken into account.

Duesenberry stated, on the basis of computations by *Kuznets,* that once consumers have got accustomed to a higher standard of living they will resist to the reduction of their consumption even in case their incomes decrease in a depression. *Thus consumption decreases at a slower rate than income,* consumers prefer to cut their savings. Duesenberry called this symptom "ratchet-effect".

Although it is not impossible that this effect asserts itself in our circumstances, yet it may be braked by an opposite effect: uncertainty stimulates not only to spend but also to build up security reserves. Part of that could be involved into constructions alloying the advantages of long-term deposits with the opportunity of the holder for withdrawing his capital, in case of any individual or public situation he judges to have changed, in liquid form against disclaiming of its interest-bearing advantage. However, such long-term deposits cannot be expected but in the middle and upper income categories.

According to the income classification of employees the ratio of incomes earned by the lowest and highest deciles is 1 : 4 in Hungary which does not seem to be either an insufficient or an intolerable difference; however, the above decile proportion is changed to 1 : 5 or 1 : 6 if also other than full-time earnings are additionally included [5], an already fair difference between consumer baskets. Parallelly with the increase and dispersion of incomes, the objectives of money saving also changed and the share of larger deposits increased. Cautious savers, of course, hold more than one deposit. (There are more than six million savings books!) The objective estimation of large deposits is not possible (deposits are confidential), yet interviews with savings bank staff show there is a high probability that "nearly 40 per cent of money savers accumulate for buying plots, holiday cottages and cars and to make tours abroad" while ten years ago such objectives only represented 25 per cent. The buying and building of homes is an important end to save for, representing nearly 20 per cent. The share of saving money for unforeseen purposes decreased from 43 to 23 per cent . . . Twenty years ago the aim of personal savings was first of all the buying of consumer's durables. The provision of households with such commodities rapidly increased and reached a point of relative saturation. Therefore, the share of saving for that purpose within total savings got stabilized during the past ten years in the range of 7 to 8 per cent" [6].

Such trends of relative saturation along with inflationary impacts to be discussed later indicate that unless we will be able to find new attractive forms of asset holding, the stock of deposits might come not only to stagnation but even to accelerating decrease.

Account must be taken of the fact that as a counterpart of broad masses with meagre income, a much thinner upper stratum has emerged where the taking of consumer decisions is "difficult" because of the plentiful income. Spendings are limited by a few rules ("one car", "one holiday cottage", limited landed and housing property, etc.) and by public moralty: fancy cars, expensive fur coats or luxury villas might well breed ill blood. Therefore the absolutely correct proposition [7] that prices of commodities satisfying particular demands of high-income strata should contain a high percentage of social accumulation (net profit) is only a partial solution to the problem.

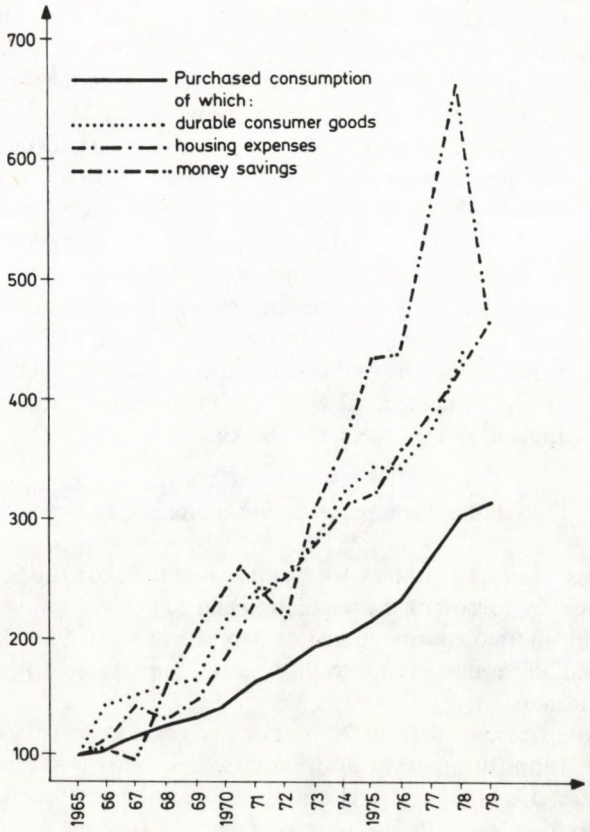

Fig. 1
Utilization of total personal income (1960 = 100)

It is a noteworthy idea [8] that for the purpose of the future housing of children, parents should not deposit the money with savings banks – especially as apartment prices are rising – but they should be allowed to gradually purchase unit shares calculated by the unit of square metre area at current price, which could be sold, inherited or later redeemed, already not in terms of money but in real square metres. An interesting new form of preserving wealth under inflationary circumstances in a way compatible with socialist morality is presented in this proposition, though it is not quite free from a certain inconsistency, for "valorization" might add to the strengthening of a kind of inflationary psychosis.

Although it is possible to reduce some high incomes by restrictions, control and progressive taxation, such reduction will occasionally do social harm: it might frustrate the production of values. (It is nevertheless time to put the Hungarian taxation system on more modern grounds.) So it is worth our while to search for the ways allowing earners of

large incomes to retain their ownership of the money while it is durably used for the purpose of production and financing.

Beside outstanding incomes account must be taken also of the more populous strata who hold less impressive amounts of money but are inclined to save and seek opportunities for the fruitful investment of their surplus income, furthermore, those who plan to bequeath a property of stable value to their inheritors. In the capitalist world such hesitating money savers take tips from the offer of securities whereas in the socialist economy no solution of such a kind or of a similar function has developed.

In case of those strata of the population whose income is already too high for its consumption to be determined by primary necessities, the propensity to save depends, and now I have arrived at the point of my message, also on *what attractive forms of savings* can be set against consuming opportunities. We must not be reluctant to study the methods used by the capitalist financial world for the purpose of increasing and utilizing deposits made by people who want to save in the long run.

Investment companies in the capitalist practice

The capitalist financial system uses a big variety of sophisticated methods to enhance the propensity to save of the population and to channel savings increasingly into forms providing long-term deposits instead of deposits at sight. Interest rates are higher here,* yet over and above this advantage they have a remarkable driving force owing to certain eternal human qualities.

Savings certificates may be fixed for four or five years and certificates of deposit for six to eight years. Terms of maturity of debentures and other bonds may be as much as 25 years and these guarantee a safe and long-term capital resource for entrepreneurs.

Interest rates increase with the term of maturity. In some countries also a social element is blended and deposit conditions are differentiated according to the income and number of dependants of depositors. In order to exclude big capitals from such constructions personal identification is usually required and the debenture or bond is issued by name.

Since in planned economy the said risk (the intrusion of companies into personal deposit constructions) does not exist, the use of securities at sight** cannot be an obstacle in this country. In the enterprise sphere, the cession of funds is better suited to planned economy than the circulation of securities, writes Miklós *Riesz.****

*In the review of the forms of deposits and their varieties by countries I relied greatly on the book by I. *Fogaras* [9].

**The problem of bonds issued by or available to the state and its enterprises, of which a good summary is given by J. *Vargha* [10] will not be treated in this context.

***In the socialist economy a decentralized market of long-term credits (investment market) is more easily feasible than eg. a security market. The decentralized market is formed by introducing controlled financing relations between enterprises. After its economic nature, such kind of financing is actually an enterprise investment [11].

In *Britain,* deposits placed for three years against Investment Certificates bear a net 7.7 per cent interest a year (after income tax).

In the *United States,* a similar, 7.5 per cent interest rate is paid on deposits fixed for five years. The payable interest rate margin is centrally limited. Only private persons and non-profit organizations are allowed to hold savings deposits.

In *Austria* a discounted form of savings certificates with three-year maturity is used (one that pays 7400 Schillings after five years). This corresponds to a 6.5 per cent interest rate. Depositors undertaking to make regular payments get a yearly two per cent loyalty premium from state subvention.

Also in the *Federal Republic of Germany,* depositors with not high incomes, committing themselves to save for six years and making it, are rewarded by a one-time 14 per cent premium and at the end of the sixth year a 30 per cent deposit supplement is credited to them (!).

State facilities in themselves show that, in the West, the state is seriously interested in increasing the stock of deposits. This interest exists also under socialist conditions and it hardly needs proving that it exists more acutely today than ever.

Of course fixing has ambiguous effects. In part, it gives security to the financial institutions accumulating deposits and granting credits from the deposits, but on the other hand it impedes the willingness to deposit money and thus the mobility of money may decrease. This paradox is solved by allowing to withdraw money before the date of fixing, sanctioning it by negative interests and stipulating a certain period of notice. It is another widespread practice that certain specified amounts may be freely cashed from the deposit at fixed intervals but for the withdrawal of bigger amounts an advance notice of 3 to 12 months is required.

In some countries, first of all in *France,* the so-called single-purpose saving for housing purposes is a popular form: similarly to the construction known in Hungary, this guarantees beyond the repayment of the deposit also the granting of a supplementary loan.

From our point of view the most interesting ones are the investment funds. These differ from any other form of deposit in that they have no nominal value and their actual values are determined by the development of the wealth and income of ventures financed from the fund.

The popularity of "saving plus investment" is due to the fact that the money of the holder is invested via the company into securities and thus he can hope for higher receipts than the interest rate earnings, while the investment is made by experts interested in profitable investment in a manner that only a maximized quota of the pooled funds (eg. 5 or 10 per cent) may be invested into the same business. This way the usual risk of buying securities is strongly reduced: the failure of one venture may be compensated by the successfulness of another, whereby the risk of a loss, already controlled by the cooperation of professionals of the money market, is further reduced.

SICAV of France has become outstandingly popular among the investment societies, therefore I will review it in greater detail.

SICAV *(Sociétés d'Investissement à Capital Variable)* were formed in France in the 1960s and soon became popular. As against the five SICAVs existing in 1965, there functioned 53 such societies in 1970 and the amount of capitals accumulated in one year increased parallelly from 0.4 to 2.7 billion Francs.

This collective, contractual form of capital allocation gave more money savers access to the market of securities and therefore it was keenly followed with attention and supported. The ceiling of the permissible costs of placing is fixed by law (in the mid-seventies it was at 4.75 per cent). The conditions of operation were elaborated under the supervision of the ministry of finances in a way assuring the participants precise and clear, realistic and continuous information, insight and safety.

In order to protect money savers from drastic alterations in the value of amounts placed – which is, by the way, already damped by the said diversified placing – the SICAVs must hold 30 per cent of their committed assets in liquid form. (Special SICAV societies working in the real estate sector may not grant more than 10 per cent mortgage advances within this 30 per cent.)

Subscribers to SICAV commit themselves to paying definite amounts of money at fixed intervals within a given period of time. In return they will actually become shareholders, holders of shares valued at the actual weighted average of the debentures bought by the society, and are paid dividends in accordance. Dividends are taxable according to the provisions of law in France.

This construction is technically carried out as follows: a savings book *(Livret Portfeuille)* is issued to the money saver in which, beside the amounts paid in, the changing values of shares and any operation of relevance are recorded.

SNFO *(Sociétés Nouvelle France Obligations)* is a similar one but its wealth consists typically of bonds at fixed interest rate. This assures a higher degree of security but less opportunity of profiteering.

Two similar types of *British* investment companies are known [12]. The securities of the *Investment Trust Companies* are sometimes of the bond and sometimes of the share type which are listed on the stock exchange and are issued in the form of debentures, ordinary and preferred stocks which are quoted and dealt with on the Stock Exchange. They are companies formed for the purpose of holding investment. The amount of the company's stock is fixed until any further issue of capital and new investors can obtain holdings only by buying stock from existing holders. The management decides on what investments should be held, looks after the actual buying and selling of the securities and makes the interest and divident payments to the shareholders. Such management companies can come from firms of solicitors or accountants or from merchant banks or from specialized trust management organizations.

(In the past English and Scotch investment trusts played an important part in overseas development mobilizing big amounts of private capital for overseas investment and also furnished the US economy weakened in the civil war with considerable resource of money.)

The other British type, the *Unit Trust,* state the investments to be financed in the memorandum of association and divide the risk over a period of 10 to 12 years. Here the functions of management are exercised by a bank or an institution and the securities *(sub-units)* are issued and repurchased by the same. The Units are not quoted on the Stock Exchange.

In the USA [13] the share of *Investment Companies* and *Mutual Savings Banks* in the sources of financing enterprises amounted to 4 and to 6 per cent in 1964 and to 3 and 5 per cent in 1974, respectively. The investment company is under obligation to divide 90 per cent of its income between security holders; on this condition it will be exempted from income tax. They distinguish a closed-end investment company when the capital subscribed is fixed, but the securities once issued may be sold or purchased at the Stock Exchange or in the over-the-counter market. Open-end investment companies or mutual funds continuously offer their ownership shares at current asset value per share plus a share value, usually eight or nine per cent. The company has the liability to redeem the shares at any time at their current asset value.

The capitalist economic systems do use a wealth of methods for the purpose of encouraging the propensity to "accumulate capital" although in the advanced countries appreciable reserve building and money saving is allowed by the relatively high standard of living and also necessitated by the lack of a societal guarantee of the security of existence. These solutions do not offer for us models to be copied but they are worth of being studied.

About the possibility of a new type of deposit

In the European socialist countries personal consumption increased two and a half times between 1950 and 1975 and in this volume, suppressing the share of foodstuffs, expenses on consumer's durables and housing became dominating. The following proportions give an idea about the changes in the structure of consumption in Hungary during the last two decades (see *Table 3*).

Trends are highly informative but are not suitable for extrapolation. The provision eg. with cars of workers increased four times and of intellectuals three times in ten years. In the first category each fifth and in the latter one each second household owns a car. However, approach to the point of saturation and rising fuel prices will decelerate the trend. Also a moderation of the expenses on purchasing property and building homes may be expected; beyond the known limits (eg. building density on Lake Balaton or in the Danube Bend) also the rates of urbanization and of building up-to-date rural homes were too high in the past stage to be extrapolated to coming years – although demands are far from being satisfied yet.

In the context of global housing shortage a distinction must be made between the housing conditions of the individual families. If there are people who can afford the buying or building of a home then there will necessarily be others, with similar incomes,

Table 3

Distribution of annual personal expenses per capita (per cent)

Workers' households	1960	1965	1970	1975	1978
Foodstuffs	44.0	41.9	37.6	32.6	33.1
Consumer goods	5.8	6.3	7.8	8.4	9.7
Clothing	16.0	14.2	14.8	14.1	12.1
Consumer's durables	7.3	7.3	8.4	9.5	9.2
Other industrial consumer goods	11.9	11.6	11.9	13.5	14.0
Housing, real estate	4.9	7.1	8.1	9.9	10.0
Costs of services	10.1	11.6	11.4	12.0	11.9
Total personal expenses in per cent	100.0	100.0	100.0	100.0	100.0
In Forints	8882	10689	14574	20233	24646

who already have a flat and will consequently have excess income. A good number of holiday cottages have also been built (which must be understood in the case of dwellers in a "stone jungle") and in the given family there will not be a second one. At the same degree as the demand of individual households for major durable goods is satisfied our chance is increasing to consider on what incomes in excess of primary needs should be spent.

The "propensity to save" may also increase, let us recall Popov's article, when the demand of consumers is not met with a supply of similar structure and, therefore, individual households eg. where each member of the family is an earner may simultaneously experience a commodity shortage and coverage surplus.

Already *Keynes* realized that the assumption that when an individual enriches himself by saving he thereby also enriches society fails to take account of the eventual retroaction of the act of individual savers on the wealth and savings of others. What the economy is missing is not coins saved by coins (because that is reckoned with in emission) nor deposits (for the financial institute rechannels them into the economy in the form of secondary money creation) but it is the safe proportions in nominal demand which requires the inevitable precursory adjustment of supply.

Swedish writers criticizing Keynes made a distinction between equality and balance. Indeed savings and investment are always equal but are not always balanced. The actually attained *(ex post)* level also contains unintended investment and savings (or falling short of intentions). This means that the state interference which Keynes deemed necessary and which has become a routine since then is indispensable not only for the purpose of coordinating the *preliminary* intention but also for the sake of the *operative* harmonization of current actual proportions.

Public opinion in socialist countries is ignorant about the strict relationships between saving and accumulation and therefore it seems as if the state could stipulate the global volume of investment in accordance with needs, irrespectively of the volume of savings and deposits, whereas the interest earnings on deposits and loans had not very much to do with each other. As a matter of fact, the decreasing share of the national income available for domestic use has made the aforesaid proportions more pronounced. The construction to be considered here might contribute to making the connexion between saving and investment known to as wide strata of the population as possible.

Smooth economic life requires the easy and quick flow of money savings that are unnecessary for some period of time into fields of the economy promising good business, without changing the owner. This should be the purpose of the "investment share" which, unlike deposits, should embody personal savings lent for the purpose of investment stated in advance,* and which could be given a social nature.

In a country without securities, stock exchange and quotations, ie., in a planned economy, the linking of individual money savers' incentives with business profitabilities is yet an impassable way. Distrustful repercussions may be also expected. The Hungarian public can remember the "peace bonds", it would be afraid from some sort of a public subscription, even if not compulsory but strongly encouraged. What could be done against this distrustfulness?

First of all, beside giving state guarantee, the repurchasing of the shares on certain conditions with preliminary notice and at the value of issue should be made possible. The law of large numbers will probably sufficiently support the statement that in case right forms of refinancing and reserve rates are applied, there will be no risk about the redemption of the "investment share" at its original price (not including interests) nor about its state guarantee.

The issuing of shares at sight of round denominations (say 5, 10 and 20 thousand Ft) seems to be expedient.

Assuming maturity fixed for 6 to 8 years and reckoning with compound rate of interest, redemption at the value of issue would mean the loss of considerable interest on deposit for the holder; this risk can only be balanced in the contemplations of would-be subscribers by the hope for more dividends from predictable proceeds than from interests

*In the socialist countries the term share (*sic*, without adjective) has another content: by subscribing to it, the person will become a member in a consumer or retailer cooperative and will be entitled to be paid dividends from the proceeds of the cooperative. However, this right is attached to person, ie., the ordinary share is not a negotiable security. On the other hand the "investment share" recommended here would be transferable, saleable at any price, purchasable and at all times redeemable at the original value of issue.

The "investment share" is different also from shares which play a big role in the capitalist economy. It is akin inasmuch as it is negotiable at any time at the actual rate and bears dividend to its holder, but it is different in that the subscriber to the "investment share" does not take risk commensurate with his subscription except the risk of zero dividend. The "investment share" is also different from bonds whose holders lend to the issuing company and the latter is liable to paying interests at a fixed rate and to repayment in accordance with the schedule stated in the bond.

on deposits. Dividends paid yearly depend on the weighted average of the profit earned in the preceding year by enterprises financed by the investment company distributing the pooled capital for development purposes. The lower limit is zero while the upper one is hinged upon more than one consideration.

In the discussion held at the Institute for Financial Research on this proposition, both the scientific and the practical sides raised the objection that the potentially higher dividend (= interest at variable rate) payable after the "investment share" might drain part of the deposits with normal interest rate. Thus the introducing of this construction would have the result that the money which is now cheaply available for the state sphere would become more expensive in the end.

It may be taken for sure that some degree of draining will take place – provided that this socialist "investment construction" will be really attractive as I should like it to be. The construction is made more expensive because of the difference in the interest rates of deposits channeled into it, and so the interest charges of the "investment shares" are expressed in the national economic approach by the following formula:

$$\frac{R_u \cdot j_i + R_{\acute{a}} \cdot (j_i - j_n)}{R_u}$$

where

R_u is the new savings triggered by the new construction, ie., the amount of shares subscribed from it;

$R_{\acute{a}}$ is the rechanneled deposits of normal interest rates;

j_i is the dividend paid after the investment shares, and

j_n is the degree of passive interests payable after normal deposits.

The big yields of long-term shares raise the question whether the significant difference between interests on deposits and dividends on shares is tolerable or not. The answer is clearly positive. To raise the interest earnings of *all* holders of deposits is made unnecessary exactly by the significantly higher dividend as an open alternative. The "normal" deposit placed with a bank and of technical nature is not a real saving, it does not justify that the costs of any acquisition of deposit should uniformly increased by way of increased interest rate.

There is not much ground for the estimation of the future flow of deposits. It may be some reference that "premium" savings books* represent a share of only 1.3 per cent, which suggests that the overwhelming majority of savers deposit that part of their wealth where, forgoing gains, they give preference to fixed interests. This stands for the likelihood of a low degree of "outflow" from normal deposits. It is also a fair probability that those "smart" holders of wealth who have already found the most convenient

*On part of which, instead of interest, a premium is paid by way of lottery every quarter. – Translator's note.

conditions for the circulation of their capital do not contact the Savings Bank. (This hints at other problems of societal content.)

At the same time, however, it must be assumed that knowing the rate of inflation, part of the deposit holders will withdraw their deposits and use up their savings; whereas when more attractive opportunities will be created for placing their money, they will transfer it to the new construction. Factors compensating for the difference between interest rates resulting from the flow between the two forms of deposit are expected to control the observable decrease in asset holding and, on the other hand, a new encouragement may be given to new and further savings.

From the depositor's point of view, the dividend should be in the range of at least 10 per cent to bear the risk of zero dividend. The annual payment of this amount cannot be a problem for producing enterprises because, as against the case of present enterprise credits, they will not be required to repay the capital in the period of starting up new production nor in subsequent years.

About the liabilities of the investment company the following may be said:

a) *prosperity:* payment of a high dividend, the current price of the investment share is high, it is in a position to issue more shares;

b) *stagnation:* unable to pay dividends, bound to spend its reserves on repurchasing the shares at issue price from holders wishing to redeem their shares;

c) *recession:* unable even of repurchasing, instead repurchasing is done by the state standing as guarantor, from a centralized reserve fund.

The share raises the question of relationship with inflation and of unearned income – which will be discussed later – as well as a number of less important questions which will be worth of consideration when the new construction will be found to be basically practicable.

The question emerges that parallelly with financial balances maybe it will be also necessary to provide for wider material and technical supply. Certain production functions now performed in the frameworks of big enterprises not very economically would be undertaken by small enterprises, in this respect the field of investment would perhaps not be increased, only rearranged. But when money savers abstain from consumption for the sake of advantageous investment shares, on the utilization side of national income its complement, ie., accumulation will increase and the consequences will have to be drawn for the commodity supply side, too.

About the new type of capital allocation (the "investment company")

Once the socialist countries have come to realize that financial incentive is not an impediment but, on the contrary, a subservient of the accomplishment of planned economy, I cannot see any reason for removing the distribution of money for development, or with a common term: capital allocation, from the system of incentives.

The "investment company" is an intermediary financial institution inserted between the holders of "investment shares" and the working resources. It is qualified by its professional competence and by the big number of its allocations to reduce the risk of investment and to raise the interest bearing rate of savings above the interests on deposits. Its main tasks are the following: receiving and selection of investment offers, collection of "investment shares", financing, asking continuous accounting of borrowers, giving periodical reports to "investment share"-holders. Its most important function is decision on promotion and it follows that its organization should consist of a minimum staff of full-time executives and of a large body of experts and consultants. The remuneration of work done in both spheres should be reasonably made dependent on the profitability of the small enterprises financed.

The investment companies, if only because of the interests of the shareholders, cannot dispense with certain central rules of the game such as annual general meeting, the rights of shareholders (statement of dividends), management, checking, administration, the maximum margin of costs and so forth. However, it would be a gross mistake to confine their activities to rigid schemes that might prevent their flexible adjustment to the specialities and tasks of the given business sphere. It follows from the intermittent nature of the task and from the small size of each investment company that it would be reasonable to charge big organizations having a wide network with certain functions (auditing, control, etc.).

Enterprises financed by the "investment companies" may be described as belonging to the medium and small size category with respect to their assets and the optimum number of their employees. It would not be wise to exclude private small-scale industry from this way of lending; the common treatment of the state, cooperative and private sectors would allow their healthy competition (to the benefit of the whole society).

Profiles of mostly the background-industrial and service type will be listed here, but there is no need to draw limits. For example, in America small enterprises have been squeezed out from the manufacturing industry (this is worth considering), and they are numerous in the financial and real estate sectors, in commerce, agriculture and services. It seems to be clear that they will have chances mainly in the latter fields also in Hungary. Car repair and maintenance will be a new field of small enterprising while traditional ones are housing construction and maintenance, and the clothing and shoe industries. The two first ones are certainly timely and to them will be added many other lines where supply is known to be short.

The occasional dislike for the small entrepreneur is attributable mainly to the "seller's superiority" evolved because of unsatisfied demand and allowing unjustified extra income not supported by work. There is only one but sure remedy; to raise supply to the same degree. The number of small enterprises must be not limited but increased. Though these enterprising associations would be actually guided by particular interests, their members would all the same have to mind the interests of others directly and could provide the basis for greater and more constructive activity in the sphere of work. All this could release such social forces which might promote deep changes pointing to socialist

transformation also in spheres outside the economy, especially if they are in line with aspirations of the same direction evolving in other fields of social and economic life.

The notion of enterprise must include the cooperatives as well. The opportunity is sought for such new and flexible cooperations where the emphasis is on wealth in the case of one person and on personal contribution in the case of the other. In the quoted paper by Katalin Szikra, one way of utilizing high personal incomes is similarly supposed to be a new type of cooperative enterprise, but the form of having the capital contributed by actually working members is only exceeded to the extent of suggesting a process instead of a one-time act.

The relations of the investment company with financial institutions, producing enterprises and share-holders offer many alternatives. As to the latter it may be a problem that when the "share-holders" are, as I recommend, anonymous, then it is hard to convene their general meeting and it is even more difficult to inform them regularly and with the accuracy due to the money-owner. This problem could be solved by considering the "investment company" as a company required to make public accounts, publishing its statement of accounts in the economic press and advertising its annual general meeting. These reports would also work towards giving more publicity to the activities and economic efficiency of state enterprises.

Saving and inflation

The banalty occurring to almost every mind when the above pair of words is mentioned is as follows: when the rate of inflation is higher then the interest on deposit thrift does not pay, the income should be better used up continuously. When expectations about the future are dominated by the probability of lasting inflation it is unrealistic to develop saving constructions. Facts, however, indicate that this extremely simple logic is not that persuasive. But let us first have a word about price increases.

Several self-inductive elements of inflation are known: the introducing of such inflation-generating elements into the economy in our drive for valorization must be carefully avoided. The incentive for holding money is decreased by inflation while at the same time the propensity to full liquid (cash) saving (ie., covering the whole of saving) increases at an exponential proportion with the magnitude of wealth.

In the motivations of spending, each resulting in the decrease of both cash and deposited savings, fear from the depreciation of money plays an important role and so does the satisfying of needs that may be of negligible importance for the given consumer, for example stockpiling of commodities. This entails problems mainly from the point of view of middle strata and may result in shortages of commodities typical of their consumer basket. Considering the above, relations between inflation and the share are two-fold:

a) *The impact of inflation on the share construction*

When a high probability exists for the share to be more suitable to preserve the value of wealth than fixed deposit, then fear from inflation stimulates and in the contrary case disstimulates interest in share-holding. The problem of indexing is raised in the literature as a possible alternative of value preservation. In the longer run the usefulness of the index is, as is known, doubtful because of the changing content of the consumer basket. Moreover, the Finnish, Danish and Israeli experiences with indexing are not favourable. In case of lasting depreciation of money attempts at an automatic compensation of inflation do not only loose their compensating power but rather give an impetus of the chain reaction type to inflation by making capital more expensive.

It is therefore a problem how shareholders will react when the increase of the price level has exceeded the rate of nominal interest, in other words when real interest drops. The theoretical conclusion that at such times deposits are withdrawn has not been justified in practice till now. In the Common Market countries, for example, the annual average rate of increase of consumer prices amounted to 9.3 per cent between 1971 and 1976, to 9.6 per cent in 1977 and to 6.8 per cent in 1978, and the rate of interest on savings books was far below those values (see *Table 4*).

Table 4

Real rates of interest in some Western countries (per cent)

Country	1970			1977		
	a	b	c	a	b	c
Switzerland	3.9	3.5	+0.4	3.0	1.1	+1.9
Austria	4.5	4.4	+0.1	5.4	4.6	+0.8
USA	4.9	5.9	–1.0	6.2	6.8	–0.6
France	4.2	5.2	–1.0	6.8	9.0	–2.2
United Kingdom	5.5	6.4	–0.9	8.3	12.1	–3.8
Italy	3.9	4.9	–1.0	10.7	14.9	–4.2

Source: OECD statistics and Swiss Bank Federation data; a = passive interest rate (average), b = inflation rate, c = real interest rate

In inflationary times the share is a more comforting form for holders than savings deposit. Since the share means a share in ownership, as a result of price increases the value of the property also increases in terms of money and so does the income expressed in money because of the higher price level; the real value of returns is preserved.

b) *Impact of the share construction on inflation*

The construction will be a – probably not very important – element among the means directing liquid money into deposits and short-term deposits into longer-term deposits. This way it will decrease the undesirable mobility of saved amounts and damp the risk of a drastic surge in purchasing power, and may thus contribute to the controlling of inflation.

The "investment companies" and the socialist nature of societal conditions

We have to prepare ourselves for three inextricably linked questions: is the institution of the investment company compatible with the principle of public ownership of the means of production; will it not open opportunities to "private capitalists"; and is it at all suitable for inclusion into the economic system controlled primarily through national plans?

I believe that from the point of view of our subject the following synthesis can be given of important arguments presented in the so-called ownership discussion* which took place in the Hungarian literature in the mid-seventies.

The substance of the public ownership of the means of production is that the opportunity of the expropriation of surplus value by individuals is ruled out. By appointment of the society, the state (as an organization) is vested with the task of assuring that through its own control apparatus, administration and supervision, but it is not in charge (nor capable) of continuously and minutely exercising proprietary functions. Such functions are delegated by it, in specified and controlled ways and until withdrawal, to leaders and leading bodies constituting integral parts of the people's democracy and called upon to represent the state interest in the given segment.

In our case this means that shareholders will not be entitled to exchange their money holdings into holdings of means of production and they will not become owners of means of production in the capitalist sense. They will not have the capacity to interfere with the enterprise financed by them with respect to what, how and for whom it should produce – whereas its very existence will be their concern because in case of failing business they will reclaim their capital and will disclaim their holding of the "investment share" against a counter-value calculated at par. When such capital withdrawal happens *en masse* in case of any given investment company then the company will go bankrupt and will be wound-up by the state. Many problems can arise from this, still I believe that under the strongly changing economic circumstances this construction would not be viable without the state guarantee of repurchasing at nominal value. That

*The discussion evolved in the columns of Közgazdasági Szemle (Economic Review) from 1974 to 1976 in connection with the book by Tamás *Sárközy* [15]. From the contributions the papers of István *Csillag*, István *Herédi*, Kálmán *Szabó* and Béla *Takács* were particularly appreciated.

is, the investment share is a financial transfer, a new form of group ownership different from anything else known up to now, which cannot come into conflict with the societal system because the conditions of its functioning are regulated by this same system.

On the other hand it is a real risk that, irrespectively of the ownership problem, this form of income distribution or more precisely the higher interest earnings of those pooling the capital might result in the exploitation of "non-holders". This is a matter of measure.

We must set out from the sociological fact that there actually *is* wealth in private hands also in socialist circumstances, even though much below the capitalist societies both with respect to the global amount and the value held by one person. The classics of Marxism do not provide guidance about the judgement of this point as such nor about its handling because the ideology of socialism was formulated as a refusal of the exploiting society and under the then historically given conditions it only reckoned with a lower standard of living of the masses than what they now experience and, in this connection, with a smaller degree of income differentiation.

Even if the issue of income differentiation of employee and worker strata, of incomes not originating from employment and extraordinary incomes (from scientific and artistic work, inventions, etc.) will not be taken off the agenda, we cannot but realize that in the foreseeable time the fact of wealth is going to be a reality. It follows that it is impossible to take a stand concerning wealth without simultaneously taking a stand concerning the forms of realization of private wealth desirable from the societal point of view. (In principle the total prevention of the building up of wealth could be an alternative but the way of executing that has not been found anywhere as yet.) It follows from wealth and income differences that luxury consumption, the collecting of artistic values, luxury trips, buying of expensive drinks, perfumes, clothes and furniture must be accepted as normal. Such things may be taxed as a sort of a consolation prize, for such goods and services partly drain foreign exchange holdings.

Extravagant consumption is attached to and is hard to distinguish from luxury consumption, when the countervalue obtained is of secondary importance as against the importance of "spending". Fancy villas, vaults, extraordinary gates and fences are apparently "nobody else's business" and it would really not be successful to restrict such things from the side of supply or legality. However, by wasteful consumption also the commodity coverage of normal incomes is indirectly restricted (eg. foreign currency). And here is the economic and socio-philosophical cornerstone of the whole matter.

In inflationary times and especially under socialist circumstances (when there is no need to boost demand) wasteful consumption can easily take harmful dimensions. If we can offer more attractive alternatives to well-to-do people than luxury, let alone wasteful consumption, then we shall be able if not to eliminate yet predictably to curb such wasteful consumption and the socio-political tension necessarily accompanying it. Moreover, "private capital" is already working in the socialist countries, limitedly, in semi-legal or illegal forms and in ways different from the above forms of using wealth. Capital is available from one source or another at an interest rate 25 to 30 per cent for

business activities of artisans or even of unlicensed persons as well as for different forms of private activities. The interest rate is that high because of the risk. This kind of "business" could be limited from two sides: firstly, making up for and elimination of shortage should be enhanced through legal productive activities and, secondly, money of people who feel aversion to illegal forms should be directed to normal channels.

Both the appeal and the ideological tolerability of the proposed transfer will be determined by the magnitude of the predictable capital earnings in case of successful business. It is therefore an important question to decide the highest interest rate that will not give rise to feelings analogous with that towards parasitism? The reward of postponed consumption: interests on deposits have been paid by all the socialist countries and so – we are now concerning ourselves with principles – that can be paid also in the future. It has been paid also in Hungary where price increases amounted to a paltry 5 per cent between 1960 and 68 while during the same period the compound interests on deposits amounted to 70 to 80 per cent. (Besides, the interest for the purpose of value preservation is also uncontestable considering that money invested into furs or holiday cottages, already in real forms, is becoming "more valuable" every year in nominal terms.)

As a first approach it might be stated that the center of the interest to be paid on the "investment deposit" is expressed by the following symbol:

$$K_e + K_i$$

where K_e is the "reward" for postponed consumption and K_i is the rate balancing the "inflation rate", serving the preservation of wealth.

As is known, however, interest rates raised appreciably on such considerations are not paid anywhere in the world and thus we can also "underrate" it by a few percents in the case of the "investment share". Downward deviation is allowed by the limited offer of interest.

The centre was noted above, ie., a term implying that interests actually paid may deviate downwards or upwards from the centre, as this belongs to the risk of investment. I presume the limit of downward deviation to be zero, that is, instead of the guarantee that the nominal value of the share will be preserved, and instead of putting a ceiling it seems to be more sensible to adopt a modest and moderately progressive income taxation which, however, should not apply but in case of payment of interest returns 15 per cent or higher than the centre of the passive interest rate. Even then it should be calibrated so as not to cancel or restrict but only to slightly brake interest on the biggest possible returns, otherwise it may totally wreck this possible form of saving.

The interest rate paid above the centre may be argued. However, this chance is included in the notion of risk, therefore its permission belongs to the essence of the construction. If anyone still wanted to discard this construction quoting "amoral profiteering" then I should like to recommend him to consider the following:

– Under our conditions, the majority of such investment is wealth eventually originating from work.

- The magnitude of income will be limited by progressive taxation.
- A negligible fraction of the total income of society is only involved.
- By giving green light to betting at horse-races and gambling we have already stopped to rigidly apply the principle of "the only permissible source of income is work".

Over and above that, the recommended form of transforming the existing private assets into public capital can be introduced only provided that its social usefulness can be guaranteed with high probability.

It is a possible anxiety that there might develop certain private capitalistic motives inside the "investment companies" themselves since the income of experts working in them is intended to be strongly dependent on the profitability of the financed production. This anxiety must be taken into consideration in the course of arrangements, but it is likely that the said limits of interference concerning the means of production and the also mentioned progressive taxation of incomes that could be applied in this sphere as well are suitable for powerfully controlling this hazard.

The declared and in most cases enacted principles of our system of economic control and management permit enterprise autonomy with respect to choosing the product pattern and the technology of production as well as in development decisions. Regulations valid for state-owned enterprises could be applied with an important exception – meaning income distribution – to enterprises financed from deposit sources, the planned economy will not be marred because of such enterprises. However, a few exceptional state interventions – assignment of production or investment – cannot be applied in the case of these small undertakings.

The case is different from the point of view of the actually functioning activity of enterprise administration and enterprise influencing, which was given the apposite name of shadow mechanism. Enterprises to be financed by the investment companies will be strongly profit-oriented; since the assets are not granted to them by the state, it would be also psychologically unfounded if the state minutely interfered with the life of the enterprise. Small undertakings and production of complementary type are concerned, this cannot cause any difficulty, on the contrary, it is in perfect accordance with the principles of our mechanism and by reducing the range of shortages it will be advantageous both economically and politically.

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СБЕРЕЖЕНИЯ НАСЕЛЕНИЯ И ФИНАНСИРОВАНИЕ ПРОИЗВОДСТВА

Г. ХАВАШ

Потребность небольших предприятий в капитале и желание населения, чтобы его сбережения сохранили свою ценность, могут встретиться в создании инвестиционных товариществ. В Венгрии рост вкладов населения замедлился, и уже это заставляет искать новые, более привлекательные формы сохранения денежных сбережений. Финансовая практика Запада предлагает богатый опыт создания таких небольших обществ, вкладчики которых, не имеющие опыта биржевой игры, вкладывают с помощью специалистов свои деньги в качестве кредитов в производственные предприятия и получают не проценты по вкладам, а ежегодные дивиденды на основе средней прибыли финансируемых предприятий. Актуальность создания инвестиционных товариществ в социалистических условиях объясняется тем, что необходимо решить вопрос финансирования средних и мелких предприятий, гибко приспосабливающихся к рынку. Если их финансирование будет вестись за счет государственных средств или банковских кредитов, то возможна утеря гибкости из-за неповоротливости аппарата. При финансировании за счет сбережений населения эти мелкие предприятия должны будут ориентироваться на покупателя. Создание социалистических инвестиционных товариществ выдвигает целый ряд проблем, например, проблему нетрудовых доходов. Однако эти проблемы нельзя решать изолировано, а только вместе с выработкой точки зрения на наиболее полезные для общества формы использования высоких личных доходов и личной собственности.

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E. FÁBRI

SUPERFICIAL CHANGES AND DEEP TENDENCIES IN INVENTORY PROCESSES IN HUNGARY

Inventories have been enduringly high in Hungary, this also emerges from international comparisons. Purchased but still unprocessed stocks are preponderant in the Hungarian industry in consequence of the persisting great demand and the unsatisfactory supply; this fact is responsible for the deconcentration of inventories and for the rise in stocks. The participation of credit in financing the circulating assets is low, its raising would make stock processes more rational, inclusive of a more purposeful allocation of stocks and acceleration of the velocity of circulation. In the long run an improvement in the inventory situation may be expected from an economic policy aimed at equilibrium and from the transformation of product-mixes, while in the short run better organization and other measures are needed.

Stockpiling is one of the recurrent problems and unsolved tasks of the Hungarian control organs and enterprises. In the eyes of *economic control organs* it emerges as one of the "causes" of the "excess" domestic use of the national income, and, thus, as that of the import surplus in the balance of trade, while *enterprises* regard it as a problem of replenishing circulating funds (working capital) from the development fund, i.e. as a factor consuming investment resources. Together, the control organs and the enterprises also experience in it the combined and causally interrelated emergence of *immobile surplus stocks* (superfluous stocks which may be needed elsewhere but cannot be transferred) on the one hand, and of *scarcities* on the other, which hinder the reproduction process, disturb supply, even though this scarcity may not be absolute but sometimes only apparent. It is, thus, no coincidence that hardly a year passed in the last decade, the year 1981 being no exception, when the responsible functional and branch control organs were not given tasks by the relevant government bodies urging the improvement of the inventory situation. These had brought to life a number of measures bringing not inconsiderable results, but these failed to lead to a breakthrough in the inventory situation. It is beyond doubt that the intentions, expertise, and subjective behaviour or experts in the problem are not to blame, as the objective conditions can only be altered to contribute to the *real* and long-term improvement of the inventory situation if we face objective reality. This paper can only deal with a few aspects of the subject.

The petrified indicators of stock allocation

When we do not regard just one year but consider enduring tendencies in the development of inventories in Hungary, we witness an unbroken tendency of *growth*, of a sometimes smaller, sometimes larger, but, on the average, *considerable* extent. The qualifier 'considerable' is justified, above all, by the long experience of the control and enterprise spheres, referred to above. Another proof is the survey of international data, reflecting a state of "excess supply" in the case of the capitalist countries, and of "excess demand" in that of Hungary: while in 17 developed and medium-developed capitalist countries only 1.8 per cent of the domestic use of GDP was tied up by the increase of stocks in the average of the last decade, this figure is 3.7 per cent for Hungary. A long-term survey points out spontaneously, but *stubbornly recurrent indicators.* These reveal such a petrified, inconvenient structure of stockpiling (stock allocation) which, though a result, is also a cause in itself of the chronically high level of stocks.

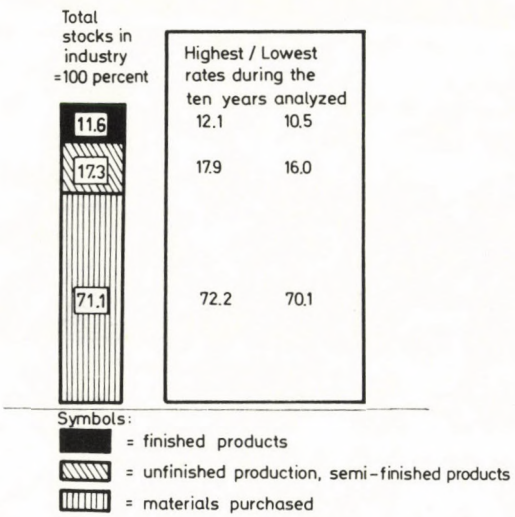

Fig. 1

Structure of inventories in industry (excluding food processing), as the average of the value of stocks, on December 31st of the years 1971–1980

The structure of inventories is well reflected by *Figure 1*. It shows that in the average of the years 1971–1980 an overwhelming part of stocks kept by the industrial sector (exluding the food processing industry) on December 31 of each year was constituted to 71.1 per cent by so-called material stocks (purchased from other enterprises but not yet subjected to processing); 17.3 per cent under processing as unfinished, semi-finished products and 11.6 per cent were finished products waiting to be sold. The rigidity of this structure is shown by the fact that fluctuations around this

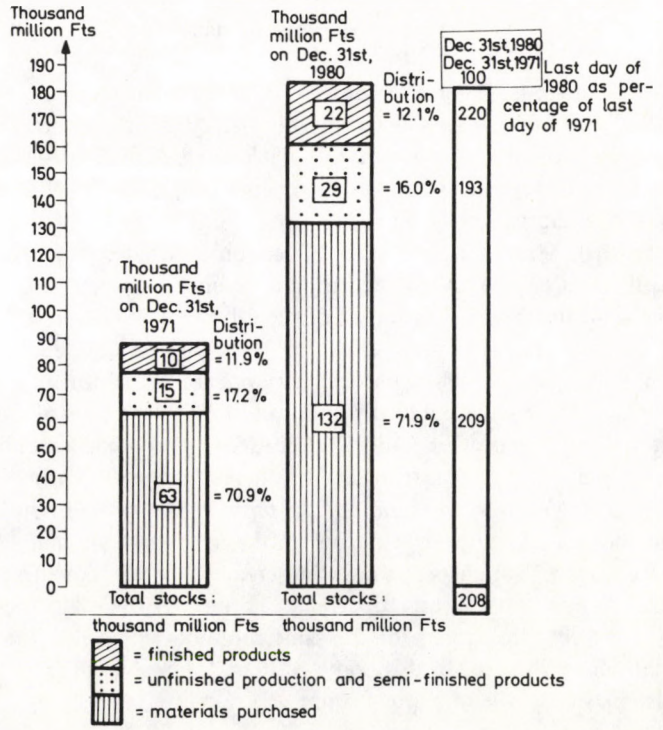

Fig. 2

The value structure of inventories in industry (excluding food processing)

average stayed almost negligibly small: the highest peak of material stocks was 72.2 per cent, that of unfinished products 17.9 per cent and of finished products 12.1 per cent; the lowest figures were 70.1, 16.0 and 10.5 per cent, respectively. This petrification is also underlined by the fact these proportions were left unchanged in spite of a constant – more than twofold – increase in ten years of the volume of industrial stocks *(Figure 2).* The increase in stocks may have been small or large, the same indicator values emerged invariably on December 31st of every year, including 1980. A similarly unchanging feature is that of stocks of companies trading in capital goods, whose job is the supply of industry, are always around 10.5 per cent relative to the total stocks of industry on the last days of the years, also showing a very narrow fluctuation (minimum: 9.2 per cent, maximum: 12.8 per cent). This "regularity" is unintended; it is an unwelcome, highly *disadvantageous* but, still, an unavoidable product emerging necessarily. It is continually reproduced by a structure called "stock-keeping by users". The invariably emerging proportions are merely its quantitative forms of appearance, which prove the statement made by János *Kornai:* "In a resource-constrained economy normal impact stocks form a relatively large share of total normal stocks while normal output stocks form a relatively small share; in a demand-constrained economy the situation is reversed" [1].

The effect of excess demand

The fact that stock-building in Hungary is overwhelmingly on the input side, with the users, as has been demonstrated by the constantly high proportion of purchased stocks, is the result of the *preponderance of demand.* The low output stocks. i.e. industrial finished products and the constantly low proportion of the stocks held by companies trading in capital goods shows a chronic "undersupply" and it is, at the same time, a product of it. Thus, the rigid stock allocation pointed out above is, in the final analysis, a result: it is caused by the enduring imbalance between *demand and supply.* Behind this phenomenon lie the heating of demand by earlier fast economic growth, on the one hand, and as a cause having an effect up to the present day, the limited resources on the other, mainly caused by the *unsatisfactory rate* of transformation of the *product structure,* which would be called upon to pull up supply to the level of demand. Thus, if we want to grasp the creation of a stock allocation based upon equilibrium between demand and supply at the basic cause instead of the result, then the primary role must be attributed to a *more rapid transformation of the product structure.* Enduring results may be expected also in the tying up of resources on the national economic level, only from such a more expedient "suppliers" stockpiling created in this way. Explicitly "stock-melting" measures may only bring superficial, partial results. The present user-type stockpiling, by scattering the storage of the same products, multiplies the stock-keeping needs of the national economy. In this context, then, the result – the present pattern of allocation – also plays the role of a direct *cause.*

The insecurity of procuring

The present rigid stock allocation pattern is, in the final analysis, a typical concomitant of a *shortage economy.* By shortage economy, however, we should not understand merely the *real shortages* and the consequently slow and uneven replenishment, but also the *ingrained purchaser's behaviour,* which urges the purchaser enterprises, because of their bad experiences for several decades, to overstock even when the supply of a given product is momentarily adequate. This is true both of *domestically* produced goods and of those *imported from the socialist countries,* as regards the unevenness of shipments.

A more practical allocation of stocks is hard to establish. It is beyond doubt that steps toward greater security of procurement are possible and necessary – in the short run as well; such measures are already under way. Such are the more flexible trading in products, better relations between enterprises, the strengthening of discipline regarding shipments. A detailed revision of the trading channels for several product groups, which is presently going on at the National Office for Materials and Prices in the framework of market supervision, also aims at the improvement of allocation. However, a large-scale restructuring is a longer-term task and calls for improvement not only in the allocation of stocks, but in that of capital in a wider sense as well.

A more appropriate allocation is not simply a question of will: stocks cannot be transferred by central decree to another enterprise, together with the appropriate working capital. Although the legal path has long been open to a transfer on a voluntary basis, still, it is only rarely exploited because of the above described, deeply rooted feeling of insecurity in procurement.

A real, and, most importantly, *constant security of procurement,* however, can only be created *on the basis of a future balance between demand and supply,* and from the side of a *continuous expansion of supply,* instead of the *present restriction* of demand out of sheer *necessity.* This may be realized, in turn, solely through the modernization of the production structure.

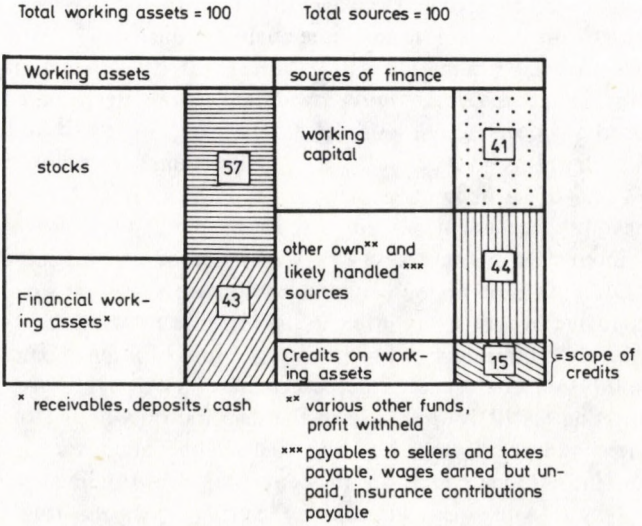

Fig. 3

Structure of the working assets and financing sources of enterprises and cooperatives in the average of stocks held on the last days of calendar years 1973–80

Another "stubborn" indicator

In a way analogous to the rigid allocation indicators, we encounter certain *constant, recurrent indicators regarding the end-of-the-year proportions in the financing sources of circulating assets (within them of stocks.). Figure 3* shows the compositions of working (circulating) assets and their sources, on the basis of the average December 31st value of stocks for the years 1973–1980. The remark is also relevant here that, in spite of the approximate doubling of their absolute value, the individual proportions remained almost the *same,* their fluctuation is low. It is apparent that, as regards their end-of-the-year

stocks, in the average of these eight years, 57 per cent of the total working assets of enterprises and cooperatives were constituted by stocks, and 43 per cent were so-called financial assets (receivables and deposits). On the basis of the average this time series, 41 per cent of financing sources were made up by working capital, 44 per cent by other own and similar sources (profits withheld, various funds, debts toward supplies, long-term liabilities), and merely 15 per cent by credits provided by banks. This last item is a very limited *scope of credit.* An investigation whether the proportion of credit, and together with it, its role might be increased is well justified by the argument that more selectively provided credits for working assets, in accordance with the stock allocation guidelines, perhaps involving larger amounts of credits could, through higher interest charges, urge the enterprises through their cost-increasing effect to consider more thoroughly stock-building decisions, and, thus, could change the allocation of stocks in a favourable direction. This argument, however, needs some qualifications.

Firstly, on interest. As a matter of fact, the sensitivity of Hungarian enterprises to interest as a cost factor is *considerably low.* Many of its deep-rooted causes can be established from the above referred work of Kornai. (E.g. the "soft budget constraint", the "passive role played by money", etc.) The low response to interest is, furthermore, related to the lack of security in procurement; interest is still "cheaper" than the production foregone because of missing products, parts, etc. The strengthening of responsivity to interest is undoubtedly a very complex question. Still, it is conceivable that a more selective, flexible policy of credits and interest rates on working assets could work toward a higher response to interest. In an enterprise where the intention to increase stocks involves more borrowing, at least the sum of interest paid would increase. Therefore, if credits and interest rates are determined selectively enough, then they may acquire an orientating restrictive role also in the decision on whether to increase stocks. Conversely, where additional stock-building is desirable, adequate credit preferences, better expiration and interest conditions may encourage the building up of higher stocks.

Secondly, the chronic narrow scope of credits is, in the final analysis, not a spontaneously developed proportion. It was deliberately formed in the course of the rearrangement of the working capital in connection with the 1968 economic reform, on the declared principle that stock-building together with investment, is a category pertaining to the scope of decisions of the enterprises. Consequently, in case the enterprise intends to invest either into its fixed assets or into the long-term stock of working assets, it has to effect it from its *own* money (development fund, or, in case of stocks, from the fund of working capital, itself created from the development fund), or from credits to be paid back from the development fund; in this way, credit only complements the capital of the enterprise. This concept included the basically realized intention that, with regard to the limits of resources, the development fund should be the common upper limit to the two kinds of accumulation (investment and stockbuilding), and, thus, these two should mutually constrain each other. To give a simplified wording: the enterprise should decide itself whether to invest or increase its enduring stock level within this limit. (In practice, of course, it is realized as a part of this, a part of that, but

within this limit). The snag is that the practical realization of this logical principle was questionable even at the beginning, at the time of the "primitive accumulation of capital", or, to turn the pun into serious, at the time of the rearrangement of the working capital in connection with the economic reform. The reform embraced the right aim: to create a buyers' market in place of a sellers' one. This failed to materialize, and those wishing to know why should read *Kornai's* referred work. That is, the preponderance of demand has stayed with us, and even increased. It is, of course, easy to be clever at the end of the day, but it is a fact that a greater consistency in the realization of the buyers' market would have required, after many more important factors, a "more just" reallocation of funds for working capital from the aspect of the desirable stock allocation tendencies, which we are going to elaborate below. Specifically, the typically stock-building, storing enterprises should have received more, the typically user enterprises, in turn, less, starting funds for working capital, to be increased later by the funds retained from profits. Since the great majority of enterprises belong to the latter class, such a differentiation would have created a wider scope for credits. Stock accumulation could have been carried out by user enterprises, possessing smaller funds originally, *by incurring more credit,* while the smaller number of stock-building enterprises could have managed to do so from their own capital. Even though such an arrangement could not have solved the problem of advantageous allocation of stocks, at least it could have turned processes into the right *direction.* It is a fact that circulating capital was not expanded either at the producers or at trading enterprises to a sufficient extent; or, the trade margins were inappropriate for accelerating the return of advanced commercial capital. When we speak about the desirability of a wider scope of credit, we mean a redistribution of stocks and, together with them, the reallocation of working capital – not in a "directive" way, but in conformity with the principles of the reform.

Thirdly: we have expounded that the "user" type stock allocation pattern was created by the lasting preponderance of demand, because the expansion of supply was unable to keep pace with the growth of demand, and by the resulting insecurity of procurement. That is, in the final analysis, it was due to basic economic processes. The stockbuilding "insatiability" of user enterprises is but *forced behaviour.* On the basis of these deep-rooted causes the statement is justified: extension of the proportion and role of credits on working assets may only have an auxiliary role in a better allocation of stocks, but cannot bring a basic solution. A long-term and real solution can, as we have pointed out, be gained by a better equilibrium between demand and supply (on the basis of the transformation of the production structure). And when this will have been realized, then stocks will need no "allocation", as they will allocate themselves to the right place. When the user enterprises can be sure that the means of production needed will arrive in the quantity ordered, in the necessary composition, according to the prescribed schedule, by the required deadline, then stock-building by themselves simply will not make sense and become "more expensive".

Indeed, this and not a "downward" control of stock and capital allocation may lead to the extension of the scope of credits, or more exactly, to a situation in which simply

more credit is provided. This is what I meant above by a way of reallocation which is in line with the reform, of course, not in a spontaneous way but through indirect levers of control acting in the proper direction. It is, at the same time, unquestionable that the role of credits as one of such levers must be especially reinforced.

An abstract model of desirable capital allocation and its problems

It is not particularly difficult to define the main traits of a more advantageous stock allocation, better concentrating stocks and thus reducing the stocks tied up on national economic level: *stocks should be found where it is the cheapest for the national economy, where* – on the national economic level – *the smallest but still mobile stock can be kept and where the stock is the most easily available for users.* These are, however, only generalities; *an abstract model,* necessary for a gradual specification can be described as follows:

"A coexistence of *three kinds* of stockpiling is called for . . . Stockpiling at the *user* is justifiable in case of materials, which are needed by the so-called large users or monopolistic users . . . Here belongs the import as well of products the use of which is monopolistic. Stockpiling at the *producer* is justified in case of products manufactured by several organizations and the supply of which is adequate and which are sought by numerous users. The products of sole producers, sought by many, should also be stored at the manufacturers . . . (In the above mentioned two basic cases the *mediation of a trading organization is unnecessary,* as it would only make the path of the product longer, would make it more expensive, and, thus, would increase the value of stocks tied up on the national economic level.) Intensifying *stock-keeping at enterprises trading in capital goods* is justified in case of products that are sought by many users and are produced by domestic manufacturers, and, in addition, in case of not monopolistically used imported goods" [2].

Stock-keeping at enterprises trading in capital goods is one of the central questions of good allocation; these enterprises could undertake the most extensive stock-concentration, and become bases of reliable supply on the one hand, and of curbing the amount of stocks tied up on national economic level, on the other. The snag is that their sales activities depend on their own procurement possibilities, and these enterprises encounter the same problems in the security of procurement and supply as their customers, the user productive enterprises. Besides, their stockpiling possibilities are also limited by the scarcity of their finances, inadequate storing space, the technology of handling and conveying. As a matter of fact, a repetition of granting a new capital allowance from the budget, as it happened to the extent of 3.6 thousand million Forints in the period between 1976–1980, would amount to the creation of additional purchasing power without a supply coverage, as at present these enterprises could not exchange the additional money for commodities that are sought for. We deemed that would only seem

so, as it is well conceivable that, with a more flexible purchasing market policy and better import possibilities, faster response to the changing situation, through a continuous and fastidious research of market demand, the trading enterprises could, with the money always at hand, more readily respond to the demand from the side of producer enterprises. Thus, an invigoration of their capital power, and of their situation in general is justified.

It is beyond doubt that a qualitative stress on the role of enterprises trading in capital goods would only be a "small" step, not a fundamental leap towards a better allocation of capital. This latter, as we have expounded, could only be attained through a longer process, based on the transformation of the product structure, creating an adequate, steady supply. Still, even "small steps" are worth making. And this could well use the contribution of a more selective financing.

A third "stubborn" indicator

We have described the recurrent structure of stocks as the manifestation of rigid, inappropriate allocation, also reflected in indicators, as the direct background of the constantly high stockpiling in Hungary. The low velocity of circulation of stocks is also a "stubborn", unchanging phenomenon *(Table 1)*.

The velocity of circulation of stocks on the national economic level, thus, has become stabilized, with negligible fluctuations around the average, at 70 days generally, and at 80 days in the case of industry. The velocity of circulation increased somewhat in 1980, but it did so under the effect of changes in 1979 (for, the velocity of circulation in a given year is influenced by the closing stock of the previous year. This latter increased in 1979 by a record low extent following from a sudden, one-time and unrepeatable improvement in the balance of foreign trade, owing to the slowing down of economic growth). *The long-term tendency is, invariably, that of a slow velocity of circulation of stocks.* This could not be otherwise on the basis of the given allocation of stocks, as they are related closely, in mutual causality. Let us recall that the increase of stocks per unit

Table 1

Length of cycle in sales days										Average in the years		
1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1971–1980	1971–1975	1976–1980
In all enterprises and cooperatives												
76	76	71	69	70	71	69	71	71	68	71	72	70
In industry (excluding food processing)												
88	88	83	82	82	80	80	80	79	73	80	84	78

growth of GDP is about twice as much in Hungary as in capitalist countries. We have seen that the constantly high level of stocks is produced by the insecurity of procurement. In capitalist countries, apart from crises (e.g. the oil crisis), there are generally no problems with procurement, rather, especially in the downward turn of the business cycle, an insecurity of sales may be witnessed. In other words, the buyers' market rather than that of sellers, is characteristic. The security of procurement is also reflected by the fact that while in Hungary stocks are characteristically composed in the following proportions: 70 per cent purchased stocks, 18 per cent unfinished production and 12 per cent finished products, in capitalist countries these proportions are about 30 : 40 : 30 per cent, respectively. The limitation of stocks in large Western industrial enterprises at a 5–7–10 day level is made possible by the security of procurement, by the existence of "satellite" enterprises, and is also necessary because of the pressure towards the rapid returns of capital. They have understood the axiomatic statement of Marx according to which velocity of circulation makes up for the volume of capital. Marxist economics, however, has failed so far to put this truth in practice. There is, of course, a ready "explanation": the historical antecedents, the rapid economic growth aimed at making up for the lag in development, resulting in the boosting of demand without being able to catch up with supply from scarce resources; the fast forced growth often narrowly interpreted in quantitative terms, failing to form an objectively necessary structure of products. (See: *Kornai's* referred work.) But facts remain facts even when explained. If we accept, as we have to, the possibility of extending capital through accelerating the velocity of circulation, then we may add: such an extension, and not only in the field of stocks but also in investment and, in general, on the national economic level, would certainly be welcome in the Hungarian economy endowed with limited resources. For example, acceleration of the velocity of circulation of working capital could free a considerable amount of working capital, and, with that, it could mobilize many "frozen" resources, like materials, Forints, hard currency and even labour, for being used for *really* important goals. Thus, acceleration of the velocity of circulation of stocks would constitute *in itself an advantage.* The only snag is that this cannot be attained *by itself;* or, a least, not as a U turn. The aforesaid here also apply: changes in the product structure, extension of supply, rapid and even replenishment. Still, taking the reverse order, some partial results may be hoped for. For instance, the contractual, i.e. the shipment discipline could be improved to a certain extent itself e.g. by harder sanctions, – although this legal category also has *economic constraints* behind its negative manifestations.

Enduring tendency with wide fluctuations

So far, we have shown enduring tendencies together with their continuously acting causes. However, as regards the concrete, yearly changes in the value of stocks, these are widely fluctuating. The use of the term 'value', in place of 'volume' is not accidental here. Our data, although free from the effects of official price changes, fully bear the

effect of other price alterations as they cannot be eliminated without a reliable reference price level; the national aggregates were compiled from balance sheets of enterprises. Consequently, they are *partially current price data.* Let us add: such value data, although not reflecting actual changes in volume, have a real content, as the costs, outlays or credits related to stock-building are also incurred at current prices. The distorting effect of this partially current-price evaluation is especially salient for the year 1980 as this year saw especially a marked but exactly not measurable effect of non-official price rises on the valuation of stocks.

Let us point out *the constant features* behind the annual fluctuations in the value of stocks (the constantly high level of growth of stocks on the national economic level) through a somewhat false analogy: the sea may be *constantly* deep, or it may be even *deepened* by given forces, yet, the *waves* of the sea are small or high depending on the strength and direction of winds.

In Hungary the tying up of stocks – the level of the "sea of stocks" is always high and increasing. The waves of the increment depend on the "winds": investment cycles, their direction and intensity, (the periodic encouragement and restriction of investment), and these are always closely related to the external equilibrium situation. For overheated investment (as in 1974 or 1978) boosts imports with which exports cannot cope and a significant deficit – in the balance of the national income: an import surplus – results. From 1979 on, in order to improve the equilibrium situation, the rate of growth, i.e. of production, and investment, was curbed, the increase of export was considerably higher than that of import, the adverse balance, i.e. the import surplus was mitigated and this was also reflected in a slowing down of the increase in stocks. (The close relationship between changes in stocks and the balance of trade is well presented by *Figure 4:* the two variables seem as if they were mirror images of each other.)

The value of changes in stocks fluctuated around the continuously high stock level in the past ten years as follows:

During the ten years between 1971–1980 the total value of stocks increased by 238 thousand million Forints in all and the value was represented in the December 31st, 1980 balance sheets of enterprises and cooperatives to the effect of 519.3 thousand million Forints. Thus, the average annual increase in the value of stocks during the ten years was 23.8 thousand million Forints. As we have indicated, fluctuation around this average was wide because of decisions affecting basic economic processes (production, investment, exports, imports): the largest increment in these ten years (and, indeed, in the whole history of the economy of socialist Hungary) was reached at 41.1 thousand million Forints (in 1978), and the lowest value was 10.4 thousand million in the following year (1979). Changes in stocks fluctuated between these two extremes very widely. Of course, the fact that the peak year 1978 was followed by one with an extremely low increase in stocks is understandable, even beyond deliberate changes in tendencies. In 1978 the enteprises "fattened up" their stocks, and this yielded reserves also for 1979. In 1980 the value of stocks already exceeded that in the previous year. This was due not only to higher prices; most of the stocks piled up in 1978 were used up

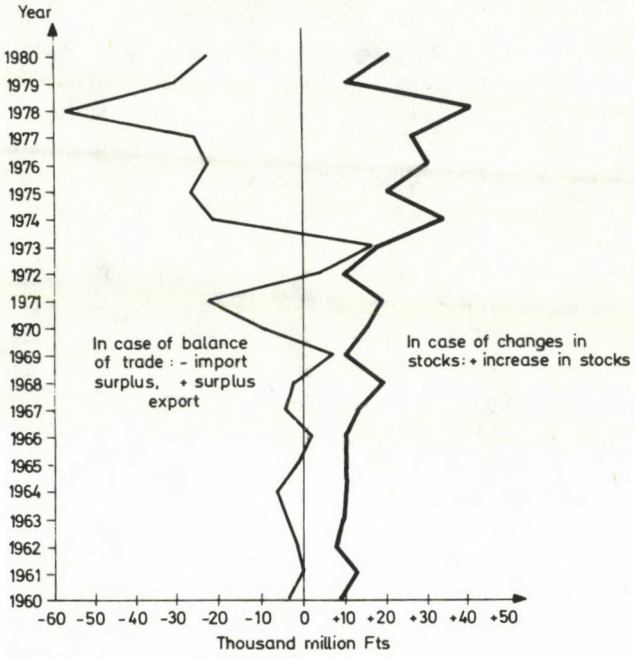

Fig. 4
Interrelation between the balance of foreign trade and changes in stocks (Current prices, thousand million Fts)

in 1979, and the year 1980 started with, to a certain extent, "depleted" stocks. Furthermore: according to partial information obtained, during the months of 1981 till the completion of this paper, stocks increased by a greater amount than in the same period of the previous year, 1980. Naturally, a foregone conclusion on such weak basis, that, for instance, a new "wave" is coming against our will, would be premature. However, even if this were so, it would not be unnatural, as all the above treated effects determining Hungarian stockpiling for decades have not ceased to assert themselves in a more or less unchanged way. True, the slowed down economic growth after 1979, also influenced by financial and other control measures, curbed the so far almost unrestricted growth of demand, but this was limited to certain industries (e.g. the building industry, as a result of the restriction of investment). A change in stockpiling behaviour has not appeared. Inappropriate allocation continues – as is shown by the structure of industrial stocks (in 1980 : 72:16:12); the velocity of their circulation has not perceivably accelerated; no improvement took place in the evenness of procurement, of shipments – either in the domestic trade in products or in imports from socialist countries, and so on. All said, the concrete fluctuations in the increase of stocks resulting from the "economic winds" and the "level of the sea" reached by the end of 1980 are represented in *Table 2.*

Table 2

Thousand million Fts

Increase of stocks										Value of stocks on 31.12.80.
1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	
20.0	10.6	18.5	36.2	21.2	31.2	27.0	41.1	10.4	21.3	519.3

Long and short-term possibilities

Summary

The increase in domestic demand has been slowed down from 1979 on, which, among other useful results, caused a *moderate slowing down of stockpiling,* (at least for the time being, perhaps not lasting). However, *a continuously limited demand cannot be the long-term goal of a socialist economy. The goal is social abundance and one of the basic means for reaching this is the continuous boosting of supply, through the modernization, transformation of production and production structure.* This road is not short but, so far, we have advanced on it more slowly than necessary and possible. The described large-scale transformation of allocation can only be expected from this long process, one of the results of which should be abundant supply and a plenty of goods. We cannot help but quote the lines of the great Hungarian poet, Petőfi: "When everyone may equally take from the basket of plentifulness . . ." When from the plenty of supply offered by selling enterprises every enterprise can equally take, any time, when e.g. they may be sure that their long standing or newly acquired procurement sources will be at their service as good merchants, from the aspects of quantity, quality, product range, evenness of shipment, punctuality alike, depending on their own needs, then we can say that "Canaan is here". Why should then purchasing enterprises pile up stocks, thus tying up their storage capacity, and working capital by stocks that may be used some time – or never. Others will perform this function. These latter will, though, claim trade margins covering also the risks of stockpiling. Still, even this will be more advantageous for customers than taking over the presently underestimated burdens of stockpiling. (The costs incurred by stockpiling should emerge in the cost-covering part of the trade margin!) However, we are very far from this situation. Consequently: *realistically we cannot count on an objective possibility of a fundamental change in the inventory situation.*

Of course, there is scope for action also in the short run. The transitory restriction of demand may create an objective basis for elimination of exploitation by the sellers' monopoly, for a strengthening of the buyers' position, and a more consistent assertion of the otherwise existing rules of discipline in shipments. A not inconsiderable reserve of the

improvement of the inventory situation lies in a better organization of inventory management, of ordering materials by the enterprises, in a more modern, where possible computerized, stock-keeping, registering activity, in the creation of better information and mobilization systems for stocks. A further refinement of financing may also promise possibilities for improvement. Such options are under intensive investigation at the relevant authorities (National Office for Material and Prices, National Bank of Hungary, Ministry of Finance) and branch supervising authorities. And, although because of the indicated reasons, such measures cannot bring about a radical, qualitative change in the inventory situation, they may make a step toward a future, stable balance between demand and supply, toward a real qualitative change based on the transformation of the production structure.

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ПОВЕРХНОСТНЫЕ ИЗМЕНЕНИЯ И ГЛУБИННЫЕ ТЕНДЕНЦИИ В ПРОЦЕССАХ ОБРАЗОВАНИЯ ЗАПАСОВ В ВЕНГРИИ

Э. ФАБРИ

Образование запасов товаро-материальных ценностей в Венгрии следует считать на протяжении длительного периода времени весьма высоким. Если за последние десять лет в 17 промышленно развитых странах на увеличение запасов шло 1,8% валового отечественного продукта (GDP), то в Венгрии эта доля составила 3,7%. Это свидетельствует о негибкой структуре запасов: в среднем за 10 лет в промышленности (исключая пищевую промышленность) 71,1% составляют приобретенные на стороне, но еще не использованные запасы, что является следствием «чрезмерного спроса». Поскольку это положение характерно для слишком децентрализованного образования запасов, оно повышает, а по отдельным товарам — приумножает народнохозяйственную потребность в запасах. В этот период 17,3% запасов промышленности находилось в процессе производства в качестве незавершенного производства, а 11,6% составляла ожидающая сбыта готовая продукция. Последнее всегда означает низкий уровень предложения в промышленности. Предприятия оптовой торговли средствами производства также предлагают промышленным предприятиям недостаточный ассортимент.

Это явление объясняется тем, что спрос превышает предложение, и в конечном итоге эта проблема может быть решена лишь при быстром изменении структуры продукции. Недостаточное по отношению к спросу предложение находит выражение не только в реальном дефиците, но и в явлении «психоза дефицитности». Ненадежность материального снабжения постоянно понуждает предприятия приобретать запасы, превышающие реальные потребности потребления.

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J. WINIECKI

INVESTMENT CYCLES AND AN EXCESS DEMAND INFLATION IN PLANNED ECONOMIES: SOURCES AND PROCESSES*

Author presents his views on the by and large unexplored linkages between investment cycles and the excess demand generated inflation in centrally planned economies. To this end he analyses the traditional explanation of the persistence of excess demand in these economies and advances an alternative explanation covering both the persistence and the variable scale of excess demand, linking the latter (and the resultant inflationary gap) with investment cycles. Then, he outlines his model of the investment cycle which stems mainly from the relative attractiveness of investments *vis à vis* innovations, as well as from specific features of planning procedures within five-year planning periods. In the last but one section of the article author links built-in distortions in investment plans with inflationary gaps and resultant necessity of price increases when gaps reach serious proportions. Finally, he explains that there exist many other channels of transmission of inflationary gap into increases of the cost of living without the increase of prices as measured by the retail price index.

Although the scholarly literature dealing with investment cycles and their sources has been rich and varied in the last two decades or more and the literature on inflation in planned economies has become more numerous recently, the two issues have rarely been analysed together. And, even if they were, the way of presentation did little to explain the linkages between the two in a satisfactory way.

Certain attempts in this respect, mostly by Polish and Hungarian economists, have treated excess demand in the investment sphere just as any other excess demand resulting from the expansive management systems in a planned economy that manifests itself regardless of the dominant policy instruments, direct or indirect. However, excess demand in the investment sphere has different sources, dynamics, and consequences from those generated in the production sphere (even if the two spheres are obviously interrelated). It is the contention of the present writer that investment cycles and changes in the scale of inflationary gap and inflation, understood here as an increase in the cost of living, stem mostly from the former.

Consequently, this article has focused on the investment sphere and the impact of processes therein on planned economy in general and on the inflationary gap and inflation in particular. There obviously are some other sources of inflation in a planned economy but they will not concern us here. Neither cost-inflation nor inflation resulting from once-for-all phenomena, eg. crop failures, present an equally challenging task.

*An expanded version of an article published in Ekonomista, 1982, No. 3 (forthcoming).

Traditional explanations for the existence of inflationary gap in a planned economy

Before attempting to formulate an excess demand inflation model of our own, let us have a look at the traditional explanation for the demand-generated inflationary gap under planning. Such an exercise is useful for two interrelated reasons: first, as a part of the present author's model explaining the persistence of an inflationary gap, and second, as an illustration of a different role accorded to excess investment demand in the traditional model, compared with our own.

A more traditional explanation points at the so-called expansive management systems as a source of disequilibrium and, in consequence, of an inflationary gap. Thus, according to some textbooks [1, 2], planned economy has historically been saddled with expansionist systems of management, i.e. those that influenced the enterprises to continuously expand production, and, as a result, to raise demand for production factors and material inputs, without regard to the cost/price relationship of production.

The expansive character of management systems has been prevailing both under the dominance of administrative (command type) policy instruments and economic (parametric) policy instruments within the given variant of a system. Decisive in both cases for the expansive character has been the positive correlation of incentives with the volume or value of output and, at the same time, the lack of negative correlation between the former and the costs of production.

Enterprises, while drawing up production plans, declare their demand for production factors and material inputs including those cases when production costs exceed the value of output, as well as cases of artificially profitable production owing to the undervaluation of factors and inputs (in consequence of distortions in price structures). Their unlimited demand in this respect stems from the conviction that any excess costs will be 'validated' by their superiors either through subsidies or price rises. The resultant persistent excess demand for production factors and inputs when incentives influence enterprises to increase their demand without limits, has aptly been termed 'soft budget constraint' by a Hungarian economist János *Kornai* [3].

Because every enterprise behaves that way – and everybody knows that the others behave that way – additional problems arise. Trying to minimize the risk of late deliveries, machinery breakdowns, etc., and their impact on the implementation of production targets, enterprises gather excessive labor, stocks of material inputs, and spare parts to the existing equipment. That 'hamster instinct' increases further an already existing excess demand.

In a traditional inflation model no difference is made between the situation in the two sectors of the production sphere, i.e. in the producer goods' sector and the consumer goods' sector. Excess demand exists in both, resulting, among other things, in an excessive growth of employment and wages as compared with planned targets. At the same time the supply of material inputs as a rule lags behind the insatiable demand and some planned targets are not implemented (or are implemented but at a higher cost). That

development also affects the consumer goods' sector and, as a result, overall disequilibrium becomes transformed into an inflationary gap.

János Kornai refines the argument by pointing at the untenability of the traditional planners' concept of the separation of the two sectors [4]. Both the producer goods' and the consumer goods' sectors compete for the same limited resources. But because of that very fact the former sector, enjoying planners' priorities is relatively better supplied, while the latter has greater problems with plan implementation, and the result is an increasing inflationary gap.

The above traditional explanation gives us a good picture of the sources of a persistent presence of an inflationary gap in planned economies. Given the continuation of the expansive management systems, inflationary gap persists throughout the whole planning period. It is the picture of an invariant scale of the gap that the present author does not agree with. Also, investment activity in a more traditional model is dealt with in the same manner as the whole sphere of production [5], while it is exactly the different dynamics of investment activity, as compared with productive activity, over the planned period that is at the roots of a changeable rather then stable inflationary gap.

Sources of excess investment demand: an other explanation

The phenomenon of excessive demand for investment in planned economies has been widely discussed in economic literature beginning with the early 1960s when enough experience accumulated to give some evidence in this respect. Interpretations abounded as to both its sources and it characteristic features.

What these interpretations had in common was the view that excessive demand for investment has entered the picture in the early era of rapid industrialization when the relationship between investment and economic growth was held to be linear and all incentives, both formal and informal (i.e. opinions held by superiors) influenced all levels of management. Incentives influencing enterprises to expand production without regard to the costs of such an expansion resulted in persistent excess demand for investment in each planning period.

Whatever the normative valuation of a phenomenon itself, whether one regards it in positive terms as a manifestation of the 'natural right to grow' [6], or in negative ones as a kind of 'growth psychosis' [7], the above views miss one very important point, as far as the sources of the said phenomenon are concerned. If the growth of production almost at any cost is highly regarded by superior authorities within a given system of management, why should growth be achieved through investment, particularly new investment, that is generally preferred by the enterprise management? There exist obviously alternative methods of production growth, e.g. technical or managerial innovations in the first place.

But, as it is well known from the economic literature, enterprise management very reluctantly reaches for these methods. Thus it is not production growth *per se* but production growth through investment that is sought for.

It is often said that investment is the easiest method of growth [8], but that is an imprecise statement. The easiest method is regarded sometimes as tantamount to low-cost method or even cost-free method if investment is financed from the state budget – low-cost or free from the viewpoint of the investing enterprise, of course. The above explanation, while pointing in the right direction concentrates, however, on a part of the whole.

It is worth noting that even if investment has ceased to be cost-free – partly at least, as a result of various reforms in planned economies in the 1960s and 1970s – investment continues to be a preferred growth method. Repeated excessive investment and subsequent investment cutbacks are part of the economic growth pattern today just as they were in the past, with all the accompanying negative characteristics [9, 10, 11, 12, 13].

The persistence of excess investment demand in the planned economies, in the face of many economic reforms throughout the 1960s and 1970s points at the difficulties of solving the problem by affecting predominantly investment planning and implementation procedures without sufficient regard for the complex relationships stemming from the management systems of national economies that determine attitudes toward investment.

Thus the explanation of the excess demand for investment should not be sought for in the absolute attractiveness of investment but in its *relative* attractiveness. Relative attractiveness of investment is understood by the author as greater than the attractiveness of alternative methods of production growth, i.e. those through innovation.

Enterprises evaluate their growth possibilities, within the framework of the present and future plan targets, from the viewpoint of *minimizing the risk* of non-implementation of basic plan targets, be they formulated in volume or value terms. The lower the risk, the lower the probability of losing premiums and bonuses tied to the implementation of the plan (as well as losing the high regard of their superiors). From where they stand, the risk of expansion through investment, preferably *new* investment, is by far the lowest.

First, every innovation, technical or managerial, is introduced into the already existing productive facilities. And personnel operating these facilities is interested in implementing plan targets for the present planning period first and foremost. The incentive system influences them strongly in this direction. Even if innovation resulted in increased production, the risk associated with introducing it – a risk of too long a period of introduction and resultant disturbances of production schedules – causes managers generally to avoid the non-investment-based methods of expansion. Also, as it has often happened in practice, increased productivity, if successful, would result only in having the plan targets raised in the next planning period, so an extra effort could even be counterproductive, for it would be more difficult to implement the next year's plan – and to get related premiums and bonuses.

In contrast, expansion of production capacity through new investment is achieved at no great effort, and what is more important, at no risk at all. A new plant or an expansion of the existing one is being implemented *outside* the already existing capacity

and without affecting production schedules there. There is no risk stemming from new investment with respect to plan implementation.

Second, analysis of excess investment demand in terms of risk also enables us to understand the commonly displayed preference for *new* investment rather than less costly modernizing projects. Explanation is sometimes offered in psychological terms, as carryover from the early industrialization era when new plants were status symbols of a rapidly industrializing country [14]. Psychology, of course, may play a role but preferences for new investment have a perfect economic explanation. Modernizing investment projects, just as non-investment-based innovation, affect the existing productive capacity and bring with them a similar type of risk we have been pointing at above. As seen from that angle, they are certainly less attractive for enterprises relative to new investment.

It is thus in this larger framework that the relative attractiveness of new investment as a source of persistent excess demand becomes more understandable. Also, it is easier to understand the reasons of failures of various reforms trying to limit the *absolute* attractiveness of investment. Only reduction of its *relative* attractiveness *vis à vis* innovations can bring a decisive change for the better. It would require reforms of the management system that would eliminate, or seriously decrease at least, the anti-innovative bias of enterprises.

One more source of excess investment demand is worth noting, namely the relatively low cost for enterprises. Again, it is low cost in relative rather than absolute terms that is of interest here, because it would exist even after cost-free investment (cost-free for enterprises, of course) were completely eliminated. A two-tier price system established at the early industrialization era with prices of investment goods having a lower profit rate than those of consumer goods, tends to distort the price structure. As machinery and equipment are underpriced, investment costs become undervalued, too. In consequence, investment may look like a more profitable alternative than is actually the case. In spite of the critique of that price system, dating back at least a quarter of a century [15], the progress in moving away from various forms of the two-tier price system has been rather slow. It is interesting to note that Hungary, a country that has been most strongly involved in changes of the domestic price structure, has eliminated the remaining elements of the two-tier price system.

Investment cycle and its impact on the size of the inflationary gap

In the first part of the paper the present writer summed up the traditional explanation of the sources of inflationary gap in planned economies. It has been an explanation that does not provide for any special role of excess investment demand, that is simply regarded as a part of an overall excess demand constantly generated by the expansive management system. The opposite is true, in our view. Excess demand for

investment plays a specific role, displays different dynamics, and, in consequence, also has a different impact upon economic equilibrium and the formation of the inflationary gap (and inflation itself.)

Let us begin with the theorem on the cyclical character of investment in planned economies defined here as fluctuations of the growth rate (or sometime even an absolute fall) of investment from year to year. The phenomenon of investment fluctuations has been at the center of many debates, particularly in the 1960s [16], when enough empirical evidence has accumulated to make discussions more meaningful.

Agreeing with those who hold the view on the cyclical character of investment, the present writer does not accept the most often quoted interpretations explaining the said phenomenon. Neither Oskar Lange's theory of 'reinvestment cycles' resulting from coincidence in time of the aging of a large part of productive capacity [17], nor often repeated ideas of a two-phased cycle, one of investment expansion and an other of reaping the benefits of investment satisfy in our view as to what is a 'real-life' source of investment cycles. The latter view is a description of a cycle rather than its explanation anyway. A theory of disproportions in the growth rates of investment and of production of the manufacturing sector versus that of the extractive one, advanced in the mid-sixties by a Czech economist Josef *Goldmann* [18], does not appeal to the present writer, either. The above comment is not intended to mean that, from time to time, reinvestment needs do not coincide or that slower growth of investment in extractive industries does not put a brake on the expansion of manufacturing ones. But all these developments are incidental, once-for-all phenomena, while investment cycles, repeating themselves, obviously must have some regularities as a source.

These regularities stem from the workings of an expansive management system in a planned economy. It has already been explained *why* enterprises tend to choose investment over innovation as a way to expand production. Let us shift now our attention to the question *how* that tendency is translated into investment expanding and contracting in a cyclical pattern.

We begin with the process of construction of a medium-term investment plan, for, in our opinion, it is the particular features of its construction and implementation under the given management system, that generate investment cycles. Enterprises presenting their investment demands to the authorities are trying to present the proposals in the best possible light in order to obtain the necessary funds. With that aim in view they often underestimate the costs of proposed investment projects and/or overestimate the results. It is the time-honored method of 'hooking into the plan' stemming from the conviction that cost overruns will be validated through increased funding under pressure of the argument that giving up the completion of unfinished investment projects will entail losses for the national economy [19]. This is by the way, just another manifestation of Kornai's 'soft budget constraint' principle.

Investment proposals of enterprises become aggregated as they move up the institutional hierarchy of a planned economy. Even if there are some preliminary limits drawn by central planners for ministries and by the latter for associations of enterprises

they are by and large disregarded, as each institution, given the incentive system, is vying to expand production. Thus, after aggregating the demand for investment at the central level it usually turns out that the demand by far exceeds the funds (and capacities) earmarked for investment for the next planning period. In consequence, cuts are ordered down the line.

However, there is no possibility at the central planners' level to evaluate proposals on a project-by-project basis (it exists with respect to a few major projects and even here rather in general terms only). Cuts are of financial character usually. Ministries are ordered to cut planned investment expenditures by a specified amount or percentage. The procedure is repeated at each level. As a result, a few projects are dropped, while each remaining project is allocated somewhat less than requested. Cuts from above are thus increasing the extent of distortions built-in from below, for real costs of planned investment have already been often underestimated.

It follows from the above that the five-year plan starts with built-in distortions in its investment component. These distortions exercise, over time, an increased pressure on an aggregate equilibrium (or, rather, low-scale disequilibrium stemming from excess demand in the production sphere). Disequilibrium begins to grow. The producer goods' sector of manufacturing and the construction sector are trying to fulfill the investment demand but it is here that underestimated costs and/or overestimated results exert their strongest influence. On the one hand new factories whose production has already been included into the planned production figures do not reach expected capacity or do not even begin production, on the other expenditures have already been made and wages, premiums and bonuses paid out. To the extent that unfinished investment projects belong to the consumer goods' sector and planned production does not reach the market disequilibrium is translated into inflationary gap.

Both aggregate disequilibrium and inflationary gap reach their peaks usually in the middle of the medium-term plan, i.e. beginning with the early 1960s in the middle of the five-year plan. Subsequently, under pressure of increasing excess demand, the investment and production plans are extensively revised. Interestingly, only now, when the scale of cost overruns and delays begins to be recognized, cuts in investment plans are more project rather than funds-oriented. Many projects are "mothballed", with further construction postponed until the next medium-term plan, and some others discontinued altogether. It is at this point that the economy begins to bear the burden of the so-called 'costs without results'* for mothballed or discontinued projects appear only on the one side of the ledger.

One of the consequences of the developments described above is that the net material product in centrally planned economies is more strongly correlated with investment *efforts* than with investment *effects:* the NMP growth rate generally moves to a degree in tandem with the investment growth rate but the lagged impact of the latter on the former, reflecting effects of earlier investment efforts, is definitely weaker. *Table 1*

*For a good definition see [20].

Table 1

Product-moment correlation coefficients (r) of the two variables: investment and net material product growth rates in the 1961–1977 period

	Investment and NMP growth rates		
	concurrent	with investments lagged 1 year	with investments lagged 2 years
Poland	0.43	0.52	0.09
Bulgaria	0.46	0.12	–0.12
Czechoslovakia	0.53	0.55	0.31
Hungary	0.31	–0.15	–0.07
G.D.R.	0.41	0.37	–0.46
Romania	–0.14	–0.27	–0.33
U.S.S.R.	0.46	–0.02	–0.23

Source: data on investment and net material product growth rates calculated from CMEA Yearbooks of various years.

shows the pattern in this respect for seven planned economies. Just when one could expect the effects of earlier investment on the production growth rate to be felt more strongly, after two years, the correlation coefficient drops sharply or even turns slightly negative (the only exception seems to be Romania where the association between the above variables is slightly negative all the time).

The remainder of the five-year plan is usually a period when no substantial investment projects are started while those started earlier are being finished. If the share of the projects in the consumer goods' sector finished in that period is sufficiently large, further increases of the inflationary gap are stopped or the gap may even decrease to an extent. It happens, however, sometimes that the inflationary gap is so large that it becomes impossible to close it through increased supply. A decrease in excess demand becomes necessary at the same time to restore a measure of an equilibrium. It is then that price increases are declared. Casual empiricism confirms the above explanations as price increases usually take place in the second part of medium-term planning periods. Thus, at the end of that period, an equilibrium, or low-scale disequilibrium, is restored and planned economy enters the next cycle . . .

The above description gives us a standardized, 'model' explanation of the investment cycle and its impact on the inflationary gap. The cycle is regarded here as a phenomenon *endogenous* to the management system (while, for example, Lange's 'reinvestment cycle' is obviously exogenous). The expansive character of the system increases the relative attractiveness of investment and decreases that of innovation. Resulting excessive propensity to invest builds specific distortions into the planning process, generating cycle after cycle.

More recently a descriptive model of a four-phase investment cycle has been elaborated by Tamás *Bauer*, later tested – in rough terms – by another Hungarian economist Mária *Lackó* [21, 22]. Model explanations presented above do not differ much in the description of the cycle from the Bauer model. However, even if they are similar as far as the description of the model is concerned, they differ substantially in explaining the main source, or sources, of investment cycles in planned economies.

For Bauer the explanation lies in an easier fulfilment of planned production targets through investment than without it, while managerial interest in increasing the size of subordinated enterprises also plays a role (but a complementary one) [23]. For the present writer both sources mentioned above are complementary while the most important one is still another, namely *the lower risk* of expanding and increasing production through investment rather than through innovation. Moreover, Bauer's cycle is time-unrelated while our explanation refers to the planning cycle as a time span of the investment cycle, with the latter generally beginning and ending within the five-year plan period.

Returning to the relationship between the investment cycle and inflationary gap one more observation is worth repeating at this point. The explanatory model proposed by the present writer points at a changeable, fluctuating size of the inflationary gap rather than at a stable one as in the traditional model. Figure 1 presents the shape of the curve, according to the present writer, in the context of the medium-term, i.e. five-year planning period.

The size of the inflationary gap has been different time and countrywise. It has been dependent on the ability to institute more project than funds-oriented investment

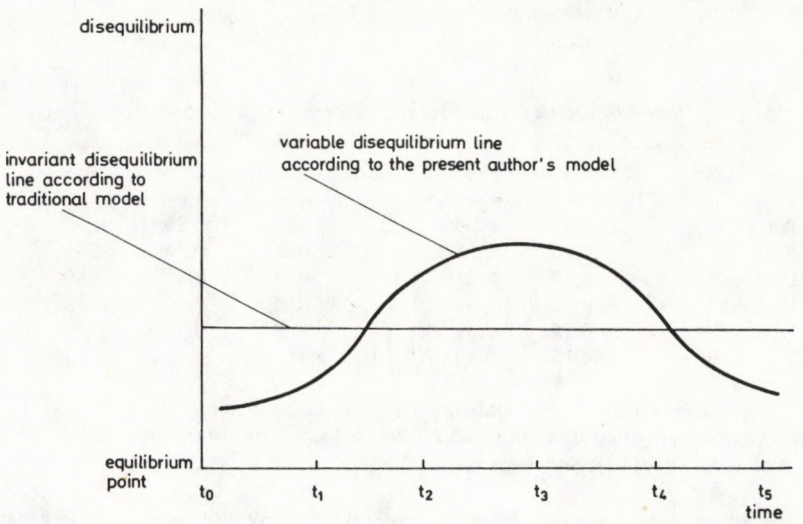

Fig. 1

cuts during the planning phase, different timing in applying the brakes on investment (the longer the decision is postponed, the larger the inflationary gap), the choice of investment projects to be implemented and those to be delayed when plan changes are instituted (production growth of consumer goods is of importance at that point), etc.

A certain weight can also be ascribed to the role of economic policy-makers whose arbitrary decisions may further upset the equilibrium by introducing new investment projects without removing some existing ones, thus increasing outlays – and disequilibrium. Poland, for example, passed twice through such periods of increased arbitrary interventions: the first time during the 1950–1955 plan and, recently, in the seventies. In the latter case both five-year plans (1971–1975 and 1976–1980) ought to be regarded as *one* cycle, for policy-makers not only introduced too many pet projects along the way but also ignored warning signals and allowed investment, and disequilibrium to grow throughout the whole five-year period until 1975. A very large-scale disequilibrium resulted in a longer and more precipitous absolute fall in investment.

It is difficult to properly assess the size of the inflationary gap in each case both over time and comparatively, i.e. accross nations. A large part of the inflationary gap is, after all, translated into inflation interpreted as a rise in the cost of living (see next section of the paper). There is no universally accepted indicator in this respect, either.

An indicator used in *Table 2,* a savings-to-retail-trade sales ratio, is presented for six planned economies as an illustration only. It points at the steady increase of the ratio over the 20-year period for the countries in question but it is difficult to go beyond that and interpret the obtained results. First, different societies have historically had different savings habits and, second, total savings consist of both voluntary and involuntary savings, the latter constituting the inflationary gap proper.*

Table 2

Savings-to-retail-trade sales ratios for the period 1955–1975[a]

Country	1955	1960	1965	1970	1975	1979
Poland	0.02	0.08	0.15	0.26	0.36	0.36
Bulgaria	0.16	0.35	0.50	0.71	0.94	0.95
Czechoslovakia	0.09	0.21	0.32	0.39	0.55	0.59
Hungary	0.02	0.08	0.23	0.30	0.37	0.43
GDR	0.15	0.39	0.60	0.82	0.91	1.00
U.S.S.R.	0.11	0.12	0.17	0.30	0.43	0.58

[a]Romania does not publish data on savings of the population

Source: data calculated from CMEA Yearbooks, various issues, and the Polish Statistical Yearbook, various issues

*A more detailed assessment of the Czechoslovak economy [24] does not answer that question either.

Inflationary gap and the rise in the costs of living: a note on their multiple linkages

In our previous considerations causal links have been explained that lead from medium-term investment plan to investment cycle, to aggregate disequilibrium, to inflationary gap – all under the impact of expansive management systems (be it of more command/rationing or more parametric-oriented nature). In this section we turn our attention to multiple linkages between inflationary gap and inflation understood here as the rise in the costs of living.

The phrase 'multiple linkages' is stressed here for it is a time-honored theorem that in the centrally planned economy there is no spontaneous transmission of inflationary gap into inflation as traditionally understood i.e. into a rise in the consumer price index. The basis of the theorem is price controls existing to larger or smaller (but always high) degree in these economies.

What is then the answer to the growing disequilibrium and growing inflationary gap? On the one hand the investment program is curtailed, reducing the *possibilities of further increases of* the inflationary gap (due to lower growth rate of the wage fund in the producer goods' sector of manufacturing and in construction). On the other hand a once-for-all decision to raise prices decreases the *already existing* inflationary gap. The latter decisions, if undertaken at all, are usually made when the inflationary gap has reached its peak or later, i.e. in the second part of the medium-term planning period.

However, price increases do not necessarily follow the appearance of an inflationary gap: they may be substantially delayed while other attempts at reduction of the gap are undertaken. Change in the mix of unfinished investment projects to be continued, as compared with the original mix at the beginning of the five-year plan, in favour of investment in the consumer goods producing sector may reduce the inflationary gap.

That is one of the reasons why some scholars regard the consumer price index, reflecting changes in retail prices, as a very imprecise measure of inflationary pressures in a planned economy. It has been rightly pointed out by János Kornai that shortages, i.e. manifestations of the inflationary gap, can be reproduced with either rising, stable or falling prices [25].

The lack of spontaneous transmission of the inflationary gap into inflation measured by the consumer price index does not mean, however, that there are not other, less visible, 'transmission belts' in existence. To begin with, there are certain developments that result in a rise in *price level* without a rise in individual prices. Béla *Csikós-Nagy* singles out three such possibilities [26].

– the first, and crudest, are changes in the assortment of goods. If the share of supplies of a given product (included in the representative basket of goods on which the consumer price index is based) shrinks substantially and a more expensive product takes a larger share of the market and the above change has not been registered, the level of prices and the cost of living increase;

– the second is the change in the quality of products. If quality decreases due to shoddy craftsmanship or the use of lower quality raw materials and/or intermediate products and prices are left unchanged, the level of prices increases again;

– the third is the appearance of new products on the market whose prices are disproportionately high in comparison with close substitutes already available on the market. If quality or functional characteristics are not commensurate with price differentials, another increase in price level takes place.

Moreover, expansive management systems, rewarding increases in the scale of economic activity, whether in volume or in value terms, and coupled with what is sometimes called 'finished product fascination' [27], result in the creation of another 'belt' transmitting the inflationary gap into the rise in the cost of living. Permanent shortages in small spare parts to durable consumer goods force consumers to buy larger, and more costly, components or even new finished products, thus increasing the cost of living in this way as well [28]. Let us note in passing that the said phenomenon has the same impact in the sphere of production, substantially increasing production costs. Net effects are however different because consumers, contrary to enterprises, do not enjoy a 'soft budget constraint' . . .

Finally, a well recognized phenomenon is a 'secondary distribution'. Illegal sales of goods in short supply either under the counter or outside the normal distribution channels raise the cost of living – and do it in a way absolutely impossible to measure.

Some of these increases in the cost of living are very difficult to measure, some others may even be not measurable at all. But that does not mean their contribution to inflation is necessarily a small one. From rough assessments made by the Polish economist J. *Sliwa* for the 1965–1968 period only changes in the assortment of goods contributed in 30.9% to the overall increase of retail trade sales in Poland, with the increase in volume contributing in 52.4% and the rise in prices in 16.7%. Thus increases in the cost of living, coming through one transmission belt only were twice as high as increases coming from officially raised prices [29].

The above description of multiple linkages between inflationary gap and costs of living leads the present writer to the conclusion that the theorem on the lack of a spontaneous transmission of inflationary gap into the rise in prices, even if valid, is not relevant for the issues considered here. Even if there are no spontaneous changes in prices, there are spontaneous – i.e. uncontrolled – changes in the cost of living. It is thus legitimate to link inflationary gap with inflation understood as an increase in the costs of living.

Some remarks on policies reducing demand inflation in a planned economy

In the previous sections a transformation of the investment cycle into the inflationary cycle has been described by the present writer. But even if the investment cycle has been pointed at as the main source of cyclical increases in demand inflation, it

does not follow from the above that improvements in the management system ought to overly concentrate on changes with respect to investment activities (planning, implementation, cost accounting, incentives, etc.). An endogenous character of investment cycles with respect to management system has been stressed by this author, with some important consequences.

Thus, attempts at reducing an absolute attractiveness of (new) investment in planned economies will not yield fully satisfactory results for even reduced absolute attractiveness has always been greater – in spite of various reforms – than the attractiveness of other methods aimed at increased production. Consequently, a relative attractiveness of the latter has to increase as compared with investment, particularly new investment. And to this end economic reforms, removing, or at least considerably reducing the anti-innovative character of management systems applied so far in a planned economy have to be introduced.

As an anti-innovativeness is positively associated with expansiveness of the management system, reforms aiming at removing the latter feature affect also the former. The second stage of Hungarian economic reforms that began in 1980 seems to follow that path and will supply some empirical evidence in this respect.

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ИНВЕСТИЦИОННЫЕ ЦИКЛЫ И ИНФЛЯЦИЯ ЧРЕЗМЕРНОГО СПРОСА В ПЛАНОВЫХ ХОЗЯЙСТВАХ: ИСТОЧНИКИ И ПРОЦЕССЫ

Я. ВИНЕЦКИЙ

Автор пытается связать два явления, которые традиционно анализируют раздельно большинство экономистов, а именно, инвестиционные циклы и инфляцию спроса (по мнению автора, это второе является последствием первого). Известное предпочтение капиталовложений как инструмент достижения желаемого роста производства происходит из систем, так называемого, экспансивного хозяйствования, в которых стимулирование руководителей и рабочих положительно коррелирует с физическим объемом или стоимостью продукции и не отрицательно — с издержками производства.

В этих системах, будь то варианты систем прямого директивного или косвенного параметрического управления, новые капиталовложения всегда были сравнительно более привлекательными средствами увеличения производства, чем модернизация уже существующего производственного аппарата (не говоря уже о нововведениях). Это положение порождает постоянное стремление к росту капиталовложений. Поскольку центральные плановые органы не имеют возможности оценить отдельные проекты, в которых, как правило, издержки недооцениваются, а выгоды переоцениваются, то они принимают среднесрочные планы с встроенными искажениями. Эти искажения приводят в свою очередь к растущему инфляционному разрыву, который становится особенно серьезным обычно в середине пятилетнего планового периода. Вследствие этого планы капиталовложений урезываются, чтобы востановить равновесие, и повышают цены (часто с запаздыванием). Инфляционный разрыв, хотя и уменьшается, но полностью не исчезает, и положение возвращаются к тому, каким оно было в начале цикла.

Однако, инфляционный разрыв превращается в фактическую инфляцию только в период объявленных повышений цен. За ряд лет создается много каналов, через которые инфляционный разрыв превращается в инфляцию, понимаемую как повышение стоимости жизни. Автор указывает на некоторые из этих каналов, которые повышают уровень цен, без повышения цен и приходят к выводу, что в централизованно планируемой экономике инфляционный разрыв не трансформируется стихийно в повышение цен, но вместо этого существует механизм его стихийного — т. е. нерегулируемого — превращения в повышение стоимости жизни (без изменения существующих цен).

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I. LAKOS

HUNGARIAN EXPORT PERFORMANCE IN WESTERN COUNTRIES

The rising tendency of the market share of Hungarian exports to the OECD region was broken in the second third of the 1970s. Commodity shipments representing increasing volumes and values were disqualified because Hungarian export performance could not cope with the expanding external demand under ever more disadvantageous conditions of the world economic situation. Knowing the equilibrium position and the import needs, it is still clear that, in spite of persistently adverse world market conditions, the market positions need to be improved in order to achieve the long-term economic objectives of this country. Analysing the development of the export share over the past one and a half decade as well as some of its factors that could be disclosed on the basis of foreign trade statistics, the author arrives at the conclusion that the accomplishment of the said task is not thwarted by the adversity of external conditions alone. The changing of the commodity pattern which is disadvantageous in more than one respect is one of the most important precondition.

Between 1965 and 1979, Hungary's western export calculated in dollars increased at an average rate of 16,5 per cent a year. During the same period foreign purchases of OECD countries increased at an annual average rate of 16,7 per cent.* This means that during this about one and a half decade long period covered by the present article Hungary's western export, showing more vigorous development than total export, was only slightly behind the expansion of external demand, although the world market developments painfully handicapped the sales of Hungarian commodities. True, this result, remarkable in itself, was due to the fact that in the 8 years prior to the first oil crisis the OECD countries had increased their Hungarian purchases at an appreciably higher rate than their total import. Thus it is also evident that after 1973 the relationship between the two growth rates took a much more disadvantageous turn from the Hungarian point of view. While the value of total OECD imports accelerated between 1973 and 1979 by nearly 3 percentage points over the previous period to 18,3 per cent, Hungarian export lost over 5 percentage points from its previous dynamism and its expansion only amounted to 13,9 per cent (and excluding the record increase in 1979 only to 10 per cent).

In the present circumstances, when the state of the country's external equilibrium is the tight bottleneck of Hungary's economic growth, it is justly asked whether it is

*Growth rates were calculated on the basis of KSH (Hungarian Central Statistical Office) and UN data. OECD import statistics state 17.1 and 17.2 per cent for the growth rates of Hungarian and total imports, respectively.

reasonable to expect, in spite of the durably adverse world market conditions, that the disadvantageous trend experienced since the outbreak of the first oil crisis should be changed in the future, ie., *that western export should increase over a long run at a rate exceeding the expansion of external demand.* This is in our view the basic precondition of the feasibility of our long-term economic objectives such as a rising standard of living and a decreasing lag in world economic competition while keeping the volume of foreign debts between suitable limits, because it is unlikely that the moderate increase of western import planned for the medium term could be maintained for a longer period without serious economic consequences. The national economic importance of imports from advanced industrial countries is, namely, steadily increasing. The products of that region have already proven to be indispensable from the point of view of purchasing raw materials, semifinished products, parts and units missed here and not available from other sources, yet needed for acquiring the up-to-date technology required for technical-technological advancement, for supplying the public with consumer goods, and also for domestic production, especially of export items. Moreover, in the past years the demand of the Hungarian economy for western imports has been increased by a special external factor too. Since lately it has become a strengthening aspiration of socialist countries to sell their products that could earn convertible currency in markets outside the CMEA, "certain commodities which had been traditionally imported mainly from the socialist countries can no longer be imported from there in sufficient quantities and the difference must be purchased from outside the CMEA countries . . . the growing limits to the imports from CMEA countries are not restricted to these traditional, key commodities: they are characteristic of imports from there in general" [1].

A study of the trend during the past one and a half decade of the Hungarian export positions in western markets as well as some of the factors determining it will answer the above question and will also cast light on the intricate system of conditions of a substantial and steady enhancement of export performance.

Relative export performance – an international comparison

The comparison of growth rates has already indicated that the decrease in the market share of Hungarian exports during the 5 years following the outbreak of the first oil crisis made the considerable improvement of its position reached in the previous period null and void. (See *Table 1*) Considering the whole of the almost one and a half decade between 1965 and 1979, the share of our export relative to the total imports of the given country increased in only 7 countries from the 17 OECD markets covered by the analysis. The most significant improvement of position took place just in the market of highly advanced overseas economies in whose purchases Hungarian commodities have represented a paltry percentage until now and which play an insignificant role in

Table 1

Share of Hungarian exports in the imports of the world, of major regions and of the industrial countries

	1965	1973	1979
World*	0.7	0.6	0.5
European socialist countries**	4.8	3.2	3.1
Developing countries	0.2	0.2	0.2
Industrial countries	0.22	0.28	0.22
Austria	1.60	1.95	1.34
Belgium	0.11	0.10	0.12
Canada	0.03	0.06	0.05
Denmark	0.23	0.27	0.21
France	0.14	0.16	0.12
FRG***	0.38	0.51	0.47
Greece	0.84	0.64	0.95
Italy	0.65	1.03	0.47
Japan	0.00	0.04	0.02
The Netherlands	0.17	0.21	0.17
Norway	0.13	0.17	0.13
Spain	0.07	0.09	0.07
Sweden	0.29	0.32	0.29
Switzerland	0.64	0.64	0.32
Turkey	1.34	0.48	1.53
United Kingdom	0.12	0.12	0.12
United States	0.02	0.03	0.05

*Excluding the People's Republic of China, Mongolia, North Korea and North Vietnam

**Including Yugoslavia

***Excluding import originating from the GDR

Source: KSH (Központi Statisztikai Hivatal) Foreign Trade Statistical Yearbooks 1970, 1975, 1979; UN Monthly Bulletin of Statistics, March 1968, May 1981.

Hungarian exports. Although the successes scored in these markets with extremely high requirements should be attributed to the low "starting value" of export in the first place, they are nevertheless remarkable from the point of view of our export promotion ambitions. They seem to prove that *chances are usually good for increasing the marginal market shares* for while the expansion of deliveries to traditional markets require increasing economic performance, in so far on insignificant markets considerable achievements can be reached simply by marketing work.

The position achieved in the advanced world does not appear as bad in the international comparison. The share of Hungarian deliveries in the total foreign purchases

of the OECD member countries was actually the same in 1977* as in 1965. On the other hand the share of intra-OECD trade and especially the share of OECD imports originating from small European socialist countries, that, similarly to the Hungarian share, had been still climbing in the second half of the sixties and in the early seventies, dropped also with respect to the whole of this period. Although the share of deliveries from the Soviet Union (as well as from Poland and Romania from the group of the small European socialist countries which transact significant exports of raw materials and fuels) and from the developing countries was increasing but this was clearly the outcome of rising crude oil prices. The impression will be even more favourable if the trade in fuels is not considered. Calculated this way, the share of Hungarian exports increased between 1965 and 1977 – in spite of the deterioration in the position that could be observed as from 1974 – from 0,24 per cent to 0,27 per cent, ie., more strongly than the share of turnover between the OECD countries. By the way, the comparison of the changes in the market share computed in two ways gives a good idea about the dominating role of the oil price, surging from 2,5 dollars to 13 dollars a barrel in four years' time, in the changing relative export achievements of the different regions.

Table 2

*Market shares in the import of the OECD region**

	On the basis of total imports			On the basis of import excluding fuels		
	1965	1973	1977	1965	1973	1977
Hungary	0.22	0.27	0.22	0.24	0.31	0.27
OECD	68.5	73.9	66.4	73.7	80.5	80.8
USSR	1.2	1.2	1.6	1.0	0.9	0.9
Small European socialist countries**	1.8	1.8	1.5	1.8	1.9	1.7
Developing countries	23.2	21.2	28.8	17.7	14.9	14.8

*Share of import originating from the different countries, and groups of countries, in OECD imports

**Including Yugoslavia, excluding the turnover between the GDR and the FRG

Source: OECD Trade by Commodities, Market Summaries: Imports 1965, 1973, 1977

*In some cases international comparison can be made exclusively on the basis of OECD import statistics and its latest issues available to us contain data for the years 1977 and 1978. It is also noted that computations done according to those sources and according to the Hungarian Foreign Trade Statistical Yearbook do not give precisely the same result owing to different ways of recording turnover and transportation costs.

About the role of external factors

Except for fuels only one commodity section of Hungarian export, namely, food and live animals, increased at a slower rate than external demand – and almost exclusively owing to the restrictive measures taken against import of live animals by the EEC in 1974. Although western positions strongly improved with respect to several commodity divisions belonging here, mainly meat and meat preparations and feedstuff, yet this proved to be insufficient to balance the losses suffered by export of live animals (see *Table 3*). The degree of these losses is indicated by the fact that the share of Hungarian export without live animals turnover increased from 0.19 percent to 0.21 percent between 1965 and 1977.

The market share of the second biggest section of Hungarian exports to OECD countries, namely, the so-called miscellaneous manufactured articles (SITC 8) showed a remarkable increase from 0,32 to 0,46 percent over the whole of the examined period thanks to the export of clothing.

However, in the second half of the 1970s neither of the divisions of the section could score any improvement in its export position. The case of the other small European socialist countries was similar because, while the share of their deliveries in the import of the OECD region had increased with respect to several divisions until 1975, in the subsequent period only their furniture export was able to avoid the loss of ground. On the other hand, during the analysed period the developing countries steadily increased (usually multipled) their market shares in all of the divisions belonging here. The weight of Hungarian commodities rose from the previous 0,41 percent to 0,55 percent in the OECD oil and fats imports as the export of animal fats caught up with that of vegetable oils and fats. As a result of this unbroken and dynamic development this section showed the biggest market share in the Hungarian export to industrial countries in 1977. Owing to an increase in their share by about 40 percent, the beverages and tobacco, crude materials listed under section 2, as well as chemicals reached a somewhat bigger weight in total export. With the exception of beverages and tobacco in which small European socialist countries, too, were able to improve their market positions, the weight of both the small European socialist countries and of the developing countries dropped in the foreign purchases of the OECD from the said sections.

The market position of manufactured goods classified by materials and giving about one-fifth of the OECD countries' import from Hungary was also better in past years than of total export, and in this fact again, the results of the textile exports manifest themselves. The position of the biggest division of the section, iron and steel, was strongly fluctuating during this period and in 1977 it was worse than 12 years earlier. The market share of the Hungarian export items belonging to section 7 showed the highest rate of growth by almost doubling – though still remaining very low. This is attributable to the very rapid growth of the export of electrical machinery. The market share of the latter products reached that of total export which cannot be said about the machine exports of either the socialist or the developing countries.

Table 3

*Share of imports originating from Hungary in the total imports of the OECD region by Sections and divisions** (per cent)

Section and division	1965	1973	1977
0 Food, live animals	0.63	0.79	0.53
00 Live animals	6.24	7.63	2.92
01 Meat and meat preparations	1.30	1.24	1.90
05 Fruit and vegetables	0.55	0.67	0.55
1 Beverages, tobacco	0.18	0.21	0.25
2 Crude materials	0.14	0.22	0.23
24 Wood, lumber, cork	0.28	0.37	0.39
29 Other animal and vegetable crude materials	0.63	0.79	10.1
3 Mineral fuels, lubricants and related materials	0.07	0.04	0.04
33 Petroleum, petroleum products	0.06	0.04	0.04
4 Animal and vegetable fats, oils, vax	0.41	0.56	0.55
5 Chemicals	0.16	0.21	0.26
51 Chemical elements and compounds	0.22	0.36	0.41
6 Manufactured goods (classified by material)	0.20	0.30	0.25
65 Yarns, fabrics, etc. made of textiles	0.28	0.29	0.32
67 Iron, steel	0.47	0.60	0.43
68 Non-ferrous metals	0.10	0.32	0.20
7 Machinery, transport equipment	0.05	0.07	0.09
71 Non-electrical machinery	0.04	0.05	0.07
72 Electrical machinery	0.12	0.20	0.22
8 Miscellaneous manufactured articles	0.32	0.45	0.46
84 Clothing	0.52	1.12	1.10
89 Other manufactured products	0.24	0.17	0.16

*The table contains the main commodity groups representing a weight over 2 per cent in the OECD imports from Hungary for some longer time.

Sources: OECD Trade by Commodities, Market summaries: Imports, 1965, 1973, 1977

Thus the shaping of the market share was strongly determined by two external factors asserting themselves as from the second third of the 1970s, namely, *the agro-protectionism of the Common Market and the explosion of crude oil prices.* The impact of the above factors is illustrated by the fact that during the almost one and a half decade discussed here the export share calculated without fuels and live animals increased by 30 percent – at a higher rate than the weight of the total export of developing countries – and recorded 0,26 percent in 1977. (The increasingly expensive primary energy relatively squeezed out the Hungarian exports from the OECD as from 1974 because in part it made world market competition tougher and in part it increased the share of primary energy in the total value of world trade.) However, in the light of export opportunities frustrated by quality problems, long terms of deliveries, shortcomings of servicing and supply of spare parts and of marketing work or, for example, by occasionally insufficient production capacities or frequent changes in the incentive system, we must not fail to notice the influence of the relatively weak Hungarian export capacity rooted in internal economic problems.

However we evaluate the Hungarian export performance on the said grounds, considering the balance of payments problems it has to be stated to be unsatisfactory. The growth of Hungarian exports to advanced industrial countries has proven to be enough to roughly maintain the market share recorded one and a half decade ago, which many countries of the world could not do. Considering, however, that the share of Hungarian imports from this region expanded in the said period by more than 17 percent, the external equilibrium of the economy could have only been secured with an export dynamism sufficient for a substantial improvement of the export position.

The commodity pattern of exports and external demand

The development of the market share *was under the determinative influence of the commodity pattern of exports unfavourable in many respects.* It is a long known fact that while the macrostructure of total Hungarian deliveries to foreign markets is on the whole similar to the export of industrial states (in 1978, the share of foodstuffs, beverages and tobacco was about 20 per cent, of raw materials and semi-finished products 30 per cent, and of industrial finished products 50 per cent), the Hungarian exports to the OECD have up to now shown the export pattern of a rather underdeveloped country in spite of the development attained in the period under study (the corresponding shares are as follows: nearly 30, more than 50, and 35 per cent, respectively).

The basic typical feature of this pattern is the dominance of unprocessed products or of agricultural and industrial basic materials and products at a low degree of processing. The OECD region showed a rather slack demand for most of such commodities, moreover, it offered an opportunity for marketing such commodities rather to the member countries of the organization. (For example the rate of turnover between OECD countries in food and live animals did not reach 50 per cent in 1965 while it

amounted to more than 57 per cent in 1977. The share of internal turnover in raw materials for other than nutritive purposes increased at an even higher rate.) Commodities with a dynamic demand (fuels, industrial products and from them first of all those representing up-to-date and high technical and technological standards) play a relatively small role in the Hungarian export. (See *Table 4.*) Whereas it is obvious that, apart from other factors affecting the development of the export share, the bigger the weight of *products with a dynamic demand* in total exports, the easier it will be to improve the market position. Namely, when these represent a higher share in the export of any given country than in the import of the absorbing market, then this country can improve the position of its total export even in case the value of its deliveries by products has not increased at a higher rate than demand in the absorbing market.

The method [2, 3, 4] analysing the constituents of the development of the market share set out from this relationship, and makes it possible to appreciate also the order of magnitude of the decisive influence of differences existing between the patterns of external demand and of Hungarian exports (and in the tendency of changes in the patterns). The method is essentially the following: *Three factors* of the relative growth of export (to be called relative output), ie., the growth relative to the import dynamics of the absorbing market, are separated by means of so-called theoretical indexes, namely the structures by commodities and markets as well as the impacts of other factors affecting market positions. The first theoretical two-factor index (X_{sh}) to be computed shows the theoretical growth of the export a country would have achieved if the market share of its export had remained constant in each absorbing market with respect to each product, ie., if the growth of its export of each commodity to each market showed the same rate as the total import of each partner country of the given commodity. Subtracting this value from the actual export growth index the "part" of the relative output is obtained which may be attributed to the variation in the export share by commodities and by absorbing markets, ie., the impact of "other factors" not distinguished from one another, is obtained. Thereafter the theoretical one-factor index (X_s) is computed, showing the assumed export growth that could have been attained by any country if the market share of each of its export commodities remained unchanged in the total of its absorbing markets, that is, if the growth of its exports of the different commodities showed the same rate as external demand towards them. By subtracting this from the two-factor index the impact of the structure by markets is obtained. (This effect is separated on the basis of the same logics as mentioned above in connection with the commodity pattern. Namely, the bigger the share of dynamically expanding markets in the total export of a country, the easier it is to improve the market position.) The impact of the commodity pattern is given by the difference between the one-factor index and the growth rate of imports of the absorbing markets.

Table 4

*Commodity pattern of Hungarian exports and the growth of OECD imports**

Section and division	Commodity pattern of total Hungarian exports (per cent)			Commodity pattern of Hungarian exports to the OECD (per cent)			Growth of OECD import (1965 = 100)
	1965	1973	1978	1965	1973	1978	1978
0 Food, live animals	18.1	21.4	18.1	42.7	38.0	26.5	463
00 Live animals	4.1	4.9	3.3	16.9	17.4	5.2	406
01 Meat and meat preparations	4.9	4.2	5.7	12.1	10.9	11.5	475
05 Fruits, vegetables	6.3	5.9	4.7	7.7	6.0	4.4	413
1 Beverages, tobacco	2.6	2.5	2.2	1.5	1.2	1.2	484
2 Crude materials	3.4	3.9	5.0	8.2	8.8	11.1	366
24 Wood, lumber, cork	0.5	0.9	0.7	2.5	3.2	2.0	498
29 Other animal and vegetable crude materials	0.5	0.5	1.0	1.6	1.3	2.7	497
3 Mineral fuels, lubricants and related materials	1.4	0.8	3.4	2.9	1.8	6.8	1301
33 Petroleum, petroleum products	1.1	0.6	3.0	2.2	1.2	6.7	1336
4 Animal and vegetable oils, fats and vax	0.5	0.4	0.7	1.4	1.3	1.4	415
5 Chemicals	6.8	6.4	8.9	4.7	5.0	10.3	848
51 Chemical elements and compounds	0.6	0.6	–	0.7	1.3	–	–
54 Medical and pharmaceutical products	4.7	4.5	4.1	2.1	2.8	3.4	1031
6 Manufactured goods (classified by material)	18.4	16.5	14.7	21.5	24.5	17.4	595
65 Textile yarns, fabrics, etc.	5.1	3.1	3.1	6.5	3.9	3.5	558
67 Iron, steel	6.9	5.1	4.3	9.5	11.3	6.2	566
68 Non-ferrous metals	1.0	2.4	2.3	2.4	4.5	2.4	391
7 Machinery, transport equipment	34.8	34.2	34.5	4.5	7.2	11.5	949
71 Non-electrical machinery	14.3	13.6	–	1.4	1.7	–	–
72 Electrical machinery and equipment	7.9	8.7	–	2.6	4.8	–	–

Table 4 (cont.)

Section and division	Commodity pattern of total Hungarian exports (per cent)			Commodity pattern of Hungarian exports to the OECD (per cent)			Growth of OECD import (1965 = 100)
	1965	1973	1978	1965	1973	1978	1978
8 Miscellaneous manufactured articles	14.0	13.9	12.5	12.6	12.2	13.8	1061
84 Clothing	4.7	4.7	4.6	4.3	5.6	6.8	1238
85 Other manufactured products	2.5	–	–	4.9	–	–	832
Total	100.0	100.0	100.0	100.0	100.0	100.0	720

*In a breakdown by main commodity groups representing a weight over 2 per cent in Hungarian exports to the OECD for some longer time. Note that the commodity patterns computed on basis of the Hungarian Foreign Trade Statistical Yearbook and OECD statistics show some differences. This is because of the different ways of classifying the commodity groups. For example articles registered by the Hungarian Statistics as medical and pharmaceutical products are entered as chemical elements and their compositions in the OECD countries' imports.

Source: KSH Hungarian Foreign Trade Statistical Yearbook 1965, 1973, 1978
OECD Trade by Commodities, Market Summaries; Import, 1965
OECD Statistics of Foreign Trade, Serie B 5/ Jan–Dec. 1978

The formula of the above is as follows (applied to Hungary's exports to the OECD):

$$(X_m - X) = (X_m - X_{sh}) + (S_{sh} - X_5) + (X_s - X)$$

relative output	impacts of "other factors"	impacts of market structure	impacts of commodity pattern

X_m = index of growth of total Hungarian exports to the OECD countries
X = index of growth of total OECD imports
X_{sh} = index of theoretical export growth assuming unchanged market share by commodities and markets
X_s = index of theoretical export growth assuming unchanged market shares by commodities.

Hence

$$X_{sh} = \sum_{k=1}^{s} \sum_{j=1}^{h} \frac{X^{o}_{kmj}}{X^{o}.m.} \frac{X^{1}_{k.j}}{X^{o}_{k.j}}$$

k = 1 . . . s commodities
i = 1 . . . m . . . z exporting countries (m = Hungary)
j = 1 . . . h importing countries
o = base year
1 = actual year
. = summation according to the appropriate index

On this basis:

x^{o}_{kmj} = Hungarian exports of product k to country j in the base year

$X^{o}_{.m}$ = Hungarian exports to the OECD area in the base year

$X^{1}_{k.j}$ = imports of country j of product k in the actual year

$x^{o}_{k.j}$ = imports of country j of product k in the base year

$$X_{s} = \sum_{k=1}^{S} \frac{X^{o}_{km.}}{X^{o}_{.m.}} \frac{X^{1}_{k..}}{X^{o}_{k..}}$$

Where

$X^{o}_{km.}$ = Hungarian exports of product k to the OECD in the base year

$X^{1}_{k..}$ = OECD imports of product k in the actual year

$X^{o}_{k..}$ = OECD imports of product k in the base year

These computations have been made recently for the period 1965 to 1976, breaking down Hungarian exports to industrial countries into 9 absorbing markets and 35 commodity categories, on the basis of OECD foreign trade statistical data [5]. Since during the 11 years considered the increase of the total import of the OECD region was 441 per cent and of its Hungarian import 414 per cent, the relative output of Hungarian

exports ($X_m - X$) equalled –27.0, and within it the values were +52.1 for the impacts of "other factors" ($X_m - X_{sh}$), +11.2 for the structure by markets ($X_{sh} - X_s$) and –90.3 for commodity pattern ($X_s - X$). Putting it in a bit vulgar terms the result obtained indicates that Hungary, making use of the import-absorptive capacity of its major partners, sold everything possible in this period. However, the composition of its offer of commodities was so far below of what could be qualified as optimal from the point of view of international demand that, in spite of the said method, it could not cope with the growing demand of OECD member states for foreign commodities.*

Other deficiencies of the commodity pattern

Beside interrelations with demand, the commodity pattern of Hungarian export shows several other weak points. In many respects this pattern fails to fit for example the economic and economic-geographical conditions of this country and, considering the development shown by export structures of competitor countries or groups of countries and the protectionistic tendencies in international trade, the direction of its transformation is not unambigously favourable either.

Owing first of all to the predominance of agricultural products, a significant part of Hungarian export to the OECD region is supported by natural and geographical conditions, as it can be similarly observed in the case of most small West European countries with limited opportunities. Considerable weights are represented, however, by sectors demanding much raw material and energy but at the same time lacking a domestic raw material and energy base and consequently involving excessively high import requirements, such as metallurgy, the textile, leather, wood, paper and furniture industrial exports. (According to estimates, 5/6th of Hungary's export to the West are raw material intensive and over 40 per cent is based on imported raw materials.) [6] On the other hand, commodities representing a high technological level, satisfying special needs and thereby favourable price positions which can be sold at dynamically rising prices, play a small role.

The basic trait of structural transformation during the period under study consisted of impressively increasing shares of commodities belonging to section 8 (especially garments), chemical products, as well as machines and transport equipment (especially electrical machines), at the expense of agricultural products. That is, the export of the same kinds of commodities showed a robust expansion which represent increasing weight

*We deem it necessary to emphasize that the method presented above analyses the so-called "other factors" and the structures by commodities and markets as constituents of relative export growth and, consequently, it only allows the evaluation of these factors from one single point of view, that of export growth relative to the import growth of partner countries. It is nevertheless clear that in reality it is not necessarily the most advantageous for any given exporting country, if the export commodity pattern and its structure by markets are in agreement with the structure of the whole of its absorbing markets, ie., their changes show identical trends.

also in the exports of developing, South European and socialist countries. This trend of structural transformation previously only indicated a strengthening competition between socialist and South-European countries since the export offensive of the industrial countries was aimed above all at overseas markets. Now, however, in the quest for new marketing opportunities, the attention of so-called newly industrialized countries turns increasingly towards Europe. Namely, "... on American and Japanese markets ... (they) attained such high import shares in several products whose considerable increase could already hardly be imagined. However, in Western Europe ... (they) have only relatively lower market shares as yet ... It must be taken into consideration that also West-European countries are increasingly striving to strengthen their relations and positions with developing countries. This statement holds especially for the Common Market ..." [7] buying the decisive part of the developing countries' export of industrial commodities to this continent. The majority of these countries are in a position to rely on cheap and abundantly available labour, on domestic raw material bases, as well as on the capital of affiliates of capitalist companies, on the latters' production for export purposes representing high technical and technological standards, and moreover, they even enjoy trade preferences granted to them by advanced industrial countries whereby they have considerable odds over Hungary. It appears to be a continuing and even strengthening tendency that the promotion and even preservation of the Hungarian export positions achieved in western markets is getting more and more difficult in the field of these products because of the rivalry of commodities exported by countries on a similar or lower general level of development.*

Lately the declining economic position of the capitalist world, such as the long-lasting deceleration of growth, increasing unemployment and worsening balance-of-payments problems, have produced more intensive protectionism in international trade. This tendency shows the main feature that while the general liberalization of tariffs continues, advanced western countries more and more rigorously protect their industries, especially those going through a structural crisis (the textile, garment, shoe, steel, electronic industries and transport equipment production) by restrictions other than tariffs. State interference in foreign trade has increased in a relatively narrow field but precisely where the Hungarian economy has exerted considerable efforts to increase the export commodity bases. The decreasing role of products belonging to the most typical, one might say traditional, sphere of the so-called controlled trade, namely, foodstuffs and livestock, suffered because of coercive external circumstances. It has been accompanied by a growing share of commodities the marketing opportunities of which are made uncertain also over a longer term by measures taken by western countries to protect their market. Therefore the Hungarian export is unvariedly hit by protectionism much more broadly than world trade as a whole.

*According to B. *Kádár*, developing and South European countries more and more powerfully influence the marketing conditions of products representing 80–90 per cent of the Hungarian export of finished products [8].

"Various protectionistic measures concern 65.2 per cent of Hungarian export in Western Europe, in our major markets. These measures are manifold: here we have to list the agricultural regulation of EEC, the quantitative import restrictions, most of them of the discriminative type, the various monetary provisions, special systems of permits, the dumping and levelling procedures, the voluntary self-restrictions, the use of minimum price systems, the especially severe technical and approbation procedures, the also very exacting veterinary specifications and periodical import bans.

Such obstacles with protectionistic objectives are faced by Hungarian agricultural and food industrial products, ferrous metallurgical products, medical instruments, electrical machines and appliances, telecommunication and vacuum technical equipment, textiles, leather, fur, footwear and textile garment products, PVC powder and granulates, and synthetic yarns" [9].

Considering the predictable modest increase of external demand and the continued rapid increase of the offer of Hungary's competitors in the medium term, while the country is already handicapped in competition because of the expansion of the Common Market, ie., the free trade agreement signed with the so-called residual EFTA, as well as the preferences given to developing countries, it will be hardly possible to enhance the western export to an extent necessary for achieving the long-term economic policy objectives without substantially changing this commodity pattern shown above to be disadvantageous from many aspects. As the Hungarian export to western countries is strongly diversified and is made up of a great many kinds of commodity groups, each representing relatively small weight and each if squeezed out causing a minus in the export commodity base that could not be easily replaced by other kinds of commodities, this structural transformation ought to essentially consist of an improvement of the microstructure, namely, of the product-mix. This is the task of the enterprises. However, the enterprises will be able, or forced, to carry it out only in a system of economic control where the main function of central economic control is to create and develop the infrastructure, ie., the background industry of production for export purposes, and to create an economic environment providing the conditions required for forcing the enterprises to work for and adjust to export activities and in which enterprise action is not substituted by central decisions.*

*

From the factors retarding the promotion of relative export performance mainly those were considered which can be disclosed by a statistical analysis of the development of export positions. However, these are enough to suggest that even the mere preservation of the market share of Hungary's western export is not a simple task. Yet the answer to

*Interrelations with the system of economic control expected to enhance the structural transformation and adaptation necessitated by the type of export commodity pattern and for export promotion are treated in detail by A. *Köves* [10].

the question raised in the beginning of this paper is positive, in other words it is supposed to be possible to increase Hungarian exports to western countries at a rate higher than external demand in spite of the durably difficult sales conditions, because the export capacity can be greatly enhanced through elimination of internal economic deficiencies. However, due to the nature of the deficiencies, this requires complex measures bearing upon the primary elements of the system of control and incentives.

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РЕЗУЛЬТАТЫ ВЕНГЕРСКОГО ЭКСПОРТА В РАЗВИТЫЕ КАПИТАЛИСТИЧЕСКИЕ СТРАНЫ

И. ЛАКОШ

Учитывая проблемы платежного баланса Венгрии, а также потребность венгерской экономики в импорте из западных стран, быстрый рост венгерского экспорта на рынки промышленных развитых стран можно с полным основанием считать ключевым вопросом дальнейшего развития венгерской экономики. Однако поскольку внешний спрос, по-видимому, и далее будет расти медленно, эту задачу можно решить лишь в том случае, если удастся преодалеть тенденцию к ухудшению экспортных позиций, проявляющуюся с 1973 г.

Анализ венгерского экспорта, а также импорта стран ОЭСР по группам товаров показывает, что долевое участие на рынке в большой степени определяется двумя внешними факторами: протекционистской аграрной политикой стран «Общего рынка» и значительным повышением цен на нефть. Однако не следует при этом забывать об относительной слабости позиций венгерского экспорта по внутриэкономическим причинам. К таким внутренним факторам можно отнести проблемы товарной структуры экспорта.

Основной особенностью товарной структуры венгерского экспорта является преобладание необработанных или имеющих низкую степень обработки товаров, не пользующихся динамичным спросом. Напротив, невелика доля товаров, представляющих высокий технический уровень и служащих удовлетворению специальных потребностей и, благоприятные позиции в отношении цены, т. е. товаров, которые можно сбыть по высоким и динамично возрастающим ценам. Неблагоприятно на протяжении анализируемого периода сложилось и направление изменения товарной структуры. Значительно возрос экспорт таких товаров, которые занимают все большее место и в экспорте развивающихся, южноевропейских стран, а также других социалистических стран, и товаров, возможности сбыта которых неопределены вследствие охранительных мер на рынках капиталистических стран.

Автор полагает, что экспорт в развитые капиталистические страны может в том случае расти необходимыми для осуществления долгосрочных целей венгерской экономической политики темпами, если существенно изменится состав продукции под влиянием изменяющейся деятельности предприятий. Однако для этого необходимы комплексные меры, затрагивающие основные элементы системы управления и экономического стимулирования.

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REVIEWS

B. SZIKSZAY

ASPECTS OF THE INTERNATIONAL COORDINATION OF NATIONAL ECONOMIC PLANS

The sixth five-year plan for 1981–1985 was enacted by the Hungarian National Assembly in December 1980. This concluded the medium-term planning work and it is now possibile to evaluate certain experiences gained in this activity, on this occasion those relating to plan-coordination with the other socialist countries.

Plan-coordination by the socialist countries is an organic part of planning work. Its purpose is to mutually contribute to the international backing of national economic plans. Thus, *for the socialist countries* – which transact the decisive part of international cooperation among themselves – *the international coordination of plans is a basic tool for the material backing of their plans and for the reliability of trade.*

In the course of this work the CMEA member countries coordinate the main directions of economic, technological and scientific cooperation for five years – in some cases for even longer periods –, define the mutual supply of commodities serving as a basis for the five-year trade contracts, prolong and extend bilateral and multilateral agreements and conclude new ones as well.

The coordination of the current five-year plan has been essentially concluded by the planning organs – although several countries, Hungary included, could not do so with the People's Republic of Poland. The result of joint work is that – similarly to earlier years – also for 1981–1985 agreements and contracts were concluded which secure the fundamental international conditions for the development of the socialist economies. It should be immediately added, however, that the not at all easy work of coordination was carried this time under more difficult economic conditions, and optimal solutions could not be found for every problem.

When coordinating national economic plans, attention must be paid to the changes with lasting impacts in world economy, as well as to the important circumstance that the majority of CMEA countries have set a course towards intensive economic development at *about the same time,* shaping their economic policies accordingly.

The changed external and internal conditions strongly influenced the behaviour of the countries in the course of plan coordination and determined their related efforts.

In the course of this work we made efforts to fully exploit the possibilities inherent in the international division of labour, first of all in international socialist cooperation and to contribute therewith to the solution of the external and internal equilibrium

problems, and to securing economic and social progress. To this end we intended to expand production and trade relations with the CMEA member countries, above all with the Soviet Union. We made efforts to secure the supply of a decisive part of energy, raw and basic materials, as well as the necessary modern machinery and equipment, from the socialist countries. By expanding our economic relations we intended to accelerate the necessary transformation of the structure of production and exports, to widen cooperation in the production and trade of parts and components, contributing thereby to an advantageous development of the economies of the fraternal socialist countries and to the modernization of the production structure. Finally, it was our intention to cover as great a part of price losses deriving from the expected deterioration in the terms of trade through additional exports as still allowed us to attain the basic objectives of internal economic policy, and maintain equilibrium in trade with western countries.

Our efforts prevailed as a tendency. In certain products however (primary energy, raw and basic materials) additional demand could not be fully met, even under conditions stricter than earlier. The extent to which our desires and intentions could be asserted was determined by objective conditions.

*

As a result of plan coordination *we could reckon,* for the sixth five-year plan period, *with a turnover of about 32 billion roubles (at constant prices), which is approximately 21 per cent higher than the one realized between 1976–1980.* Within coordinated trade exports continue to grow faster than imports (even under the fifth five-year plan the growth of exports exceeded that of imports by 14 percentage points): between 1981–1985 exports will grow by 32 per cent and imports by only 12–13 per cent. The result will be that in the ten years between 1975–1985 the volume of Hungarian exports will rise by 70–72 per cent, while that of imports by hardly 30 per cent. The growth in exports exceeds that in imports 2.4-fold.

The difference in the rates of growth of exports and imports results partly from limitations on the expansion of imports, partly from the necessity of counterbalancing growing terms of trade losses.

The planned growth of trade settled in roubles – first of all moderately growing imports – is one of the causes why we can only provide for a moderate rate of economic growth in the near future. Even this growth can only be attained if, in conformity with the requirements formulated in the plan, effectiveness and economic efficiency really improve, and if the ratio of imports settled in roubles diminishes both in consumption and accumulation. Export performance must be simultaneously enhanced: *a unit increase in national income has to be accompanied by a more than two per cent growth of exports settled in roubles.*

The planned trade in the individual groups of commodities shows the following picture:

– *Imports of primary energy* from the CMEA countries, settled in roubles, will increase by 6–8 per cent over five years. This involves a great reduction of the rate as compared to earlier periods. It is only the imports of electricity that could be significantly expanded and this is based on a joint investment in the nuclear power plant at Khmelnitsky and in the 750 kV electric transmission grid. The imports of crude oil and natural gas are secured at the 1980 level and demand for fissile material can also be met. Coke is one of the most critical items in the import of energy: we can expect only smaller imports than earlier and these have to be balanced by harder goods. Because of this fact we are forced to import substantial quantities of coke from the West. Given moderate economic growth the coordinated import of energy settled in roubles thus covers the demand for energy of the economy (together with domestic production) – provided that the planned energy rationalization (conservation) measures are carried out without fail.

Today even the situation which developed in the course of plan-coordination – maintenance of the level of energy supplies at the 1980 level – does not seem to be tenable: beginning with 1982 imports of primary energy will significantly decline. This means that even with a lower production than planned and an improvement in the specific use of energy we have to import some of the missing supplies from non-rouble sources. In view of higher prices this means a considerable additional burden for the Hungarian economy.

– Total imports of *raw and basic materials* will expand only moderately. In respect of most imported materials (chemicals, industrial timber, synthetic fibres, cotton) only the supply level of the last year could be secured, but, in some highly important materials, not even that (mainly non-ferrous metals, ferrous metallurgical products, soft sawntimber). Imports could be increased mainly in respect of materials the production of which is expanded through joint investment with Hungarian participation or where the increase is counterbalanced by the delivery of definite products under separate bilateral agreements. At the same time we increase exports of materials more dynamically than imports – to every socialist country except for the Soviet Union.

All that makes it indispensable that saving should be maximized in the use of energy and materials. It is well known that for a unit of output we use much more energy and materials than the more advanced countries do. This indicates a weakness of the technologies applied and of the established product pattern, as well as laxity in material consumption standards. Great efforts must be made in order to improve the indicators of energy and material consumption as soon as possible. Beyond that, one of the continually enforced objectives of technical and technological development and of improving the product pattern must be the reduction of material and energy consumption.

The moderate growth of material imports renders the situation of the economy considerably more difficult even if the planned improvement in the specific use of materials is attained. With a considerable part of materials the necessary additional purchases and the replacement of missing items shift imports into non-rouble markets and this causes considerable outlays in convertible currencies.

The coordinated imports of machinery and equipment will grow by 15 per cent in five years, that is, slightly faster than total imports. We shall be able to procure from our CMEA partners the engineering products of large volume (trucks, railway waggons, tractors) the production of which we do not want to organize or wish to eliminate. The demand for productive parts could be better satisfied through imports from socialist countries than in earlier plan periods, though the share of such parts and components is still low in imports – and also in the satisfaction of domestic needs. Even so, the share of imports of machinery from socialist countries will decrease within total investment. This is an indication that we have not succeeded in easing the pressure on machinery imports from non-rouble areas, nor in substituting some Hungarian capacities by imports from socialist countries in order to convert them for the production of other products.

The export of machinery will *expand dynamically,* by 43 per cent in five years (to the Soviet Union by more than 60). The main commodity groups within machinery exports continue to be road vehicles and their subassemblies, telecommunication articles, electronic equipment, machinery and equipment for the textile etc. and food industries, computer technology, instruments and machine tools.

The growing *trade in industrial consumer goods,* conspicuous in the preceding five years, *seems to have ground to a halt.* Possibilities for increasing the import of light industrial goods and electric household appliances have become narrower, and the conditions for importing passenger cars have become tougher.

The most dynamically growing export items out of industrial consumer articles are pharmaceuticals: in five years we will sell medicaments to CMEA countries to the value of 1.3 bn roubles, of this 1 bn to the Soviet Union alone. We committed ourselves to expanding the export of textiles etc. by 10–12 per cent in the next plan period.

The import of *foodstuffs* will expand – decisively because of the rising sugar and alcoholic beverages imports from Cuba – more rapidly than the average, yet it represents a negligible ratio of imports. The coordination of plans secures the safe export of vegetables and fruits, and of a great part of other voluminous transport-intensive produce (grain, live animals, meat), a considerable part of which is sold to socialist countries under favourable terms.

Summing up, it can be stated that the coordination of plans secures the satisfaction of a great part of Hungarian needs in the most important materials, primary energy and a part of investment goods – even if under tougher conditions, still in the majority of cases more favourably than if they had to be purchased from capitalist sources – and thus it provides solid bases for a more moderate growth of the economy. For basically objective reasons, including historically developed circumstances, imports of materials and energy cannot grow at the desirable rate.

The pattern of coordinated trade will not change in essence. In imports the share of some material branches diminishes (mining, metallurgy) while that of others increases (chemicals). The ratio of machinery imports will remain the same on the whole. In Hungarian exports the share of machinery and chemicals is on the increase, while that of

textiles etc. and food will diminish. The direction of changes fundamentally agrees with the government's structural objectives.

We have not succeeded in essentially improving the product-mix within trade. The imports of modern machinery and equipment, parts, quality materials, consumer goods improving the range of choice do not rise at all, or rise at a rate below the average. In harmony with our objectives, the commodity pattern of exports will improve to some extent. Within machinery, textiles etc. and foodstuffs we managed to diminish somewhat the share of uneconomically exported products.

In Hungarian-Soviet relations the pattern of trade is developing more favourably than with the other CMEA countries.

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The experience gained in plan coordination shows that the planned trade in commodities, first of all moderately growing imports – with strict conditions on domestic use – is approximately in harmony with the relatively low rate of economic growth provided for by the sixth five-year plan. It secures the most necessary materials and products that can be procured from socialist countries, and also results in a dynamic growth in exports. Beside these main interrelations plan-coordination also *provided us with experience,* calling attention to features in cooperations which – as lasting phenomena – *have to be reckoned with in the future and in the further development of cooperation.* The following deserve particular attention:

– *The growth rate of mutual trade is going to diminish further* in the future. (Trade settled in roubles increased, at 1968 comparable prices, by 88 per cent between 1971–1975 and by 38 per cent between 1976–1980, while in the next five years it will only grow by 21 per cent, at 1980 prices. At present even this growth no longer seems likely. Owing to the diminishing imports of primary energy, of smaller demand for the import of machinery in consequence of investment restrictions, and for other reasons, first of all the growth of imports, but also that of exports, is going to diminish further.) Closer cooperation in production and development is evolving slowly. Because of the changed conditions it is increasingly difficult to secure mutual interest in the old manner – first of all in the field of raw materials.

– A closely related problem is losses due to the deterioration in the terms of trade, which, because of its commodity composition, emerged first of all in Hungarian–Soviet trade. On the socialist market Hungary has suffered since 1975 a terms of trade loss of about 18 per cent. This loss appeared rather evenly over time – facilitating adjustment to the new situation, but as regards its quantified impact, it approximated the terms of trade losses on the capitalist world market.

To counterbalance these losses, we reacted in several ways: we improved the composition of exports, raised prices – where this was possible at all on the basis of the CMEA pricing principles – asked for (and obtained) credit to cover some of the losses, and increased the volume of exports substantially faster than imports.

Owing to the CMEA principles of price formation which adjust to world market price trends, considerable losses will occur also between 1981–1985. There is a growing demand on the part of socialist trading partners for the trade in commodities to be balanced at current prices (which means that new credit can be obtained essentially in the form of delaying the amortization of credits raised earlier). Since the possibilities for raising the prices are limited, *the main tool to achieve a balanced trade at current prices is additional exports.* This is shown by the fact that in the next five years the growth in the volume of exports will exceed that of imports by 20 percentage points (in the case of the Soviet Union even more). To attain this the Hungarian economy must make great efforts indeed, so that in the meantime the balance of trade with capitalist countries should also be restored and the attained living standards should be preserved.

The changes occurring and likely to occur in the meantime will somewhat modify this picture. The terms of trade losses assumed at the time of plan-coordination will probably be greater – perhaps much greater. The reduction of energy imports may somewhat reduce this tendency (though it causes considerable concern in other respects). The lesser imports of machines because of smaller investment increase the chances for a trade balanced at current prices. Changes in the socialist economic cooperation and those that are expected create conditions more difficult than those assumed in the plan. Thus, also in view of other factors the *combined* fulfilment of economic policy objectives of the sixth five-year plan constitutes an even harder task than has hitherto been assumed.

– The economic situation of most CMEA member countries (indebtedness to the West, equilibrium problems, moderate rate of economic growth etc.) have brought to the surface new problems which are not favourable for the expansion of cooperation. For understandable reasons, the CMEA countries made efforts to assert their structural advantages over each other to the greatest extent possible. This finds expression in the gradual toughening of the conditions of raw material and energy supplies, and in the demand for counter-deliveries that are not in harmony with the conditions of the individual countries (material for material, energy for energy).

The role of special-purpose supplies has increased and structural strictures were further enhanced. All that indicates that – because of the economic difficulties of individual countries – momentary, short-term interests and objectives influenced the coordination of plans to a rather great extent. This was also reflected in the fact that long-term agreements that would influence economic cooperation on its merits and expand it, have rarely been concluded in recent years, and even the prolongation of earlier agreements has met with difficulties.

In the course of plan-coordination certain *deficiencies in the cooperation mechanism of CMEA countries* have also become conspicuous. This mechanism is developing unevenly: while there were some efforts to develop cooperation in production, only certain elements of the system of economic instruments developed (e.g. prices, interest) and even these to a certain extent torn out of their context. *The all too centralized mechanism of decision and coordination is rigid and time-consuming.* Direct cooperation between enterprises has not developed statisfactorily. It is a contradiction

that while some economic conditions of relations (e.g. price) approach capitalist market conditions, the economic community of the CMEA essentially does without an efficient multilateral system of settlements and credit. In consequence, the assertion of mutual long-term interest and the harmonization of national interests runs up against considerable difficulties.

The situation has matured where the CMEA countries separately and also jointly survey their economic cooperation and *define the main directions of expanding relationships based on mutual interest.* This is why the proposal of the 26th session of the CPSU should be welcomed, according to which – on the basis of well prepared analyses and proposals – the supreme leaders of the member countries should discuss the directions, ways and means of further improving economic cooperation. Even before the directions of the further development of multilateral economic relations among socialist countries and of the perfection of the functioning mechanism of the CMEA emerge, it is our fundamental interest to expand economic relations – above all with the Soviet Union – beyond the extent fixed in plan-coordination and in long-term agreements.

Expansion of foreign economic relations is one of the indispensable conditions of economic development. This was laid down in the October 1977 and April 1978 resolutions of the Central Committee of the HSWP, and this was confirmed by the resolution of the 12th Congress of the Party. But we can secure the equilibrium of the Hungarian economy and its moderate growth – under the well-known external and internal conditions – if we expand relations through joint efforts, with supplies mutually advantageous to the parties involved. Above all, agreements must be mutually observed without fail. Beyond that, ways must be found for expanding cooperation that is advantageous on both the short and the long run. We make efforts to obtain additional imports through expansion. Relying on this additional source, it will be possible to increase exports as well beyond the provisions of the plan, to attain such a surplus in trade and in the balance of payments which serves the solution of equilibrium problems through additional supplies of the appropriate composition and which helps to come close to trade that is balanced also at current prices.

P. MÁNDI

THE THIRD EADI CONFERENCE HELD IN BUDAPEST

The EADI

The European Association of Development Research and Training Institutes (EADI) held its third conference in Budapest between Nov. 11–14, 1981 under the title Emerging Development Patterns: European Contributions. The conference host was the Institute for World Economy of the Hungarian Academy of Sciences, one of the member institutes of the Association.

The Association, looking back on a life of merely six years, held its founding general assembly and its first scientific conference in Linz, and the second, according to the statutes, three years later, in 1978, in Milano. As shown by its name, EADI rallies the European social science research and training institutes concerned with the Third World, and in general with development. The purpose of the Association is to strengthen the links between these institutions and to make their work more efficient through diverse forms of cooperation (exchange of information, joint research, meetings, publications etc.). The number of member institutions has doubled since foundation and now approaches 150 and that of individual members exceeds 200. The Association maintains systematic relations with regional associations rallying the social science institutions in developing countries, with CLASCO in South-America, COSEDRIA in Africa, ADIPA in Asia and AICARDES which covers the Arab Countries.

The Association operates through its 19 working groups for special fields. Within these participants provide information to each other about their research, organize common meetings, and issue publications. Several hundred research workers participate in their work. The 19 working groups are the following: Economic restructuring and employment policies, Adjustment problems and policies, Aid performance and policies, European periphery, World trade and commodity policies, International monetary and financial affairs, Multinationals and development, Science and technology for development, International migration and development, Tourism and development, Cultural processes and development, Agricultural and rural development, Women and development, Basic needs oriented development strategies, Income distribution and social stratification, Environment and development, Role of the state, Information and documentation, Cooperation in training. These groups constituted the sections of the Budapest conference.

The course of the conference

The EADI Executive Committee invited three distinguished personalities to act as keynote speakers at the four-day Budapest conference: Willy *Brandt,* Chairman of the Independent Commission for International Development Issues, József *Bognár,* member of the Hungarian Academy of Sciences, director of the host institute and Amir *Jamal,* Minister of Finance of Tanzania, an internationally acknowledged expert in development.

At the opening session, held in the great hall of the Hungarian Academy of Sciences, Zsigmond Pál *Pach,* Deputy President of the Academy welcomed participants. The lectures of József Bognár and Willy Brandt were read at this session. Amir Jamal held his lecture at the plenary session on the second day and it was on this occasion that Francisco *Delich,* secretary general of Clasco, addressed the meeting as a representative of the developing countries' Regional Associations. On the third day's plenary session the convenors of the four most successful working groups reported on the past three years and on future plans. At the closing session, the reelected President, Louis *Emmerij* spoke about future programmes; the parting Secretary General, Arne *Haselbach* addressed the

meeting and the author of this report gave a summary evaluation of the work of the conference.

The number of participants exceeded 300 and they came from almost 40 countries. More than 60 participants represented socialist countries, which exceeded the representation of East-European countries at earlier conferences. Hungarians were, of course, the most numerous: 37. The participants submitted more than 100 papers to the conference.

The general assembly held simultaneously with the conference reelected for the next cycle – as mentioned – Louis Emmerij, Director of the Institute of Social Studies in the Hague. It was the first time that the Association elected deputy chairmen, in the persons of Jean *Masini,* Director of the Institut d'Étude de Développement Économique et Social of Paris and the author of this report. The new secretary general of the Association is Ben *Evers,* director of the Development Study Institute of the University of Tilburg.

The three keynote addresses

Three outstanding addresses were given at the plenary sessions. The lecturers, from three regions of world economy and world politics discussed the subject raised in the title of the conference from different aspects and with different emphasis.

József *Bognár* pointed out that the participants of the meeting are scholars who "... represent similar attitudes, or at least attitudes open to a rapprochement, vis-à-vis some of the looming problems, hazards and prospects of today's world ... Contacts of this sort will be needed more and more often in future, in view of the fact that it is so much more difficult to cooperate than to remain confronted. Confrontation requires no analysis, no research and no information; all it needs are large doses of prejudice."

He explained that there were three problems in which fruitful discussion of views and efforts could be expected: the participants are convinced that the development of the Third World is a key problem of the survival and development of mankind, which is deeply related to other global problems. It seems that a growing number of people begin to understand and realistically assess the relationship between East-West relations and the Third Worlds' progress. "We probably do not see eye to eye in respect of all these issues, especially of some of the conflicts: but we all agree that we must become more familiar with each other's strivings and concepts regarding these grand world problems, and that a dialogue is necessary to attain that end." We hold similar views on the role of the sciences and think it of high importance in the analysis of world problems, among them of those of the developing countries, and in the search for solutions.

In recent years economic relations between the developing countries and other areas of the world economy have come to the fore. The grave concerns emerging here are direct consequences of the change of epoch in the world economy. "The crisis, or to put it differently, the emergence of a change of epoch in the world economy in the form of a crisis should not, however, be seen as a pretext for deferring the serious consideration of

the Third World's problems: in fact, it represents a stimulus in the sense that these interrelated and interacting problems cannot be solved one by one; they must be tackled together, within the framework of a single self-consistent, comprehensive concept. It would be inconceivable e.g. to find a worldwide solution for the problems of the natural resources without the cooperation of the Third World within a coordinated concept; it would be likewise irrational to formulate development models for and by the Third World that disregard the scarcity of resources."

In the socialist countries – said József Bognár – the studies dealing with the developing countries have in recent years made a great impact on both public opinion and economic policy. This interest will grow in the future, not least because according to forecasts the role of the developing countries will grow in the foreign trade of the socialist countries.

Next he moved on to the notion of a New International Economic Order, submitted by the developing countries to international institutions, which lays down the principles of the external economic relations of the Third World and makes efforts to transplant them into practice. Such ideas have been present ever since 1974 at the international political and scientific forums and were the subject of numerous major scientific ventures (the Leontief-study, reports of the Club of Rome, the RIO project under the leadership of prof. Jan *Tinbergen* etc.) "Outstanding among these great collective scientific undertakings is the 'Emergency Programme of Development' produced by the Brandt Commission. Its report is an important milestone in the history of scientific, political and social inquiry into the problems and options of humanity at the turn of the millennium from a humanistic point of view. The merits of this report can be summarized in the following: (a) It has synthetised and further advanced the most important findings of previous scientific analyses, (b) it has linked up the diagnosis and therapy of the different groups of world problems with the phenomena of the change of epoch in the world economy (from the energy crisis through stagflation to armament), (c) it strove to involve the socialist countries, which was and is a lasting merit even if the cooperation advocated could not yet come about, (d) it has managed to involve some leading statesmen (the *de facto* wielders of power) into personally considering the gravest economic problems of today's world, which are inseparable from the political and security issues."

Criticizing the Brandt-report, Professor Bognár pointed out that it looked as if the postulates ("what should be") were given an exaggerated role. The report has failed to create harmony between economic interests working against equality and equity and the humanistic values, although: ". . . the core of the problem then is, whether one succeeds in combining the goals one prescribes for the social-political world with the interplay of concrete interests".

He established that the Brandt-report formulated the standpoint of progressive western circles. It is well known that the views of conservative circles differ.

Thereafter József Bognár stressed those phenomena which most retard the cause of the Third World: "I would point to two hindering factors, more important in my view

than the others, which have emerged and gained strength in the sphere of relations among industrially developed countries but which, by their weight, size and nature, affect every essential economic issue in today's world. One of these is the arms race; the other is the lack of East-West cooperation." The main danger are not conservative platforms that entrust the fate of nations to market forces, but policies that withdraw material and intellectual resources from the huge tasks facing mankind. Armaments with their 500 billion dollar volume, not stopping even there, handicap the industrially advanced countries to grant effective help to the Third World. And armaments follow from East-West relations. Peaceful coexistence, that is, the avoiding of war is no longer enough, more is needed: cooperation, and joint efforts.

But armaments restrict not only the possibilities for aid of the northern hemisphere, the armaments of the developing countries and the conflicts in these areas not only draw away means from development, they not only annihilate objective and human values, but also disrupt external relations, narrowing the scope for cooperation and increasing its risk.

Finally, József Bognár turned to the tasks of researchers of development, and to the relationship between science and politics. "In the course of such cooperation, we must pursue our efforts to find contacts with politics, a sphere that is and will go on to be much more dependent upon science than heretofore, because the societies of today have not other sensors responsive to the problematique of the future. It is quite clear on the other hand that, when world problems of this calibre are at stake, only politics is capable of making adequate changes of course and of mechanisms."

Considerable interest preceded Willy *Brandt's* address. This was due not only to his offices – chairman of the Social-Democratic International, chairman of the Social-Democratic Party of the Federal Republic of Germany – and his past as Chancellor of the Federal Republic of Germany. Participants showed considerable interest in what the chairman of the Commission bearing his name would say a few weeks after the Cancun conference.

Willy Brandt first pointed out the importance of the location of the conference, that it was held in Budapest: "At this conference there are participants from different parts of Europe, and I think it a hopeful sign that it takes place for the first time (ie. in the history of the EADI – P. M.) in the capital of a CMEA and Warsaw Pact country. It could well be a symbol – a small piece of the road leading to the only possible basis for the solution of a series of our pressing world problems: to competent cooperation of the interested parties from East and West and South. The still tension-laden relationship between East and West which is intolerably burdened by the armaments race, and the extremely unsatisfactory relationship between North and South which does not make it possible to eliminate the revolting injustice done to millions of innocent people: these relationships are enmeshed in a complicated and malign manner."

He expounded that the developing countries had no access to the resources which could create for them conditions worthy of man and that the industrial countries were unable to put a stop to the wasteful use of natural resources or to protect the

environment. He quoted Leonid Brezhnev with approval: "If we manage to cope with the main task, avert a new world war and secure a lasting peace, this will open new magnificent perspectives for all who dwell on this earth. Thus the conditions will be created for the solution of many other vital problems with which the whole of mankind is confronted today."

At the end of this century 6 billion people will have to be fed and supplied with raw materials and energy: we have to face the consequences of technical progress which are difficult to work out. The protection of the economic environment and military problems establish a connection between the East-West and the North-South relationships. These problems can only be solved together and in combination. "Why is such an integrated and far-reaching joint solution of problems so pressing? My starting thesis is that the global nature of the problems and above all of the dangers is fast increasing; and with it also the interdependence of the regions of the world . . . A potential danger emerging in some region, be it military, be it economic caused by underemployment, and inflation, by environmental pollution or the wasting of resources, be it social caused by hunger or exorbitant population growth does not leave the other regions unaffected for the long. The objective menace of the armaments race today reaches every part of the world without exception . . . Global problems demand global solutions; and problems that produce interdependence demand joint solutions. I do not deny that tasks can be regionalized – on the contrary, in many cases this is the only possible way, particularly because it is still difficult to produce international agreements and to look after common interests through transnational institutions."

Willy Brandt also mentioned the critics of his commission's report. In East and West, and even in the developing countries he was reproached by several people because the proposals of the report embody a "myth". He could not accept this critique – he said – because the counter-arguments testified to the fact that those formulating them were incapable of facing the facts and to discard deep-rooted prejudices. Their position is influenced by the pragmatism and egoism of daily politics. As regards the relationship between interests and requirements, he said: "In this context I am not afraid that a dry reference to self-interest might deprive our demands for reform of their moral quality. I think there is ample room for caring commitment, for being supportive of our fellow men. What matters in our world is, unfortunately, not just a gesture of unselfish giving. To see the weight of the problems to be solved it is necessary to understand that, in any except the most short-sighted view, it harms also own interests if one does not take into account those of others."

In his opinion the Cancun summit of heads of state and government – where, as is known, Willy Brandt the initiator was not present – created the necessary preconditions for comprehensive negotiations between North and South: "Having heard the views of my friends from the developing countries, I judge the Cancun meeting as mildly positive. The principle of global negotiations has been accepted by all; and the meeting itself represented a considerable measure of globality on the highest political plane – in a hitherto unprecedented form." He expressed his regret that the Soviet Union declined to

participate. He also said that the problem of the relationship between the developing and the industrialized countries obtained an ever growing role in the academic world in the Soviet Union and the socialist countries in general, and that social scientists in East and West frequently approached problems in a similar manner.

Brandt briefly mentioned the aid activities of the socialist countries and disputed that the extent of aid should be coupled with the responsibility for colonization. He was aware what difficulties considerably higher sums for aid would involve for the East-European countries, he argued that they could better contribute to the transfer of know-how, particularly as regards investment goods. It was most important that the Soviet Union and the East-European CMEA countries join the long-term world food and energy programmes. He added: "Most of the considerations here raised would look quite different if in the years ahead we succeeded in diminishing the burden of armaments and in making available a part of the resources released for constructive purposes."

The concluding proposal is a logical consequence of the way Willy Brandt judges the situation: "I plead for a clearer connection between détente and disarmament on the one hand and development policy and environmental policy on the other."

Amir *Jamal* expounded his views on the role of Europe, the dependency relations between the developed and the developing world, and the new international economic order, from the point of view of the developing countries, on the second day of the conference. He pointed out that most Third World countries lived even today within the frontiers drawn by the colonial powers. This was most conspicuous in Africa. In fact, the government or misgovernment methods of the erstwhile colonizers left their mark even on current development models.

Speaking about the international economic relations he painted the relationship between North and South in dark colours. "As long as the South has to exchange more and more quantities of its primary products for a fixed quantum of technology, in whatever form, the divisions will remain and patterns of development in the South will become increasingly conditioned by this interlocking order, one can hardly call it interdependence. It does not seem to make a particular difference whether you are exchanging your primary product with a product of Eastern technology or Western technology. Every such transaction ends up in an uneven capital formation in the East or West, taking the worth of each sweat drop on either side of the exchange. This is essentially the North-South conflict of interest . . . Whatever the levels and patterns of development achieved in various parts of the world, the whole development process is now at the crossroads of history. With such total disequilibrium in their economies between the cost of necessary imports including oil, energy on the one hand, falling values of their primary products for exports on the other hand, there is no way of their being able to opt out of the world economic system, however much they may be tempted to consider such a possibility."

Jamal argued that there might be possibilities for eliminating present inequalities in the international division of labour, but he was unable to discern signs of a turn in this direction in the behaviour of the North.

He ended his address in a sombre mood: "Europe has the historical task of seizing initiatives so as to make this all-embracing environment work for development, not least because doing so will ensure for itself peace and prosperity in future. I cannot see, realistically, other societies being able to bring the colossal contending forces to sublimate their energies in time for peaceful reconstruction of our world. If Europe cannot do it, is it willing to disappear as a historical force? "

Summing up the conference

In trying to characterize the conference, one also has to discuss the views which dominate EADI. Of course, there is no absolute consensus excluding deviations. The Association is a community where different views meet. The six years of the Association all the same permit a characterization and it is natural that an event organized by EADI, in this case the Budapest conference, should bear the main features of the membership of the Association. I hold to be the most important feature determining all others that the older generation of the EADI unites those who fought against colonialism, endorsed and supported the independence of colonies and have ever since fought for the economic and social advancement of the developing countries in science, education and, not infrequently, politics. Younger scholars who work for the same objectives and with a similar approach cooperate with them. This basic structure was characteristic also of the Budapest conference.

We know – and the conference reflected that we know – that powerful real forces do not share this approach in their actions nor sometimes in self-revealing words. It was characteristic of the conference that it took place in the days after the Cancun meeting. This dramatically forced the participants to bear in mind this fact and judge whether the Mexican meeting realized the ideas of its initiators. In this environment it was only natural to call Cancun the conference of missed opportunities and urge the consistent implementation of the new international economic order. It was this standpoint that dominated the plenary sessions and those of the sections.

It is, however, even more important, that this approach found a more differentiated expression at the meeting, which – if not unfailingly with agreement and sympathy – took into account the real powers of the world, the interests involved, and looked for the ways of solution in their knowledge. It was precisely through this that the conference could contribute to the formulation of a platform which one day might put an end to the frustration which has hitherto been the lot of demands for a new international economic order. All in all, we may say that the conference was characterized by a "Third-World Spirit" which is working on solutions also acceptable to Europe. Perhaps it is precisely the approach of scholars committed to both sides that is best suited for finding a harmony bridging conflicts that seem insoluble. This holds particularly for those sections which considered the relationships between Europe and the Third World. I think mainly of World Trade, Economic Restructuring, Aid and Multinationals.

It was an important feature of the deliberations that in development policy they acknowledged the duality of central control and of spontaneously working market forces. It is, of course, much easier to be onesided: e.g. let the market forces prevail. This was advocated in Cancun by President Reagan, who demanded the freedom of free enterprise and the elimination of obstacles in the way of the transnational corporations as a condition of a support with rather uncertain content. The conference condemned this standpoint several times, perhaps most sharply in the section for Multinationals. They pledged for control but reckoned at the same time with the importance of market forces and of the traditional sector. The State must not put obstacles in way of commodities of small producers finding a market, it must not do away with the security of communities given by the traditional sector, nor annihilate the cultural values holding them together. Several sections, particularly those of Basic needs, Cultural processes, Agricultural and Rural Development discussed problems in this spirit.

The outlook of the conference was optimistic. Without optimism, one could not address oneself to the seemingly hopeless cause of overcoming backwardness, where there are vicious circles aplenty. In the next decade we will have to fight for the mere survival of the Third World, nor is it self-evident that the great masses of mankind will escape death from starvation, the dissolution of large cities and social catastrophes on a scale compared with which the frequently mentioned crises of our age seem to be mere transitory inconveniences. This is why the students of this subject need more than a commonplace optimism, theirs must be well founded. There are many pitfalls and setbacks, good is frequently accompanied by evil, much happens that one does not like and much that we hold to be irrational. There are no easy patterns – only in the textbooks – and something that proves to be useful in one place may be the source of failure in another.

Optimism was expressed at the conference in the fact that while debating the subjects submitted to the 19 sections, the participants were looking for the right solution. Debates emerged around the diversity of answers and differences in judging priorities. That is, the debate was going on between people who had solutions and not between those who believed in the existence of a solution and those who thought there was none. It is certain that the optimism of the conference was sound, whether it was justified will be decided by future decades.

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COMMENTS AND CRITICISMS

Z. KRASZNAI

TRANSNATIONAL ENTERPRISES IN THE NEW WORLD ECONOMIC SITUATION*

Nowadays, when adjustment to the world economic environment, more precisely, an increased and more efficient than previously participation in the international division of labour are the most important issues of Hungarian economic policy, András Blahó's book published in Hungarian directs attention to an especially important phenomenon. The author analyzes and presents such a relevant component of world economic environment as transnational enterprises and the system of division of labour created and operated by them. Over and beyond its topicality, the book is a work making up for a deficiency, too. Namely, no comprehensive work has been published in Hungary up to now on the activity of transnational enterprises under the new world economic conditions.

There are only a few phenomena in the world economy evoking so much polemics as the evaluation of transnational companies. Depending on their political conviction some authors characterize them as the depositaries of progress, while others precisely as determined foes to it. In these evaluations economic criteria are often mixed with ideological and even with ethical viewpoints. Several authors consider transnational enterprises as political factors, and therefore, the picture given of them is often more unfavourable than that of the capitalist enterprises, in general. In several parts of his book András Blahó is also led by this view. There are several cases when he tries to explain some phenomena by political viewpoints or ideological arguments though they could be also interpreted in economic terms. Though it may be assumed – but hardly proved – that transnational enterprises do have also political goals, nevertheless their activity is governed first of all by economic objectives, and also their behaviour follows basically economic laws. And, since these companies are factors of increasing importance of the world economy, the way of developing relations with them has to be found as well. How to develop our behaviour towards them in practice largely depends on how economic theory answers the questions raised by the existence and activity of these enterprises. These considerations explain why I point out disputable issues requiring clarification when dealing with some relevant and occasionally new statements of András Blahó's book.

*A. *Blahó:* A transznacionális vállalatok az új világgazdasági helyzetben (Transnational companies in the new world economic situation) Budapest, 1980. Közgazdasági és Jogi Könyvkiadó.

The author examines issues of great importance. He gives a comprehensive picture of researches analyzing the relationship between world economy and transnational monopolies at a theoretical level, of the monetary and financial policies of transnational companies, of the international activity of finance-capital, of their participation in international trade and of their research and development activities. He deals in detail with the relationship between transnational enterprises and developing countries, especially with the "neuralgic point" of these relations, the problem of technology transfer, then discusses also some problems of the division of labour between socialist countries and transnational companies.

Perhaps the conclusions most important for Hungarian readers refer to the role of transnational enterprises in the international division of labour. It is not superfluous to emphasize again that the fast expansion of world trade in the 1960s, accompanied by the strengthening of export orientation in several countries of the world, could not be separated from the stormy advance of the giant monopolies. According to the formulation of András Blahó: "It has also become more and more obvious that the weight of foreign trade reflects the development of the international division of labour to an ever decreasing extent. Though world trade is dynamically expanding the 'world trade' of transnational monopolies is even more dynamic, and it is very often a trade between parent and affiliated companies, that is, one within the enterprise" (p. 137).

These developments resulted first of all from changes in the character of the international division of labour and especially from modifications in geographical directions and in the sectoral composition of the foreign direct investments. The most important of these modifications is that by now already a decisive part of the foreign direct investments – 77 per cent – is invested in manufacturing industry and three quarters of this are directed to developed industrial countries. Parallelly with this phenomenon the American superiority decreased in the 1970s and Western Europe (mainly the FRG) and Japan gained ground in the international flow of capital (pp. 59–72). The relative weight of developing countries diminishes in foreign investments (p. 204), though the overwhelming majority of foreign investments is also concentrated on the manufacturing industry (p. 216).

Based upon his examinations the author believes that under the new world economic conditions "conflicts between capitalists based on national antagonism are further increased by the one connected with the division of markets" (p. 98). Although I do not intend to query the existence of this conflict that has been with us for at least a century, I still believe that precisely the process of the internationalization of production stimulated by foreign investment has brought about changes which are able to moderate, even if not to eliminate, the conflicts connected with the division of markets. These modifications result from the fact that, in consequence of the scientific and technical progress, the capital looking for ways of realization abroad turned from raw material extraction to the manufacturing industry, in other words, instead of comparative advantages determined geographically (attached to a region) towards comparative advantages of technological character. However, this turn resulted not only in shifting the focus of foreign investment

from developing countries towards developed industrial ones, having an economic-technological background more favourable from the viewpoint of technological development, but *it changed as well the character of the fight for markets.* Under the circumstances of the scientific and technical revolution competition is going on first of all for new potential markets which mean not so much a market in the geographical sense, but rather a part of solvent demand. András Blahó formulates this relationship by stating that "the battlefield of conflicts between developing and developed capitalist countries more and more shifted towards the domain of the economy" (p. 199). The transformation of the character of competition and of the market influences also the methods of competition; the capital gradually loses its agressivity that previously caused the outbreak of wars for the possession of raw material sources, and the ability for technological innovation and progress has become the most important factor of competition. It would have been expedient to point out that under the effect of these developments – as well as resulting from the recognition of the increasing interdependence of economic, social and international political processes – the transnational division of labour is more and more characterized by the predominance of the element of mutuality, that appears among others also in the spreading of enterprise strategies of cooperative character. I am missing this not for the sake of fault-finding, but because in my opinion it follows from the neglect of this development that the author gets into contradiction even with himself when he determines political factors as the main criterion of realization of foreign investment at one place (p. 203), and later the considerable costs advantages (p. 218).

It cannot be disputed that political factors do have a part in foreign investment, though the motive is less and less an intention of political influence, but rather the consideration and elimination of risks of political character. The analysis of available data on foreign investment indicates that transnational enterprises consider first of all economic viewpoints when making decisions concerning foreign investment and take political criteria into consideration only if the former are equal. In branches of the manufacturing industry with oligopolistic market structure vertical investment projects are aimed mainly at eliminating risks, while in case of horizontal investment foreign investment projects are realized if the investor has no more advantage domestically from the realization of his superfluous capital, therefore capital exports promote a more efficient utilization of capital. At the same time the geographical distribution of foreign investments supports the assumption that after 1973, amidst more complicated world economic conditions the endeavour for security of foreign investors has become stronger. This manifested itself first of all in the fast growth of foreign investment in the U. S. A. as well as in the diminishing relative weight of developing countries. The determinant role of economic criteria is shown by the fact that even within the decreasing share of developing countries the share of relatively more developed countries has increased (those having higher per capita gross domestic product, and where the existence of some background industry and infrastructure did not necessitate additional investment). The restricting character of political conditions manifested itself in the decreased share in foreign investments of the rich Arab oil-countries threatening with nationalization [1], [2].

The argumentation of the book is weakened by the fact that comparative data often refer only to the period until the early 1970s. Precisely on this account, conclusions to be drawn from them may be applied to the activity of transnational enterprises in the new world economic situation as indicated in the title of the book only with some arbitrariness.

When analyzing the relationship between transnational enterprises and international trade András Blahó correctly states that by applying transfer prices these enterprises "transform inter-state settlements into intra-firm ones, that is, classical international trade is distorted". It follows from this – among other things – that the "theory of comparative costs may not always and not everywhere be applied in international trade" (p. 113). At the same time, the formulation that "under contemporary conditions the trade within the enterprise is the mechanism by means of which imperialistic monopolies are able to exploit the economy of several countries, dominate and deform them, deepen inequality, neo-colonialism and discrimination" (p. 160) seems to be somewhat one-sided. In my opinion the statement may also be disputed according to which "the increasing foreign equity investments also increased spontaneity within the capitalist world economy, improving at the same time the inner organization of its most important channel, the transnational monopolies considerably". I consider also disputable that ". . . transnational monopolies render harmonization between capitalist countries more difficult" (p. 88).

It seems, therefore, – statements similar to those mentioned above can be found in the book rather abundantly –, that while the author examined the undisputably very contradictory process of the transnational division of labour, his attention focussed first of all on the negative phenomena, and by doing so the positive trends accounting for the main direction of transnationalization were pushed into the background. Thus the activity of transnational companies does not only increase inequality in world economy but simultaneously it is also a source of levelling. Just as affiliated American firms located in Western Europe had an important part in narrowing the technological gap between the U. S. A. and Western Europe, the fast industrialization and growing share in world trade of a limited group of developing countries cannot be separated from their participation in the transnational division of labour either [3].

Therefore, the opposing trends of levelling and increasing inequality exist parallelly; while the difference between a part of developing countries and the developed region is diminishing, the differentiation in the developing world, what is more, even among developed industrial countries is strengthening, – though to a lesser extent. The difference between the two processes is that *exclusively those countries entered the way of catching up which joined the transnational division of labour,* while the danger of backwardness and of remaining on the periphery threatens all those left out of it. In spite of the trend of neocolonialism, undoubtedly existing in intentions and endeavours even presently, it is more important that dependency relations have become mutual and many-sided, and the willingness to a management behaviour better corresponding to the requirements of mutual reliance strengthened both in the transnational enterprises and in the host countries.

Similarly to inequality, discrimination affects also first of all those countries which remained on the periphery of the transnational division of labour or were left out of it. This discrimination is mainly of indirect character and manifests itself in the fact that, for example, Hungary or other CMEA-countries do not obtain such preferences on the market of developed industrial countries which have already been granted for a longer time for the export articles of developing countries participating in transnational intra-firm division of labour. Internationalization of production does not stimulate spontaneity, either, but much more integration within the enterprise sphere which does not impede, but rather creates the possibility and conditions of harmonization between capitalist countries.

The scientific character of argumentation is not strengthened by the circumstance that examining the effect of foreign investment on host countries – especially in the chapter dealing with developing countries – the author often uses the new leftist economic phraseology, "Marxist" mostly only in its intentions.

In András Blahó's formulation: in the host countries "transnational monopolies attract a considerable part of skilled labour, use up a similarly considerable part of credits and financial resources of the given country and thus undermine national development programmes; they conserve technical-economic and sectoral structures corresponding to their purposes . . ." Their aim is "to divide the workers' movement, diminish the success of their struggles. This is why they consider the 'free migration' of labour a principle to be followed; because it leads to a splitting of the political strength of the working class, a loosening of its organizational unity and to increasing national conflicts among workers" (p. 94). Another statement of his: "The export of investment capital weakens the competitive forces and is aimed at maintaining the monopolistic position" (p. 115). In connection with the adjustment of monopolies to the changed external conditions of reproduction the following statement may be read: "The most important such modification is surely a deliberate stimulation of a certain economic and social development in the developing countries. Namely, a backward economic and social structure makes it more difficult or even impedes through its specific term of realization that the improving terms of domestic realization of monopoly capital be utilized. Precisely this justifies that this type of *'development'* should be considered reactionary further on, since it is not aimed at increasing the independence of developing countries, but at creating more favourable possibilities for gaining profits" (p. 199).

It is true, of course, that the activity of transnational enterprises has several simultaneous effects on the host countries. However, a deliberate emphasis on negative phenomena does not promote the recognition of real processes just as it would not do so either, if some "charity development" were asked for from enterprises, run basically according to the profit motive.

Starting from the above statements one could not understand why quite a few of developing and developed countries are participating in an ever keener competition for obtaining foreign capital, a consequence of which is a gradual liberalization of national regulation systems of foreign investments.

This phenomenon may be explained by the fact that foreign investment may produce several favourable effects which neutralize or mitigate expected negative impacts. Foreign investment increases, for example, the volume of consumption and differentiates demand in the host country. At the same time, it eliminates the advantages of capital exporters as regards sales of commodities, promotes the levelling of costs, therefore it simultaneously eliminates the more favourable position of capital exporters in the field of export of commodities, i.e. the initial motive of capital export. While foreign investors promote the mobilization of latent capital reserves of the host country, they also participate in spreading up-to-date financing techniques and methods. Its effect on the credit market is not unambiguously unfavourable, either, since a part of the incremental demand created by foreign investment appears as saving and thus accelerates the accumulation process in the host country. The growth of the rate of domestic accumulation in developing countries – as it is referred to also by András Blahó (p. 240) – is a proof precisely of this development-accelerating effect. At the same time, the fact also mentioned by the author that the value of foreign components decreases within the production value of sub-contracting, i.e. local production is growing (p. 157) also indicates that even this relatively loose form of connection with the transnational division of labour has a diffuse production-increasing effect.

In developing countries faced with the problem of considerable unemployment – just as in developed industrial countries at present – it causes no problem if the foreign investor attracts a considerable part of the labour force, nor if its qualification level thus increases.

It is not disputable that the *migration of labour* – if it becomes a mass phenomenon – raises a great many economic and social problems in countries where from and also in those where to labour is migrating. At the same time, however, this process considerably contributes to the development of the international division of labour not only through the flow of knowledge and skills, but, for example, also by improving the balance of payments of labour exporting countries. The increasing mobility of labour also entails a close cooperation between the social and trade union movements of capital exporting and importing countries, as a result of which the kind of manipulation and confrontation of working classes of the individual countries that could happen in the period of closer national economic structures becomes more and more impossible. This does not lead to the splitting of the strength of the working class, but precisely to its strengthening at international level. In this way the conflict between capital and labour is reproduced already between the international enterprise and international labour. The abolishment of the villeinage may be mentioned as a historical comparison from the period of primitive capital accumulation when evaluating this process. Namely, the international migration of labour nowadays also means the elimination of a kind of constraint, at most this constraint has become a little greater in the course of centuries as an evidence of social and economic progress.

The statement according to which capital export weakens competitive forces is also erroneous. This is often not true even in the case of one country, since it may occur that

foreign investment breaks a monopolistic market structure and transforms it into an oligopolistic one. And, at the level of world economy the growing number of foreign enterprises that manifests itself also in the decreasing rate of world market concentration, also leads to the sharpening of competition [4], [5].

Measuring the effect of foreign investment exercised on the economy of the host country is very complicated. The author correctly states that in the case of influx of foreign capital two terms of trade may be examined which affect income distribution among nations. One is the traditional terms of foreign trade when the price indices of export and import goods participating in trade are examined and that is strongly influenced by capital import. The other one compares the real values paid for capital export and obtained for import. These two jointly determine the real revenues of the individual countries obtained from capital import (pp. 115–116).

Another important issue is the character and level of transferred technology. We may agree with the following statement of the author: "Developing countries need technologies corresponding to their own requirements and not simply a take-over reflecting those of developed capitalist countries" (p. 155). However, it is already more difficult to determine whether a labour or capital-intensive technology is required. András Blahó analyzes this complicated field of problems in detail, enumerates the advantages and disadvantages of the application of each technology and evaluates their effect on development (pp. 219–229). He points out that "the dilemma of import or domestic development is a false one. Without an appropriate national technical basis the import of techniques may not be advantageous, either, and it may be advantageous only if it is a selective one and it may be selective only if it is based on national technical capacities" (p. 228). It may be supported by data that a transnational enterprise enjoys monopolistic rent in the course of technology transfer. However, it would not have been uninteresting to refer also to the fact that for developing countries the size of monopolistic rent is of secondary importance. It is of primary importance for them to know the relationship of direct and indirect costs involved by the domestic development of substituting techniques to the costs of taking over of techniques containing also monopolistic rent. If the latter is lower, it is obvious that a take-over of techniques should be decided on.

The author points out in several places that the advantage of transnational enterprises lies in that they may counter the national economic development strategy of host countries with their own international (global) strategy. However, from this it does not follow at all that the former would be completely defenceless against the latter. This is supported also by the fact that in consequence of the further spreading of transnationalization and of the sharpening of international sales competition the capital export policy of transnational enterprises has become more liberal, their willingness to establish enterprises with joint capital holding has increased, while they consider an exclusive or majority capital share important first of all in case of products or production procedures requiring high technical standards and with high technology content.

It would have been expedient, however, to point out as well that simultaneously with this process the developing countries more and more recognize the positive

correlation between participation in the international industrial division of labour and the influx of foreign capital.

The author's standpoint concerning the negative effects of technology transfer demonstrated through the example of the Andean Common Market may also be strongly debated in my opinion. Contrary to András Blahó I believe that the undoubtedly existing negative experiences of the Andean countries (high share of repatriated capital by transnational enterprises, within this an increasing share of concealed repatriation, restriction of the export of affiliated companies) (see pages 229–234) prove not so much the existence of "technological imperialism". They rather prove the fact that in these countries strongly restrictive foreign investment regulation systems function with very low efficiency from the viewpoint of technology transfer; they decrease advantages connected with transfer and increase losses. Namely, countries belonging to the Andean Common Market most strictly limit the conditions of foreign investment out of all developing countries. Thus, it is not surprising that the severe restrictions on ownership have a negative effect on the standards of technology handed over and make the transnational enterprises interested in local sales instead of exports. The preponderance of foreign capital in the extractive industry may be explained by the large number of closed sectors. Low repatriation quotas and the relatively limited terms of local functioning jointly explain the little willingness to reinvest and the spreading of concealed forms of repatriation.

Examples could be further enumerated, but also the above prove the theorem outlined by András Blahó already previously, namely, that: "The more extended the international activity of a transnational monopoly, the greater is the probability of its elaborating also a new counter-strategy in response to strategies aimed at restricting its activity" (p. 175). The author reviews and analyzes – with great expertise in several chapters of his book – precisely the very wide range of the tools of this counter-strategy, including the extension of risk-reducing and market-sharing enterprise strategies enabled by diversification, the system of transfer prices, the manipulating methods applied in the course of financial and monetary operations, all aimed at maximizing the profits of transnational enterprises and at eluding the restrictions of national regulatory systems.

The particularities of approach mentioned in the foregoing characterize András Blahó's standpoints concerning the division of labour between transnational enterprises and CMEA-countries, too. It may be misunderstood, for example, that he mentions as a reason for the development of this division of labour that "CMEA-industry is not yet prepared for supplying the national economies with up-to-date, efficient means within 5–10 years" (p. 273). Contrary to the author's presumable intention this statement may be interpreted in such a way that the CMEA-industry will be able – say in 15 years – to fully satisfy the demands of national economies for most advanced technologies and then Western economic relations will no more be needed. This formulation unavoidably suggests that economic and technical development should be directed towards autarky and not towards strengthening and developing new forms of participation in the international division of labour.

I do not agree with the author's view voiced several times, either, that CMEA-countries could improve the efficiency of their division of labour developed with transnational enterprises if they found ways of a joint – CMEA-level – management of this process (p. 274) and elaborated a joint, coordinated strategy for the development of East-West relations covering also details (pp. 280, 283, 288). It is easy to see that this proposal may hardly be expedient or realized at present, when even the existing mechanisms of cooperation of CMEA-countries between each other do not function perfectly and there are several obstacles to their further development as well. Namely, resulting from the different degree of intensity of their relations with the West, an eventual regulation at CMEA-level in this field that would function necessarily on the basis of reconciled interests and with the exclusion of those that can not be reconciled would impose such burdens of clumsiness and complicatedness upon these relations that they would lose even their present, not too great elasticity. As a consequence, and contrary to the objectives, it is not the adaptation of CMEA-countries to the world economy that would be accelerated, but precisely the process of adaptation would be slowed down which would be obviously contrary to the national interests of the individual countries. Under such circumstances it is more likely that the nearest future will be characterized by competition among the CMEA-countries rather than by their coordinated activity. In the meantime it becomes a more and more obvious recognition in the socialist countries that *"opening" towards the world economy should contain also that towards transnational enterprises, what is more, in technology-intensive industries it should almost be equal to it* [6].

I do not consider too successful those statements, either, according to which the aim of transnational enterprises is "to create conflicts between socialist countries" (p. 269), and "to break the unity of socialist countries" (p. 270). Nor do I agree that transnational enterprises "expect further disturbances in supply on markets with inadequate purchasing power even at present" from the growing problems of competitiveness appearing simultaneously in two directions in the CMEA-countries – within the CMEA and on the world market – and that "by loosening the close cooperation of CMEA-countries they (i.e. the transnational companies) diminish the attraction of socialist international cooperation for other regions of the world economy – for the developing countries!" (pp. 277–278).

When reading the above, the economic facts supporting the existence of such a "subversive strategy" are missing. I would have considered more fortunate if the author had remained with the genre of economic analysis and evaluated the advantages and disadvantages of cooperation with transnational enterprises on the basis of economic criteria. Then, the results of the analysis starting from economic viewpoints may be reexamined and reevaluated with the methods of analysis and problem raising of related social sciences (sociology, politology, history etc.).

As regards tensions in the relations among CMEA-countries, these result primarily from the fact that they wished to mitigate their inner problems also by Western imports and the tensions created by structural transformation in the world economy have in

recent years only increased them. Therefore – in my opinion – it would have been much more convincing if the author had examined rather the facts of technology import from the West more thoroughly and had analyzed the reasons for the low share of more developed forms of cooperation (specialization, production sharing etc.) in the cooperation practice between transnational enterprises and CMEA-countries, furthermore, the reasons for the stormy spreading of the so-called compensation deals in East–West inter-firm relations. Similarly exciting conclusions could have been drawn from investigating the reasons for the strong reservation of transnational enterprises towards joint ventures offered by some CMEA-countries. As against these issues of great importance I consider relatively less important the problem of standardization or licence deals examined in this chapter. Analyzing the above problems would have enabled to reveal by what kind of changes in the system of regulators the CMEA-countries could increase the efficiency of their division of labour with transnational enterprises.

In summary we may say that András Blahó's book is, with all its merits and deficiencies, an important contribution to understanding the "nature" of transnational enterprises. It may only be hoped that the vast material of knowledge submitted in the book, including also statements provoking debates, will accelerate the development of a comprehensive Hungarian concept on foreign economy, including the formulation of those conditions, too, which may render our division of labour with transnational enterprises more efficient than it is at present.

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BOOK REVIEWS

KOZMA, F.: *A nyitott szerkezetű gazdaság* (The structurally open economy.) Budapest, 1980. Kossuth Könyvkiadó.

During the 1970s the external economic environment of Hungary underwent deep changes that without exaggeration might be called dramatic. A deep and prolonged crisis emerged in the capitalist world economy (rapid and accelerating inflation, equilibrium problems, slowing growth, uncertain economic outlook, chronic unemployment), the consequences of which sent, indirectly, shock waves towards the economies of the socialist countries and caused considerable disturbances in their development.

It was a historically special disadvantage that this same period saw the start of the European socialist countries on the intensive way of development which, in turn, generally, requires an increasing external economic orientation and adaptation. The oil price explosions of the 1970s (in 1973–74 and later in 1979) dramatically tilted the balance toward a higher valuation of labour allocated to the extractive industries, and they were followed by the revaluation of the monopolistic and technologically leading innovative manufactured products. Countries like Hungary with a "mediocre" standard in manufacturing, which lack products drawing high "rents", suffered from a significant deterioration of the terms of trade and equilibrium problems, which could only be counterbalanced by increased external borrowing.

For internal and external reasons, the improvement of efficiency, that could have served as the source of the intensive type of development, could not be achieved. Adjustment was rendered more difficult by the fact that Hungary was faced with tougher competition on the world market as well as with tight monopolistic positions.

The new world economic phenomena demanded the rethinking of a number of basic theorems of economic theory and economic political strategy. Classical capitalist cycle mechanisms collapsed (stagflation), which required a revision of the whole post-war Western economic political thinking. In trying to provide a cure for the illnesses, the clash of the two leading schools, that of Keynesianism and of monetarism reached high peaks, but neither has won victory over the other. In the economic political practice of the Western governments neither cure has proved successful.

Controversies among Marxists also became heated, focussing on points (international value, inequal exchange, the theory of rents, optimum growth, price theory) which had either been neglected before or had been thought to be settled forever. The buoyancy in economic literature reached Hungary as well. The book of Ferenc *Kozma* deserves interest not only for its diagnoses of the already indicated problems but also for the wide scope of questions analyzed, for its practical approach and for its suggestions also deserving consideration by economic policy makers.

One of the central questions of the analysis of Ferenc Kozma concerns the theoretical aspects of the structural openness of the Hungarian economy. It is an important conclusion of Ferenc Kozma that there are limits to the rationality and possibility of opening as a means of attaining higher efficiency through participation in the international division of labour. The expansion of international economic relations may involve profits or losses through the terms of trade, which it is easy to see through concrete examples. Increased openness toward the external economy exerts three motivating effects in the productive sphere: improvement of

efficiency through structural advantages (comparative effect), through specialization in the factors of production (cooperative effect), and through the borrowing of foreign know-how and innovations (adaptive effect). However, the optimum exploitation of these is only possible with a definite extent of the openness, which is, in turn, a function of several factors. The size of the economy, the development level of the forces of production, the composition of the means of production or the geographical structure of external economic relations all play an important role.

The analysis of Ferenc Kozma arrives at the conclusion that at the given development level, with its production structure and its utilization, and with its market orientation, the Hungarian national economy exceeded the optimum of openness in certain spheres during the 1970s, and this resulted in a loss of efficiency. "It is worth pondering whether the openness towards import is not beyond the optimum in certain basic fields. It is of common knowledge that a significant part, about 40-45 per cent of import consists of such semi-finished products a part of which could be produced economically by domestic labour." This is especially true of the small-series production of mechanical parts, chemical intermediary products, a class of electrical and electronic parts, protein fodders etc . . . It is also of common knowledge that the specific energy and material consumption normatives effective in domestic production are less strict than those allowed by world market prices" (p. 178).

The theorem of optimum openness provoked a heated debate in Hungarian economic literature which, in view of the circumstances, in the end did not query the standpoint of the author but rather contributed to a better knowledge of the situation. It is beyond doubt that finding the optimum openness with regard to commodity structure as well as to the turnover by countries involved is a basic task of conscious economic policy. It is another problem, though, that the "over-openness" of the 1970s is of the latter character (the given volume of parts imported from hard currency relations compels to uneconomic exportation to such countries) and it is related to the unsatisfactory development of intra–CMEA integration.

In the international division of labour the national economy has a number of choices among various structural directions and combinations of production factors. Among these, the possibility of "rents" from extraction or tourism are limited by natural endowments. The sheer size of the national economy puts a limit to economies of scale. On the basis of the analysis of criteria of international division of labour Ferenc Kozma arrives at the important conclusion that, apart from a few special fields, the primary advantage available for Hungary in external economic relations can be found in the "rent" from the skilled labour, namely in spheres where highly valuable labour can be combined with a moderate use of energy and materials.

"Our development strategy, apart from some not negligible fields where rents on extraction can be realized, must be based on a systematic improvement of the skill of national labour" (p. 270). The abundance of Hungarian capacities of trained hands and brains is a commonplace hardly telling any novelty. Still, Ferenc Kozma skilfully avoids such a one-sided approach.

As a matter of fact, it is also well-known that a significant part of the economic weaknesses of Hungary is also related to human factors, i.e. to the relatively low level of the intensity and productivity of labour in comparison with the level of development of production. However, it is not superfluous to stress that the source of a rent from the skill of labour is not merely the level of training: it can only be realized in external economic change through a significant improvement of industrial culture, organization, labour discipline and the general spreading of the daily practice of innovation and the raising of efficiency. Wastage roots in the failure to harmonize labour and the quality of the technology applied.

Besides, the system of incentives also calls for a thorough modernization. In the past period, the political pressure for egalitarianism, fear from the creation of excessive purchasing power, and budgetary concerns have led to the underpayment of quality work and innovation, to the over-taxing of commodities purchased mostly by those with high incomes. I agree with the author in condemning the detrimental view which

advocates the achievement of Hungarian competitiveness through lower wages and the restriction of consumption. "The combination of a degressive nominal incomes system with a system of progressive consumer prices not only creates a negative interest in high quality work but also morally undermines the respect of socially useful work and it demoralizes society... I think such a dilemma can only be solved by a general, radical reform of consumer prices and wages: adjustments, corrections are no longer satisfactory" (p. 321).

The reviewer is, of course, expected to make critical remarks as well; these are related to the almost exclusive restriction of the reasoning to Hungary.

Although the author disclaims the aspiration to generalization at several places, still, a wider horizon might have contributed to a better understanding of our own position. The book provides a high-standard, novel theoretical treatise on external economic (foreign trade, structural, economic political) openness. Nevertheless, some aspects of openness are neglected (the traditional openness problems of developing countries, and their interrelation with their exploited and subordinated position; the factors of development and the problem of openness; the possibilities of transnational industrial cooperation and of counterbalancing openness etc.), which could make the picture complete.

In certain fields, a reference to the literature and the wide discussions would have also enriched the book.

The study is clearly understandable, enjoyable and very readable. It is advisable for the layman with an interest in economic problems as well. Ferenc Kozma fulfils his goal set forth: "to contribute to the stream of thoughts in which the author participates on the one hand, and, to provide food for thought for the generation which is soon going to carry on our work on the other."

T. PALÁNKAI

TARDOS, M. (ed.): *Vállalati magatartás – vállalati környezet* (Enterprise behaviour – enterprise environment.) Budapest, 1980. Közgazdasági és Jogi Könyvkiadó. 489 p.

This collection of studies is a milestone in Hungarian economic literature for several reasons. Although the studies collected here treat various areas of economic reality, like the technological development problems of enterprises, the role of stocks, or the importance of the scarcity of labour, and although the subject of these studies may be of any size from the small enterprise of a few hundred employees to a huge enterprise in monopoly position, or even a whole industry, – all studies share a single methodological basis. The representatives of the new school enriching the set of tools in economic research serving economic self-recognition emphasize the descriptive nature of study as against the traditional normative aspect which had been accepted and even elevated to the level of requirement. They investigate, through the analysis of the interests of the enterprise, through the assessment of decisions whether the declared economic and social goals have, in combination with the designated means, become the inner content of the operation of enterprises or whether they counter their endeavours, determined by their endowments. Although several case studies include a retrospection to historical antecedents in order to point out the roots, each one tries to make a contribution to an understanding of the successes and failures of one of the most interesting periods of the history of Hungarian economy, the 1970s. It seems that the collection of writings was composed deliberately so that the line from the opening article – dealing with the elimination of a monopoly through competition beneficent for all participants – to the concluding story – describing how an independent, prospering medium-size enterprise becomes dependent on the decisions of central administrative organs – exemplifies the development of the economic mechanism, its rise, and its halt.

The opening case study by K. *Lányi* on a state enterprise in monopoly position and on competition (pp. 39–87) tells us of the "golden age", the four-five years following the reform in 1968, of one of the significant and spectacular successes achieved in that period. The holder of the monopoly of international forwarding, a large enterprise following pre-1968 schemes in management principles, methods and purposes, turned to traditional means in answering the challenge of its business partners aiming at the redistribution of markets: it turned to the supervising authorities for protection, to achieve a moral victory. The high administration, however, was still suffering from the paralysis following the introduction of the new economic mechanism, the result thus, was redistribution of the market. The large enterprise had to abandon the principle of "one commodity-one enterprise" and had to change its strategy in defending its positions by introducing new forwarding forms, and improving its own services. The period following this success that relieved tensions on the sellers' market, and force to assume new enterprise behavioural forms saw, however, the completion of recentralization in the economy. The dominance of the functional and branch organs was restored not only through informal channels but even by government orders. This reinstated the old attitude: "The enterprise should produce, not ponder efficiency – the ministry will help." (Thus, it was almost unavoidable that the chemical enterprise, surveyed in the last case study, – by J. M. *Kovács* entitled: "Bargaining, assimilation, bargaining, pp. 393–490 – that united the options of large enterprise manageable in physical terms, the diversified medium-size enterprise and the conservative small enterprise, should take the path toward the first type, through deliberate "help" from the ministry, through modification of the economic environment.)

The case studies throw light upon how, through what method the supervisory organs restored their influence, what persisting and new levers were available to them to grab from the beginning of the 1970s on; they tell us about the "game without rules and odds", at the end of which paralyzed enterprises emerged which had to follow the lines set by the central will.

At the time of the introduction of the new economic mechanism a considerably large group of enterprises was institutionally exempted, cushioned from the effects of the slowly emerging, weak market forces. (Central development programs, however, affected almost all fields of production through the vertical relations of the enterprises, even though they were initiated for a mere few branches.) In the case of this group, the central organs have maintained a strong influence through the designation of producer-purchaser relations, the physical allocation of tasks, through exemption from the material-financial consequences of the decisions etc. Thus, these programs, conceived in a spirit different from that of the new economic mechanism, also meant the survival of direct economic control. From among these development programs, analysis of the one deemed the most successful one by the central organs throws light upon the nature of such central development programs, upon the results that could have been foreseen. (See the study by T. *Bauer* and K. A. *Soós* (pp. 149–184) published in abbreviated form in Acta Oeconomica, Vol. 23, Nos 3–4 under the title: Interfirm relations and technological change in Eastern Europe – The case of Hungarian motor industry; the study by É. *Tárnok* and P. *Vince*, pp. 219–254 and that of K. A. *Soós* on investment decision within a central development program, pp. 285–294.) The arguments of the proposal of the development project first conceived at the beginning of the 1960s, then elevated to the level of central development program in 1968, hardly contained economic efficiency considerations. The acceptance of the program was based upon.
the demand of CMEA countries, especially of the Soviet Union, on their almost unlimited capability of absorbing such products. However, as it turned out during implementation, even these traits had been simplified, and a thorough analysis had been missing. The project itself meant the survival of introversion, and concentration on finished products. The decision did not take into consideration the experience in industrialization of the West European countries, according to which vehicle production is only profitable if the parts, the sub-assemblies, may themselves become potentially independent

products. It was also left out of consideration that production experience was missing in many fields, that the technological standard of the main sub-assemblies was not homogeneous, which, in turn, jeopardized the quality and saleability of the end products. During the fulfilment of the program, many times modified and finally reduced to the production of a single final product, all the way to the first bus assembled a decade after the project had been conceived, the problems often foretold already at the beginning emerged conspicuously; the unsurprising facts 'turned out' that the demands of the socialist countries as well as of the Hungarian users are differentiated, that small series production, and frequent retooling are hindered by the rigidity of the technology, that the cooperation mechanism of the socialist countries failed to improve, that the final products incorporated parts that had been designed and produced for 30 years as well as newly developed, high quality sub-assemblies. Even when the high standard production of a sub-assembly could be achieved, the results were blemished by the limits to the size of production series imposed by domestic uses: supply of domestic producers justified but suboptimum series and the creation of production capacities for export was not possible for lack of money. In a number of cases it became obvious that the enterprises, questioning the central decisions, were more aware of the economic environment (failures in location, in the choice of technology). The decisions taken on other than economic grounds pushed many enterprises toward bankruptcy (as the participants in central development programs operated nonetheless under the circumstances of the general terms of the profit motive). Central intervention necessarily became the order of the day, it was, however, only enough for a day-to-day survival.

The large enterprises which were capable of influencing the central concepts to which they were subordinated could win strong positions in the bargaining process. Their size and importance have kept them continuously within the horizon of the supervisory bodies and they often requested and received assistance in the form of individual preferences. One of the "important" machine-building large enterprises got the following special treatment in order to solve its labour power problems: it could incorporate 12 economic units between 1968 and 1978 (of which, 9 after 1972, the year of the reinvigoration of central control). Although the labour shortage could have been surmounted in other ways (eg. through wider cooperation), this enterprise still preferred the above solution in order to improve security, to increase its influence and power. (See the study by K. *Fazekas* on the dynamical expansion and its constraints in a large enterprise, pp. 123–148.)

The enterprises without influence, those of lesser importance in the eyes of the central bodies, who were in a weaker bargaining position could not feel so securely by far. The management of a medium size machine-building enterprise, with a wide product scale was depraved in connection with its participation in the central program for road vehicle production by the series of wrong decisions concerning one of the sub-assemblies, which finally led to failure. The scope of actions of the enterprise was curbed by the investment started by central decision which failed to determine the concrete type of product; this was combined with changes in the designs several times and involved additional costs which had to be covered partly from the development fund of the enterprise. With no apparent reason, the decision, on the responsible producer and the concrete product was delayed for years. Meanwhile, the enterprise continued to produce a sub-assembly designed before the war out of necessity, and, although it tried to find out and influence the intentions of the centre in an advantageous direction, finally it lost the production profile. It would also have been interesting to see how it carried on after having been freed from the determining effect of the central development program, how it found a new way divergent from dependence on the central organs. Such a presentation, however, may be the subject of a future investigation.

With regard to the series of failures, to the distorted reactions of the large and medium-size enterprises taking part in the realization of central development programs, the question may arise in the reader: why is this program regarded as one of the most successful ones? Is it a

sufficient criterion that the end-product has been developed and it is suitable for normal usage?

The decision mechanism itself is hard to assess on the basis of the studies focusing on the road vehicle program. This gap is filled by the study by I. *Major* on the history of the development of telephone equipment production. (pp. 255–283)

This study throws light upon a product licence purchasing deal which was not part of a development project enjoying special state preference, but which was notwithstanding important for the improvement of infrastructure and for the mitigation of a chronic shortage, and, thus, was very much in the focus of interest of central organs. It is also related to the above because the lack of an established mechanism for the solution of conflicts, the delay of decisions invariably contributed to the failures also in this case. Although the emergence of urgent, formerly postponed needs and the intention of narrowing the lag behind world technological standards called for the launching of a new type of telephone exchanges in Hungary as early as the beginning of the 1960s, still, a decade was needed for making the relevant decision, and its subject, the investment has not been completed even by the time of the conclusion of the survey. Beside the producing monopoly and the sole purchaser, the process of decision was also influenced by the National Planning Office, the branch ministry and the functional ministry as well.

Although they were unanimous in that speed and technological standards were best quaranteed by the purchase of a production licence, the criteria of the decision were strikingly different with each participant in the decision making process. The National Planning Office, motivated by the wish to keep the financial guidelines of the five-year plan, focussed on the financial burden incurred by the introduction of production and the development of the network. The Ministry of Foreign Trade tried to reconcile the requirements of the expectable export potential and of the smallest possible demand for import. The prospective user was lured by the perspective of the network development and the fastest possible realization. The supervising ministry deemed most important how the system to be purchased can be integrated into the Hungarian industrial background and, thus, preferred the latest possible moment of decision. The future producer preferred a modest technological change, an easy adjustment to the production traditions. The relatively long delay following the submission of offers, produced by the radically different aspects of evaluation resulted in a distorted compromise awarding an extreme, supreme importance to the speed of realization, combined with the highest possible export earnings in convertible currency. Accordingly, price and the integration of the new product and technology into the average industrial environment were pushed into a secondary place. These neglected problems sealed the destiny of the domestic utilization of the licence: the adjustment was not completely successful and the deficiencies of the subdeliveries hindered the export of complex systems. As a result of the questionable success, the producer chose to press for the purchasing of another, more advanced production licence, or, a rush ahead.

The lack of reconciliation of the conflicting interests of the different state organs, the unpredictability of the demand of the state as monopolistic purchaser, the fact that its requirements are not products of the up-to-date needs of the economy but are sometimes determined by the undue importance attributed to growth, have driven a competitive enterprise with long traditions and good endowments in accumulated knowledge into a position of having to prove its capabilities continually for already several decades, almost questioning its right to exist, as pointed out by É. *Tárnok* in her paper on the limits of independent technological development after the cession of a licence relationship. (pp. 359–391) The sole Hungarian manufacturer of power plant turbines, which was successful in fulfilling unevenly given orders for manufacturing units at short deadlines, incorporating technological novelties achieved through independent development and through purchasing production licences which were themselves improved by its own specialists, has encountered threats to its existence for reasons independent from and hardly to be influenced by the enterprise itself. The future of its high quality products, priced below world market prices, was rendered uncertain by two factors. The central organs

intend to eliminate the chronic surplus of Hungarian machine exports to the Soviet Union, also urged by the trade partner, by winding up the turbine production, to be replaced by the import of this product. This is supported by the relatively low price of the Soviet product itself, with other factors left out of consideration. However, competition should not be reduced to one in the field of prices. In case of such an important production field with long traditions even a capitalist state neutralizes the effect of such an ambiguous competition; however, in the climate of the overheated investment of the 1970s the central organs saw a cost-saving factor in such import, i.e. in the substitution for domestic production.

The state, as a monopolistic purchaser, also deprived another participant in energy industrial investment, a high–voltage electrical equipment manufacturing enterprise of the opportunity to continue growing and diversifying, on the basis of its misconceived industrial policy which failed, or did not want to, take into account the characteristics of this segment of the market. (See the study by P. *Valentiny* on the role of government in influencing the electrical equipment market, pp. 331–357)

It is a specialty of the market of power plant equipments that orders come unevenly, concentrated in the periods following the investment cycles. Producers may achieve the equilibrium of company management, as it is shown by the practice of West-European countries, in two ways: on the one hand, by a high-standard, large series production of power plant equipment, enabling considerable export expansion, and, on the other, by the realization of a product-mix based upon the different cycles of the markets of consumer goods and investment goods. The Hungarian manufacturer, however, lacks either possibility: during the period of the "homogenization of production profiles" this industry lost most of its products, and was reduced to one or a few products: in addition, the management of the enterprise is centrally controlled (additional profits are levied), and yet it operates under the general terms of the profit motive and lacks own development funds.

The central organs try to mitigate the consequences of a misconceived industrial policy through a regular, but short-term rescue intervention, only enough for survival. The sluggishness of the enterprises is also encouraged by the certainty of the interventions. This is well represented by a case study directly aimed at verifying and refining this theory through the example of the stock policy of a huge light industrial concern. (See the paper by K. *Farkas* on enterprise stocks, pp. 89–112) When an enterprise is left unable to select its suppliers and customers freely, it will try to mitigate its subjugation and will push up its stocks in order to increase security. Such a behaviour can only be changed by a persistent, strong stimulus, in our case, by a chronic, serious liquidity problem. However, its reaction may be limited to a one-time, quick, abrupt adjustment and, without doubt, the central organs will continue to provide new exemptions.

The characteristics of the twenty-five-year development of the building material industry, belonging to the non-competitive sphere, are invariably determined by the distorted interpretation of the role of the state organs, by the resulting derangements, the ever reproducing distorted economic structure, by tensions rooted in the structure of the systems of planning and control. (See the paper by J. *Gács* "Planning and adjustment. Changing tendencies in the history of the development of the building material industry" pp. 185–218)

In the case of this example, a branch with a relatively homogeneous product structure, belief in the possibility of a perfect assessment and planning of the principal economic processes caused a series of booms and halts in the development of the branch: interventions are continually triggered by the recurring emergence of tensions exceeding the accustomed, 'normal' level. The system of control and planning of the economy did not prove to be "self-teaching", ie. in the moments of planning and intervention it forgets the experience of preceding periods, it is not aware that its ambiguous interventions will be got a series of new interventions.

By what mechanisms may a competitive, self-reliant enterprise with independent ambitions be trapped by the central organs into the net of prescribed paths? A versatile, medium-size chemical enterprise drew upon itself the interest

of the branch administration by the advertising campaign of one of its new products. Acceptance on a higher level, further development, the thought got loose from the enterprise and took an independent path. (See the paper by J. M. *Kovács*) The original concept: the relatively little investment-intensive adoption of a Western technology available in the form of cooperation, promising the possibility of exports, became – after the "assent" of the branch direction became an avalanche – a program envisaging to supply the whole CMEA, involving huge investment, threatening the enterprise with the "responsibility for supply". The producer, in turn, slid increasingly in the focus of the intensive influence of the central organs, became subject of trustification tendencies, and even the danger of involvement in a central development program loomed.

What motives start a flexible small enterprise on the path of growth and what destiny is waiting for it at the end – this is what M. *Laki* tries to answer in his case-study entitled "Growth and flexibility" (pp. 295–329). A machine industrial small enterprise which was competitive as to technological standards and even the quality of its products as well as the dates of delivery, became the target of such internal and external effects that, though not separately, but in their synergic coincidence, pushed the enterprise to the road of growth – through transformation, necessitating changes in technology, management, and capital intensity. The external factor, the normal state of shortage on the market means room for growth, however, its exploitation was rendered realistic by one group of internal factors, ambitions to increase wages, managerial aspirations which called for the status of a large enterprise. The future of the enterprise, which lost part of its flexibility, adaptivity right at the beginning of the road to growth depends, similarly to that of many hundreds of smaller and larger other enterprises, on the direction the development of the control system takes and on whether the activities of the enterprises are evaluated by the market or by the supervisory bodies. An analysis of this, however, needs the preparation of new surveys.

The volume of case-studies documenting the typical features and events of the Hungarian economy in the 1970s is interesting reading not only for the narrow specialists but also for the general reader with an interest in economic subjects. The studies represent a valuable contribution to a deeper understanding of the economic interrelations of the past decade. After having read the papers based on a uniform approach, written on a high standard with the readability of detective stories the reader has a feeling that the stories are not concluded: acquaintance with these individual cases provokes further thoughts and this is one of the greatest merits of this book.

K. SZÉKFFY

BOSSÁNYI, K.–KOVÁCS, M.–VARGA, A.: *Vállalataink életéből* (From the life of Hungarian enterprises.) Budapest, 1980. Kossuth Könyvkiadó. 246 p.

Readers of the Hungarian economic press could witness important changes in proportions in the 1970s. Publishers and editors of economic journals and books which previously published almost exclusively traditional writings in economics – with theoretical, historical, mathematical-economic and economic policy orientation – have been publishing more and more often also descriptive case studies thus giving up their previous aversion (or even refusal).

The authors of the volume entitled "From the life of Hungarian enterprises" (whose articles, reports, and analytical writings are regularly published in the press) undertook to assist Hungarian enterprises in their work carried on under ever hardening conditions by presenting experiences of five industrial and agricultural enterprises.

Case study means a novelty in Hungarian economic literature not because it strives after a true reflection of reality, since high-level writings in economic history, in mathematical economics or in economic theory are also aimed at the same purpose. Its novelty results from two sources, the method and the subject of research, of the revealing of facts.

The method is new in so far as the writers of the case studies rely not only on traditional, mainly on statistical, data sources, but also consider the

oral statements and written communications of the actors of the economy – managers and workers – as sources of the same value. Thus, first of all as an effect of the activity of István *Kemény*, deep interview and interviewing by questionnaire, relatively long used in sociology, psychology (what is more, also in market research) have become accepted methods of economists in Hungary. Authors of descriptive case studies, similarly to historians, are even willing to consider any "material", note, minutes or plan made in control agencies of the economy or in enterprises as data source. (This method appeared already in the first book of János *Kornai* considered as a pioneering work in the post-war history of descriptive economic research: Overcentralization in economic administration. Oxford, 1959.).

It is another novelty that authors of case studies do not present the national economy, but only a branch of it, or more frequently an enterprise, factory unit or workshop. Therefore, they take the risk that a part will eventually not exactly reflect the whole, processes going on in a given enterprise will deviate from the course of events in other enterprises. They undertake disadvantages of eventuality because they trust that the case will carry lessons of significance beyond itself and associations evoked by it will perhaps induce the reader to state some regularities.

This method of description and analysis of economic processes is rather immature as yet. The main problem does not lie in that some of the writings belonging here may be regarded under the same token as local or factory history monograph, sociography, sociological study on workers or managers with the same right as case study. (By the way, the notion of case study has already long been used for other purposes, for example, in psychology and management science.) Diversity, i.e. the fact that case studies interpreted in this way are on the marginal fields of science, publicism or even documentary literature, is rather an advantage, especially in the present stage of seeking ways and means. It causes much more serious problems that the criteria of evidence are obscure for the time being. Formulating more roughly, it is difficult to tell which of the statements and opinions collected may be regarded as facts. A further problem is to determine the order of importance of facts and events, to measure the strength and influence of conflicting and cooperating actors. It is a poor consolation for writers of case studies that the entirety of social sciences, qualified with more or less reason as "soft-science", is faced with similar or even more serious problems.

Despite these problems most case studies help in understanding important relationships and phenomena. This chance will further improve if pitfalls of bias and prejudices are avoided, thus eliminating the possibility of trying to "arrange" the collected statements and opinions by the application of notions that might prove untreatable later on.

It is an always arising question whether the selected branch, enterprise, plan or workshop is "characteristic" or just an extreme phenomenon – namely, the carrier of such extremities which impede the understanding of characteristic (frequent) processes. Such and similar dangers are not unknown to the authors and the editor of the volume Lajos *Markó*, either. They tried to solve the aforementioned problem by a careful selection of enterprises. By including beside two engineering enterprises (Rába, Tungsram) and an enterprise of the light industry (Kenderfonó és Szövőipari Vállalat (for short KSZV) – an enterprise of the hemp spinning and weaving industry) also two agricultural enterprises in the volume (the "Új Élet" cooperative of Sárisáp and the State Farm at Böhönye) they managed to more or less represent the sectoral structure of the national economy. The size of enterprises is also different. The state farm and the agricultural cooperative included may be considered as small and medium-sized enterprises in agriculture, while those representing the industry rather belong to the big ones.

It indicates good selection, too, that these enterprises also differ as regards their growth rate. Examples of fast, extensive staff-increasing growth (Rába, Tungsram) may be found here just as those of fast, but intensive development (Sárisáp), furthermore, even the phenomenon called "planned setback" by the authors (in case of the KSZV).

The authors skillfully increased the convincing power of the volume also by the

relatively uniform structure of the five studies. It is especially important that great importance is attributed to antecedents going back if necessary 80–100 years, and thus deducing present developments from permanent elements of the history and values of the given enterprise.

The picture is not so favourable if other pitfalls of writing case studies are considered. The three authors make no secret of the fact that their objective is "... to help enterprises, and cooperatives in getting acquainted with and using advanced management experiences and successful production methods as well as in avoiding wrong solutions ..." (p. 5). In brief, they are trying to decode the secret of success. The reviewer understands that in a book written for enterprise managers whose career is strongly connected with the success of actions carried out in the organization managed by them it is not easy to resist the temptation to interpret events by means of the pair of notions success and failure. This endeavour is not useless in an economy where the market has integrated endeavours of the participants by sanctioning some actions and remunerating others. However, in Hungary, where monopolistic situations created by administrative methods and permanently maintained under shortage conditions as well as so-called individual regulation based on it prevail and where old and new forms of bargaining between state and enterprises break the economy into parts, it is rather hopeless to formulate general criteria of failure, but especially of success. In this economy not or only imperfectly integrated by the market and made up of parts having special rules and indicators of success because of state intervention, there are hardly any methods that might bring success for all.

Precisely Katalin *Bossányi,* vehemently partial to "her enterprises" has the most problems connected with this phenomenon. In her study on the machine-building factory Rába (Győr) she is several times faced with the strange phenomenon why there is a large camp of opposers in professional public opinion, furthermore why the "quiet majority" also striving after success does not accept the growth model of Rába as an example to be followed. In the study, after writing about the history of the enterprise (an interesting characteristic of which had been even prior to World War II an active role of the state in the life of the enterprise as buyer and sponsor), she discusses factors explaining the success of the enterprise in her opinion. Out of these she long deals with market-oriented product development, the development of organization as well as with the "Győr model" of labour management and stimulation.

In all the three cases Rába followed a way deviating from the usual one in Hungary. It captured not the West-European, but the American market. Uncertainty caused by cooperating partners has been reduced by the integration of the "background", furthermore they tried to strengthen their position also on the labour market in an unusual way, namely, by dismissing redundant manpower. This specific way and its spectacular consequences are abundantly illustrated in the study through several examples and concise stories. The consequences were first of all fast growth and intensive capital innovation.

Without querying the suitability and market-sensitivity of the enterprise managers we have to see that non-typical environmental effects attainable only by very few enterprises have also contributed to the good results. Most of the domestic enterprises said successful would hardly be able to amalgamate eight smaller or bigger enterprises within 15 years as it was done by Rába. Similarly, one hardly finds another enterprise which, in the year of restricting investment, starts a new development project with a value 2.5 thousand million forints. (It is an unsolvable problem for dynamically growing cooperatives with good market results to obtain even a credit of 1–2 million forints from the bank.) Among several, otherwise illuminating, facts and opinions those non-market relations (influence in the organs of power) are neglected here – indicating a trap of writing case studies! – which partly make a big enterprise (nowadays precisely Rába, as well as the state farm of Bábolna and the Medicor) – an island of success, an example that should but cannot be followed.

There is a different situation with the Kenderfonó és Szövőipari Vállalat with a "planned setback". This enterprise is by no means in the centre of attention and is in an emergency situation both on its raw material markets and on the

local labour market. The study becomes exciting where the author (Katalin Bossányi), forgetting her propaganda purpose, merely describes actions of the enterprise aimed at modifying this situation, for example, how they organized and renewed domestic hemp growing as integrator. High-level sociographic parts of the study do only further emphasize their efforts (presenting hemp plants in a state characteristic of the period preceding the industrial revolution). However, the author was not satisfied with the description of setback, but spoke in favour of the enterprise again. Thus she tried to create the example of "honest standing". In the meantime, however, she inevitably took over the characteristic system of arguments of the enterprise, for example, that this industry is given more support in other socialist countries (p. 113), what is more, she even took a stand in favour of an individual regulation that should be more favourable than the generally prevailing one (p. 114).

The third case study of the volume is on Tungsram. Its author, András *Varga* describes the enterprise very thoroughly after giving a survey of historical antecedents. Unlike Bossányi, Varga characterizes the development of this big enterprise with several and relatively long time series. He shows the market situation of the enterprise product by product, then – based on this – the major markets of the enterprise. He deals less with the domestic turnover of Tungsram and much more with its specific activity on export markets. We may learn from the study why the enterprise is delivering to markets of so many countries, furthermore, a picture is given of the work of affiliated companies, too, which stabilize the foreign market situation of Tungsram. Varga proceeds from outside inwards and after a description of markets he discusses the individual elements of the enterprise's activity. He gives a survey of the organization of production management, the system of stock management, then reverts to the description of the organization of research and development activity employing under Hungarian circumstances an extraordinarily great staff of 2000. The next chapter deals with a kind of activity hardly mentioned in descriptive case studies, i.e. quality control. The two closing chapters may cause some disappointment in readers interested in the activity of Tungsram. Namely, if the foregoing is regarded as an "introductory" description making further analysis easier, then the parts on investment and labour management, respectively, would have required a more thorough work, taking the almost unprecedented vivid investment activity of the enterprise into consideration. However, András Varga is recording also further on instead of analyzing. It is a trap, again: we only learn about what happened, but not about how it happened. He only briefly refers to the amalgamation of other enterprises, and we learn only about the sum of important investment projects. Of course, this criticism is not fully justified, since a single analyzing economist may hardly give an exact picture of an enterprise employing 36 thousand people in which also causes would be exactly revealed. Authors of several case studies feel that a smaller organization may be more easily analyzed, therefore Varga's undertaking is so much more praisable. (With this study he entered into fields rarely dealt with.)

However, Mihály *Kovács*, writing both agricultural studies of the volume, deliberately avoided the trap of large sizes and chose the agricultural cooperative "Uj Élet" (New Life) of Sárisáp and the State Farm at Böhönye, both considered as relatively small enterprises, for subjects of his analysis. Similarly to Varga he, too, considerably relied on statistical data available on the two enterprises. When analyzing the great transformation of the "Uj Élet", statistics in a sectoral, what is more, even in a product breakdown helped a lot in understanding the events of development. This cooperative worked with losses for a long time not only because of worse than average natural conditions, but also because of the manpower-draining effect of surrounding industrial enterprises and mines. In the author's opinion the turn may not be explained by improving results of agricultural production, what is more, it even turns out from his analysis that profitability of plant growing and also of animal husbandry is rather unstable, in several years even losing. Development is considerable also in these fields, nevertheless, their results are explained first of all by the explosion-like running-in of complementary industrial activity. Kovács illustrates the inventiveness and flexibility of management in estab-

lishing auxiliary plants with several interesting stories, just as their courage in convincing party and state administration. One of the strong points of his study is the thorough description of environmental challenge towards the enterprise, but the answer given to it would have required further, more detailed analysis. May be, the author did not want to cross supposed or real ideological borders here? For example, when speaking in favour of his enterprise he adjusted its activity, being new from many viewpoints, to some outdated dogmas of agricultural policy in a forced way. This could already be felt even in the presentation of the profitability of main activities, especially when we learn that in Sárisáp capital had not been regrouped from agriculture into the industry. (Why should this be a problem?) The "determent" effect of dogmas being hardly favourable from the viewpoint of the level of the study can be really felt not so much with events described, where readers of the study look in vain for equivalents of venturers or those involved in auxiliary plants in Sárisáp. Who and why undertake these activities, what is the relationship between entrepreneurs and leaders of the cooperative are the questions that may be raised only hoping that the author of this interesting study will once continue this study.

The study on the state farm of Böhönye is perhaps less exciting, but also illuminating. The basic situation is similar to that of Sárisáp – the farm belonged to the weakest ones all over the country in the early 1960s. The turn is not so spectacular here, as in the case of Sárisáp. It is a great merit of the study that a thorough description of steps forcing each other is given which resulted firstly in the recovery of the farm and then in its becoming profitable. In the course of reconstruction a mixing plant had to be established because of pig production, then its surplus capacity urged for the development of fodder processing. After that it seemed to be advantageous to join a production system.

Another explanatory factor of changes was vivid investment activity and as a consequence of it an up-to-date and growing machinery, stock of equipments and buildings. However, it turns out from statistical data that the share of state subsidy increased faster than capital invested. Unfortunately, we learn almost nothing from the study about this nor about the ways of obtaining it.

By reading the five studies a reader interested in economic questions may obtain new information. And, he who will decide or has alredy decided to deal with this difficult genre may find several methods to be followed and deficiencies to be avoided. It would be good if Kossuth Könyvkiadó and also other publishers promoted the raising of the standards of this genre and the avoidance of traps by publishing ever newer descriptive studies.

M. LAKI

KUPA, M.: *Jövedelemelosztás, költségvetés, gazdasági folyamatok* (Income distribution, state budget, economic processes.) Budapest, 1980. Közgazdasági és Jogi Könyvkiadó. 218 p.

Mihály *Kupa,* head of department at the Institute of Financial Research reviews a relatively rarely examined sphere of problems of Hungarian economic practice in his work. One of the important merits of the book is that the author examines budgetary practice – deviating from the majority of Hungarian literature in this field – not in a money circulation and accountancy approach, but as a part of the economic mechanism. In 1968 no reform of the budgetary system took place, the budget has always been adjusted to changes in economic control and management either under the pressure of necessity or on its own initiative. According to the author the main problem of the Hungarian budgetary system lies in that its revenues and expenditures are subject to regulations of a deviating quality: while revenues are mainly a function of the regulatory and price system, expenditures are determined decisively by the national economic plan formulated in physical terms. The deficit of the state budget finally reflects the built-in inconsistency between the above two factors on the one hand, and the cushioning of the domestic market from world economic disturbances, exercised till 1978 on the other.

In the first part of his book the author reviews various macro-economic functions of the state budget. The budgetary system itself is divided into three levels: central (state) budget,

local budget and centrally managed monetary funds. The scope of activities encompassed by the individual budgetary functions and their interrelations depend on the system of economic control and management. The particularity of the state budget under the directive system of planning is that it is *always* balanced or shows a surplus, even if the real economic processes of the national economy are unbalanced. It meant a fundamental change in this situation following the 1968 reform that the budget could no more acquire its revenues automatically, but only in a way determined by the system of financial regulators and depending on the economic performance of the enterprises, though – as it turns out later on from the analysis of Mihály Kupa – this is more a theoretical statement than one of practical importance.

The *economic* function of the budget is in fact a form of state intervention. The scope of the economic function of the budget is largely dependent on whether the priorities of economic policy aim at the development of extracting industries and the expansion of the output of semi-products, or of infrastructure on the one hand, or rather give a preference to the manufacturing branches. If priority is given to the first set of aims, the scope of the economic function of the budget is greater, while it is smaller in the second case. The economic function of the budget is also increased if the price system and the system of income regulation are largely differing from the ideal state when factor markets are in equilibrium and reproduction of factors of production is organized in a more or less self-financing way. The multi-level organization and the expansion of the control apparatus, the possibility of lobbying for partial interests as well as, on the foreign economic side, the survival of the traditional mechanisms of CMEA-cooperation have also been working towards enhancing the economic function of the Hungarian state budget.

The function of the budget related to the *population* (for short: population function) manifests itself in the regrouping of incomes necessary for societal and social policy considerations. The lack of a price and wage reform ever since 1968 has made this function indispensable, furthermore the extension of social care in the 1970s, that enlarged the sphere of population functions of the budget, was not properly supported by revenues and thus the related expenditure exceeded real possibilities. Finally, the *power* function comprises satisfaction of the community needs in services of state security, defense, public administration and public utilities.

The excessive weight obtained by the population function is indicated by the author also by the fact that the gap between related revenues and expenditures widened: while in 1968 there was an expenditure of 121 forints per 100 forints of revenues, this figure increased already to 160 forints by 1975. This means first of all *not* the extension of state care, but reflects the undervaluation of labour costs, because of which the real (social) costs of the reproduction of the labour force have to be borne by the state budget to a considerable extent. This very much narrows down possibilities for income differentiation according to performance on the one hand, and, on the other hand, as it was supported by several other analyses, present turnover taxation supplanted by the effects of the price system contributes to the *reproduction* of income disproportions.

The functional balance of the budget contains aggregate data of the state budget and the centralized monetary funds and informs about the relationship between the budget and the national economy. According to this, the share of the budget in the GDP increased from 50 to 61 per cent between 1968 and 1978, thus approaching the level of around 65–70 per cent that used to be characteristic of the directive system of planning in Hungary. Revenues and expenditures steadily increased to an extent exceeding that of *net social income,* but this had no economic regulatory effect over and beyond centralization. Giving a survey on the credit relations of the budget and examining the relationship between budgetary deficits and the foreign exchange position of the country the author states that with an economic policy utilizing foreign resources, the foreign exchange position is closely connected primarily *not* with the measure of deficits of the state budget, but with the *domestic credit operations* of the budget.

In the second part of the book the relationship between the budget and real economic processes is examined. The author points to the "interesting-phenomenon" that up to now signals arriving through the budget have never produced such an effect in the Hungarian economy that would have resulted in the modification of major national economic plan targets and not in changes in the system of financial regulation. When regulating budgetary expenditure it is first of all the extent of fulfilment of existing tasks where there is room for manoeuvre. New tasks involving considerable extra outlays are usually not decided upon at the level of the state budget, though the latter has to look after their financing. After that the author reviews the major proportions of real economic and income processes of the Hungarian economy between 1970 and 1978.

In the development of income processes it had a determinant role that economic policy reacted erroneously to world market changes, it partly "cushioned" them and did *not* restrict simultaneously the formation of domestic incomes as well as their utilization. Instead, it maintained a growth rate of the emission of purchasing power largely exceeding that of the domestic income, thus the income missing due to terms-of-trade-losses was practically financed almost completely by raising foreign credits.

When examining the distribution of the budget and of incomes created in the course of production Mihály Kupa points out that *already between 1971 and 1975 revenues resulting from non-normative regulators had a decisive part,* while only the form did change between 1976 and 1978 by the fact that its most important element was a "tax on production".* As a result of 1976 changes subsidies in foreign trade were redistributed from the import side in favour of the export side. It may be considered as a backward step also according to the author that in 1976 a considerable part of taxes and subsidies shifted back to industry from the commercial sphere, net income elements built into producer prices grew very rapidly, and this meant a deviation from the principles and practice of a modern price system. The distribution of net social income was characterized by a tendency towards decentralization also from 1976 onwards, that is, revenues of the state budget derived from centralized net social income covered its expenses to an ever decreasing extent. Concerning the relationship between the state budget and the national economy Kupa comes to the conclusion that in 1974 and 1975 the state budget, by not being able to postpone the realization of decisions made previously, but realizing them at any cost at the worst possible time, also contributed – over and beyond sacrifying its own balanced state – to the growing foreign economic disequilibrium of the country.** It could be established already on the basis of results of the first three years that the Fifth Five-Year Plan for 1976–1980 could not be realized. At the same time the restriction of budgetary expenditure after 1976 was effected by such financial-technical solutions that diminished the burdens of the state budget first of all in connection with development projects. In fact this practice itself has contributed to the individualization of the system of control, first of all to the levelling of income positions of enterprises through the system of "taxes on production" that largely distorted also the role of profits as success indicator. In the meantime it ensured (large) enterprises a state of stability that was not supported by their income producing ability, thus it worked against structural changes and the practical realization of the concept of export orientation.

The third part of the book deals with problems of equilibrium of the state budget. When discussing various concepts to be found in Hun-

*In principle this tax is aimed at drawing away incomes resulting from differences in natural conditions, from artificially advantageous CMEA-import prices and other unjustified rent-incomes, restricting the orientative role of the price system and the freedom of competition. As a matter of fact, beginning with 1976 it has become the main tool of individualized financial control (exemptions etc.) and this role only gathered momentum in the system of regulators established in 1980.

**It was central decisions taken in physical terms that overpowered monetary constraints of the state budget and of the national bank.

garian literature the author points out that it would be a mistake to consider the equilibrium of the state budget merely as a technical matter, since because of the lasting existence of deficits itself, decentralized funds have had to be regrouped to finance them. As long as the above criticized practice continued to exist even after changes of regulators, aimed at income centralization in 1976, this phenomenon indicates disturbances in the functioning of regulation and/or the economy. Examining the reasons for budgetary deficits the author points out: though deficits may develop both from the credit and the income distribution sides, their extent cannot be justified by this fact alone. Deficits in the Hungarian budget between 1970 and 1978 are explained by increasing tasks of the state budget, the practical way of functioning of the contemporary system of regulators, "misapprehension" of the mechanism of functioning of credit money, and from 1974 on by increasing disequilibrium in the real- and foreign economic spheres. Deficits resulting from the existing decision-making system of compiling and implementing the national economic plan are called by Mihály Kupa 'deficits from planning'. This is practically the result of partial investment decisions, coordinated only in physical terms (or not even so), but not in monetary terms, so lacking the control feedback, needed from the financial sphere. The regulatory system was inflexible in relation to the needs of the state budget, i.e. neither was it able to ensure the state budget's planned share in net social income created, nor could it provide the financial resources necessary for the financing of investment tasks, pre-determined in the plan, therefore, a special regulation for the uses of aftertax enterprise income has become inevitable. The "inflexibility" of regulation was further strengthened by exemptions from various taxes and by production subsidies. The joint share of individual taxes and production subsidies amounted to 19 per cent of GDP in 1968, and it increased to 30–32 per cent by 1975. The thus developing deficits are called by the author 'deficits from regulators'. Credit granting deficits also developed as because of the negligible role of credits in current assets, the amount of money required for circulation is emitted mainly through the state budget, that is, money creation is transferred from the sphere of production to the sphere of final use. Finally, by drawing on external financial resources aimed at mitigating unfavourable effects resulting from foreign economic disturbances and at "protecting" domestic producers and consumers, *"equilibrium" deficits* were financed. In summary it may be stated that the reasons for deficits in the Hungarian state budget are found basically in the actual way of conducting economic policy and they are *not* to be attributed to the system of income distribution or to the functioning of mechanism of credit money as some authors indicate.

Among the macro-economic impacts of budgetary deficits Mihály Kupa points out that the state budget created the amount of money, that was not ensured by the regulatory system from credit sources, thus considerably weakening the regulatory and economic role of the credit sphere. The relationship between the state budget and banking system reminds of the model of directive system of planning, where the state budget is predominant and the central bank – with adequate tools missing – cannot effectively counterweight endeavours leading to the emergence of budgetary deficits. And if monetary and credit policies become a mere tool of the state budget – itself determined by central plan-decisions –, then economic policy cannot rely on financial instruments and categories and so is forced to regulate through directive means such processes that could normally be better solved by using indirect regulators. Concerning the repayment of public debts the author states that it only makes sense in international relations, while within the country repayment would only cause (realization) problems.

In the fourth part the author formulates the budgetary model of the indirect system of control. As a first step the author submits proposals for further development of formal, technical character, the most important of which refers to the elimination of a considerable part of the more than 90 currently existing centralized funds, more precisely, to their amalgamation into enterprise, local (council) and state budgetary funds according to their economic functions.

Over and beyond the formulation of general requirements of a regulated market economy the budgetary model outlined by Kupa may be

characterized by the following main features: 1. Exemptions may be made only following the fulfilment of obligations determined by the generally applied (normative) regulators. 2. In regulation of "unjustified" profits, and in fields to be diverted in the course of structural changes, but still showing a profit, individual taxes (as "production tax") would be replaced by such rules for investing "undesirable" profits as e.g. permitting the establishment of affiliates, tenders for state investment projects with profitability guaranties, capital investment with given profitability, preferences and dispreferences in the credit system. 3. The state budget should finance major investment projects only in productive infrastructure while in every other field all productive investments should be financed from enterprise funds. The regulation of structure-transforming major investment projects may be left to the credit system since here at least an average profitability has to be achieved. 4. After an overall price and wage reform costs of activities currently financed by the "population functions" of the state budget should be covered mainly from personal incomes. In the indirect system of control such a budget system would mean not only the financial aspect of a macro-economic plan, predetermined mainly by plan targets formulated in physical forms, but on the one hand, the state budget would be equal to the national economic plan itself, formulated from financial side and, on the other hand, it would be instrumental in achieving the equilibrium – and management – objectives, i.e. the qualitative aspects, of the plan. There are two preconditions for successful functioning of such a model of the state budget: namely, the economic regulatory functions of the emission of money should be consciously made use of in credit policy, and deficits of the state budget should be kept within reasonable limits, observing the basic principle of regulation through exceptions.

It is not a fault, but a misfortune of the book that more than two years passed from its closing until it was published. In the meantime economic policy determined a new growth path for the Hungarian economy. Therefore, it cannot be stated since 1978, that one of the main reasons for deficits in the state budget would be the government's endeavour to fulfil quantified plan targets at any price, since this is not even set as an aim by the party leadership either (as it is explicitly documented in the plan-fulfilment reports of 1980 and 1981). Despite eventual clumsiness in exposition Mihály Kupa's book is of high professional level, a valuable contribution to a better understanding of the real functioning of the Hungarian economic mechanism.

L. CSABA

ВИЛКАС, Е. Й.–МАЙМИНАС, Е. З.: *Решения: теория, информация, моделирование.* (Decision: theory, information, modelling.) Москва, 1981. Радио и связь. 328 p.

E. Z. Mayminas, professor of economics at Moscow University and. E. Y. Vilkas, mathematician, survey in their common work the contentual and methodological aspects of decision theory. Decision theory has become very fashionable nowadays, but the prestige of the various partial theories is rapidly changing. The authors quote Swift on the fashion and decline of theories. They strive to deal with problems in their book which are important today and remain hopefully so also in the future, in order to avoid that their theorems become obsolate before long. Consequently, the book does not stress novelty (although it also contains new results), but concentrates on the summary of main achievements.

Let us make some general remarks before treating the contents of the book in detail. First of all, let us state that the authors have achieved their goals. In their relatively short book they managed to present several fields of decision theory, quoting hundreds of scientific books and articles. They did not rest satisfied with a formal review of mathematical results but gave a thorough analysis of the assumptions and meaning of these theorems. Understandably, the proof of mathematical theorems is set in small letters. The faults and shortcomings of the book that stem from the imperfect matching of the contentual and methodological results of decision theory should not be left out from this review either. In my view, the authors could not perfectly resist the temptation to review each and

every interesting thought in the discipline. This mistake is well demonstrated by the figures which are hardly understandable because of the overdone details. (At the same time, the majority of figures and tables are useful in understanding the book, and even the complicated mathematical formulae are correctly and nicely set.)

I also missed the confrontation of various opinions. For instance, János Kornai's "Anti-equilibrium" is referred to by the authors several times, but when dealing with utility functions, they fail even to refer to the rejection of optimation by Kornai as the unique method. (To prevent misunderstandings, let me clarify that I do not miss the taking of a standpoint by the authors for or against optimation; I only miss the reference to the fact that such controversy exists.)

On the whole, however, the shortcomings are negligible in comparison with the merits of the book.

In addition to the introduction, the book consists of five chapters; while Chapters 1,2 and 5 deal with contentual questions, Chapter 3 and 4 discuss methodological problems.

Chapter 1 analyzes the *decision process.* Starting from the general conceptual framework of the decision problem the authors approach the sets of alternatives and their arrangement. The Chapter closes with the review of the general model of the decision process.

Chapter 2 has the title: *Information in socio-economic problems.* The first section deals with individual decisions, treating economic and psychological problems alike. The authors make a distinction between basic information and "current information" and also deal with the problems of completeness and reliability of information. The second section extends to social influence and determination, which is called by the authors, using a biological parallel, *socio-economic genotype.* A special section is devoted to interest and value. Finally, *Table 1* summarizes the technological and social relationships between the types (rationality, efficiency and perfection) and requirements of control principles. The last section analyzes what information implications means and goals have in socio-economic problems. *Table 2* summarizes the basic control characteristics of socialist economy: it distinguishes between horizons (from 1 day to 20 years) and means (from the speed adjustment of machine tools to the promotion of scientific-technological progress), with regard to the level of controls (from the workshop to the national economy).

Chapter 3 discusses the mathematical models of simple decisions. Starting from the utility functions, it demonstrates more or less known theorem. An example of the former is the utility function of *Neumann* and *Morgenstern* (1944), and of the latter the result of *Grandmont* (1972) on the computability of the utility function as an expected value. Showing a good sense of discretion, the authors treat, from the rich liberature, *Savage*'s subjective probability theory (1954), *Debreu*'s and *Fishburn*'s stochastic utility function. *Samuelson*'s "revealed preference" theory is also included.

Chapter 4 reviews the mathematical models of complex decisions. The main stress is laid upon game theory and the terms strategies, game and related ones are defined. The authors treat the most important views about solutions: those of *Neumann–Morgenstern* (1944) *Aumann–Mashler* (1964) and *Shapley* (1953). Optimation with multiple goals is also treated, within it *Pareto*'s optimum, which plays a basic role in economics. The last but one section reviews the axiomatizing attempt of *Arrow–Hurwicz* and similar models. The last section surveys the aggregation of criteria and commensurability.

The title of *Chapter 5* is the typology of socio-economic decisions. The first section deals with the theoretical questions of the modelling of socio-economic systems. Among others, the authors make a distinction between *large* and *complex* systems: the large system can be described as a union of its subsystems, while complex systems are given by the intersection of the subsystems. The authors are right to state that, for the time being, economic models are incapable of taking into account the social aspects of the economy, they rest satisfied with the description of the technological inter-relations. The world situation increasingly calls for a modelling of social relations. Vilkas and Mayminas derive the emerging opposition to traditional economics from the social and economic crises of the 1970s. The present

development of socialism (the direct task of raising living standards), in turn, puts new questions to be answered by the economists of the socialist countries. It also deserves mentioning that the development of science fails to keep pace with practice.

This latter thought leads up to the following sections covering the classification and types of the socio-economic tasks and models. For shortness's sake, we only review here the classification of these tasks: I. *Transformation.* 1. place in the technological process (e.g. production, transport, etc.); 2. content of the technological process (e.g. material, information, etc.); 3. nature of transformation (mass production, or individual production); 4. measurement of transformation e.g. quantitative and qualitative.

II. *Wording of the task:* 1. viewpoint (economic or social); 2. level (e.g. enterprise or the national economy); 3. functionality (means of production or labour etc.); 4. time (dynamic and static); 5. space.

The last Chapter deals with the mathematical models of modelling and decision making. The authors deem to find the most significant difference between static and dynamic, deterministic and stochastic models.

To sum up our view, let us reiterate our opinion. The book of Vilkas and Mayminas can be well used by mathematicians and economists (and even psychologists and sociologists) having a greater interest in decision theory.

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*We acknowledge the receipt of the enlisted books. No obligation to review them is involved.
**To be reviewed in Acta Oeconomica.

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— Le relazioni economiche tra l'Austria e la Jugoslavia.
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T. ERDŐS

THE RATE OF GROWTH AND ITS NEW PATH IN HUNGARY

The growth potential of an economy should not be derived from the increase of capital but from technological change and the growth of employment. Over some longer period the increase of capital accelerates development only if it leads to an acceleration of technological change. According to the author's opinion the rate of long-term growth cannot be accelerated in Hungary by raising accumulation because employment increases but slowly or not at all and because the economic conditions of technological development are unfavourable. By improving the economic mechanism the Hungarian growth potential might be improved, while this would lead to a rise both in the rate of accumulation and in the rate of investment. The rate of growth is a function of the whole management and the rate of investment is basically a function of the growth rate and the capital/output ratio.

Growth potential

Economic growth has apparently slowed down significantly in Hungary since 1978. The average rate of the growth of national income stayed at 1 percent between 1978 and 1981, and with the plan for 1982 taken into account, this will be the fourth year when the rate only slightly exceeds one per cent. Such a long period of slow growth is unmatched in the history of Hungary after the Liberation. For comparison's sake: the period between 1950 and 1975 saw an average growth of 5.8 percent p.a., even though this 25 year period was not free from halts, either.

In connection with the slowing down of growth the concept of "growth potential" continually emerges. By this economic literature means the ability of the economy to grow, i.e. a rate of growth that could be reached by a country in a given period. The growth potential cannot be surpassed by the actual growth rate of an economy for long. How can we formulate the content of growth potential?

The subject has an ample literature. It seems expendient to take the simplest growth models for a basis and apply their deductions to the Hungarian economy. These models derive the attainable growth rate either from the growth of capital or from the technological development and the changes in employment. The growth potential can be analyzed in a closed or an open economy. In the latter case, the authors, for instance, the Polish *Kalecki*, render the attainable rate a function of competitiveness on the world market, of the growth rate of economically justifiable export and imports.

Investment and growth potential

The best example of growth potential derived from capital growth is the *Harrod–Domar* type model. According to this, the growth rate will be $\frac{S}{C}$, where S is the proportion of new (net) investment – accumulation – within the national income. C, in turn, reflects the amount of accumulation needed for one per cent growth of the national income. The greater the proportion of S, and the smaller the value of C, the higher the attainable growth rate. Indeed, *if* one manages to increase the proportion of accumulation simultaneously with the decrease of the specific accumulation needed for one per cent growth, then the growth potential can be boosted. This is not, however, tantamount to saying that an increase of the rate of accumulation necessarily causes an increase in the growth rate. The result may well be that, contrary to all expectations, merely the value of C will increase, with the growth rate staying at the previous level. Of course, the equation $G = \frac{S}{C}$ still holds true, as the growth rate at any given time cannot be but the quotient of net investment and the C of that given time (using here the terms net investment and accumulation as synonyms). This is a tautological theorem. The formula $G = \frac{S}{C}$ acquires a useful content when, for some reason, the constancy of the value of C is *somehow* warranted, in spite of an increase in the proportion of net investment. The formula may also be useful, if we know a way to diminish C while S is kept unchanged. Indeed, even a slightly thorough review of the literature shows that even the first formulators of this relationship e.g. Domar and Harrod, refrained from surpassing the above reasoning. Nothing was farther from them as implying that the rate of growth may be increased by raising the proportion of net investment *under all circumstances,* or that the growth rate can be controlled by changing the rate of accumulation. When the growth potential is conceived as a function of the rate of accumulation, then, in case of a correct analysis, the existence of a significant labour reserve must be implied as well as such a rate of technological development as would prevent C from growing in spite of an increasing rate of accumulation. But, this points to the fact, that the growth potential of the economy is not explained by capital growth, but by something else.

Economic growth can partly be derived from the improvement of productivity, partly from the increase in employment. As in the longer run productivity cannot grow faster than the rate allowed by technological development – for technological development itself can be interpreted as production of a greater output by using the same unit of labour input – in the final analysis, the growth potential is determined by technological development and the increase of employment. In case the technological development allows for an increase in production of 5 percent on an annual average, and the increase in employment is 1 percent on the average, then – supposing there is no unemployment – that growth potential will amount to $5 + 1 = 6$ percent. (More exactly, $1.05 \times 1.01 = 1.0605$, i.e. 6.05 percent.) Of course, in case the growth potential inherent in technology was not fully exploited and the rate of such exploitation is improved, e.g. because of the spreading of advanced skills and technological knowledge, then the growth of production may exceed this 6 percent temporarily. This possibility, however, dimin-

ishes year by year through a better exploitation of the productivity potential, and during a longer period the growth rate cannot exceed that determined by technological development and the growth in employment.

It is illuminating that Harrod explains the growth potential of the economy always with technological development and the increase in employment rather than by the real or warranted rate of growth. In his view the natural growth rate equals the sum of the rate of technological development and the rate of growth of employment. ". . . the 'natural' growth rate is determined by population increase and technological progress." [1] "The actual growth rate cannot be for the major part of the time above the natural rate." [2] "Once full employment is reached, it is impossible for the economy to move forward at a greater rate than that shown by the natural rate curve." [3] In less developed countries the propensity to save is low. "By increasing aggregate saving the authorities can render it possible for the warranted growth curve to lie along the natural growth curve *and for the country in question to achieve its growth potential.*" [4] (My italics. – T. E.) It is interesting that the *Harrod type* model is often used in Hungary to derive the growth potential of the economy from the ratio $\frac{S}{C}$ i.e. from the quotient of new investment and the marginal capital output rate. Also Mária *Augusztinovics* does so in her article on the rate of economic growth [5]. Harrod himself, in turn, does not define the growth potential by the value of $\frac{S}{C}$, but rather by the sum of technological development and the growth of employment, and he is consistent in this in *all his discussions!*

Can the rate of growth be regulated by changing the rate of investment?

The increase of the proportion of accumulation could be relied upon for the increase of the growth of the economy if in this way idle labour reserves could be mobilized, if technological development were so fast that full employment would call for the increase of net investment, if technological development itself could be accelerated by accumulation, if the average age of equipment could be lowered by a greater proportion of accumulation. (In this case the growth rate would temporarily increase.) The analysis of a longer period points out, however, that the rate of growth cannot be accelerated merely by raising the rate of accumulation. (Apart from a shorter period, for example, one perhaps following temporarily the present restrictive phase, mobilizing the hidden, 'intra-factory' labour reserves *partly* through a better utilization of fixed capital equipment, *partly* through the increase of net investment: thus the growth rate of production might be increased.) As against the aforesaid, however, in the coming 15-year period the following factors must be reckoned with:

1. No considerable increase of employment can be expected;

2. The main concern remains the slowness of technological development, the low proportion of new products, the slow transformation of the product-mix, the inadequate improvement of quality, thus, in other words, the slow change of the whole production

structure. The product-mix is inadequately following the changes in comparative advantages. The present system of the Hungarian economic mechanism is not forcing the enterprises to seek modernization either, conservatism still has deep roots. Few enterprises are in the red, the differences in income do not reflect differences in achievements adequately. There is no efficient mechanism for the continuous redistribution of capital, labour, materials and energy from the uneconomical towards the economical activities. Shortage phenomena indicate that the market is still a sellers' market, healthy competition is mostly missing. All this is not stimulating technological development, thus, a raising of the rate of accumulation would merely increase the proportion of idle capital instead of employing labour freed by rapid technological development. In other words, the raising of the rate of accumulation would raise the value of C (the incremental capital/output ratio) rather than the rate of economic growth. The faster the rate of accumulation were to grow, the greater the increase of – firstly the incremental then the average – capital/output ratio would be.

3. The economic mechanism in its present state of development provides no guarantee to the effect that the increase of accumulation would help accelerate technological development, as a) it provides no automatism for the increase of R + D outlays, b) the efficiency of research and development and the relationship of research to practical life is insatisfactory, c) the chronic shortage of hard currency limits the resources available for importing developed Western technology. Otherwise imported technology is not sufficiently efficient, either, because the hard currency funds do not allow for the *complex* application of imported know-how.

In the period 1950–1975 the rate of accumulation showed a growing tendency. This had an important role in that in the sphere of material production investment and capital efficiency showed a deteriorating tendency, i.e. that the value of C increased in this sphere.

Of course, all economists are well aware that the incremental capital/output ratio (as well as the average capital/output ratio) are not unchanged and their changes must be reckoned with in forecasting the growth rate. Still, rather questionable treatments can be witnessed as regards the capital/output ratio. For instance though Mária Augusztinovics stresses, that the idea of a constant capital/output ratio must be rejected, still, at the same time, she follows a peculiar line of reasoning. In order to discuss the various growth strategies leading up to the year 2000, she postulates a *gradually deteriorating* capital efficiency (a growing capital/output ratio) throughout the period, thus avoiding the charge of leaving the capital/output ratio constant. We have a problem, however: she calculates with a single, monotonously increasing capital/output ratio *indifferent to the changes in the rate of investment (accumulation),* that is, conceiving a *constant* rate of deterioration in the capital/output ratio under *significantly different* proportions of net investment rates. Whatever changes take place in the proportion of net investment, in her reasoning the capital/output ratio increases at a constant rate. In addition, in each different growth strategy surveyed the capital/output ratio is supposed to be of the same level with different rates of accumulation. For example, in one strategy during the period

1995–2000 the rate of accumulation is put at 19.1 percent and the value of the capital/output ratio at 5.58, the rate of growth, in turn, is put at 2.1 percent. In another version, the rate of accumulation is 35.5 percent, the capital/output ratio is the same 5.58 and the growth rate is 5.0 percent! [6] As the changes in investment are not supposed by her to affect the level of the capital/output ratio, she regards the rate of growth controllable through changes in *investment.* It is not disclosed, however, what labour reserves make the above possible, why technological development accelerates with a higher rate of investment; whether the increasing rate of investment is postulated to accelerate technological development, and if so, on what theoretical basis: the tacit supposition is that there is a guarantee in the Hungarian economy that a faster increase of investment would not result in the increase of the capital/output ratio. Augusztinovics simply avails of the "Harrod–Domar model", describing the growth rate as a function of the net investment rate and the capital/output ratio. As she put it, ". . . there are no *additional* factors to be considered. . . . Within the simple framework of this model these two factors pick up and consolidate all impacts on growth". [7] (p.225) She is right: these two factors concentrate the effects of all impulses indeed. However, they also reflect insufficient labour reserves, the missing or insufficient acceleration of technological development: in such cases the raising of the net investment rate is combined with an *increase* in the incremental capital/output ratio. Had Augusztinovics not set out from the $G = \frac{S}{C}$ formula in determining the *growth potential,* but from the rate of technological development and the increase of employment, she would certainly have been much more cautious in judging the effect of accumulation on growth, just as Harrod was.

Under actual circumstances in Hungary, a greater rate of accumulation is hardly capable of raising the rate of growth, but a greater accumulation would absorb a significant proportion of the increment of national income. (This absorbing effect might even be greater than the increment itself.) It would not reassure me at all if the government adopted the strategy analyzed by Mária Augusztinovics, aiming at maximization of personal consumption at a later date – called "MAXIMAJD" ("maximum later") – and, according to this model, aimed at an extensive increase of net investment. Combined with a stagnation in the improvement of the economic mechanism, the result of the strategy "MAXIMAJD" strategy could well be *minimization* of personal consumption. I even waive here the aspect that especially with an increasing rate of accumulation, adequate regulation of the volume and rate of investment is a so far unresolved task. It is my conviction that under the conditions prevailing in Hungary, the rate of growth can be *influenced* mainly by the formation of an economic environment, an economic mechanism forcing and fostering technological development, structural change, competitiveness, profitable export, improved quality rather than through the adjustment of the rate of investment. It is true that no one in the government, in the National Planning Office, or in research institutes has an idea about what rate of growth can be attained in this way. It seems to be sure, however, that this rate must be greater than the one realized in recent years. The growth rate is an attainment of the whole economy. This is rather amenable to planning – mostly through extrapolation – when the economic mechanism as well as the

external conditions remain basically the same and when the growth rate from previous years is known. Let me add: we do not know the future changes in capital efficiency, *to what extent it increases, if it increases, and how much its decrease is going to be if it decreases.* For this reason, the rate of accumulation is also difficult to plan. Our knowledge is often limited to knowing what rate of investment *we would not like to exceed.* Of course, parallelly to the gradual formation of the new circumstances, *on the basis of practical experience,* new and more reliable information is gained concerning the rate itself, the efficiency, and the rate of accumulation, thus improving the reliability of the plan.

Foreign trade and growth potential

Most growth models neglect foreign trade as a factor limiting or determining the growth potential. Unduly, because international trade is a very important factor determining the growth potential, especially in small countries and particularly since the 1970s. In Hungary the factors curbing growth emerge mainly in the field of foreign trade.

Usually the role of foreign trade in fostering growth is emphasized. Lately, however, its role in limiting growth is also increasingly often referred to. This role is excellently treated by M. *Kalecki* [8]. He points out: growth induces an increasing import demand which has to be satisfied, apart from borrowing from abroad, through increasing exports. The increase of profitable exports, however, is strictly limited, thus, there is a ceiling on the increase of production as well. The faster the attained growth of production, computed at constant prices, the more difficult it is to achieve *additional* acceleration because of, among other factors, the export and the concomitant import limit: 1. When the growth of production and of import accelerates, the export growth has to be accelerated as well. The increase of export may lead, however, to falling export prices either because of increased external supply or because additional markets with lower price levels must be opened. This means that a unit of import must be bought with increasing amounts of inputs and, beyond a point, imports cannot be increased by additional inputs at all. The export volume may increase, but the export revenue will stagnate. 2. The forcing of exports may lead to adding such items to the export list that are less competitive, and are involving a comparative disadvantage. This also entails the increase of inputs for one unit of import. 3. The increase of the export and import intensity of growth may be slowed down by import-substituting investment projects and production, but this often claims significantly higher resources than does the import-financing export replaced.

In the case of either limit, the following problem arises: the national income available for accumulation and consumption will grow more slowly and, in an extreme case, it may completely stop increasing. (Because of a rapid fall of export prices, because the production of exported goods absorbs an increasing proportion of resources, because import substitution costs a rapidly growing amount of resources, and the thus imported goods combined with those produced inefficiently with the remaining resources fall short of the volume of goods produced in the previous year.) With a given structure of

production and foreign trade there always exists a growth rate that can be regarded, in view of the *foreign trade conditions*, as the *highest one attainable*. Any attempt to surpass this level through additional acceleration results, instead of a further growth of the national income, in a slowing down of growth. This attainable level may be *lower* than the growth potential derived from the internal technological development and the increase of employment! In this case, with profitable foreign trade, the growth potential remains unexploited, and hidden unemployment may grow. *In the longer run*, however, the growth potential and the foreign trade limit on growth must adjust to each other, either so that a change of the production and export structures makes possible an acceleration of profitable exports, or so that the technological development slows down because of the unexploited growth potential.

The role of foreign trade as a limit to growth drastically emerges at times when the terms of trade deteriorate rapidly! Under such circumstances, the difficulties are not related to the acceleration of *growth*, but to the acceleration of the *import* costs. For a time, this also deflects the realistically attainable growth rate from the growth potential derived from technological development and the growth of employment. Maintaining the attained rate of growth of production, without resorting to foreign credits, would be possible through acceleration of the volume of exports. In case of external borrowing, a more modest acceleration of the export volume is sufficient. When the growth of the volume of exports cannot be successfully accelerated, the moderation of the growth of imports is inevitable. Under such circumstances, the growth rate of production falls short of the combined development of technology and employment. In the longer run the actual growth rate and the growth potential adjust to each other in this case as well, but technological development may slow down – for example, because of a long period of restriction – consequently, the adjustment may take place at a rate of growth lower than previously. Presently actual development in Hungary falls significantly short of the growth potential because of the restrictive economic policy. Restriction in the long run, however, is unfavourable for technological development, thus, the danger of a decrease of the growth potential arises.

The growth potential is a changing and alterable magnitude

Technological development and the rate of increase of employment are not constant over time, they may accelerate or decelerate. In countries on a medium level of development, like Hungary, technological development has a greater role in the process of growth. The dynamics of our development depends principally on the rapidity of technological progress.

The pace of technological development cannot be set by the controlling authorities, its level is determined principally by the socio-economic environment in which technological development is taking place. It is a widely held opinion that the pace of technological

development is not high enough in Hungary. Its acceleration depends, in the first place, on the further development of the economic mechanism. So far, the improvement of the mechanism has not brought about a breakthrough. In the context of improving the reform of the economic mechanism it is of vital importance to provide real independence for the enterprises, to harden the "budget constraint" imposed on them, to award a greater role to small and medium size enterprises in those fields where they are more efficient, to link external and internal markets better, to *increase the role of market automatisms.*

When speaking about the strengthening of the market automatisms, we do not mean the establishment of a kind of "free competition", the neglect of the role of the state. However, *a reassessment of the role of the control authorities is inevitable:* what should be assigned to the market automatisms, what should be decided upon by the authorities, what importance should be attributed to the role of market automatisms in the different spheres, how this automatism should work within the framework of socialist planned economy, when and how the control authorities should rely on the various signals of the market automatism, how the weight of state end enterprise investment should vary within investment on the national level etc. Not to speak about traditional socialist economic control systems, even in Hungary too much depends on the control authorities, too much is referred to high authorities, the organs of the government and the party are expected to be all too far-sighted, all too "clever". The higher leadership reserves an oversized discretion for itself which lacks justification especially in our times of rapidly changing world economy. Comparative advantages, so important in external competitiveness, have not been able to assert themselves, "by themselves", among other causes, because of the lack of adequate market automatisms, but they wait to be *asserted: too many tasks have to be accomplished consciously!* The core of the problem lies in the fact that Hungarian enterprises are not pressed strongly enough either by state control or by market automatisms to adjust to the changing conditions on the world market, to improve efficiency, to prefer quality to quantity, to develop technology. State control *alone* cannot accomplish this, and the adequate market mechanisms are still waiting to be established. A further improvement of the economic mechanism would bring about changes in these fields, among others.

Although the attainable rate of growth can be regulated in essence *indirectly,* through the transformation of the economic mechanism, i.e. *not through changing the rate of accumulation,* faster growth still cannot be achieved without raising the rate of investment (the ratio of gross investment to the value of GDP). For, in case no restriction is in effect, *the rise in the growth potential inevitably entails an increase of the investment rate.* The replacement of machinery, the ratio of replacement depends on the pace of technological progress: combined with an adequately operating market mechanism, a faster technological development causes a *higher rate of replacement.* In addition, in case the capital/output ratio remains constant, or, at least, it does not decrease, the acceleration of growth *increases the rate of accumulation.* For, with the capital/output ratio *unchanged,* the growth rate of capital *equals* that of production, thus, the propor-

tion of net investment increases proportionally to the rate of growth relative to the capital tied up. An eventual increase in the capital/output ratio, combined with the acceleration of growth would trigger an even greater increase in the rate of accumulation. As an acceleration of the rate of growth raises the proportions of both replacement and accumulation relative to GDP – with the sole exception of a proportional increase of capital efficiency – the acceleration of growth is usually accompanied by an increase of the gross investment rate.

The snag, however, is as follows: it is rather the *rate of growth* that *determines the rate of investment* than *vice versa!* The reverse may only occur when idle labour reserves are available, when investments speed up technological development, or when the average age of machinery decreases because of large-scale investment. Labour reserves in Hungary are nil, or only very modest. It is not probable that a *simple raising* of the rate of investment results in an increase of the pace of technological, technical development. A decrease of the average age, in turn, may only yield a modest and temporary contribution to the rate of growth. The real interrelation is as follows: in case no unnecessary investments are made, the rate of investment increases in order that the *growth potential can be asserted and full employment be secured.* The dynamics of growth cannot be accelerated by merely raising the rate of accumulation. We arrive at this conclusion also on the basis of statistical evidence: Among the countries having achieved rapid growth during the thirty years since World War II, from 1945–1975, none had a low average investment rate: *rapid growth induced a high investment rate in each of them.* On the other hand, not all countries with a high investment rate could achieve a high rate of growth: merely the *raising of the rate of investment failed to induce rapid economic growth* automatically!

The problem of the new growth path

The content of the growth path

At the time of the preparation of the new Hungarian economic mechanism, in the second half of the 1960s, then in connection with the introduction of the new mechanism it was frequently voiced that extensive economic growth must be replaced by intensive economic development. The concept of the "new growth path" became fashionable in the second half of the 1970s, after the shock of the price explosion on the world market, by which a path was meant Hungary "should" take. It has often caused uncertainty whether there is a difference between "intensive economic development" and the "new growth path", and what the real content of the new development path is.

Frankly, I can see no difference between intensive economic development and the new growth path. The order of the day is, invariably, the necessity of bringing about intensive economic development, only this is rendered more imperative by the changes that have taken place in the world economy. Rather, simply the usage of the term "new growth path" became the "vogue". In Hungarian economic circles this term is

not used with a uniform content, either. Certain authors, for example, Mária Augusztinovics, relate it to the slowing down of the growth rate, to its variations: ". . . Consumption increased . . . by *almost 5 percent on annual average* – much faster than it would have grown if the economy had remained on the growth path of 3.5 percent determined by the initial proportions." [9] "And yet, like acceleration, deceleration cannot continue for ever either; in a trajectory characterized by a lower growth rate a *balanced growth path* securing more or less even growth may develop . . ." [10] Others, like János *Hoós,* relate the content of the new growth path rather to qualitative factors: ". . . the main point of the new growth path is exactly not the rate but its new content against the old ones. From content follows the rate, that is, the rate is a result and not determining factor." [11] "That is, growth must be actually qualitative this at the same time lends *determining and forcing* power to quality factors. Namely, when growth is of another type *the rate will necessarily slow down* with all the negative implications with respect to the standard of living and economic development." [12] The quotations point out that opinion about the contents of the new growth path are divided, even among the specialists of the National Planning Office. I would rather agree with János Hoós in that he relates the notion of the growth path to qualitative factors. I must add, however, that the concept of the growth path can also be related to the rate of growth, to the growth potential in *a certain respect.*

I do not know who introduced the category of the new growth path in Hungarian economic literature. The term itself is not new, expressions as "development path" or "growth path" are widely used in Western economic literature dealing with problems of the "optimum rate of investment". The theoreticians of the neoclassical school – starting from the assumption that employment is full and the growth of employment is constant, further that the pace of technological development is a *given factor determined by exogeneous elements* – arrive at the conclusion that, in the long run, with different rates of accumulation, the *rate of growth is exactly the same,* only the *level* of output and of productivity differ. For this reason, with a higher rate of accumulation the capital/output ratio is also higher than that in the case of a lower rate of accumulation. Because of different, but in time constant, rates of accumulation *various growth paths* are formed, which are not different as to the applicable technology and the rate of growth, but are different as to the relative proportions of *accumulation and consumption,* the *level* of productivity, the level of consumption (per capita consumption) and as to the *capital intensity of production.* When the rate of accumulation is high, then the capital/output ratio is higher as is the *level* of production and productivity, but the proportion of consumption within the national income is smaller. With a lower rate of accumulation everything is reversed, as at any time the capital/output ratio and the level of production are lower, while the proportion of consumption is higher. A higher production level itself results in higher consumption, while a higher rate of accumulation allows less consumption. The choice among paths providing *otherwise identical rates of growth* with different rates of accumulation depends on whether the *production boosting* or the *consumption curbing* effect of accumulation is the more significant. The level of consumption on the

various growth paths is not the same: the *optimum* rate of accumulation is that characterizing the growth path with the *highest* level of consumption. In this case, on each point of the curve of the growth path *consumption is the highest possible.*

Economic literature also discusses the possible *different* rates of growth attainable along the various growth paths. W. A. *Eltis* [13] deems a higher growth rate possible in case of a higher proportion of investment, but far below a level proportional to the investment. In this case the slopes of the various growth paths are different, but on the higher paths the capital/output ratio is also higher. M. Kalecki, in turn, points out: In case a higher rate of investment is combined with a higher capital intensity of production, higher levels of output and productivity can be achieved. On this higher path the growth rate *may* also be higher than that on a lower path, but it is also possible that this rate will be the same as that of the lower path. From this follows that when an economy shifts from one growth path to another – e.g. from one with a higher capital intensity and investment rate to another with lower levels – it is not *sure,* only *possible,* that the growth rate turns out to be lower. Of course, when a shift from a higher path to a lower one, characterized by a lower capital/output ratio and lower rate of investment, occurs, then the rate of growth usually decreases, *temporarily.* This is, however, but a *temporary* phenomenon. The new path is characterized rather by *a different capital efficiency, a different rate of accumulation, and a different level of consumption.*

It is very difficult to judge whether the economy of some country follows the optimum growth path during a longer period from the aspects of the rate of accumulation and consumption. Still, we have good reasons to think that the Hungarian economy has followed a *too "high" path, involving excessive capital intensity and a level of consumption held down relatively by accumulation.* This view is supported by the almost permanent *investment-hunger* in the economy, the lack of risk for those realising investments, the *growing tendency* of the rate of investment, and its high level also by international comparison, the *low level of the average number of shifts* worked and its decreasing tendency. This is also supported by the facts that in the productive sphere in the narrower sense the capital/output ratio had already shown an increasing tendency during the period leading up to 1975, and that the marginal and overall efficiency of capital had been low by international comparison. The economy had an inner trait *to push towards a path with a higher capital intensity during its development.*

The neoclassical school analyzes the problems of the various growth paths in a very abstract way, under strict conditions and concentrates primarily on how the level of production and consumption develops with a given pace of technological development and with various rates of accumulation; how the capital/output ratio varies and what rate of accumulation makes possible the attainment of maximum consumption. Shortly: the investigation focuses on the role of different rates of accumulation. Of course, this has an importance for the evaluation of the Hungarian economic situation. In practice, the problem complex of the various growth paths emerges in a much greater complexity and can be treated from many further aspects as well. For instance, the content of the growth path can be approached from the following aspects: a) one unit of production absorbs

different amounts of *materials* and *energy* on the various growth paths; b) the capability of production to *create new value* may be different because of the varying preference for qualitative factors and because of the flexible adjustment of the production structure to that of demand; c) the economy shows a different ability to adapt to changes on the world market on the various growth paths. That is, also the *efficiency of foreign trade* is different; d) the *reallocation of resources* – labour, capital, materials, primary energy – to efficient fields cannot be equally fast on different paths, and the extent to which capital is tied up is also different.

A switch to another growth path, thus, necessitates a reduction of the use of materials and energy for the production of one unit of national income, requires the shifting of preference to factors of up-to-dateness and quality, demands better adjustment to world market tendencies, as well as a swifter reallocation of resources. These factors are interdependent, one cannot be realized without the other. Their common trait is that they all *influence the ability of the economy to produce national income, the efficiency of capital, the level of productivity on the national economic level,* because each factor directly influences the national economic *output* relative to *input.* I add: the result may be different even with the same technology! Various growth paths, thus, can be *represented* on various levels *in this case, too,* as an ability to produce more national income means, at the same time, higher productivity. To this effect, the problem is the same as with differences – in rates of accumulation: in both cases there are growth paths on different levels. However, while in the case analyzed by the neo-classical school a higher path involves a greater capital/output ratio – thus, a *lower* level of capital efficiency – here a higher growth path, *conversely,* assumes a lower capital/output ratio, thus, a *higher* capital efficiency! This has a special importance. The adoption of a higher growth path requires, by all means, the *improvement of capital efficiency,* the reduction of the capital/output ratio. (It is another question whether, under the impact of other factors, like the nature of technological development, perhaps improvement of the infrastructure, or transformation of the energy structure – the capital/output ratio decreases.) While the reduction of investment *may lead* to a *temporary* decrease of the rate of growth of productivity, improvement of the ability to produce national income, that is, the decrease of the capital/output ratio, in turn, raises the rate of increase of productivity on the national economic level. The two effects being contrary to each other, it is not sure that the rate of productivity improvement would change. This also points out: it is *inappropriate* to *identify* the contents of the new growth path *simply with the rate of growth.*

People aware of the Hungarian expectations from the new growth path know well: many envisage a *lasting* decrease of the growth rate. Indeed, the new growth path itself is inseparable from higher efficiency, preference for qualitative factors, from greater competitiveness. Consequently, we may at least state that by adopting the new growth path, the actual development of the economy could better adjust to the rate allowed by the given technological development. If, for instance, the material and energy intensity of the production of the national income is relatively low, the so-called import and export

quota may also be lower (the Hungarian economy needs extensive imports of raw materials and primary energy), and efficient exports can be more easily secured, the foreign trade limit to growth may be less strict. Furthermore, a more rapid adjustment of the product-mix to changes in demand on the world market and in comparative advantages may result in a higher valuation of the national labour on the world market, the terms of trade may improve, the export potential of the economy may be greater and the above foreign trade limits to growth can be extended more easily. A preference for quality aspects may lead to the same effect. *In both cases the increase of production could be made easier without greater internal and external equilibrium disturbances;* the process of growth would be smoother. On all counts, a more efficient growth path guarantees a smoother, more even growth! This is not enough, however. A more efficient growth path promises *faster growth,* a *greater* growth potential rather, than a lesser opportunity. In case the various growth paths are not related to the different intensity of investment efforts, the slope of "higher" paths *may be steeper* than that of the lower ones! The explanation is simple: the preference for quality aspects involves a faster technological progress as well, and the same is true of greater competitiveness; this, in turn, enables at least a faster adoption of imported technology. Conversely, poorer efficiency, weak competitiveness – because of, among others, the serious equilibrium problems – *may even cause a halt of economic growth, stagnation or even a decline of production* in a more critical case. Similarly to the case of different investment intensities, the slope of various growth paths may be different in this case as well.

A very important consideration: no one challenges the principle that Hungary must adopt a path with a higher capital efficiency, thus, *the new path itself* must not involve greater capital intensity. This would, however, point to an acceleration of growth rather than a slowing down, partly because the paths with lower capital intensity are higher, partly because their slope is steeper. Still, in spite of a continuous talk about a new growth path we witness a drastic decline of the rate of growth, the Hungarian economy is near to stagnation. This increasingly associates the concept of the new growth path with a *slower growth rate.* What is the cause of this situation?

Why the Hungarian growth is slow

The characteristics of different growth paths do not tell anything about the *real* growth rate of a country in a *short period.* During a short period, the real growth rate is subject to many other factors that are not directly related to growth paths. Hungary's growth is near to zero, for the following reasons:

a) *The terms of trade* have deteriorated very *rapidly.* For this reason, exports, growing at a constant rate, allow – with an unchanged sum of external debts – for a significantly lower rate of growth of imports and production. A rapid increase of external debts is now no more expedient, nor possible. Consequently, the volume of imports can

only be increased at a much slower rate than the growth of exports, and this is realized through a restrictive policy also putting a brake on economic growth.

b) The growth of the world economy has also slowed down considerably, and by now it has reached the state of recession. This overshadows the perspectives of export growth, and, thus, of growth itself. Of course, improvement of the competitiveness of Hungary could lead to an increase of the volume of exports and of export receipts, the more so as their importance on the world market is but marginal. However, under the conditions of the worldwide recession the volume of exports cannot be increased, with competitiveness unchanged, either.

The external limits to growth, emerging directly in the foreign trade sphere, could not have resulted in such a drastic deceleration of the growth rate had Hungary advanced further in realizing the new growth path, for the following reasons:

a) The fall of the terms of trade could have been considerably countered through a rapid restructuring of production, a quicker adjustment to comparative advantages, preference for quality aspects, a radical phasing out of uncompetitive groups of products, and the improvement of efficiency. Naturally, restructuring takes time, the phasing out of products is not followed immediately by the takeoff of new production. A temporary slowing down is inevitable. But near-stagnation has lasted already for four years (since the end of 1978), which reflects that the *process of readjustment is surprisingly slow.* The speed of structural change depends primarily on how fast the capital can be ordered to leave declining branches, e.g. in the form of replacement funds, development funds etc., how fast the consumption of materials and energy, the use of hard currency can be curbed in unprofitable industries, and how fast these resources can be channelled to the production of profitable, competitive groups of products. If this process of "driving out" is slow, a rapid structural change can only be realized through increasing the weight of net investment on national economic level. Such an increase of the rate of net investment cannot be realized now or in the foreseeable future. We are forced to do the opposite, decrease the proportion of net investment. Result: a slowly changing structure of production and of exports.

b) The reallocation of resources and the improvement of quality is too slow for several reasons. One of the most important ones is that enterprises enjoy considerable stability even in the present system of economic control. A large-scale reallocation of resources would necessarily involve the decline of and losses in many enterprises – the number of loss-making companies is, however, small. Even today, the differences in profitability among enterprises fall very short of the difference existing among them as regards real efficiency measured by world economic standards. The adjustment of producer prices in 1980 failed to bring about the expected result in the differentiation of profits among enterprises, because the relative world market price proportions were meant to be asserted to a *mitigated* extent from the very beginning; the new price system is an artificially asserted, manipulated simulated system of prices the working of which is hard, or even impossible, to check. Also the price authorities had to make significant concessions in the assertion of the new system of prices; actual competition on the

market is often nonexistent among sellers, because the large-scale centralization – the small number of enterprises –, the persistence of shortage phenomena, and the absence of competition by foreign companies produce a *sellers' market.* Under such conditions there is no guarantee for the assertion of either the input-proportionate, or of the world-market price-proportionate prices thus, the price relations are mostly determined by the will, the wishes of the enterprises and they are able to realize profit in their prices even if they produce inefficiently. "The price control concept of 1980 intended to press the producers (sellers) by artificial means, by rules to give up their natural tendency of calculating prices on the basis of the 'cost plus' principle and to adopt other principles of calculation. Life has shown that the natural, self-explanatory tendency of the producers (sellers) break through artificial rules. The horizontal relations between seller and buyer, their conflict and compromise cannot be replaced by the vertical relationship between the seller and the price office, with *their* conflicts and compromise." [14] In case the differences in profitability do not correspond to the differences in efficiency, the *old structure is preserved,* the preference for quality does not emerge, technological development slows down, even if the importance of subsidies and levies fades. Self-financing does not guarantee the elimination of uneconomic activities in itself.

c) The reallocation of resources is hindered by the *present mode of the realization of full employment.* The prevailing *concrete interpretation* of this principle works against structural change. Suppression of the production of certain product groups or specific enterprises meets obstacles as this endangers the employment of those employed in the said production. In practice, the right to work now means the *right to work at the given enterprise* of which is, in fact, a specific case of the vicious circle.

The maintenance of production and employment in inefficient fields hinders the increase of production in efficient industries or product groups – as the former absorb inputs from efficient fields – which puts a limit to the increase of the demand for labour in the efficient industries. Reduction of production and employment in efficient industries or enterprises would not mean a problem from the aspect of *general* employment, if the demand for labour could increase more steadily in other branches through a rapid reallocation of assets. For the time being the problem of the formation of labour reserves and of retraining has not been solved. "Unemployment within the plant" is allowed as well as the superfluous employment of workers in the production of uncompetitive products. However, a faster development is unthinkable without continuous retraining, without a change of profession for many, without willy-nilly giving up a former vocation. Such a driving force is weak in Hungary, reallocation is dilatory. The presently adopted socialist mode of full employment contributes to the slowness of structural change, the low standard of capital efficiency, the growing hunger for net investment on macro level, the hindering of dynamics and, together with it, to the slower rise of the general real wage level.

The core of the problem is that so far Hungary has not managed to take the new growth path. This is why the growth hindering effect of the deterioration of the terms of trade, the world recession, and the harder conditions of borrowing on international

markets could not be perceivably counterbalanced. Under such circumstances, the *application of severe restrictions* from 1979 on the curbing of internal consumption, the reduction of accumulation could not be dispensed with. Restriction alone, however, offers no guarantee for the realization of a new growth path.

Lasting restriction itself is a result of the fact that Hungary had been on the old path before 1979, and since that year we have not managed to gear up to a new one. The new path would mean a *gradual improvement* of efficiency, in fact, we witness the opposite: a *rapid deterioration* of efficiency. The incremental capital/output ratio – accumulation per unit of the increment of the national income, or, gross accumulation per one unit of the increment of GDP – has never been so high than during the past three and a half years. Restriction itself played a significant role in that. It is an important fact that at times of restriction and recession the capital/output ratio always increases considerably. Nowadays Hungary, instead of approaching to the desired new growth path, is, in effect, moving farther from it. In other words: restriction *itself leads to an even more disadvantageous path, involving a lower capital efficiency* where equilibrium problems are even more marked. In practice, we can speak of a *growth path* with less and less justification, as the *growth rate of the domestically available national income is about zero.* The only way out of this situation is the introduction of such an economic mechanism as would *very severely restrict* inefficient activities, but offer *expansion* for *efficient fields,* and continuously force the *preference for quality.* Shortly: both restriction and expansion must be very selective. General restriction, just as general expansion could only lead to the *breakdown* of the *economy.* Selective restriction and expansion, however, can only be realized through the consistent and as fast as possible improvement of the economic mechanism.

It has been declared by many that the situation is not reassuring' "It seems that *insufficient attention was paid to the factors* that *hinder, slow down this process"* (the restructuring of production – T. E.) "Such a factor is that technological development . . . progresses slowly. Such is the relative scarcity . . . of *investment resources.* Such is the *inertia* countering the restratification of the *labour force,* the modification of its allocation among branches and trades, and the resistance to the renewal of management, which can be partially traced back to *real social reasons,* partially to *inconsistencies in management."* [15].

The importance of the new growth path has also been the subject of many writings. "By advancing on the new growth path, even with a relatively quick structural development only a slower rate of development can be reached . . . It is not yet possible to make reliable estimates of the rate which the Hungarian economy will be actually able to reach . . . *the new growth path has no alternative guaranteeing lasting development.* [16] (My italics – T. E.)

I agree with all details of the above quoted opinions. I only stress for unambiguity's sake: in case the new growth path cannot be opened up for one or more of the following factors – e.g. because the restratification of labour and the restructuring of production remains dilatory, because technological progress remains slow, because the inertia counter-

ing the introduction of new methods, products, etc. cannot be mastered, then there is no real chance for a healthy economic development. Under such circumstances, the more severe conditions of external borrowing, the hardships in the realization of export, the fiercer international competition, and, generally, the deterioration in the external conditions of growth may even lead to a *severe decline* with all of its social and economic consequences. Furthermore: *there is an alternative* to the present economic development – the *strictly selective development,* of course, not identical with a *general, expansive economic development,* based upon a consistent improvement of the economic mechanism, asserting the factors of efficiency. Without it, even the approximation of the new growth path remains illusory. Finally, assertion of the factors of efficiency, and selective development are unthinkable without a further improvement of the economic mechanism, without elimination of its inconsistencies, its half-hearted solutions. Consequently, there is no alternative to the reform of the economic mechanism and, together with it, to the transformation of the organizational framework of control, either, as far as long term development is concerned.

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ТЕМПЫ ЭКОНОМИЧЕСКОГО РОСТА И НОВАЯ «ОРБИТА» РОСТА В ВЕНГРИИ

Т. ЭРДЭШ

В статье отмечается, что потенциал экономического роста должен выводиться не из прироста капитала, а из технического прогресса и роста числа занятых. В более длительные периоды времени прирост капитала ускоряет экономический рост только тогда, если связан с ускорением технического прогресса.

Согласно мнению автора, в Венгрии нельзя ускорить темпы долгосрочного роста за счет повышения накопления потому, что число занятых растет весьма медленно или совсем не растет, и потому, что хозяйственные условия технического развития неблагоприятны. Он указывает на то, что дальнейшее развитие хозяйственного механизма можно увеличить потенциал экономического роста в Венгрии, а это привело бы к увеличению как нормы накопления, так и доли валовых капитальных вложений. Темпы роста зависят от уровня всего хозяйствования, а норма инвестиции в основном зависит от темпов роста и от отношения капитал/продукция.

Вторая часть статьи рассматривает проблемы новой «орбиты» роста. При этом автор исходит из неоклассической теории «орбиты» роста и делает вывод о том, что венгерская экономика — из-за специфических черт хозяйственного механизма — стихийно настраивалась на «орбиты», связанные с более высокой нормой накопления, более низкой нормой потребления и большей фондоемкостью. Понятие «орбиты» роста обогащается в статье тем, что указывается: изменение и различия хозяйственного механизма также приводят к созданию разных «орбит» роста. В этом случае, однако, орбита более высоких темпов роста предполагает меньшую фондоемкость, относительно более низкую норму накопления и более высокий уровень потребления. Важный вывод автора — переход на новую «орбиту» роста само по себе еще не приводит к сокращению темпов роста.

Автор объясняет сильное падение темпов роста венгерской экономики в основном серьезными недостатками хозяйственного механизма, неблагоприятными внешнеэкономическими эффектами и неудовлетворительным реагированием на них, рестрикцией, необходимой в таких условиях, а также тем, что все еще не удалось выйти на новую «орбиту» роста.

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M. TARDOS

DEVELOPMENT PROGRAM FOR ECONOMIC CONTROL AND ORGANIZATION IN HUNGARY

Setting out from the difficulties of control and management, the study presents a large-scale program which may be suited not only for re-channelling the economy onto the road of reforms started in 1968 but also for handling problems left unsolved at that time and also those emerged in the course of control and management without plan-instructions. The study analyses the questions of planning, the institutional system of enterprises, and the problems of money and credit circulation.

What economic factors determine the necessary changes in economic control?

The notion which explains the present economic hardships with the exhaustion of resources of development of the extensive type and stresses the necessity of gearing up to an intensive phase has been voiced with increasing frequency in the economic literature of the CMEA countries as well as in that of Hungary. In this context the deadlock of development is explained with the slowdown of the expansion of available manpower resources and with the increase in the capital intensity of the necessary developments. In judging the specifically Hungarian economic concerns the stress is mainly laid on the effect of external shocks on the Hungarian economy.

We do not want to query the correctness of the above statements. However, in the analysis of the further development of the Hungarian system of economic control and management, a more exact exploration of the reasons of tensions in the economy and a more exact definition of the tasks is called for.

We think that, so far, the Hungarian economy has been characterized by a concomitant of extensive development, by the waste of resources. Understandably, contraction of available resources, or a slowing down of their growth, or a structural change in production increasing the demand for resources per unit of output may cause serious difficulties under such circumstances. [2] Still, it may be stated that *the present acute tensions are*

*The provisional version of the study was discussed by the Section for Economic Mechanism of the Institute of Economics of the Hungarian Academy of Sciences, and, later, by the Scientific Council of the Institute. I am grateful for the remarks and criticisms voiced at the discussions, which I tried to take into account in rendering this final text. I am especially indebted to Tamás *Bauer*, Teréz *Laky*, Tamás *Nagy* and Rezső *Nyers*, who helped me a great deal in the final wording of the study. For lack of space this publication omitted references to historical processes and left out suggestions concerning the control of earnings and trade. The whole text is published in [1].

not caused by the diminishing possibility of employing additional labour or by insufficient investment but by a special bottleneck in the balance of payment originated by the weak adaptation of the production to the demand conditions.

The essence of the task to be solved is whether the activities of the economic units can be concentrated on a better utilization of resources, on the satisfaction of the real needs of the society, in place of the mere increase of production, often in a disadvantageous structure (product-mix). Without accomplishing such a qualitative change, a real and long-term equilibrium of the balance of payments and of the state budget cannot be realized, and even such a restriction of domestic consumption would become necessary that would inevitably jeopardize the key merit of Hungarian social policy, i.e. relative social stability.

Deteriorating living standards may trigger off such disadvantageous social phenomena which may release serious consequences in themselves, but, in addition, their effect may even cause the balance of payments and that of the budget to deteriorate rather than improve the situation.

This preliminary line of thoughts has to be concluded with an answer to the question: since, in the final analysis, most of our growth problems are condensated in the trade with the West, or, from that settled in currencies other than the rouble, why do we not respond to the challenge of the changing foreign trade conditions by withdrawing from trade relations with the presently stagnating capitalist economies? Why do we not withdraw behind the borders of national or CMEA level autarky?

The answer is given by the fact that the expectable domestic procurement possibility and the import supply from the CMEA countries are insufficient even for the maintenance of the present level of commodity supply. With a decreasing amount of imports from the West – from non-rouble markets – domestic or CMEA import supply would be insufficient even if the growth rate of the economy hardly exceeded zero. We must put up with the fact that the demand for Western imports of the consumption of the population as well as of current production and even of public utilities is highly inelastic. On the other hand, improvement of the range of choice of CMEA supply is beyond our control, and we have no obvious reasons for optimism as to its development. Thus, in case we want to avoid massive forced substitution, as well as a depressing state of continuous shortages, we have to make domestic production adjust to the demand on the market.

This economic strategy demands a better harmonization of the market mechanism with central economic control, and a higher level of activity from workers. Consequently, a reinforcement of the spirit of the new economic mechanism is called for. This is necessary even though we are aware that, similarly to the 1960s, our main trade partners, the CMEA countries apply different economic instruments and methods.

Similarly, we also have to take into account that a mere return to the methods of the new economic mechanism as applied in the years 1968-1972 is insufficient for the accomplishment of the present tasks. The fact that in spite of the formal assertion of the decrees adopted in 1968, after 1972 the enterprises, freed from the constraints of plan

instructions and centralized material allocations, failed to emerge as free entrepreneurial organizations, tells much about the weakness of certain elements in the system.

The new situation demands more advanced forms of management, better systems of state control and renewed social institutions. Thus, the aim of the Hungarian government organs to combine the modernization of the reform of the system of economic control with thorough changes in the institutional and organizational system of the economy is well justified.

The necessary changes

General directions of changes

When analyzing what changes are needed in the social environment of management, we have to revert to the decision, thoroughly prepared by specialists and politicians and adopted on the May 1966 session of the Central Committee of the Hungarian Socialist Workers' Party. This resolution announced that production in the Hungarian planned economy had not adjusted sufficiently flexibly to the rapidly changing demand, and the human and material resources had not been appropriately utilized for the satisfaction of needs. Management had been characterized by significant underutilized resources, superfluous stocks of materials and finished products, complemented by the depressing scarcity of other products and services.

The above shortcomings were to be eliminated by the new economic mechanism. The new economic mechanism, introduced in 1968, abolished direct control through directive planning, and central material allocations, put the profit motive of enterprise collectives and individuals into the focus, thus trying to settle the relationship between demand and production, to accomplish a fuller, more purposeful utilization of resources. The resolution called for a widespread social program of change.

The envisaged wider scale of long-term changes was determined by the following six, interrelated principles:[3]

1. The lasting maintenance of the multisectorial character of the economy, by which it was meant that the obstacles had to be removed from the way of the development of the cooperative sector and the rational small-scale private activities, complementing the operation of the state and cooperative sector had to be fostered.
2. Unrestricted trade between enterprises in materials and products.
3. A system of largely free prices, corresponding to the conditions of the demand and supply conditions.
4. Close relations between production and foreign trade.
5. Independence of enterprises under conditions of a uniform („normative") system of state control.
6. Expansion of the democratic rights of workers in the determination of the operation of enterprises.

In the course of implementing the reform, especially after 1972, practice was limited to the realization of the program in the narrowest sense. Extension of the

measures introduced in 1968 did not continue in the 1970s, thus they remained but cautious first steps of a wide social program, not followed by improvements taking into account also the criticism of the implementation.

On the contrary, even the already formulated changes of the control system, not introduced in the first stage, were removed from the schedule of the actions of economic policy (e.g. the uniform control of industrial branches), and many of the originally temporary financial instruments, first intended to buffer the shock effects of the new order of control, stayed with us to become constant elements of the economic life.

The weak points, which always emerge in any new system during its initial period, (like the continual correction of the control of wages and investment) became obstacles in the way of the emergence of enterprise independence, factors of financial dependence on the centre. Direct plan-instructions were, thus, replaced not by socialist entrepreneurship and market relations among enterprises but by operations of enterprises individually controlled by financial means. After 1972 the success of an enterprise depended to a diminishing extent on the adjustment to economic conditions, on the purposeful organization of the efforts of a creative collective, rather, it depended on the bargaining on regulators between the central apparatus, individually assessing and correspondingly controlling the varying situation in the case of the different enterprises on the one hand, and the enterprises on the other, which aspired to correspond by and large to central expectations and wished to survive in peace.*

The six basic requirements of the reform were thus not satisfied adequately.

– The prosperity of industrial, trading and agricultural cooperatives after the reform was short-lived. Instead of widening the gap-filling activities of cooperatives, the latter were invited to join concentrated efforts at the realization of central tasks. [4]

– The number of commercial channels failed to multiply according to expectations and tendencies to assert centralized methods of materials allocation through compulsory trading channels continually emerged.

– In spite of the formal increase in the number of free prices, they failed to reflect the changes in demand and supply. Free prices were not active enough in harmonizing the interests of buyers and sellers.

– Because of the many individual regulators, the closer relations between production and foreign trade failed to bring about satisfactory results in the efficiency of export production and import consumption.

– The individual character of regulators and the generally overdone control did not allow the development of enterprise independence to the desired extent.

– Little was done in the assertion of the democratic rights of workers.

In this contradictory situation the positions of central and medium-level control organs, weakened in 1968, regained force again. Thus, the control of the economy could be recentralized without reinstating plan-instructions. [6]

*Cf. *Antal,* L. [4] In this article Antal introduced the notion of "regulator-bargain".

The elimination of plan-instructions, in spite of the above contradictions, contributed to the better performance of the Hungarian economy, to an improved satisfaction of the demands of the population. Improvement of food supply was considerably helped by the (not always smooth) development of small-scale farming beside the rapid growth of gross agricultural output (especially of grain) in the socialist large-scale farming units. In the turnover of manufactured products the leading role in the wider range of choice of goods was played by the qualitative improvement of domestic production. The improvement was felt up to 1972 also in the greater efficiency of foreign trade activities. This was, however, later reversed by the world price explosion and subsequent changes in the socialist as well as non-socialist trade which deteriorated the conditions of the international division of labour to such an extent for Hungary that they could not be compensated for by the achieved development. It may well be supposed, however, that without the 1968 reform of the control system the deteriorating economic conditions would have rendered the improvement of commodity supply and, through it, the achievement of a general contentedness of the population impossible. Nonetheless, it must be said that the recentralization tendencies after 1972 significantly impaired the efficiency of adjustment to outside shocks after 1973.

The unfolding tendency after 1978 of a return to the idea of the reform already contributed to the mitigation of accumulated, mostly foreseeable tensions, but it still left the basic problems of management unsolved. Hungary still has reserves enabling her to forestall in the coming one or two years disturbances caused in external market relations as well as in domestic commodity supply by shortcomings of economic performance and she is also able to gradually establish the conditions of a long-term, even socio-political development.

The interpretation of socialist planned economy

To understand the concrete problems to be solved we must clarify an important basic concept. According to a generally accepted definition, socialist economy is planned economy. Having accepted this, we have to define more precisely the contents of the economy-wide plan and of economic control relying on the plan. Earlier it was thought, starting from the notions of the classics of Marxism, that elimination of capitalist production relations does away with anarchistic market relations, and state economic control becomes a simple task. [7] And, as to the content of control, the guideline was provided by Stalin's idea, that "our plans are not plan prognoses, not plan guesses but plan *instructions*." [8]

The more than six decades' history of economic relations of the socialist countries has pointed out unambiguously that a directive planning system eliminating the market mechanism is not capable of adequately assuring the efficiency of the economy, its flexibility, or satisfaction of the needs of society, that is, that the opportunities for the correct identification of tasks and for their fulfilment through instructions are rather

limited even under socialist production relations. The correctness of the ideas conceived in the 1966 resolution of the HSWP and corroborated by the 9th Congress has been proven: an organic unity of planned central economic control and the operation of a market mechanism, that is, an indirect planned economy is needed. It has remained, however, unclear, what main tasks central economic control organs and the plans providing the basis for control have to undertake in such an indirect system of planning.

In our opinion, planned central economic control has to identify the main projectives of economic-political strategy, it has to influence the short-term, cyclical fluctuations of the economy in a purposeful way, and it has to define the control instruments necessary for this influence.*

We may regard the other parts and computations of the planning work on national economic level as having a forecasting character. This work is necessary for the foundation of plan targets and for providing information to economic units and state control organs. As against the earlier practice, state control organs are not assigned the duty of providing for the realization of the proportions set forth in plan forecasts. Even the main proportions set by plan targets cannot be expected to realize at the degree of precision formerly accustomed to.**

Though the acceptance of the former ideas would make the relevant definitions of planned control in the 1966-68 resolutions more precise, yet it does not provide sufficient information on the interpretation of the term 'planned economy' under the new conditions. It has not been pointed out clearly enough that, if the state economic control agencies are not engaged directly in the steering of the economic processes included in plan computations to keep them on the path acceptable from the aspect of the state, then what is actually controlling the processes.

In the new situation replacing direct interventions and expectations the disturbances arising from the lack of harmonization between demand and supply have to be resolved by the market mechanism. The task of the centre consists in creating and improving conditions necessary for the operation of the market mechanism so that control should not weaken the profit motive of enterprise either in the short or in the long run. Thus, a/ unsatisfied demand should stimulate producers to increase output; b/ shortage should be mitigated through rises in prices and, perhaps, through increased imports.

*More detailed argumentation in [1].

**These and the following statements are in harmony with the opinion of Ákos *Balassa*, who expounds that the degree of the departure from the plan targets can only be assessed from the aspect of the main economic-political objectives of the five-year plan. He even states that "... in case the main objectives cannot be realized, or they could only be realized at a price of such changes in economic regulations that would involve excessive political or economic damages, either the modification of the main objectives of the five-year plan must be proposed, or it should be suggested that the organs approving the five-year plan clearly acknowledge that economic development departs from that planned for the medium term." Later he himself calls attention to cases which trigger off, "incorrectly" – and considering the practice of recent years, let us add, quite often, – "the interventions of short-term planning and plans." [9]

This is the interpretation of socialist planned economy that corresponds to the organic unity of central planned control and the market mechanism. This is based upon the explicit emergence of various partial (state, cooperative and private) interests, which is in contradiction with the principles governing the existing system of institutions. This latter, namely, is characterized by the assumption that individuals and institutions alike live in a fairly integrated society. This principle, although it does not expect the disappearance of partial interests in such an integrated society, still assumes that a common social interest is capable of directly dominating over them. Consequently, the system awards but a subordinated role to the conflicts of social interests and, accordingly, does not secure an adequate rank to the institutions for the representation and protection of interests.

However, as the real social interest can only take form in the emergence and conflict of partial interests, considerably greater room must be provided for the mechanisms and institutions for the assertion of interests, and the conflicts of interests must be regulated.

– Under these circumstances, it is necessary to rethink how trade unions can fulfil the role of the representation and protection of the workers' interests. Such questions must be answered as whether emulations organized by the trade unions are necessary etc.

– It must be clarified whether real entrepreneurial attitude can be expected from managers whose sole protection in their positions is provided by their place in the hierarchic system. How can they be expected to counter authorities, how can they represent the interests of the enterprise towards the workers when no protection of their rights is provided, and they have no organization representing their interests.

In this respect the further strengthening of the Hungarian Chamber of Commerce, which has recently acquired new rights should also be contemplated; together with the usefulness of the creation of an organization for the protection of the managers' interests.

– The functions of the institutions for the protection of cooperative interests (National Federation of Consumers Cooperatives, National Federation of Industrial Cooperatives, National Council of Agricultural Cooperatives) are presently ambiguous. The control of cooperatives by the state should be carried out through separate channels and not through these organizations which have to represent cooperative interests.

– The question of the protection of interests arises even more acutely in the case of private craftsmen and small traders whose economic importance is justifiably increasing.

The system of economic institutions

One of the decisive characteristics of the Hungarian new economic mechanism was that the managers of the enterprises were given autonomy in deciding on production, sales and, within limits, on investment, these decisions being supposed to be taken on the basis of profit expectations.

The obstacles in the way of competition and entrepreneurial attitude could only be removed if the dependence of state enterprises on traditional organs of state control could be eliminated. It has to be considered how the economic control functions and the proprietary functions of the state could be separated institutionally.*

This problem does not arise in case of the private economy and, at least formally, in cooperative enterprises. However, from the aspect of the supervision of enterprises the positions of industrial, agricultural, and trading cooperatives do not fit the accepted principles in reality. The decisions of the cooperatives are often unnecessarily influenced by the regional and national representative bodies of the cooperatives as well as by the administrative organs of the local authorities [14].

However, even a partial dependence of the leadership of cooperatives on the members is enough for the pressure on leaders to improve the incomes of the membership. But the pressure for the attainment of adequate incomes does not involve in itself that the cooperatives are run under the pressure of market conditions, adapting to them, and that the membership can assert its will in the formulation of production and sales policies.

In the present jungle of state subsidies, preferential treatments those cooperative executives can muddle through most successfully who have good connections to persons in central state administration, in state and party organs on the county and town level, and who are ready to yield to the wishes of their upper connections. Such cooperative executives can successfully lobby for special treatment of their organizations. Thus, however, not only a conflict may arise between real efficiency and the direct interests of the membership, but it may even become more advantageous also for the interests of the membership if the leadership follows higher instructions and assures the benevolence of superiors. This may become more fruitful for it than pursuing more successfully its own interests and asserting its own opinion.

In the case of state enterprises the appointment and removal, and even the greater part of the incomes of the executives are subject to the decisions of the controlling state organs formally as well as informally. These latter, in turn, following from their natural positions, often evaluate the work done by the executives not according to financial results but from the aspect of their specific branch targets. This contradiction between financial regulation and organizational dependence has been mitigated in industry by the merger of the three branch ministries in 1980 into a single Ministry of Industry, the tasks of which was defined differently from the everyday practice of the old order of control. The situation also improved, especially in food industry, by the dissolution of large trusts embracing whole branches, and often of an administrative nature.

Still, this was not enough to eliminate the contradiction between the economic regulation based on the independence of profit-oriented enterprises and the branch system of the supervision of enterprises. The contradiction, of course, is more marked in

*Such suggestions are not new, see [10] [11] [12] [13]

branches where the institutional system of economic control through plan-instructions is still alive and active.

Thus, it needs clarification what extent of enterprise independence is adequate under state ownership in a socialist society and whether for its attainment a restructuring of relations between enterprises and the controlling state and party organs is needed or not.

We think that a uniform treatment of the whole economy is not expedient. Organizations financed by the state budget, like the cultural or health sectors are, of course, non-profit organizations. In this field the tasks of the institutions can be defined and separated so that this will not disturb their efficient operation. This approach is not antagonistic to the possibility, not treated here, according to which some elements of economic competition may be activated also in this sphere with positive results.

In the other fields of the economy enterprises are operating. Among them, the basic utilities (gas, water, electricity works, mail, telephone, railways, other transport works) should be treated differently. The economically justified monopolistic positions of these nationwide organizations, where import competition is out of question, call for the maintenance of the present hierarchical state control and the limitation of enterprise independence.

The scope of economic activities of the other enterprises (mining, raw material production, agriculture, building material production, construction industry, manufacturing industry, home and foreign trade, various services) must be regarded as *competitive spheres in a wide sense.* The government may, of course, exclude certain enterprises or entire branches for economic-political considerations or security reasons from this competitive sphere in a wider sense for a longer or shorter time, but, of course, it must undertake the additional costs involved.

In this sphere resolution of the practical contradiction between the economic control system and socialist ownership becomes necessary. In case we expect vigorous and purposeful entrepreneurial behaviour from the enterprises, we must protect the basis of the economic-financial results from the direct interference of central as well as local state and party organs.

In case of cooperative enterprises the formal framework is given. The enterprise belongs to the members of the cooperative. The executive is responsible exclusively to the membership. To put this into effect, however, the real strengthening of cooperative democracy is needed, as well as such a system of management that excludes the possibility of continually "persuading" the cooperatives through a discriminatory assertion of state preferences and through the unavoidable bargaining with state organs to follow the line suggested from above.

The safeguarding of the independence of state enterprises is a more difficult business. The core of the problem does not lie in legal regulation. Formally, Hungarian laws on enterprises already provide for quite enough freedom for enterprises. [5] But however much is written about the necessity of the unfolding of entrepreneurial activity, in the hierarchic organizational framework the management of the state enterprise is still

operating as the subordinated official of the central organization. [16] The contradiction is not restricted to the fact that the appointment and calling to account is in the power of the hierarchic state organization. Centralized state power is capable of domination over cooperatives as well, which are formally independent from the state, simply by allowing little room for independent management through economic regulations and providing the means of survival through offering state preferences. In this field as well the condition of entrepreneurship is the restucturing of the framework of economic order. This is, however, not enough: the accountability (subordination) must also be transformed.

Why is a declaration in laws and bylaws by the state not enough, even when combined with adequate control, for the independence of a director of an enterprise or for the whole management?

The management of an enterprise, and entrepreneurship itself is an activity involving risks and conflicts. On the basis of modestly reliable forecasts, under changing conditions one must purchase materials, build up production capacities and develop them, hire and employ labour purposefully in production, and sell the goods produced or the services, taking into account the creditworthiness and desires of users. Every decision of the entrepreneur involves the conflict of risk. The majority of capitalist entrepreneurs who survive such conflicts are kept alive by the force of their own or their consigner's capital and the state power supporting capitalist production.

A capitalist, when he is an entrepreneur as well, is aware that in order to survive and to be successful, he has to increase the sum of his capital in the long run. It is obvious for the management of the modern capitalist large companies as well that the way to strengthening its position leads through the achievement of expected economic results. These considerations lie behind their undertaking of conflicts, and these are even the secret of their success and security.

What is the situation with the socialist state enterprise? It is the socialist state that stands behind the enterprise management in the directive planning system as well as even in the indirectly controlled economic system organized according to the traditional state hierarchy, thus also in the present Hungarian system. The strength of the director and other executives of the enterprise, their security depends on their place in the state and party *nomenklatura*,* on the trust of the upper echelons of the hierarchy, which is not sufficiently interested in efficiency. The interest of the state, however, is not clear-cut as regards the management of individual enterprises. The management of the enterprise cannot find its orientation among the many, often conflicting social interests, represented by the state, so as to meet all social expectations. In this difficult situation, a call for entrepreneurship is to no avail – it is more secure for the management when it is told what its job is, and simply fulfils the task.

*List of jobs for whose filling higher approval is needed. (Ed's note.)

Two main, closely related factors deserve mentioning among the reasons:

– the superiors in the branch ministries at county and city councils, in local party organs are not exacting as to the financial results of the enterprise, they may at most, merely show dismay at such results which do not reach a minimum level acceptable to them.

– the "incrementalism" of financial regulation (i.e. the premia awarded according to improvement on the results of the immediately preceding year) and the narrow economic manoeuvering room of the management of enterprises, make an excessive increase of results risky on the one hand and they compel the state organs to correct the insufficient results of the enterprises through overriding or changing the regulations on the other. Under such circumstances, common sense prescribes a cautious, bureaucratic behaviour for the management of the enterprise, in place of a courageously weighing entrepreneurial approach.

Thus, if we want clear courage, pragmatic but purposeful entrepreneurial behaviour from the enterprise management in the conflicts with material suppliers, investors, customers, and the employees of the enterprise, then the position of the management of the enterprise must be made more unambiguous.

We can no longer reiterate the view, often voiced also in the 1970s, that following from the essence of the socialist system, the dominance of social interests can be achieved by the self-denial of partial ones.

This is not meant to deny the necessity of compromises, of pragmatic behaviour in resolving conflicts between interests. In our view, quick, vigorous and ambitious adjustment to the economic conditions requires that in searching economic and social compromises the parties follow as clear and unambiguous goals as possible.

Enterprise management becomes interested in long-term profit realization only if accountability and responsibility set unambiguous requirements. Thus, enterprises in the competitive sphere should be supervised by such an institution of socialist ownership that clearly points out the position of enterprise management in various conflicts.

Thus, the independence of enterprises cannot be realized by one stroke of a decree. The enterprise carries internal and external social conflicts, it cannot operate without strong management control. These charged with the task of management, in turn, need social respect and power for the fulfilment of their task, in addition to the possibility of independent action. It is unlikely that the authority of the enterprise managers can be established, the independent entrepreneurial control of many thousands of enterprises can be realized without the creation of special institutions.

There seem to be two solutions for the state enterprises of the competitive sphere: the organization of workers' self-management and the creation of state ownership institutions separated from state administration.*

*A third general suggestion has been formulated too by T. *Liska*. On the "plan-market" of the entrepreneurs based upon personal socialist ownership the supervision of enterprises would be left exclusively to market forces. For a review of this concept see [7]. The suggestion, containing many

Firstly, let us regard the institutions of workers' or employees' self-management. According to historical experience, the workers' or employees' councils emerge spontaneously in revolutionary or social crisis situations. At times of the disintegration of state power or when state organs lose much of their authority these groups take over the operation of the economic organizations, their management, only to be disbanded or socially transformed in their functions after the crisis situation is over.

In Yugoslavia the situation of workers' self-management developed differently. Yugoslavia, alienated from the Soviet Union and its allies by the Cominform decision, yet unwilling to identify itself with the capitalist world, either, tried to create a socialist power structure qualitatively different from the systems operating in socialist countries. This attempt has brought unquestionable results as thus, Yugoslavia managed to survive as an independent socialist state, and to achieve outstanding results in many respects. We have to acknowledge these achievements in spite of the undeniable shortcomings of her development – the persistence of tensions among federal republics, the galloping inflation, and the difficulties in controlling the process of increasing indebtedness.

The experience of the Yugoslavian self-management system points out unambiguously that the self-management forms of socialist ownership are viable, and they even have definite advantages over the directive planning system as regards the mobilization of the activity and creativeness of workers, as well as from the aspect of the satisfaction of demand. However, the experience gained with such a system of economic control in a calm social situation casts doubts as to the expediency of following this model.

Without thoroughly analyzing the reasons, let us mention a few important factors:*

- In larger enterprises, the workers are limited in the formulation of the economic strategy, in assessing the wider implications and their interestedness is limited as well. Consequently, it becomes necessary to give independence to workshops, units – called the basic units of associated work in Yugoslavia. This, however, weakens the economically justified unity and efficiency of the enterprises. The handling of the contradiction, in turn, gives rise to an intricate bureaucracy and results in the bureaucratic manipulation of workers. [19]
- The natural differentiation under market conditions of the incomes of enterprises has a direct impact on the earnings of workers. Large and varying wage differ-

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correct elements, which envisages the spread and operation on economy-wide scale of socialist personal ownership based upon "social heritage" and on the "moral capital" of the citizens overestimates, in my view, the necessary but imperfect functions of the market, and underestimates the organized relations existing within the enterprises and relating to public services, that are outside the competency of competition. A more detailed evaluation see [18].

*We do not treat here the argument of Western economic literature, stating that the self-management system stimulating the enterprise to maximise per capita gross income (wages+profits), is not optimal from the aspect of the expansion of economic activity. For the giving up of profitable activity that fails to increase per capita gross incomes cannot be so frequent as not to be negligible.

ences within one profession induce dissatisfaction mainly among workers in large-scale industry, thus providing arguments for central intentions concerning limitations of differences in personal incomes, which again work against rational management.

Besides, such a differentiation of earnings disturbs the rational redistribution of labour power among enterprises.

Another solution may be the creation of a new type of supervision system for the state-owned enterprises operating in the competitive sphere, independently from the state administration, in the framework of uniform ownership. In Hungary this solution is promised by the separation of the department for supervision from functional control within the Ministry for Industry, which can be supplemented by the appointment to all enterprises a board of directors, representing different state and social organizations. This change is a good start, but it does not ward off the danger of hidden reinstatement of the hierarchy of the branch system of state control and, that by making the necessary supervision over enterprises a tool of economy-wide control, the old branch supervision system may be restored in a new form.

For this reason, even now, when the right of supervision of state-owned enterprises belongs to the Ministry of Industry and to the other branch ministries now being reorganized with the aim of separating functional from supervisory functions, attention must be called to the fact that supervision should solely be applied on the basis of the long-term profitability criteria. Fulfilment of other tasks of branch control and influencing must be done with the tools of economic regulations. Thus, consistency is needed in implementing the decision that the power inherent in supervisory rights should not be applied to the solution of such economic control tasks as continuity of domestic commodity supply, restriction of imports, increase of exports etc.

It is a more consistent solution that in the sphere of state ownership the supervision of enterprises should be exercised by 4•10 independently operating organizations. These capital owner, profit oriented holdings operating without limitations could successfully protect the enterprises in the competitive sphere from the hidden restoration of the hierarchic power structure and could successfully introduce the evaluation and supervision of enterprise activities on the basis of long-term profitability criteria. This form may provide ways for the reallocation of capital according to profit motives. The institution of "capital holders", perhaps complemented by banks, trade unions, insurance companies, would be authorized to close enterprises, to found new ones, to reallocate assets for the development of existing enterprises on the basis of expectable profits. The source of capital-reallocation could be, for example, the dividend paid by the enterprises to the owner organizations. The capital-holding organizations could thus accomplish the task, so far unresolved under socialist conditions, of reallocating capital, especially if their activities were complemented by the right to found subsidiaries.

The question arises, however, whether the creation of a new system of supervision is justifiable, whether the capital holding organization would not limit the independence of enterprises.

In our interpretation, enterprises need to be made independent from the state administration in the first place for the profit motive to become an unambiguous goal. In the above sense, the enterprise and the holding company would be separated from state administration. In the relationship between the profit-motivated management of the holding company and the enterprise the independence of the latter would get a new content. On the basis of the common goal: the long run profitability reliability, development of the enterprise – the supervisory body and enterprise management can easily work out the best forms of their cooperation.

How can these holding organizations be created, who can commission them, with what tasks? Regarding the importance of this issue, the settling of this question should be within the competence of the legislature. According to the long maturing suggestions, the primary role of such organizations would be to increase the public assets in their trusteeship. At the top level of such organizations an executive body of 6-12 members would be appointed – by the Presidential Council of the National Assembly similarly to the government. To mark the independence of the organization, the period of commission of the executives would not coincide with the parliamentary cycle.

We did not stress the legislative elements of the proposal as if we believed that the legal framework determines the way of management. It is, however, beyond doubt that the internal inertia of appropriately arranged powers is capable of replacing the centralized-hierarchic organization and maintain in the long run the conditions adequate to market relations.

Material stimulation and incomes regulation

The management of state enterprises could be stimulated by interest in the increase of the available assets, i.e. the capital of the enterprise. This is easiest to measure by the long-term development of the sum of profits. The creation of the profit motive, however, requires clarification of several other problems, even if the differentiation of incomes among enterprises can be asserted without the help of central interventions. For personal stimulation on the basis of the profit of the enterprise provides good orientation only for those who have a direct and easily appreciable influence on profits. Incomes control on the basis of profits, however, fails to stimulate directly to work better, as the masses of employees having no direct influence on profits see no relationship between their performance and the increase of their incomes. An automatically increased personal income, following the increase of the profits of the enterprise, may seem to be a gift.

The linking of the earnings of employees to profits has the only positive effect that the employees will be more demanding towards the management. However, even this effect is not unambiguous. The desired relationship emerges only if incomes are related to the short-term changes in profits. Under market conditions, however, the amount of profits is fluctuating even in well-managed enterprises. The decrease or fluctuation of

profits is not always a consequence of the performance of the collective or the management of the enterprise. Thus, in the case of a transitory bad state of an enterprise it is not justifiable or opportune to reduce the wages of employees in relative or absolute terms, as in case an enterprise was able to pay but small wages in its transitory bad situation, then a vicious circle may result. In response to a relative decrease in wages workers would desert the enterprise *en masse,* thus turning the transitory difficulties into permanent ones. In each of these cases a breach of the rules of income distribution becomes justified.

The above reasoning supports the following:

1. a close relationship is only practical between the long-term development of profits and the personal incomes in the enterprise;

2. This relationship should in the first place, influence the incomes of the managing group i.e. of those who have a direct influence on profits.

Thus, it would be justified to provide incentives for the managers from the long-term profits of the enterprise after a longer successful period of activity, e.g. every five years, beyond the remuneration fixed in their contract. This can be regulated by a contract between enterprise management and the socialist capital-holding organization.

The establishment of partnership between management and the workers, that is, to achieve an active participation of the working collective in management is justified also under the absence of self-management. This, could be done on the one hand, by awarding certain rights to the representatives of the collective and, on the other, through profit-sharing.

In case the executives of the capital-holding socialist organization make efforts to integrate the working collective into the management of the enterprise and at the same time offer the employees a share from profits, then this form of ownership approaches the self-management system. The main difference would persist in decision rights, but differences in the incomes of employees would be minor.

In the case of enterprises supervised by the management of the socialist capital-holding organizations one question remains open: the one concerning what systems the enterprise management should introduce to stimulate shop-floor workers and collectives. In this respect it must be accepted that the performance-based income differentiating mechanisms can easily lose their respect within the enterprise and, because in practice, the resistance on part of workers, the formerly developed proportions of income distribution based upon authority are difficult to change.

Such an undertaking can be supported by consolidating the positions of managers of smaller units – workshops, plants – and by delegating them the rights of disposal over materials and machines as well as wages.

In some cases of this solution, especially with separate small shops and workshops, the contractual operation, suggested by Tibor Liska, which has gained ground presently in Hungarian retail trade may be successful. [17] In this form the unit will be leased to the one who undertakes the payment of the highest rent. The control of smaller workers' collectives within the enterprise through self-management solutions may also be advantageous. In this case the management agrees directly with a collective body of employees

rather than asserting control through workshop manager, and entrusts management, the distribution of wages to this collective. This method of collective agreement between management and lower units can successfully be applied only in case of well-selected instances, with collectives with high cohesion. Generally, formal and hierarchical management is indispensable within enterprises.

Itt is a common trait of both systems that they give a significantly greater independence to the units in management than before and, thus, have a greater stimulating effect toward higher performance.

Financial regulation and its institutional framework

Entrepreneurial spirit not only requires freedom for the enterprises in the legal sense, but also that they have adequate financial means at their disposal.

On the way from formal freedom to real entrepreneurial freedom obstacles must be removed in three fields:

- in wage control, and in the relationship between the earnings of the employees and the results of the operation of the enterprise
- in the relationship between access to credit and the centrally supported enterprise plans,
- in the methods of price formation and price controls.

The present Hungarian practice is, as against the lip-service to entrepreneurship, that enterprises are able to operate continuously without individual subsidies only in exceptional cases.

The bargaining between large enterprises and the centre begins usually already at the time of the start of the regulating systems, when the five-year plans are approved. The result of this bargaining is the enterprise plan, which, in most cases, can be realized only if the centre provides regulations different from the general rules, that is, by preferential treatment. However, even the already differentiated financial conditions provided for the most important enterprises are enough for continuous operation only if no significant change occurs against the approved plan, either in external conditions or in the realization itself. In case the position of the enterprise turns out to be worse than that assumed, it is compelled to turn again to the centre for further help.

This system, as it differentiates with financial means among enterprises already at the time of the compilation of the plan and all through its realization, concentrates an immense power in the hands of the organs of economic control, which in this way restrict the independence of the enterprises often to the extent of interfering with minute details. It is a peculiar contradiction of the situation that this centre is not strong enough to assert its ideas as regards the most important economic processes.

Under such circumstances, management is characterized by the fact that money exerts a real activity only in circles isolated in space and time, and even this activity is not unimpeded. The circulation of money, thus, fails to integrate the economy. [20]

For this reason, in order to assert the market mechanism, those restrictions should be eased:

– which restrict the use of available money for the financing of wage costs;

– which do not determine the extent of credit financing of working and fixed assets by the expected return, its velocity and security, but adjust it to the difference between the development costs envisaged by central plans and the sums actually accumulating at the enterprise;

– which restrict the discretion of cost accounting in enterprises by central regulations prescribing average cost accounting, thus preventing even in the case of products with free prices from distributing overheads according to the ability of various products to bear them;

– which compel the money holders to build up reserves.

Unification of the profitability criteria of enterprises is only possible through a greater freedom of financial management; only in this way can the situation be changed in which enterprises are interested in withdrawing performance, and this is the way to the full exploitation of the capability of flexible prices to regulate demand and supply.

To operate such a financial system financial institutions different from the existing ones are needed.

In the present Hungarian system the different financial functions are not separated clearly enough.

The issue of money and the financing of a large part of the economic life is in the hands of a monopolistic organization, the National Bank of Hungary, Besides, there operate the National Savings Bank, the bank of the population and of private economy, the Foreign Trade Bank financing certain foreign trade deals, and the State Development Bank financing central development projects and also performing the functions of the Investment Department of the Ministry of Finance.

This banking network is not in harmony with the development of entrepreneurial activities. The fact that almost all financing activity can be accomplished in one single place, puts emphasis excessively on auditing at the expense of business aspects. For this reason, in the new situation a significant decentralization of the present banking network seems necessary. In our view, it would not be enough to define more clearly the functions or even separate organizationally the money supply activity of the National Bank of Hungary from commercial banking financing the economy in a monopoly position. The activity of the National Bank of Hungary should be restricted to the money supply. The financing of state development projects could remain with the State Development Bank, however, the control of investment projects should be exercised by the Ministry of Finance itself. For the financing of economic activity, a network of commercial banks would be necessary. This would offer a choice to enterprises among banks. The latter, in turn, would assert strictly business aspects in determining the terms of financing, of crediting toward state and cooperative enterprises and private enterprises as well.

After a purposeful restructuring according to the above described lines, a reappraisal of the system of the National Bank of Hungary and the commercial banks from

the constitutional aspect seems necessary. By all means, the commercial banks should be independent from state administration. The appointment to manage banks could be within the competence of Parliament, similarly to the capital-holding organizations. It may also be necessary that the issuing bank be legally independent from the government.

Measures taken since 1979 and the next steps

After the recentralizing tendencies of the 1970s, since 1979 the Hungarian economic leadership has stressed its intention to return to the interpretation of the new economic mechanism as it was accepted in 1968.

Nowadays the world is not improvement of central control together with increasing the responsibility of enterprises, but ways are sought for encouraging independent entrepreneurial activity. The changes can be assessed from four interrelated important steps already taken:

– a competitive pricing system has been introduced where domestic prices are adjusted to world market prices in place of the former, basically "cost-plus" system of prices;

– stress is laid upon the requirement of normative financial regulation, as against the practice of adjusting regulations to individual enterprises;

– the financial aspect of economic control is emphasized, instead of the supervisory system of branch ministries focussing on goals defined in physical terms;

– finally, a cording to the needs of the market, the formerly unjustifiably integrated large enterprises have been dissolved into more efficient medium-size enterprises; several trusts performing medium level control have been disbanded; the foundation of state and cooperative small and medium size enterprises as well as of private initiatives, is fostered in place of the former policy of concentrated production and the dispreference of small, especially private enterprises.

All four declared goals of the new economic policy are adequate to the requirements of the grave economic situation and can greatly contribute to the mastering of the economic difficulties of the country. However, the economic experience of the past period still shows that, in spite of the excellent goals practice is still significantly lagging behind the requirements.

Instead of competitive pricing, bureaucratic price setting often occurs, producing a new form of a price bargaining between enterprises and the central organs. In spite of the stress on normative financial regulation, individual agreements abound.

The functionally structured staff of the Ministry of Industry, consisting of a small number of officials in comparison with the former organizations, have difficulties in finding their way in the maze of the declared tasks, practical requirements and the 'in-house' ambitions of ministerial functionaries. It is not impossible that this undecidedness will open the way for reverse tendencies toward the revival of old patterns of branch control.

The unambiguously positive effects of the enterprise founding "boom" have dubious resonances as well. It is not clear as yet whether those applying for new enterprises seriously intend to undertake production and sales actions in order to provide a better satisfaction of demand, or if instead of hard work, they just want to exploit the loopholes of the economic system to get rich quick. The enterprises made newly independent from the trusts did not improve the former standard of their work overnight, either.

By enumerating these negative side effects we did not want to denigrate good tendencies but only to point out the differences between words and deeds, as the discrepancy might go beyond reflecting the magnitude of the necessarily emerging difficulties. It may well be that, behind the contrast between words and deeds, a conservative tendency is looming, which prefers the hierarchically structured control system, and even an enterprise management based upon the security provided by the central status and rank, to the entrepreneurial risk-taking on the market and to a society highly appreciating the latter behaviour. This view may hinder the necessary changes by the voicing of realistic dangers. When it wishes to restrict the assertion of the demand and supply conditions by maintaining the present practice of deliberate control of changes in the price proportions of domestic producer and consumer prices, the conservative view points out that only in this way can the changes in price level be planned. It wants to harmonize development and suppression of enterprises according to market influences not only with full employment but also with job security. However, such a double system of requirements is untenable.

If we want a real change, we must accept the disadvantageous side effects on wide social strata of the strengthening of entrepreneurship. The spread of entrepreneurship undoubtedly makes the price-level and price changes less easy to plan, and even to forecast, than is the case today; it lessens job security and, although under the present economic conditions full employment can be maintained, in certain places and in certain trades temporary unemployment may emerge. Of course, the disadvantageous effects may be mitigated and one can prepare for the unavoidable consequences, and the population can also be prepared.

The new reform program requires that beside the elaboration of the long-term strategy of changes we also work out the general short-term plan for the countering of economic difficulties. The harmonization of the market mechanism with the central control, must lead us from the present sellers' market to the buyers' market, from the continuous reproduction of disequilibrium to balanced economic growth.

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ПРОГРАММА РАЗВИТИЯ СИСТЕМЫ УПРАВЛЕНИЯ И ОРГАНИЗАЦИИ ЭКОНОМИКИ

М. ТАРДОШ

Статья ищет причины нынешнего затруднительного положения венгерской экономики в области внешней торговли, ставшей тормозом развития, в напряженности платежного баланса с западными странами. Автор предлагает преодолеть это узкое место с помощью лучшего согласования производства и торговли, более успешного сочетания плана и рынка.

Исходя из этого, он пытается выяснить рамки сочетания плана и рынка. Излагая задачи плана автор констатирует, что согласование спроса и предложения по отдельным товарам не относится к их числу. Здесь должен воздействовать рынок, стимулируя производителя приспосабливаться к изменению спроса, а если этого недостаточно, то согласование должно достигаться с помощью изменения цен и экспорта-импорта. Для того, чтобы предприятия получили самостоятельность в существенных областях экономики, которые автор называет сферой конкуренции, по его мнению, недостаточно упразднения плановых директив. Следует изменить и институциональную систему предприятий. Помимо либерализации экономического регулирования частных и кооперативных предприятий и изменения работы псевдоорганов защиты интересов, стоящих над этими предприятиями, необходимо создание новых институтов и в сфере государственных предприятий. Необходимо разделить функцию государственного управления (администрации) и государственной собственности. С точки зрения собственника, деятельность предприятий должна определяться не согласованными общественными интересами, а долгосрочной заинтересованностью в прибыли, и этого следует требовать от руководителей предприятий. В качестве первого шага отраслевые министерства должны отказаться в рамках ведомственного контроля над деятельностью предприятий от требования от предприятий выполнения отраслевого плана развития. Однако было бы правильным, если руководство предприятий административно не зависело бы от отраслевого министерства, а работало бы самостоятельно. Для этого подходит форма самоуправления, назначение совета директоров, контролирующих предприятие, и создание ряд организаций собственников капитала. Автор считает оправданным эксперименты во всех трех направлениях, однако, лично считает наиболее лучшим третье решение. В заключение автор анализирует вопросы финансового хозяйства и банковской системы и критически оценивает изменения, прошедшие после 1978 г. в системе регулирования народным хозяйством.

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I. BÉLYÁCZ

CONTRADICTIONS BETWEEN THE INVESTMENT SYSTEM AND THE REQUIREMENTS OF INTENSIVE DEVELOPMENT IN HUNGARY

The author looks back upon the original form of the system of investment decision making and financing as it was introduced in the period of the reform (1968). He states that according to this original concept only the possibility of simple reproduction of the stock of capital was secured for the enterprises and, from the aspect of individual projects, this concept drew the line between the decision spheres at the least appropriate place. The author finds one of the main contradictions in that the enterprises are left in uncertainty about their development resources, the sources only affirm their commitments to central control and do not provide the possibility for a perspectivic reasoning. The declared and the real enterprise decision autonomy do not agree in the investment mechanism and mixed decision is the dominating form. The author points out that under the new requirements, in the fine-tuning of investment proportions the scarce supply of enterprises with resources has to be eliminated and the autonomy of decision increased.

The change in the course of economic policy carried out at the turn of the decade has perceptibly influenced investment policy, the whole of investment activity in Hungary. The investment expansion following the 1968 reforms has been succeeded by a sudden halt, and the real value of investment outlays in the foreseeable future can (in the best case) only assure a stagnation.

Similarly to the slow rate of growth, stagnation of investment is not an end in itself, it is rather an expediency born out of necessity. The long-term aim of economic policy is a steady, balanced growth, in which the feature of balancedness plays a special role. The long-range assertion of this balanced nature is based on structural conditions and depends on whether the whole of the economic structure can continuously change and adjust itself in various structural dimensions and in their interrelations. The steps taken by this economic policy so far have basically been of a defensive kind, trying to neutralize the most direct causes of the worsening of the balance. Further steps will be needed in the direction of faster structural changes. This process is embodied – even if not exclusively – to a large extent in the investment structure, in the choice of the targets; and the basic question of evaluating an investment policy is *how successful it is in allocating investment resources, how it serves the aims of structural changes.* Other important factors are: the extent to which utilization of investment resources is market oriented; whether it serves the intensive development of the existing structure, or merely lays the foundations for extensive growth.

The main elements of the investment mechanism are the systems of decision making, financing and realisation. The investment mechanism is closely interrelated with the system of controlling the economy, with the system of its instruments and institutions. *The changes in this mechanism continuously reflect those accomplished in the whole of the control system, and its inner modifications also react on the whole of the system of controlling the economy.* Thus it is similarly a matter of fact that making the system of economic control more effective is dependent on improving the investment mechanism, too. Since investment is merely a means in realizing production ends, neither intensive development, nor the various problems of the economic mechanism can be solved by modernizing the investment mechanism only.

In the present article the investment mechanism is analysed from only one, although a very complex point of view; namely, to what extent the *system of decision making, financing and realisation operating in Hungary today is suitable for the intensive development known only in its outline at present.* The operation of the investment mechanism has been analysed and criticised virtually ever since the reform*; and the majority of theoretical analyses compared the concrete operation of the mechanism to the principles of the reform. The conclusions have in most cases been fairly similar: the operation of elements of the investment mechanism can only partially be regarded as a realisation of the reform ideas. The analysts either come to the conclusion that the concrete operation has diverted from the path as set out by the reform, or else they hold that the investment mechanism has not even set out on this path and has – in many ways – remained by the rules of the investment mechanism of direct control.** The basic lines of thought of analyses following the reform are: analysis of the degree of decentralisation, examination of the position of the enterprise regarding investment, research into the extent to which enterprise investment projects express independence, flexible initiative, striving after profitability. It is useful to begin the analysis with the examination of the forms introduced with the reform.

Contradictions in the initially introduced solution

As a result of the peculiarities of control the systems of decision making and of investment financing are tightly intertwined and consequently financing has no autonomy from the economic point of view.

*Within the operation of the investment mechanism most attention has been paid to the examination of the spheres of decision making, and to the system of financing. Cf. amongst others [3], [4], [5], [7].

**Examples for these two kinds of approach are the studies by László *Antal* [1] and Károly Attila *Soós* [8].

The investment mechanism of the reform was born out of debates, and thus reflected a compromise as it was introduced. The viable compromise was forced by the power relations, although it can be noted that the principles of the reform strongly represented the endeavour at decentralising the scopes of investment authority.* Compromise, on the one hand, meant a kind of solution to the problem, but expressed equally forcefully that several of the basic questions have remained unsolved. *This is the reason why the basic questions of the system of investment decision making have been raised repeatedly and newly put again and again ever since the reform.* The investment decision, *the selection of the target* is situated at a point of junction in the chain of reproduction. Investment decision is a step in production, fixed capital management and technological development, which cannot be separated from questions of prices, labour force, product-mix, etc. Within these varied and complex interrelations prices have a special significance. *Under the conditions of a regulated market prices and profitability must play regulating role in choosing the direction of investment.* The investment mechanism devised during the period of the reform could hardly rely on a rationally operating price system, and this fact was a major contributor to the fact that information other than prices and profitability weighed very heavily in investment decision making. The role of price in income distribution and redistribution, in orienting towards equilibrium, in clearing the market – that is, the functioning of prices in general has gradually grown in importance since the reform, and, knowing the intentions concerning the perspectives of the role of prices, it is surely going to progress further in the direction of accomplishing their actual orienting power. This process entrusts the role of measuring enterprise activity to the world market price and to valuation by the world market. Price and profitability are – in such circumstances – effective means of structural changes, and this fact cannot be isolated from the requirement of modernizing the system of investment decision making. If price is not subservient to the existing product-mix any more, but a factor in structure formation, then this means the activation of the role of price in selecting investment targets. *The main problem* of the investment mechanism is: *can the way of decision making and financing introduced with the reform rationally regulate structure formation by the help of the prices?* ** For the purposes of a more detailed investigation, let us now set out from the original form of the investment mechanism.

The original solution was based on the idea that development affecting the foundations of the production structure should remain within the decision authority

*This statement requires so much of explanation that while the standpoint advocating centralisation of investment decisions can be linked to the attitude of a system of institutions, the reform principles were more like ideas than material forces linked to concrete economic subjects.

**The line of reasoning of this article is concerned mainly with investment in production, but not exclusively with the development of the competitive sphere; I regard non-productive investment as independent of the profit-motive and market automatisms.

of the central control agencies; the dynamic replacement of fixed capital could be exposed to market influences; and investment for expansion should be financed by bank credit. This demarcation was supposed to provide for a division of labour between the central control agencies and the decentralized sphere on the basis of the size of investment projects and their significance in production. Through such an allocation of decision making authority investment projects were demarcated on the basis of their roles played in structural changes. This carried in itself the contradiction that the reform conception wished to secure merely the possibility of simple reproduction of fixed capital for the decentralised sphere. *This demarcation, from the point of view of the individual investment projects, drew the line between decision making authorities at the least adequate place.* If we regard the simple reproduction of the fixed capital – or, to use the term introduced with the reform, the "dynamic maintenance of the standards" – as the reproduction of a given structure, then this also means that in this solution the changing of the structure can only be the task of the central control organs (and of the bank). Apart from this it is also a fact that the original ideas wished to make development realised from credits (apart from dynamic replacement) dependent on market influences, on the formation of prices and incomes.

The question whether the weakness of market impulses was the cause or the effect of the partial realisation of the reform ideas, has been much argued in Hungary. It must be stated as a basic fact that at the time of the reform there was in fact no competition, owing to the highly centralised nature of the state industry and the weakness of the cooperative sector. *It was not the power relations amongst enterprises that became the basic question of the economic dynamism but rather the division of the spheres of authority between the enterprise and the central control organs, i.e. the power relations between the directing and the directed poles.* Owing to the lack of a competitive situation, to the unambiguous subordination of the enterprises the reform processes could not take a self-strengthening path. The prevailing state of the balance of power between the central control organs and the decentralised sphere and the *reproduction of the state of subordination* attained special significance because of the many brakes and internal stabilizers. This situation has carried the danger of self-reproduction of the existing structure within itself already from the very beginning. The central control organs retained their hold not only with regard to investments fundamentally affecting the main proportions, but also regarding all the essentials of the functioning of the investment mechanism. It would be fundamentally wrong to narrow down the relationship between state and enterprise to the alternatives of rigid centralization *versus* flexibility, or, conscious influence *versus* spontaneity. Yet the fact cannot be disregarded that the decentralised sphere received its formal authority to make investment decisions with the reform in such a way that the state of enterprise finances were characterized by a high degree of insecurity. *Funds devised to cover the costs of "dynamic maintainance of the standards" are not advantageous for perspectivic thinking looking beyond the*

dynamic reproduction of the structure. Since, side by side with dynamic development, there needs to be stagnation and reduction as well, the "dynamic maintenance of the standard" cannot be regarded as a valid requirement for all enterprises. Thus not only the problem must be solved how means should flow from enterprise with abundant funds to the areas where funds are *scarce,* but also, what pulling power should make the scarce means flow towards the *better areas*. However, not even this feature can turn the "dynamic maintenance" into a macro-category, since reduction is not an end, but the result of unsuccessful management. In the course of competition every enterprise has to strive for the safeguarding and increasing of its existing fixed assets. Reduction changes only the organizational framework of operation of the assets (merger, foundation of a new enterprise).

It is a widely accepted view in the literature on investment that the enterprise should retain only the necessary, so-to-say effectively employable investment resources.* That is why incomes regulation attempted to draw off surplus sources from the enterprises. Taking the average of a longer period of time, enterprises in Hungary could spend more than half of their depreciation allowance and about one-fifth of their profits on investment. There were several consequences of this basically short supply of resources. *Every step in development, which exceeded "dynamic replacement", committed the enterprise to the central authorities* (or to the bank) *in the long run;* the firm could expand its activities only from major central sources; the lack of free sources in effect excluded the flexible expansion of the originally determined production lines, joint investment projects, and the inter-enterprise flow of capital. The tense state of enterprise resources can be justified by seemingly convincing arguments, the essence of which is that only the efficiently employable resources should be left with justification with the enterprise. However, it is questionable, whether it is always possible to judge from the outside what proportions should be followed by the resource control at enterprise depth. Is the view justified that the enterprise would waste the "extra" resources over and above its replacement needs, and for this reason they should be drained from the outset? On the basis of the experience in regulating the sources it can be stated: *we can hardly attribute a theoretically sound resource regulating role to the joint taxation of depreciation allowance and profits.* Neither with the present way of forming enterprise investment funds, nor through other ways of control can such exact regulation of resources be attained that exactly the right amount of resources be formed at all times, with every firm. The demand for sources of enterprise investment has always been very differentiated in both time and space, and has constantly been changing. This makes the rationality of striving after the optimization of drawing funds off doubtful. *All the notions wishing to optimize the distribution of resources through*

*The opinion of György *Szakolczai* can be regarded as a marked manifestation of this view: "... it is inadmissible under socialist conditions to have development funds accumulating over and above the real development requirements of the given enterprise." [9] p. 367

differentiated taxation on the side of either profits or of depreciation, are of questionable efficiency. Thus it seems that the arguments concerning the necessity of drawing off extra resources, are hardly convincing. The practice of drawing off rather shows that the central authorities did not intend to expose certain tasks related to the transformation of structure and the choice of investment direction serving these tasks, to the selecting effects of profitability, of the market. The central control could attain these essential investment positions partly by having the majority of resources at its disposal and partly by influencing the selection of the direction of investment. As has been said before, after the reform there was no competitive situation, on the contrary: a high degree of organizational centralization asserted itself. A necessary reflection of the centralized nature of the productive organizations is the high degree of (statistical) concentration of investment projects. It is a long-range tendency that only a relatively few investment projects make use of the great majority of the investment resources.* Investment competition, recognition of alternative investment opportunities, combination, cooperation coupled with investment, are hindered exactly by this organizational centralization.

The fundamental contradiction of the system of investment decision making and financing introduced in 1968 has its roots in its *static nature*. It has unjustifiably separated "dynamic replacement" from expansion, and brought about a situation characterized by the *continuous self-reproduction* of the existing structure of enterprises, sectors, subsectors and product-mix. That *the vertical control paths of hierarchical control became the basis of the system of decision making, also worked in this direction. The established investment decision making authorities expressed very little real economic content from the outset.* The demarcation of the state and enterprise spheres of authority concerning investment decision making meant the drawing of the line up to which the exclusive state authority of decision making should reach. However, actually the central control went far beyond this demarcation line, and attained a determining position in the *whole* of the investment mechanism. Of course, the main problem is not to be sought for in the dominating role of the central control, but in the fact that the fundamental questions of any possible investment mechanism have remained unanswered. Which investment projects transforming the economic structure should depend on market impulses? What role should be assigned to information given by prices and profitability? Which investment projects have a fundamental bearing upon the structure of production? The unanswered questions are exciting because, on account of them, one of the most significant moments of reproduction, *the choice of the direction of investment, remained on the path of making out use value production, of targets specified in physical terms.* As a matter of necessity, the central control took use value, technical parameters, information other than price and profitability as starting point,

*Taking the average of a longer time-span, numerically 10 percent of investment projects above 1 million Ft utilize 80 percent of the investment resources.

pushing the viewpoint of an improved utilization of the invested funds into the background and eliciting the unlimited nature of formulating investment demand.* The physical approach should be considered negative basically in the competitive sphere, where even those investment projects are independent of the economy which ought to be influenced by market effects.

Development of and contradictions in the system of decision making and financing

The post-reform operation and development of the system of investment decision making and financing were decisively influenced by the insufficiently clarified and unanswered fundamental questions of the investment mechanism. Naturally, the operation of the investment system could not follow the artificial demarcation, which – on the basis of the original principles – separated the simple and expanded reproduction of fixed assets from the point of view of decision making authority. Too great a proportion of investment projects seemed to require unconditionally the role, the presence of the central control for making the decisions, and the state appeared not so much as the maker of conditions, but rather as an actual economic actor, as an interested judge. The division of labour between central control and enterprises changed little in quality, and this had two important consequences. On the one hand, the *systems of decision-making and financing cannot be separated in a clear-cut way,* in fact financing follows decision making directed by physical targets as a shadow, and fits financial resources to these decisions. On the other hand, the decision categories are contradictory and indistinct.

It is characteristic of the whole period since the reform that *the categories of investment decision making* used in planning and statistics are *misleading, they bear no real economic contents.* Formally, two levels of decision making are distinguished, the state and enterprise ones. One of the roots of the problem is that *decision making authority cannot be quantified directly,* and the structure of the financial system also tends to blur the line between the decision making levels. *Within the operation of the investment mechanism the statistically measured, formal decision making spheres of authority must be distinguished from the actually existing, real division of the decision making authorities.* Formally, there exist state-decided investment projects amounting to nearly the half of the total investment outlays, and the enterprise decided investment projects including over half of the total. Yet the real decision making relations show a very different kind of picture.

There exists a relatively narrow range of investment decisions, which contains the aims determined exclusively by government decision. A fundamental character-

*A far-reaching criticism of this decision making concept is given by Károly Attila Soós [8]

istic of this range is that it tends to disregard enterprise interest and contains projects worth several billions in their majority. It should be noted that this range should not be identified with the formal state investment decision making authority. It is narrower in so far as it does not contain those projects where – besides the interests of the national economy – enterprise interests are also taken into account.

The investment projects – the very narrow, lowest range of the field – on which exclusively enterprises decide, are to be found at the other pole. These are enterprise aims demanding little in respect of inputs, and which – even taken all together – make up only a few percents of the total investment. If we narrow down the aforementioned proportions to the competitive sphere we find that the share of autonomous enterprise investment is higher, the weight of state decision making and financing is smaller. The merging of replacement and expansion automatically allows enterprises to obtain investment sources for expansion which, however, are mostly insufficient by themselves. Thus the dominant type of the system of decision making became the mixed-decision-investment, and such projects make up the great majority of all investment.

This kind of demarcation of the actual decision making types throws light upon the most important feature of the system of decision making, namely, that the spheres of decision making authority are to a certain extent unclarified within the post-reform investment mechanism. For example, *the declared and the actual enterprise decision-making autonomy do not concur, and the investment mechanism is dominated by an undetermined, blurred type of decision making.*

In economic thinking the question is often put in such terms that the strengthening of the state influence within the investment mechanism started off as a process of "rearrangement", a few years after the reform. [1]. However, if we take a closer look at the post-reform operation of the investment mechanism it can be seen: such a decision making, and financing system, from which it would have been possible to retreat, to go back on, has not even become established. During the period immediately after the reform resources were tied down for the completion of investment projects decided and begun under the earlier decision making mechanism, and, before the new system of decision making could have evolved in accordance with the reform principles, the mixed type of decision on investment had become dominant. The dilemmas of centralization vs. decentralization of the system of control were reflected most directly by the blurred state of the system of investment decision making. *The mixed investment is not merely one of three types of decision making, but also a true reflection of the way of thinking of the system of investment (and also of control).* Seemingly, one could draw conclusions as to the positions of the decision making poles from the initiatives of investment decisions. But the actual operation of the investment mechanism shows that the statement of demands for investment and their becoming subjects to decisions have started just as frequently from "below", from the decentralised sphere, as frequent was the direct demand of the central control agencies or the investment demand prompted by them. Therefore, the main problem of the investment mechanism is not centralization vs. decentralization. The

basis of the problem is the peculiar contradiction that a *kind of formal decentralization of the decision making authority has been carried out with the reform, but centralization has also remained due to the subordinated division of labour between state and enterprise.* Primary emphasis should not be put on the "recentralization" which evolved from the beginning of the 1970's within the investment mechanism; rather it should be noted that *the actual centralization of directive planning has been replaced by the simultaneous assertion of formal decentralization and a centralization that has become formal.* The investment system reflects well the characteristic feature recognised both economically and politically, that the *levels of decision making have drifted into one another.* *

Of course, it would be false to present the fundamental power relations of the investment system as if against the firm and strong centralization there stood the weak and formal positions of decentralization. In the case of countless investment projects the demand *arises in the decentralised sphere,* and this *creates such a forced path that the high-level approval by the central authorities has no effective economic content.* Namely the legitimacy of the demand to produce a given use-value cannot be doubted. The drifting into each other of the levels of decision making, the simultaneous existence of formal centralisation and of formal decentralisation also have empirical proofs. This proof is not so much given by the typical mixed investment projects, the developments "suggested" through the central development projects, or by the projects begun by enterprises and finished by the state, but by the high degree of relativity of the system of decision making.

The exclusively state sphere of decision making authority can be approached on the basis of the size of the investment projects. Namely, it could be supposed that productive investment projects requiring the greatest expenditure are decided by the state, while those less in need of resources are decided by the enterprises. However, the facts prove this supposition to be wrong: at the end of the 1970's the investment projects decided upon solely by the state were in a minority taking into account the development projects requiring the greatest expenditure (within the 100 greatest projects).** *No genuine difference in content can be recognised between formally state and formally enterprise decision making, all decisions in effect run through the hierarchically dependent paths of levels of decision making that have drifted into one another.*

A specific circumstance should be emphatically pointed out here. It is absolutely not true that the positions of the decentralised sphere are weak within the investment mechanism dominated by mixed-level decision making. Still maintaining the earlier assumption, according to which the post-reform investment situation has been characterised by a high degree of insecurity regarding resources, by an institutionally tense resource situation, it also has to be seen some way or other that enterprises have managed to achieve acceptance of their development conceptions, and financial assistance for

*The article by Mihály *Bihari* [2] discusses the political and sociological aspects of this process.

**Only 40 percent of the investment projects in process at the end of the 1970's, in a value greater than 1 billion Forints, was decided upon solely by the state.

them. One of the consequences of this peculiar situation is the already mentioned formal centralization, and the other is that *within this system efficiency, profitability, efficient employment of resources have only a minor role to play.* In the above sketched situation responsibility for the decisions made necessarily gets blurred.

We have mentioned the drifting into each other of the levels of decision making as the main characteristic of the post-reform system of decision making, the causes and consequences of which require a more detailed analysis. We shall continue the investigation of the system of decision making and financing with the following, closely related, problems:

– the inherent resource-insecurity of enterprises;
– the subordinated and formal role played by the profitability criterion;
– the characteristics of the combined system of financing.

The inherent insecurity of resources

One of the most hotly debated questions concerning the post-reform operation of the investment mechanism has been the situation of the enterprises regarding resources. In view of the investment tensions which have become strained from time to time, the central control agencies have virtually always judged the amount of investment funds at the disposal of the decentralised sphere as "too much", and that this has been one of the main reasons (apart from some others) for the tension on the investment market. It is worthwhile to make two comments on this evaluation. On the one hand, the resource situation of the individual enterprises cannot be judged from the global state of the investment market, and, on the other hand the decentralized sphere appears on the investment market not only with its own sources but also with investment funds containing redistributed resources. Of course, it is rather difficult to have a trustworthy picture of the actual state of the resources at the disposal of the decentralised sphere.* As earlier statements pertaining to this point also suggested, it is useful to set out from the inherent state of resources of the enterprises and to investigate the situation preceding the redistribution of resources. With regard to the regulation of the state enterprise resources answers had to be given while elaborating the reform to the double question *how much investment money should remain at least and at most with the enterprises.* The initial conditions were determined so that the sum total of the part of depreciation allowance and the development part of the profits remaining with the enterprises should be the same in the average as the total amount of depreciation allowance, and so should be able to secure at least the simple reproduction of fixed assets, but the funds which can be accumulated by the enterprises should not exceed the level needed for "dynamic

*There is something symbolic in the fact that the share of the "enterprise" investment is 55 percent of the total investment outlays on the basis of the formal statistically measured spheres of decision making.

maintenance". *The centralization of incomes continued to constrain the autonomous enterprise management of resources.* Hardly one-third of the net national income remained with the enterprises, and, within this, only about one-fifth of the realized profits served the purposes of accumulation.

One of the key questions of the inherent insecurity of resources was the partial centralization of depreciation allowance. The centralization of 40 % of the depreciation allowance is in effect the regular withdrawal of a part of the enterprise capital. Since the chances for accumulating development funds out of profits vary from firm to firm, owing to the partial centralization of the depreciation allowance, some enterprises *had to rely on central resources even for simply maintaining the level.*

In this situation, two possibilities opened up for enterprises: either they accumulate the scarce development funds through years and in the meantime give up following technological development and market demands, or else they try to obtain central resources. Enterprises were not able to take the first road for many reasons so they had no other option but to get as much back of the centralised development funds as possible. Thus the inherent insecurity of resources turned into its own opposite in the course of the operation of the investment mechanism. The central control agencies tried to retain their hold on the means controlling the process of reproduction and within it that of the investment, through a high-degree centralization of incomes. *However, the redistribution following the centralization of incomes proved to be inefficient. With regard to the centralization of incomes, the central control agencies were characterized by an overestimation of the efficiency of redistribution, yet, in the course of redistribution of incomes some grandiosity became manifest.* These two contradictory, simultaneously existing features gave rise to some peculiar reactions and called forth characteristic forms of behaviour with the enterprises. Since the extent of the centralization of incomes to which the enterprises have to adapt is given, they tried to improve their bargaining position in the redistribution of incomes – as the economic foundations of this latter were not properly clarified – in order to increase their share from the central resources. The contradictory nature of the behaviour of the central control agencies weakened the efficiency of the investment mechanism, since *preceding the redistribution of the investment sources the formation of incomes also did not occur in "hard" circumstances.* The above sketched inconsistency became one of the reasons for the development of the alternative formal decentralization vs. formal centralization. The inherent insecurity of resources made the enterprises dependent on the help of the central control agencies; the relations of redistribution, however, softened up as a result of the lack of theoretical foundations, and in this situation the overwhelming majority of the investment projects were decided on the basis of hierarchic relations of dependence. No significant investment could remain outside of these paths of dependence, since enterprise resources only covered the costs of beginning an investment. The high degree of centralization of incomes theoretically gave a possibility for the central control authorities for efficient interference, but – as the state organs could take a stand only on the basis of use-value type informations – the automatic nature of the distribution of the central resources

strengthened. Although the inherent insecurity of resources did not cease as a result of the plentiful flow of central resources, an enterprise starting an investment could generally count on getting a share from the central funds.

The formal role of profitability

Most attempts at perfecting the operation of the investment mechanism were directed at increasing the role of profitability. Two aspects of this question merit special attention. One of them is the role of profitability in selecting the investment target, the basic dilemma, which group of investment projects can be exposed to the selecting influence of the profit motive. The other is the requirement that no resource without efficiency requirement should take part in the financing of investment. *While discussing these we must clearly separate the formal and the actual enforcement of the profitability criteria.* The post-reform system of decision making, the institutional system of the investment process, the economic environment of the enterprises all together became more of a hindrance to than a help in the enforcement of the principles of profitability. *The peculiar duality, which constantly emphasized the necessity of enforcing profitability and efficiency on the one hand, yet did not compel to do so on the other, characterized the whole of the period under study.* When selecting the targets of enterprise investment in the management of means, there is no sufficiently compelling force for achieving an economical, profitable investment of funds; most of the time investment decisions are not motivated by how to invest the money at disposal most profitably, or how to realise the planned project the cheapest way (without violating technical norms) with given resources; rather, the starting point is, how to collect the money for the – most frequently single – version defined in physical terms. With such an attitude, investment sources have no decision-limiting role; shadowlike, they only follow the often "maximalist" choice of physical targets.

The main contradiction here can be recognised in the characteristic that *in making investment decisions, in winning the resources objective profitability is not the fundamental regulator, rather, it is the promise regarding the profitability and efficiency of the planned project.* In the investment mechanism dominated by mixed decisions, the decisions are mostly based on the promise of profitability given to the owner of the resources. The decision maker tries to convince the central control authorities and the bank of the profitability to be expected, of the efficient investment of the development funds, and the reality of the promises cannot be doubted *ex ante*. The danger is the formal assertion of the principles of profitability and efficiency, *since profitability is not a mere promise by the help of which the necessity of an investment can be made acceptable, rather, it is an inherent motive of management asserted against itself, together with efficiency.* The fact that the efficiency measuring function of profit is only limitedly asserted, obviously plays a part in that that profitability does not play a genuine selecting role in the choice of targets. Apart from this, even the nature of the decision making

mechanism forces efficiency and profitability to play a formal role. The formal assertion of the principle of profitability is well expressed by the prescribed profit criteria as proportional to the assets employed. *During the stage of selecting the target and decision making optimistic profitability forecasts cannot normally be refuted, but the decision makers are not compelled to enforce the principles of profitability in reality.* The formal assertion of efficiency and profitability can be transformed into actual assertion when the process of investment as part of the whole of management gets into hard circumstances. Apart from this, perfection of the functioning of prices, assertion of the income distributing and redistributing role of prices, profit rates reflecting efficiency proportions are also indispensable for the elimination of formality. Although the central control agencies did try to eliminate sources without efficiency requirements (being subject to certain liabilities) from the system of financing investment, up to this day the contribution of the budget given under various pretexts, without any genuine requirements even to productive investment projects is significant. The insecurity of resources discussed earlier and the formal nature of the profitability criteria are interrelated. Within the investment process, – just as with regard to the other aspects of reproduction – the central control authorities do not regulate the requirements, but take part in the processes directly as an economic factor. *The excessive centralization of incomes and the grandiose redistribution of resources, pushing efficiency and profitability into the background are only seemingly contradictory.* The central control occupies essential positions in the redistributing returning of incomes but, of course, it cannot have trustworthy information of all the investment projects, in the decision making or assistance of which it takes part. *Thus the actual efficiency criteria of redistribution become loose as a matter of necessity.* We must, however, note that the relaxation of circumstances of the production of incomes is just as important a factor in the formal nature of profitability as is grandiose redistribution. For the centralization and redistribution of income does not only affect development activity, but also all the moments of management. Any exception from the circumstances of competition distracts income production from the path of profitability. The assertion of real profitability within the investment mechanism can only be realised together with the hardening of the economic background.

The combined system of financing

A feature of the earlier mentioned investment mechanism is the lack of the autonomy of the financing system. The financing paths are subordinated to the decision making in physical terms; in the course of decision making the investment conception is not adjusted to the available resources and to estimated funds that could realistically be hoped for, but rather *the necessary financial means are ulteriorly made to suit the demand for costs.* As a consequence of the insecurity of enterprise resources, decentralized development funds are never enough for financing a major development

project completely. Thus, out of necessity, various external sources come into play, and a peculiarly functioning, combined system of financing comes into being. As a result of the relatively small amount of autonomous development funds (and of the high degree of income centralization and withdrawal of depreciation allowance causing this) *The dependence and long-term commitment of the firm is being constantly reproduced and maintained.* The repayable external sources (bank and state credits) in connection with a development project engage the enterprise's development funds for long periods of time and preserve the insecurity of resources. Certain external sources cannot even be paid back and so free grants are needed, because the theoretically existing free enterprise funds are continuously engaged by the income centralization. *The centralization of income and of depreciation allowance and the investment subsidies withdraw and pump back essentially the same amount of resources in opposite directions.* This system of financing – as it attributes special importance to central redistribution – *does not attempt to build up firm financial positions of enterprises for the long run.* Although redistribution serves the aims of avoiding structural rigidity, this can only partially be successful, because the redistribution of resources follows the vertical paths of the control hierarchy and is embodied in proportions of a particular sectoral meaning. Within a branch of industry the organizational monopoly positions can further slow down structural renewal. The systematic dependence of the enterprise on the central sources makes flexible adjustment a function of external factors, since the opportunity to invest always depends on some kind of programme, preference or subsidy as no free funds are available.

The main characteristic of the post-reform system of investment is the combination of sources. This is asserted in all respects, as in essence for every type of decision making any source can be made use of. Central sources finance targets exclusively decided upon by the central authorities the same way as they contribute to jointly decided investments. Also, enterprise resources finance the autonomously decided investment projects of lesser significance as well as mixed ones and they also contribute to state investments. This "full circle" interpenetration is necessary on the one hand, and causes a certain degree of confusion on the other hand. It is necessary because the various resources have to complement one another in financing a given investment project.

The forced complementarity of the resources can best be followed by taking the example of the joint investments. The funds owned by the enterprise make up only a part, often only a fraction of the needed resources. The basis of getting credits from the bank is creditworthiness. The undertaken period of repayment is a decisive factor; however, fast repayment can hardly be undertaken due to the inherent scarcity of development funds. Limited creditworthiness is widely characteristic, while credits are indispensable supplementary sources of investment. Thus in order to realise the aims decided upon nevertheless on the basis of physical targets, budgetary subsidies given under the most diverse pretexts (redistribution of centralised income, remission of taxes, subsidy for a special purpose need to be included; thus the *degree of support is formed on the basis of the residual, and depends basically not on the nature of the purpose of the investment but on the person who makes the decision.* In the course of the criticism of

the financing system statements were justifiedly made, according to which the various sources are formally co-ordinated, are conditional upon one another, and the allotment of the different kinds of resources taking part in financing an investment project does not follow objective measures [6]. The survey of the combined financing method is made more difficult by the mutual dependence developed amongst the various resources. For example, the investment could not be realised without subsidies; or the basis of credit-worthiness is that the firm gets budgetary subsidies to another one of its investment projects, etc.

During the post-reform era improvement of the efficiency of the financing system proceeded peculiarly in the direction of extending the commitments to repayment of resources; it did not strengthen the financial position of the enterprises, and increased the role of long-term commitments. In the course of the development of the system the formal efficiency requirements of funds originating from various sources tended to level out, yet the real profitability requirements were not particularly strengthened. One of the reasons for this could be that the financial means and forms allowing enterprises to increase their capital stocks in the long run still remained in the background. Besides the increasing centralization of incomes the withdrawal of depreciation allowance remained as well, bank credits only make up a small range, basic allotments of funds against payment of rent remained of slight significance. The planning of financial sources and their distribution according to types of decision making are virtually mirrorimages of the proportions of positions in the system of decision making. The targets exclusively decided upon by the state are a fixed base in the sum total of the investment resources of a given period; while those participating in joint decisions tend to underestimate their own sources – in order to attain a better bargaining position. The financial possibilities for projects jointly or autonomously decided by the company will always be the residual in a given period, and this becomes the starting point for much tension in investment regulation. While evaluating the role of the financing system it must be noted that the *lack of independence of financing and its subordination are not merely consequences of the drifting into each other of the levels of decision making, of the pre-dominance of the collective decision making, but, with equal force, they are parties to the intertwining of decision making, and effective factors in blurring the distinction between the levels.*

The choice of investment targets and intensive development

From the critical analysis of the contradictions inherent in the investment mechanism the conclusion can be drawn that the post-reform decision making and financing practice did not eliminate the extensive conditioning of investment behaviour. The main motivating force behind development decisions still is the effort to

increase capacities quantitatively, for extensive development. The quantitative increase of capital engagement did not go hand-in-hand with efforts for more efficient operation, as compelling forces were lacking. Following the reform – as a result of the operation of the above sketched investment mechanism – a fixed asset increased fast, and – in some places – extensive development gave rise to overinvestment. During the period of extensive development the increase of fixed assets, of technological equipment, has a progressive role to play, since these are the most important means of shaping the macro-structure. The nature of development, however, changes out of necessity, and with it, the content of the previous aims also changes. Amongst other things the indicator of technological equipment changes too. The decisive modification takes place where transformation into the intensive stage (in the production sphere) is concomitant with a half in the increase – and later, a decrease – in the number of workplaces. Intensive modernisation of the existing workplaces becomes the main purpose of investment activity. The sketched construction and operation of the investment mechanism necessarily clashes with the requirements of intensive development. A mechanism based upon a high degree of income centralization, and on a formal centralization and decentralization of decision making is able primarily to perceive and to influence, the gross, overall proportions and is unable to regulate fine proportions. The conceptions pushed through the hierarchic chain of decision making necessarily differ from the original recognitions; the particular interests of the decision-makers settle on them and thus they become distorted. *The "fine tuning" of proportions is in basic contradiction with decision making of the type selecting objectives in physical terms, where the effective decision making takes place several levels above the occurrence of the demand.* In the intensive stage of development all kinds of development policies, from dynamic development through stagnation to reductions can be justly applied to individual enterprises, and a hardly flexible mechanism cannot, or can only slowly and with difficulties adjust itself to this diversified demand formation.

Taking into account what has been said so far, what sort of modernisation is needed in the given system of decision making and financing?

First of all the system of decision making is itself in need of changes. Although the basic structural proportions of the national economy cannot be regulated merely through self-regulating mechanisms, participation of the direct decision makers in the central control agencies needs to be moderated in the range of non-fundamental developments. The non-fundamental developments make up a significant part of total investment, and within this sphere there is a great need for the continuous modernisation of structure, for the constant changing of the so-called fine proportions. Outside the sphere of the most basic investment projects rich opportunities for variation present themselves for selecting targets by relying on the principle of profitability, especially if these receive a firmer base through a more consistent accomplishment of the functioning of prices. Obviously the choice of the direction of investment can never rely *exclusively* on price information. The role of

prices in investment has always been limited to some extent, and so it will be. One thing, however, is clear: *the strengthening of the competitive circumstances of production is incompatible with the general practice of selecting investment targets on the basis of physical approach. There cannot be a difference in the rates of development of the particular elements of the economic mechanism in the long run;* the majority of investment decisions cannot be based exclusively on technical parameters and non-price information. Perfection of the functioning of prices is aimed at letting price and profitability proportions play a genuine and efficient role in structural change amongst other things. Perfection of the functioning of prices and the requirement of intensive development are closely interrelated: the weighing of alternative targets can become the main instrument in the selection of the direction of investment, based upon price and income information, in the interest of a more efficient utilization of the investment resources. The paths of the hierarchical control cannot simulate selection on the basis of profitability. *Development targets cannot be set in such sectoral, sub-sectoral, and company combinations "from above" as these should be organized in the course of the reproduction process.* Selection of the directions of investment on the basis of information concerning profitability has certain *organizational conditions* as well. Even at the present level of the concentration of means and of integration we must not renounce the *creation of a kind of competitive situation.* From the organizational side, the competitive situation can be strengthened by the continuation of the process of decentralization (by creating independent enterprises) within the competitive sphere and its continuation in accordance with actual demands; by further strengthening the cooperative industry, by the promotion of small workshops and small enterprises as conceived; by imports giving rise to efficient competition if the balance of trade allows that.

When switching over to the intensive stage the role of *horizontal relations* increases by leaps and bounds. This is especially shown by investment decisions "avoiding" the central paths of decision making. Although the sectoral and functional institutions controlling through central decisions make the control of the reproduction processes easier, during the period of intensive development the previous advantages turn into disadvantages: with rigid production lines management is easy, but structural change is slow. From time to time, the given enterprise lines expand out of necessity, and the resources of several enterprises become merged. The intensive stage requires the reassessment of the present conception of production lines, the possibility of a flexible expansion of the activities, the direct flow of resources between enterprises.

As can be seen, the financial conditions play a decisive role in the creation of intensive circumstances. The starting point is moderation of the insecurity of enterprise resources. The usefulness of the regulation of resources-based upon the withdrawal of the enterprises' sources is open to question. *The formation of investment demands has diversified tendencies in space and time, which it is impossible to follow efficiently by the withdrawal of resources.* Exactly for this reason it would be expedient to allow the firms to *have resources over and above their actual development needs* known at a given time.

What would the enterprises do with these surplus resources? They could expand their production capacities (without the involvement of external decision makers) within the existing production line; they could extend their production line flexibly, in accordance with the requirements of the market and of technological development; they could establish joint ventures, could start joint investment projects; they could lend part of their resources to other enterprises. Apart from the moderation of the insecurity of enterprise resources the necessity of new forms of financing and of enterprising also arises, through the accumulation and investment for development purposes of funds in excess at the original place and time.

Of course, major obstacles concerning attitudes stand in the way of such a modification of the enterprises' opportunities of financing. The conception, according to which a systematic centralization and redistribution of the majority of investment resources is indispensable for central control to be able to imbue the investment process with purposefulness and consciousness, while the investment sources with the enterprises are in effect sources of investment tensions and haphazard wastage, is holding on stoutly. The decisive difference – as we have shown earlier – does not lie in the investment behaviour of the conditions of income formation are softened up; the *real difference is between income formation based on the principle of profitability, dependent on efficiency, and between the easy way of obtaining income, increased centralization, grandiose redistribution customary in the Hungarian circumstances.* The free flow of resources between enterprises, the build-up of horizontal links in the field of investment cannot be imagined without enterprises having free resources at their disposal. It has been argued to this day, whether the enterprises' propensity to save can evolve. The existence of funds in excess at a given time, which cannot be used prudently in the given production line is not a disturbance of reproduction, but an economic necessity. Funds, which cannot be invested efficiently for the time being can appear in every production line, and this is not – contrary to the general argument against it – conditional upon a general abundance of resources, upon the enterprises' being very rich. *Relative surpluses can form always and everywhere* (out of depreciation allowance and profits) *and the horizontal investment links are a more useful form of their exploitation than withdrawal along the vertical paths.*

The main argument against the reallocation of resources between enterprises in the rent-type income obtained without work of enterprises presently unable to develop.* However, if the production lines, the relations between enterprises are flexibly interpreted, if the justification of the horizontal merging of resources is acknowledged, the

*György Szakolczai's argument concerning the possibility of direct handing over resources from enterprise to enterprise is the following: "It is clear that enterprises would lend their accumulating development funds to other enterprises only if this increased their revenues and profits, i.e. if these funds could be utilized more advantageously somewhere else and they would receive part of the greater returns in exchange. As a consequence, . . . the less efficient and less dynamic enterprises would obtain growing unearned incomes . . ." [9] p. 367

problem becomes much less sharp. It is worthwhile to raise the present-day alternative against this worry: what is better for the economy, always to "find" an efficient opportunity to invest, to use all incomes where they have been produced – or to acknowledge at times that it is not worthwhile to invest a given investment fund into this enterprise at this moment of time, and it is more useful to hand it over, to enter a joint investment or to put it in the bank? A more flexible choice of the investment targets serving the purposes of intensive development, the free flow of funds between enterprises, raises, of course, a whole series of problems concerning ownership, concentration of resources, distribution and redistribution of income, the solution of which is surely not easy, but not impossible, either.

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We have set out from the problem to what extent the present Hungarian investment mechanism satisfies the requirements of intensive development. In the course of our analyses we have considered two main fields, *the systems of decision making and financing,* but have not dealt with the system of the *execution* of investment projects. Even so, it can be established that – due to the requirements of intensive development – the investment mechanism is lagging behind. This mechanism is in need of complete structural and conceptional renewal, the necessary changes are, however, closely interrelated with the modernisation of the basic questions and of the whole of the system of control.

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ПРОТИВОРЕЧИЯ МЕХАНИЗМА КАПИТАЛЬНЫХ ВЛОЖЕНИЙ И ИНТЕНСИВНОЕ РАЗВИТИЕ

И. БЕЯЦ

Автор статьи критически анализирует, в какой мере способен венгерский инвестиционный механизм стимулировать структурные изменения, насколько отвечает он условиям интенсивного развития. В первой части статьи дается обзор первоначальной концепции системы принятия о капитальных вложениях решений и их финансирования, сложившейся в период введения реформы. Об этой первоначальной концепции автор констатирует, что ей предполагалось предоставить децентрализованной сферы лишь возможность простого воспроизводства основных фондов, а сферы принятия решений были разграничены с точки зрения отдельных инвестиционных объектов в наименее пригодных местах. Одним из важных противоречий автор считает неопределенность положения предприятий относительно предоставляемых им ресурсов развития, так как имеющиеся у них ресурсы лишь усиливают зависимость от централизованного управления, не позволяя им разрабатывать собственные перспективные концепции развития.

Вторая часть статьи останавливается на противоречиях, сложившихся в системе принятия решений и финансирования после реформы. Автор подчеркивает, что в инвестиционной сфере не совпадает декларированная и действительная автономия предприятий, и в подавляющем большинстве случаев происходит «смешанное» принятие решений. Один из важных выводов автора: в механизме капитальных вложений после реформы 1968 года одновременно наблюдается как формальная децентрализация, так и формальная централизация. В этой части статьи автор подробно излагает проблемы неопределенности предприятий в отношении ресурсов, формальной роли рентабельности и системы комбинированного финансирования.

В третьей части статьи автор пытается сформулировать некоторые принципы отбора целей капиталовложений во взаимосвязи с требованиями интенсивного развития. Автор указывает, что в новых условиях необходимо изменить скудость наделения предприятий ресурсами и увеличить их автономию при принятии решений.

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PASSIVE PURCHASING BEHAVIOUR AND POSSIBILITIES OF ADJUSTMENT IN THE HUNGARIAN INDUSTRY*

The paper outlines the most important elements of a hypothetical active purchasing behaviour facilitating adjustment, then one by one analyzing these criteria surveys the system of enterprise material procurement in Hungary. The main conclusion of the analysis is that despite the huge efforts required by the planning and realization of the purchase of necessary materials and components, purchasing behaviour is characterized by a defensive attitude, introversion, attachment to traditions, spontaneity, therefore by a passive organization of purchasing.

In recent years the view has been given growing emphasis in Hungarian economic life that industrial enterprises should flexibly adjust to changes of the external environment. It is no chance that while previously the tasks of enterprises were considered to be well-described by some definite objectives – fulfilment of the plan, reduction of prime costs, saving on materials, improvement of quality – nowadays the numerous requirements, often of opposite direction, are formulated in the comprehensive term of adjustment. Changes in the attitude towards enterprise management have been promoted by two interrelated processes. On the one hand, external changes multiplied and accelerated whose effects the Hungarian economy could less and less escape. On the other hand, errors of the economic policy concept have come to the fore which believed that central control was capable of evaluating any kind of external change itself at first, filtering it according to previously set aims of the national economy and then transmit it in a "planned", modified way to the enterprises.**

Therefore, the requirement of flexible adjustment has become so to say a slogan by now and Hungarian industrial enterprises do really have to consider several changes: a relatively smaller consumer demand in a new structure, a differentiated setback of investment purchases, changing energy and material prices, the halt in the previous increase of material, spare part and partly finished product deliveries from socialist countries, as well as increasing sales difficulties due to world market depression, expanding protectionism and competition raised by ambitious developing countries, etc. From this multitude of changes usually two groups are pointed out as such ones which are expected to shape enterprise behaviour in the future by all means: a permanent modifica-

*On the basis of the paper submitted to the 3rd Conference of Industrial Economics held in Budapest between the 9th and 11th March, 1982.

**Components and contradictions of this view are analyzed in [1, 2, 3].

tion of material prices and a continuous transformation of strongly differentiated requirements of sales.

However, the emergency situation – obvious from outside – is not enough for adjustment: it should become 'internal' through various mechanisms (I am not dealing with them separately here) and also adequate means are needed for the enterprises to improve their own position.

Those so frequently emphasizing the importance of flexible adjustment are surely convinced that enterprises should regularly revise all aspects and partial fields of their management and also for the purpose of their stability and economic successes, industrial firms ought to influence all these fields in an active way. Still, certain methods of adjustment are given much more, so to say exclusive emphasis as against other tools – first of all under the effect of recent central concepts and measures. Thus, it may seem that modernization of the product pattern, the development of a more efficient product-mix as well as energy saving are the only and most efficient responses to any kind of external effect. In reality for flexible adjustment an enterprise should regularly and consciously analyze, evaluate and, if necessary, modify each element and component of its operation, for which it is naturally indispensable that the enterprise has the possibility and tools to carry out these changes.

It requires no long explanation to understand that the procurement of materials and components required for production is a field that is an important constituent of enterprise management and that purchasing management basically influences any manifestation of flexible adjustment. Examination of this field is very important nowadays if only because the procurement of materials and parts is traditionally one of the most conservative spheres of enterprise management in Hungary. Since the qualitative transformation of 1968 no significant change has been experienced in the legal and institutional conditions of material purchases, in the application of purchasing forms, in the methods of material procurement activity and in its standards. Rational enterprise management aiming at efficiency and reckoning with changes in the environment postulates active procurement behaviour as against the contemporary practice.

In the following I am going to outline the elements of an active procurement behaviour corresponding to the requirements of flexible adjustment, then major characteristics of the Hungarian system of material procurement will be reviewed according to these criteria, and finally, it will be examined what types and forms of adjustment are preferred by the contemporary procurement system.

This paper is not a summarizing study built on a comprehensive theoretical and empirical research on the subject. The author has recently studied a section of the Hungarian system of material procurement* in the course of which he got acquainted

*Results of this research are summarized in a study made at the Institute for Economic and Market Research [4]. The study analyzes the Hungarian system of import purchases of materials and components by using and concretizing the concepts used by János *Kornai* [5] for formulating connections between shortage and adjustment.

with domestic and foreign literature on the subject, gained experiences concerning the conditions and major characteristics of the purchasing behaviour of enterprises. His concepts outlined here were formulated on the basis of this experience which, of course, can not replace – but perhaps may further – a comprehensive, thorough empirical examination of the Hungarian system of material procurement.

Elements of an active purchasing activity

The most important feature of active purchasing behaviour is that it is preparing for predictable and unexpected changes affecting the life and management of the enterprise in a planned way. The enterprise reckons with the fact that it is able to extend the variants and possibilities of purchasing only by an outward directed and open purchasing policy establishing manyfold connections so that in case of changing circumstances inputs required for activities of a modified direction could be obtained rapidly and in a flexible way.

Out of the elements of an active procurement activity we consider the following as most important:

a. Direct knowledge of the procurement market, a regular follow-up of processes and changes taking place on the market.
b. Sensitivity to values of characteristics of purchasing and own sales (technical parameters, terms of delivery, deadlines, price, etc.).
c. Regular revision of traditional sources and channels of procurement, consideration of advantages of old suppliers, looking for and choosing of new partners.
d. Development of an adequate bargaining position with suppliers; possibility and ability for bargaining and making suppliers to compete.
e. Keeping a balance between the requirements of a stable, unchanged and of the potentially most efficient purchasing.

Characterization of procurement activity in Hungary

In the following I am going to briefly summarize the major characteristics of the purchasing behaviour of Hungarian industrial enterprises and cooperatives. For this review I shall make use of the viewpoints of active purchasing activity. The statements to be submitted here are based first of all on experiences gained from the empirical examinations already mentioned. This research has finally shown that materials and (productive) parts purchases of industrial enterprises are strongly constrained in several dimensions of purchasing: enterprises can obtain materials and components required for their production in different quantities, with other technical parameters, longer time of delivery, worse scheduling, at other – usually higher – prices than originally designed and only

with lots of trouble. A considerable part of their purchasing activity consists of efforts made to get acquainted with and widen the limits of purchasing as well as of the struggle for the mere possibility to obtain something of the kind of materials and parts they required.

Direct knowledge of the purchasing market

Just as in the case of so many other economic variables it should be taken into consideration also when examining the knowledge of the market that for Hungarian industrial enterprises the market is strongly divided: the world market, the CMEA market and the domestic market show particularities considerably deviating from each other.

The possibility of getting acquainted with external markets is basically delimited by the fact that – due to the socialist principle of the monopoly of foreign trade and its traditional interpretation – industrial enterprises have in most cases no possibility to establish direct contacts with their potential or actual, foreign partners. Accordingly, Hungarian users more or less may and usually do know the *technical* possibilities given for them on the world market (first of all on that of developed industrial countries) – to the extent as they may be known from advertisements, prospectuses or catalogues. But, as regards commercial terms (price, time of delivery, scheduling, reductions) there is often a complete lack of adequate information. Sellers give this information mostly only to their real partners, to specialized foreign trade enterprises, while domestic industrial enterprises may develop a very imperfect picture of Western markets only on the basis of sporadic information obtained from the foreign trade enterprise and of characteristics of realized deals.*

Getting the adequate information on purchasing possibilities in socialist countries is even more difficult than in the case of Western countries, since sellers of socialist countries make only minimum efforts to propagate even the mere existence or technical parameters of their products. The few copies of catalogues obtained from socialist economies with great difficulty are guarded as a treasure by their present owners. They are appreciated because of their rarity and not so much because of their contents or many-sided utility. Indeed, these catalogues are only of informative nature and there is no guaranty that the products included in them may be actually obtained if required. Orientation and exact knowledge are made even more difficult by the circumstance that – due to strong protection from economic relations – information of CMEA-sellers either of technical or of commercial character is usually much less reliable than that obtained from the Western market and often proves to be false or inexact.**

*Cf [6].

**Direct contacts and exchange of information with suppliers are basically impeded – beside the above – by the strongly centralized character of trade with socialist countries.

On the part of users it is only the knowledge of the domestic market that reaches a relatively satisfactory level. Adequate knowledge of the market is promoted by the freedom of establishing contacts between partners, the lack of linguistic, cultural and administrative barriers, the market easy to survey due to earlier determination of production lines as well as by the system of traditional relations between enterprises. However, the effect of all these factors should not be overestimated, since the lack of pressure for sales on the part of domestic suppliers may become a rather strong factor to explain why a domestic user knows often ten times as much about the products offered, say, by a Japanese firm than about products of the neighbouring domestic factory.

Sensitivity to characteristics of purchasing (technical parameters, terms of delivery, scheduling, price, etc.)

Purchasing departments of industrial enterprises try to purchase materials and parts with characteristics required by production and sales, however, they rarely have the possibility for that because of purchasing constraints. In many cases – with real alternatives missing – they are forced to buy materials just available even if their characteristics considerably deviate from the required parameters. In the course of regular forced substitution in purchasing, the sensitivity of industrial enterprises to certain characteristics will diminish, while in case of other characteristics – where they are compelled and have the possibility to do so – they make specific efforts to multiply the number of purchasing alternatives.

An example for the former is the problem of scheduling. According to our experience, as regards scheduling of deliveries, Hungarian industrial enterprises have accommodated themselves to the practice of actual deliveries and become rather unambitious: they do not care to develop a differentiated scheduling better adjusted to use and covering shorter periods on the average, they do not try to break with the rigid practice of quarterly material purchasing. It is another question that even this modest requirement is often not fulfilled by a considerable part of suppliers from socialist countries and of domestic ones that follow the practice of delivering large amounts of materials and components in a single lot a year at an unforeseeable date to the customer which, then, should use them continuously over the whole year. Indifference similar to that connected with scheduling may be observed also in respect of certain characteristics of quality and various services by the suppliers.

At the same time, user-enterprises do not accept so indifferently unrealistically long lead times offered by suppliers of materials and parts. Should they do so, they would fail to exploit several business possibilities, would not reach even the contemporary modest level of flexibility and could carry out the gradual modernization of their products even more slowly. It is characteristic of their sensitivity to purchasing deadlines that by specific methods they create purchasing alternatives corresponding to their needs:

they plan their material demands on a probability basis, order materials prior to an exact knowledge of real demands thus also shortening the possible length of purchasing time.*

In recent years central measures have been taken in Hungary aimed at improving the characteristics of scheduling and time of delivery (by prescribing different pricing for scheduling with longer and shorter periods, by centrally raising the circulating funds of wholesale enterprises of producers' goods, by restricting the increase of users' stocks, etc.). However, these alone did not – and could not – bring about visible results.

When examining sensitivity to characteristics of procurement special attention should be paid to the sensitivity of enterprises to purchasing prices. Before the change in the mechanism of price formation in 1980 this kind of price sensitivity of industrial enterprises was at a low level first of all for two reasons.

On the one hand, buyers were so much at the mercy of suppliers – because of the lack of purchasing alternatives and the superiority of monopolistic suppliers – and the realization of other, non-price purchasing characteristics (quantity, quality, time) was so much uncertain that under the purchasing conditions price did not belong to those of primary importance. (At the same time it was true as well that suppliers and trade companies did not try to realize advantages of their monopolistic position exclusively through prices.)

The other reason was connected with the possibility of shifting the increase in purchasing prices. The previous system of price formation usually made it possible for enterprises that prices of their finished products should sooner or later, even though not automatically, cover their actual material costs verified by documents (as well as profits of a given level). However, the shifting of costs onto buyers was not considerably impeded either by the system of price formation, or by the market: Hungarian industrial enterprises selling their finished products enjoyed practically monopolistic positions and sales possibilities ensured by the state on domestic markets, furthermore, they were not faced with any keen competition strongly restricting their sales endeavours in the economies of socialist countries either.

The contemporary situation differs from that prior to 1980 in so much that out of the factors influencing sensitivity to prices the system of price formation narrowed down the possibility of shifting changes in material costs onto buyers in a part of the manufacturing industry. The price revision and the modification of the system of price formation in 1980 connected with the proclaimed increase of the severity of the uniform regulation turned the attention of enterprises to purchasing and sales prices more powerfully than before. However, the elements of market relations that were left unchanged are capable of practically neutralizing the effects of changes in the price system. If, with domestic and import competition missing, there are no relevant purchas-

*Of course, planning on a probability basis has its necessary disadvantages, too: since actual demands may considerably deviate from previously planned ones, the enterprise is regularly forced to modify previous orders, to make additional purchases urgently, while a part of materials obtained will increase its burdens in the form of immobile stocks.

ing alternatives and if finished products of the industrial enterprises are required by the domestic market "at any price" – in the lack of substituting imports or other domestic products –, then no conscious influencing of purchasing prices (inducing competition, price bargain) will be possible even in the future, nor can the pressure for saving materials and reducing purchasing costs be really severe.

c/ Regular revision of traditional sources of purchasing

The endeavour for most appropriate and economical purchasing, the claim to direct knowledge of the market as well as conscious preparation for unexpected external changes do all postulate the realization of an enterprise purchasing policy that regularly tries to compare advantages offered by old suppliers with offers of new possible partners in case of each material or part used and, if necessary, to replace old suppliers by new ones.

Hungarian purchasing practice is generally not characterized by such a behaviour. Though, in principle, since 1968 industrial enterprises may themselves decide from which source they purchase the necessary materials and parts, the practice of enterprises trading in producers' goods and of foreign trade companies enforces a rather strict priority order when making purchases. In case of materials and components proving technically appropriate (or nearly appropriate) users have to buy the products of domestic producers or those from socialist countries even if they otherwise decided in favour of Western materials – because of other more advantageous characteristics. Though the short time of delivery often turns the scale in favour of purchasing from the West, nevertheless there is a considerable pressure on the industrial enterprises that once it has turned out that some material or part with adequate technical parameters may be obtained also from non-western sources, then users should *accommodate themselves* to the time of delivery of these sources by properly scheduling their orders (planning on probability basis).

The above practice continued for many years has resulted in that this priority order is enforced and accepted in the majority of cases even by user industrial enterprises when formulating their demands, independently of the fact what economic advantages they give up in the meantime. It need not be emphasized to what extent the institutionalized priority of domestic and CMEA (mostly monopolistic) suppliers narrows down the possibility of choice between purchasing sources and how much it strengthens passive purchasing behaviour attached to traditional suppliers.* Examples for systematic comparison of old deliveries with new sources may be found only where regular purchases

*The ever narrowing possibility of parallel procurement, i.e. establishing contacts with the foreign trade company or with the wholesale company of producer goods (which equally maintains relations with the foreign trading firm) and with the domestic producer or with the wholesale company of producer goods (also maintaing relations with the latter) cannot be considered as a real alternative.

from the West are made in such a way that appropriate suppliers are selected by the foreign trade enterprise after a thorough examination of various offers; however, for various reasons, this practice is not free from conflicting interests and contradictions restricting the possibility of choice of users either.

When examining the totality of procurement it may be stated that a regular evaluation of purchasing sources, the systematic selection of new possibilities does not form an integral part of enterprise policy of Hungarian industrial enterprises. The material purchasing of enterprises is concentrated first of all on the estimation of the quantity of materials to be purchased in the next period, on obtaining materials and parts indispensable in production and on surmounting unexpected difficulties. [7] A choice between sources of purchasing is practically made with the first purchase of the given input, the enterprise will not abandon the traditional supplier later on either and the necessity of having another supplier or another material arises only if there are graver problems concerning the delivery of the material as compared to previous ones, or a decision is made on the modification of the end product manufactured with the use of this material.

Adequate bargaining position, ability and possibility for bargaining

It has been stated in the foregoing that an industrial enterprise purchasing materials and parts for its production has few possibilities to choose between various purchasing alternatives, which preserves its purchasing structure and characteristics. But this connection is not necessary logical. In principle also a single mediating trading enterprise (wholesale company of producers' goods or foreign trade enterprise) or a single supplier (domestic producer) may be imagined that – being specialized in the given group of products – is able to meet differentiated and regularly changing demands of all customers. However, it has turned out that this concept – on which the contemporary system of material supply in Hungary is practically based – is only an illusion. Intermediary and supplying firms whose monopolistic position is ensured by administrative prescriptions cannot perceive complex demands of their buyers properly (a part of them cannot even be met resulting from their sizes and equipment). Their activity is necessarily affected by the behaviour resulting from their position – shortage of materials and components, firmness of their status – and because of their concentration and capacity to obtain a comprehensive view they prove to be a proper subject also for the transmission of central administrative guidelines and instructions. Accordingly, user enterprises may not get into an adequate bargaining position towards their monopolistic suppliers. The superiority of intermediary and supplying enterprises is indisputable, though due to various restrictions they may not "capitalize" on their monopolistic position and their activity should also contain a kind of fatherly supplying care.

Vague elements of bargaining may still be observed in the relationship between users and their suppliers, when the former try to obtain more Western imports and better terms of delivery from the latter. The particularity of such bargaining lies in that the

parties concerned must always come to an agreement after all, while price has not or only rarely a part in the debates. The particular relationship developed between intermediary and user enterprises restricts not only the possibility of bargaining, but is not favourable even for the development of an ability to do so. User industrial enterprises think twice before starting serious disputes with their permanent partners assigned to them by necessity, since they may pay dear in the future for any of their steps to be considered hostile. Thus, for example, when I asked the head of material purchasing in an industrial cooperative about the practice of penalty for delay – as a kind of economic retorsion – in the course of a consultation he pointed out the appropriate approach to the problem as follows: "There is no legal sanction, but only good, personal friendship with people of the enterprise for trade in producers' goods."

Keeping a balance between requirements of a stable, unchanged as well as the existing most efficient purchasing

In the course of material procurement it is a basic interest of user enterprise to obtain safely the required material or parts in the long run. This means that following the choice of appropriate purchasing source required for the given purpose (thus, when it has already been cleared where the purchasing of a given part for a given purpose is the most favourable) there should be a certain stability in the purchasing of that part. At the same time, it is also important for the user enterprise that the material used up best corresponds to its requirements and be as cheap as possible at any date. Accordingly, a kind of balance should develop between the requirements of steady purchasing and that otherwise best corresponding to needs.

Hungarian purchasing practice is powerfully enforcing the criterion of stability. Material procurement departments of enterprises feel that their task is to obtain regularly materials corresponding to prescribed technical parameters, under unchanged circumstances, and in time, and not a contribution through their work to a more efficient running of the enterprise or to improving sales possibilities of finished products by better purchasing and by reducing costs. However, until the work of purchasing (and also of other enterprise departments) is fully concentrated on the fulfilment of the task to obtain necessary materials and parts in physical terms, namely in such a way that they simultaneously meet several prescriptions and informally formulated "expectations" on a market protected from competition, too, it is no wonder that purchasing activity is not led by more sophisticated goals of efficiency.

Intensive but passive purchasing activity

The conclusion to be drawn from the above survey is that purchasing management in Hungarian industrial enterprises is far from what could be called an active purchasing behaviour. Despite the huge efforts, required by the planning and realization of the purchase of necessary materials and parts purchasing behaviour is characterized by defensive attitude, introversion, attachment to traditions, spontaneity, therefore by a passive organization of purchasing.

It is only seemingly a contradiction that enterprise purchasing is mobilizing enormous energies, on the one hand, involves continuous intensive work, but remains at the same time basically passive. The above qualification of purchasing behaviour does not contradict the widely spread and founded view, either, that domestic enterprises make incomparably greater and more varied efforts, requiring their creative energy, to purchase the necessary materials and parts than to realize their own products [5, 8]. In fact the overwhelming part of purchasing efforts is concentrated only on ensuring the basic conditions of production and overcoming emergency situations and not on that the enterprise creates conditions facilitating adjustment by a conscious and coordinated purchasing policy in a rapidly changing market environment.

Passive behaviour results obviously not from the personal, natural properties of those engaged in material purchasing and may be explained even by traditions of the previous system of material management only to a small extent. In reality, it is inter-enterprise relations, the "market" situation and the institutional system of the economy which decisively influence the purchasing behaviour of industrial enterprises. An enterprise that would suddenly change its behaviour at present and strive after looking for purchasing alternatives, an exact comparison of their advantages as well as after bargaining and competition in its relations with suppliers would rather lose than win with its more active purchasing policy: it would lose the goodwill of its most important monopolistic suppliers, infringe on basic rules of the system of domestic and import purchasing, break laws and informal behavioural norms and, over and beyond that, it would increase the work of its analytical and administrative apparatus required for purchasing mostly superfluously.

Therefore, the "degree of activity" of procurement is influenced first of all by the environment of the given enterprise. However, also the enterprise itself is adjusting to this environment: it voluntarily gives up such advantages that could be achieved only at the expense of disputes and conflicts with its main partners and the authorities. Thus, when organizing its material purchases it does not strive after innovation even when this would already be required by the economic situation and sale problems of the enterprise and, respectively, when it could relatively easily improve its purchasing position; its apparatus and personnel are not prepared to follow a more active purchasing policy either.

There is little experience yet to what extent the modification of the system of price formation did change the purchasing behaviour of enterprises. It is sure that enterprises are more sensitive to purchasing prices in Hungary at present than previously. At the same

time, the fact should not be disregarded either that price is at present only one of several characteristics of the material to be purchased (quantity, technical parameters, reliability, time of delivery, scheduling, etc.) and may have an organizing or compensating role as against other characteristics in purchases only to a limited extent. On well functioning markets price is usually capable of synthetising the utility of various characteristics, and thus is an expedient tool for compensating – within certain limits – for improvement or deterioration in individual characteristics. However, on a considerable part of the Hungarian procurement market (first of all in the case of socialist and domestic suppliers) the value of the individual characteristics is sharply separated from the price characteristic: small amounts of inputs cannot be obtained or if so than not for an extra charge; urgent purchases, scheduling for shorter periods, reliability of the supplier and various supplier's services cannot be obtained or not primarily against extra charge; individual deals may be rarely preceded by price bargains partly due to the fixed character of prices and partly to asymmetric power relations in the market.

Until specialists of user enterprises engaged in material purchasing feel that they make a good choice in the course of their purchases not depending on how far they got acquainted with the market, how active they were when choosing suppliers and bargaining with them, and their success did not even primarily depend on how much money they spent on purchases – price cannot have a significant part in their purchasing behaviour. It is no use that possibilities of shifting purchasing prices onto buyers will be harder, if the determinant factors in ensuring necessary materials remain various restrictive prescriptions and habits, contacts, manifestations of personal and inter-enterprise compensation and lots of other occasional circumstances also in the future.

Purchasing and adjustment

In the purchasing behaviour of industrial enterprises two kinds of adaptation pattern may be found, but none of them is such that would correspond to the active and flexible adjustment to external changes mentioned in the introduction.

Enterprises accommodate themselves to norms of their market environment in a way determining their entire purchasing behaviour, work according to a behavioural etiquette traditionally expected by their partners and controlling authorities, establish their inter-enterprise relations accordingly, and organize their purchasing activity practically in a passive way. Over and beyond this, in everyday business life enterprise purchasing is adjusting to typical changes in its environment, tries to avoid the most likely dangerous situations threatening the continuity of production and employment.*

*This kind of adjustment is of vital importance for the enterprise, it is questionable, however, whether its role may be idealized. cf.: ". . . on the side of purchasing that commercial method should be judged up-to-date which always reckons with temporary tensions on the market and is prepared for overcoming them at any time." [6]

In reality both kinds of adjustment, the one leading to the stabilization of passive purchasing behaviour as well as that wasting most energies of purchasing activity on emergency situations give little help in the consistent adaptation to the changes in external conditions mentioned so frequently.

If an enterprise gets into a difficult situation nowadays – because of rising material prices or sales problems becoming chronic – and has to overcome it really alone then in this struggle it may much more reckon with the effectiveness and ammunition of its commercial and sales department (and of the foreign trade enterprise it is in contact with), of its designers as well as of production managers than with the actions of material purchasing and material management departments, the power of purchasing is traditionally contained by other activities. The problem arises when the above relatively or potentially active departments (sales, technical designing, production management) may elaborate only such strategy whose successful realization should be supported and assisted also by material purchasing – and in case of most really new solutions this is the situation. At the same time, in another part of emergency situations the solution (and the simplest, least expensive solution, respectively), may be found in the field that could be revealed for the enterprise only by an active, flexible material purchasing (or formulated in the language of war: a successful sally is possible only on a sector of the front-line controlled by material purchasing). Under contemporary circumstances, with the participation of purchasing forced to passivity missing, enterprises may even examine and evaluate only a few of the numerous possibilities improving its situation and realize even less of them.

It is not the aim of this paper to present a program-like outline of the changes or reform measures necessary for making the purchasing system more active. However, these arrangements can not be made separately from the modification of the system of economic management and institutions. The above analysis intended to draw attention first of all to the fact, that there is not such a comprehensive conception for the modernization of the purchasing system that would evaluate both the experiences of the past and the present situation critically. With this conception missing at most well-intentioned, but partial and improvised measures can be introduced, that leave the aspect of the purchasing system unchanged, and thus do not contribute to the qualitative improvement in the adaptation of enterprises to the market.

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ПАССИВНОСТЬ В МАТЕРИАЛЬНО-ТЕХНИЧЕСКОМ СНАБЖЕНИИ И ВОЗМОЖНОСТИ ПРИСПОСОБЛЕНИЯ

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В последнее время на промышленные предприятия и кооперативы в Венгрии оказывается все большее давление в направлении их более гибкого приспособления к частным изменениям их внешнеэкономической народнохозяйственной среды. Однако, редко говорят о том, какую существенную роль в этом приспособлении играют условия приобретения необходимых для производства материалов и узлов и, вообще, уровень снабженческой деятельности. В статье приводятся важнейшие элементы возможного активного поведения в области снабжения, способствующего приспособлению. Эти элементы: непосредственное знание рынка приобретения; чувствительность к условиям приобретения и сбыта; систематический пересмотр традиционных источников закупок; формирование позиции для торга с поставщиками, готовность и возможность торговаться; сохранение равновесия между требованиями стабильного и наиболее эффективного снабжения. Затем в статье анализируется каждый из названных аспектов активной снабженческой стратегии и дается обзор системы материально-технического снабжения в Венгрии. Основной вывод анализа состоит в том, что несмотря на усилия, которых требует планирование и осуществление закупок необходимых материалов и узлов, поведение предприятий в отношении снабжения характеризуется позицией отступления, замкнутостью, приверженностью к традициям, спонтанностью, одним словом — пассивной организацией снабжения.

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SOME PROBLEMS OF ENTREPRENEURSHIP IN THE HUNGARIAN ECONOMY

In 1981 a series of government decrees has been issued which enact the possibility of founding and operating small enterprises in the state-owned, the cooperative and the private sector. However, in order to attain that the requirement of venturing should become a general feature of the whole sphere of enterprises it would be necessary to change essentially the complete functioning method of the national economy. It seems to be indispensable in the meanwhile to clarify some notions and to reconsider what we think to be necessary, possible, or permissible in a controlled market. The present article is aimed at being a contribution to this.

By the late 1970s it became evident that the methods and means by which Hungary up to that time took part in the international division of labour did no longer secure international competitiveness of the Hungarian economy in a broad sense. Some doubts arose also in respect of whether a restrictive economic policy implemented through a long period of time was sufficient in itself to restore equilibrium and to make the economy follow a new path of growth within reasonable time. [1]

Hungarian economists endeavoured to reveal broadly the conditions of restoring equilibrium and starting a new period of growth; questions of economic policy were raised, among them especially the problems of development policy, of economic mechanism, the organizational and institutional system, while treating them was aimed mostly at giving a response to the challenge of world economy. [2] In the meantime attention turned to the forms of interaction between the enterprises and economic management and control pursued by the state and to the question how and in what direction these interactions influence the behaviour of the enterprises in the domestic and in the foreign markets. [3, 4, 5]

The economic reform of 1968 in Hungary created institutions of market in the enterprise sphere and conditions of competition for the individual enterprises. [6] The creation of the market institutions in itself does not guarantee the proper arrangement and smooth operation of the market. This can be the result of only a longer process of training and introducing several new institutions. The existence of competitive situations does not determine unequivocally which will be the objectives and means of competition and how far the enterprises will be able to compete in the foreign markets by using the methods they have already exercised and which are available to them. [7]

It was the analysis of the whole economy and, within it, the capability of adjustment and initiatives of the enterprise sphere that led to the problem of entrepreneurship and to the recognition that the organization, the institutions and system of control

of the economy rather hamper or prevent than support the Hungarian enterprises (including the agricultural organizations of production and the banking institutions) in appearing as entrepreneurs in the market.

The concept of entrepreneurship

When writing about entrepreneurship it is right to clarify what is understood by entrepreneurship, what its function is in the economy and, in general, what an entrepreneur does.

Instead of a definition let us see two very simple examples.*

In our first example let us imagine a very poorly operating market where a supplier has some commodity which the buyers known by him do not want to purchase, or, if at all, at such low price that does not cover his costs. In the same market let there be a potential buyer, B, who would need the commodity in question but he either does not find any or if yes, his suppliers ask for such a high price that is not worth for him to pay. If C, having collected information about the situation, purchased the commodity from A at a somewhat higher price than offered by others and sold it to B at a little power price than his earlier highest offer was, C was the entrepreneur who, by exploiting the information gap prevailing in the market, would eventually make a high profit, while securing that both A and B should further remain in the market.*

In our second example let us imagine a country where there is a big factory of polyethylene which exports all the foils manufactured by him; at the same time there is a factory manufacturing dolls and this imports all the boxes needed for the dolls. If in this situation someone would establish a plant for manufacturing polyethylene bags with coloured prints and inscriptions which were accepted by both the vendors and the buyers of dolls, this plant would be a successful venture and it would be able to grow rapidly by producing, let us say, bags for soup-vegetables that were hitherto packed into nets, and so on, until a competitor does not appear.

In its primitive form, the first example calls attention to the fact that entrepreneurship is always based on some market impulse; it seizes the possibility stemming from the given and never perfect situation in the market, thus the foremost part is played in it by attentiveness, readiness and capability of the entrepreneur to collect information. The second example is aimed at demonstrating the combination of entrepreneurship with innovation, what is even more, it often may evolve new kinds of activities. In the first example the motive to make profits appears quite clearly, while the activity based purely on speculation in order to gain profits contributes to create a balance in the market. The second example stresses rather the risking character of venturing and the feature that it may upset the earlier equilibrium, starting at the same time a new process of growth.

*The first example was taken from I. M. *Kirzner*'s book.(8)

On the basis of our instances it is evident that for entrepreneurship also capital is needed and that the entrepreneur may fulfil his function without being himself the proprietor of the capital. There is even something more we have discovered, namely that the entrepreneur needs information and mostly has to be able to mobilize certain resources (material, machinery, manpower) and, last but not least, he always adds some new activity to the already existing ones. Where the collecting and passing on of information is subject to monopoly, where the resources are completely and finally distributed and the activities strictly determined, entrepreneurship is impossible.

Thus, entrepreneurship or venturing is a market concept, i.e., of a market where capital is also present. In all probability there is no other market function where speculation, risking and making profit were as indispensable as they are in the case of entrepreneurship. Of course, in a properly organized and up-to-date market there is no place for such speculation and profit cannot be earned so simply as it was shown in our first example. Furthermore, in a planned economy and controlled market both speculation and profit-making may be damped, restricted and driven into a narrow channel. Within the given frames, however, both activities or rather behaviours – speculation as well as profit-making – are indispensable components of the process of entrepreneurship.

It is necessary to stress this point, because it is just in the areas where entrepreneurship is in progress that the question arises whether the entrepreneurial profit is a well-deserved, due gain, or it results from taking advantage of some weakness of the market or of the participants in the market, thus from mere speculation. Here it is worth to note that the more disorder prevails in a market, the more are the gaps of information, the more uncertain the interrelations of the partners in the market (i.e. the greater the difficulty of the suppliers and purchasers is in finding each other, the more the defenceless situations are, the less is kown about the activities of the competitors), the more will be in it the possibility for short-term, even destructive speculation, and the less will be the risk and the effort to make profit. A good example for this was the West-European agricultural market in the first half of our century.

From among the market activities of the individuals and companies entrepreneurship is that which is most connected to the profit-motive i.e., to the interest to reach as much gain as possible. Namely, the success of entrepreneurship – in contrast to other economic activities – can only be measured by the profit and there is no other real indicator of it indeed. It is perhaps worth mentioning that at present the role of the enterprises in the social division of labour is much more intricate than it could be restricted merely to the functions of entrepreneurship or their motives could be reduced to making profit. All experience so far shows opposite tendencies. But, we must not forget, either, that though the style and methods of entrepreneurship, initiative and risk-taking have considerably changed in all developed market economies in recent decades, they have never been eliminated from the life of enterprises and their role has apparently increased in recent years. [9]

The problem of entrepreneurship in the Hungarian economy and in the economic train of thoughts

As we have already pointed out, in a functioning market it is the entrepreneur who discovers the new demands and who finds out that some existing ones can be satisfied by introducing new methods. From his point of view the following possibilities appear: something could be produced at lower costs, or something could be sold to purchasers who so far were not buying. Why is the state unable to do this?

It is only natural that the state cannot sense the new possibilities as the entrepreneur does, as the state power, state administration or the central planning bodies are not present in the market. Why does the state not come to the idea that this or that could be produced in a different way or marketed by methods different from those employed heretofore? In fact also the state takes notice of these circumstances, but in a quite different way: the main indicator of demand for the state is shortage. [10] The possibilities, especially when missed, are monitored by aggregate indicators, such as growth rate, trade balance, development of the terms of trade, unspent money of the population, etc. Let us note that – in contrast to the entrepreneurial behaviour – this kind of information is always *a posterior* one to which the response in the best case may be an adjustment and never the seizing of new opportunities. We must be also aware of the fact that from among the shortages the informations of only the large and extensive ones will reach a central organ which is then forced to rank their elimination, according to some demand evaluation, mainly if they require capital investments or additional imports.

Entrepreneurship as a profit-making activity and an activity expressing the group interests of a managerial group, raises also ethical problems. For this reason the concept of entrepreneurship is connected also with moral values. A part of these ethical problems may be raised in connection with the market economy in general (with the institutionalized exchange of economic activities generally aided by the market). Without trying to outline the colourful history of these ethical problems and their solutions we would like to remind the reader that under the present conditions of capitalist economy the application of economic power on national or international levels, the wilful decisions affecting the natural environment and living conditions of the masses, made either by corporation managers or by state bureaucracy, as well as the methods of influencing the consumers' behaviour, are criticized as the morals of the market, moreover, as bad morals. [11]

Thus, entrepreneurship is also a concept of moral value. In contemporary socialist economies it does not belong to higher values – mainly for historical reasons – nor is it attached to organizations and institutions of high prestige. There is no sufficient experience, nor is it clear enough from a theoretical viewpoint how it could be attached to such ones. Therefore it is not surprising that up to now the claim of entrepreneurship was formulated in connection with activities, organizations or groups of society which were placed low in the hierarchy of values, or which were considered as transitory phenomena only tolerated by society, or as tactical elements employed by economic policy. Such

elements were among activities: supplying the large-scale industry with certain products (background industry), and services; in respect of plant size: the small-scale industrial plants, cooperatives and private artisans; from the view of ownership: the enterprises of cooperatives and of the private sector; and from among the social spheres of economy: the enterprises of the so-called "second economy". [12, 13, 14] (Perhaps it is not superfluous to mention here that the Soviet trusts of the early 1920s functioned as enterprises purely for making profit, devoid of any role of social welfare and supply, and much less responsibility was laid upon them than upon the present state-owned enterprises of Western Europe. This leads to the conclusion that it is not the socialist form of ownership that automatically eliminates the operating conditions of entrepreneurship and of the market.)

There seems to be another objective reason why the claim of entrepreneurship is characteristically attached to the small-scale enterprises. The present large-scale organization of industrial labour and technology enables only a small group of managers and a thin layer of owners to pursue their activities as entrepreneurs (or, at least, partly as such) even in the capitalist countries, so that the success of the enterprise should be acknowleged as their personal success. Entrepreneurship and venturing in mass dimensions occurs even in the capitalist economy only in the sphere called by Galbraith "the classical sphere of competition" which is often maintained by artificial or, at least, by special means. The survival of this typically privately owned and small-scale entrepreneurial sphere was supported earlier beyond economic rationality – recognized rather recently – mainly for political, furthermore, ideological reasons, as the symbol of free trade, free competition and pure private property.

As similar symbols did the small-scale enterprises in the socialist countries become often and for long times subjects to various limitations, restrictions, or often even problems of the police. Among others, this is the reason why every experiment in a sphere of secondary importance and secondary prestige aimed at the unfolding of entrepreneurial values or commencing such activities is doomed to become uncertain and to fail to continue any longer, if in respect of the forms of ownership and of owners' organizations (especially the organizations handling and representing state ownership) they were unable to offer a compatible solution.

In order to introduce entrepreneurship, companies, managers, capital proprietor groups, individuals of proper capabilities must be available.

In the contemporary economy ownership and entrepreneurship can partly or entirely be separated from one another or can be divided between the owners (shareholders) and the entrepreneurs (managers), or, respectively, between their organizations. When with regard to the Hungarian economy suggestions are made to form an organization of owners independent of state administration, these implicitly presume the sharing in the entrepreneurial activity and profit. [15] It is evident that entrepreneurship is unfamiliar to the bodies of owners represented by the organizations of state administration (ministries, local councils) and there is no possibility for them to expropriate the entrepreneurial profit. As these organizations cannot have a share either in the risks or in the profits of

entrepreneurship, the control or supervision exercised by them can only be equitable if the enterprises themselves who are in possession of the state property – authorized to manage and use it, under certain conditions even to sell it partly – undertake no risks, obtain no entrepreneurial profit, but participate in the responsibility and in the commitments of the state as owner towards the whole of society. [16]

An organization of owners independent of the state administration, on the other hand, would appropriate for sharing risks and profits of entrepreneurship, however significant the activity in question may be and whatever the division of roles in it may be. The primary social condition to the operation of such an organization would the formation of a social stratum (technostructure) that would also obtain from the other part of society the justification (legitimation) of their existence and welfare by practising entrepreneurial functions (proprietory and managerial). The members of this stratum would be mobile in the direction of other strata of owners or representatives of proprietory bodies (i.e., the leaders or owners of cooperatives or private enterprises, representatives of their associations, chambers etc.) but changing of positions between them and state executives would occur only rarely and exceptionally.

This technostructure would obviously be able to coexist with the most varied forms of small-scale enterprises and with various entrepreneurial strata in a market where the same written and unwritten laws are prevailing (with the exception of anti-monopoly statutes).

Some problems of the small-scale ventures

By what we have said in the foregoing we do not want to underestimate the importance of the small-scale ventures. The value or lack of them is especially conspicuous in an economy characterized by the preponderance of large-scale organizations (i.e., where medium-size or small enterprises can hardly be found in both the state-owned and the cooperative sectors) [16, 17, 18, 19] which do not, or only rarely do function in an entrepreneurial sense but expect initiatives and the appreciation of their activities from the state. (In our economy, for instance, the form of this is securing for them the gains needed for their survival and growth.)

The main advantages attributed to the small ventures, are their mobility and low capital-intensity; by these characteristics they would be able to release the state and its large enterprises from several responsibilities of supply, to create and ever reproduce the background-industry for the large-scale industrial corporations, to meet a significant part of personal demand and replace a great part of imports that may become superfluous.

Another advantage attributed to the small-scale ventures is also that if they eventually fail or go bankrupt, this does not lay too heavy burdens on society. We have learnt from the literature that in the capitalist countries in every year a great number of them is established and wound up and that a part of the employees and workers at least once in their lives venture to become independent. There are many heads of family who in part-time engage in small-scale agricultural production and many who, after having

liquidated a small enterprise which became a failure, look again for new jobs without any serious shock. These are the experiences which, among others, served as arguments for those economists of the country who wish to give green light to one-person or family undertakings or to cooperative private enterprises involving just a few persons. Relatively little was said about the possibility that even undertakings started with the smallest capital may become very successful and there is – and must be – a chance also for some small-scale ventures to grow into a medium- or large-scale enterprise. It depends on economic rationality and on the public opinion of society what extent and weight are permitted to be attained for private capital in individual or group ownership and where is the point where levying taxes has to be replaced by reorganization into cooperatives or by nationalisation.

A problem apart from the foregoing is the well-known rigidity of the size of the already existing state-owned and cooperative enterprises working within the given legal and administrative framework and of the structure by size of enterprises which is the result of the endeavours in the economic policy of the past three decades and of the decisions made by the respective authorities; this means that in Hungary today both in the state-owned and the cooperative sector the medium-size enterprises are very few and small ones almost do not exist.

The lack or insufficiency of entrepreneurship is due not only to this. The fact that among the small number of small- and medium-size state enterprises and cooperatives during the past thirteen years there were some which acted really as entrepreneurs does not mean that in an economy where the market forces or induces its economic agents to undertake entrepreneurship activities, small size in itself is an advantage. As this question is extensively treated in the literature, it is perhaps sufficient to emphasize that a big enterprise, owing to its capital power, information basis and capability of risking, discovers, seizes and utilises other opportunities offered by the market than do the medium-size or small ones. This is or may be, to the most part, due to its position obtained already in the market, to its wide system of relationships, including the special connections with the state (or, eventually, with some multinational corporations).

The question is rather that under such circumstances when the possibility of entrepreneurship is open also to the big organizations, the lack of medium- and small-size enterprises may result in upsetting economic equilibrium, if big enterprises rapidly withdrew the capital from all activities they are now displaying instead of missing small enterprises for lack of a better solution or under the pressure of necessity. But, it may occur, too, that for a long time the only reasonable investment of capital for corporations and banks would be the foundation of small enterprises. This may be perhaps a healthy process, but it may also mean to throw away significant achievements of research and development. This is the reason why some people claim that it should be the task of the state to disintegrate at least those organizations which, according to the market criteria, seem to be artificially formed units and this task must be accomplished before the institutions of entrepreneurship were made available to the companies in general and independently of their size.

By now already many Hungarian economists agree that the development of a healthy structure of enterprise sizes cannot result from direct acts of the state. On an existing and functioning market cooperation and competitive relations between enterprises of different size and their continuous movement should evoke the growth or liquidation of enterprises as well as release impulses leading to mergers, disintegration or foundation of enterprises. Then, interventions by the state should focus first of all on the regulation of the market and the maintenance of the unity of the enterprise sphere and only exceptionally on that individual enterprises or groups of enterprises reach or shall not exceed desirable sizes.

Entrepreneurship and the way of joining into the international division of labour

A distinguishing characteristic of the enterprise sphere created by the 1968 reform is that Hungarian enterprises make systematically greater efforts on the input side than on the output side on the market given for them. Demand competition is more powerful than the supply one; enterprises apply more diversified tools in order to win with sellers than to keep buyers.* A Hungarian enterprise acquiring adequate skills in creating shortage and accommodation to shortage situations created by others, that is, which may consider itself competitive on the domestic market, will become rather helpless on external markets where competition among suppliers is prevailing even at present.

A venturing enterprise can create, resulting from the nature of entrepreneurship, only such demand whose satisfaction is ensured from the input side either from the very beginning, or evokes a new venture, while on the output side it will meet the demand itself, since this is the essence of its own venture. More or less this is the chain of thoughts on the basis of wich we may expect that if entrepreneurial activity becomes general in our economy, then domestic shortage situations will considerably decrease in number and the competitiveness of enterprises on foreign markets will improve.

Over and beyond this there are many ways of linking the requirements or possibilities of entrepreneurship to ways by which an economy is able to participate in the international division of labour. We would like to call attention only to a few aspects of these.

Capital, land, the human and material resources of a country represent at any time a limited quantity. The starting ventures will tie down a part of these for performing new activities; but they may again release new operations which on their part raise again further demands for capital and other resources. It is true at the same time that the successful ventures must increase the quantity of all the available capital and resources. The cost of this increment will be, however, that the entrepreneur will either give up

*Mihály Laki [20] gives a very plastic picture of the mechanism of this phenomenon.

some of its other activities or take away from them capital and other resources, even if the demand for their results will further persist.

In the meantime the structure may change in even two directions: new activities and new types of relations between them are generated while others – at least in the economy in question – cease to exist. Then a part of either the capital or the resources, or those of the products missing because of liquidated activities for which there is still demand have to be purchased from external markets; at the same time other products, eventually resources have to be realized on external markets.

It is clear, that this structure-transforming effect of entrepreneurship will unfold obviously only in open economies, provided that we consider the satisfaction of domestic demands and international competitiveness as the measure of efficiency in entrepreneurship. [21]

This applies not only to the possibilities of import competition, though – disregarding a few sectors and activities which have to be supported by a protectionist economic policy – the ventures for import substitution can only be appreciated by an efficient import competition. It might be, however, an even more important point of view that only insignificant ventures may be expected and no processes leading to optimum series of production and to rational specialisation can be commenced until also the domestic market does not become institutionally open. Thus, in order that the entrepreneurial behaviour should become general in the sphere of the participants in the market, the institutions of an open economy must be created.

On the other hand, we are able to imagine the rapid transformation of structure only if the entrepreneurial activities will be general in the whole of the economy. According to the opinion of most economists, in addition to the price-explosion in the 1970s and to the economic recession afflicting the capitalist countries, the era has come to an end when, beside the rapid and smooth development of world trade, a medium-developed small country was able to maintain its position in its traditional markets with little effort and a slow improvement of its product structure, foreign-trade organization, its methods of marketing and economic management and was able to secure thereby the external resources necessary for its planned or desirable growth. The ever changing market, the strong movements of prices, the sharpening competition, from time to time the trade recessions, the appearance of ever new countries in the markets of the conventional or the so-called backward branches, as well as the entering of new branches into the spheres which are backward and temporarily protected by policy measures, seem to become more and more lasting tendencies.

Other processes may also be detected in the development of the international economic relations which have been so far, we would say, unknown in the Hungarian economy. In the international division of labour in addition to and as a part of trade in commodities, the international flow of the factors of production is increasingly gaining ground. Beside the cooperations with foreign enterprises the persistent relations between concerns of different countries are multiplying and in some industries obtain a basic importance. When new technologies or the development of new branches of manufactur-

ing are concerned, or the exploitation of new and vast natural resources, or when large-scale projects are brought about which can only be implemented with the cooperation of a number of contractors and subcontractors and many foreign suppliers are involved, the participants are recruited from international fields on the basis of sharp competition and the whole transaction is financed by international sources. New types of inter-enterprise relations and vertical integrations come about, especially between the enterprises of the engineering (machine-building) industry and electronics. Some branches operating earlier within national frames are becoming multinational which is also a new phenomenon: the structure of the market is significantly changing as a result of the increasing appearance of multinational small enterprises. These phenomena all transform the relations between suppliers and purchasers, the marketing organizations, the methods of selling. In the opinion of many people these facts systematically divide the suppliers appearing in the market into the group of those keeping pace and being able to realise the advantages of the new methods and into another group of those remaining outside and doomed to lagging behind. Merely companies which are elastic, active and ready for entrepreneurship are able to join into these processes and to realise the advantages involved. [22]

It seems to be quite obvious in an open economy where the directions of structural changes are influenced also by the possibilities of entrepreneurship that factors to be considered in the structural policy and the means for implementing this policy are others than in an economy where every allocation of capital is carried out on the basis of central selection.

Simultaneously, where the factors of production, either visibly or invisibly transcend the national borders, where the enterprises are arranged into ever new formations on international level, the state can aid or control its enterprises only by applying methods other than heretofore, in order that they should be able to join into the new processes going on in the world market in accordance with the economic policy of the state.

A not less important result of the functioning of the entrepreneurial sphere may be that it can continuously correct economic policy concepts and respond to world market challenges over and beyond mere adjustment to processes already over or just registered.

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ПРОБЛЕМЫ ПРЕДПРИНИМАТЕЛЬСТВА В ВЕНГЕРСКОЙ ЭКОНОМИКЕ

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В 1981 году в Венгрии был издан ряд правительственных постановлений, позволяющих образование и функционирование мелких предприятий и гибких мелких предпринимательств. Однако для распространения духа предпринимательства во всей сфере государственных предприятий, рамки, предоставляемые реформой 1968 г., сами по себе недостаточны. Для этого необходимо изменение организационной и институциональной системы экономики, форм взаимодействия между предприятиями и государством. В начале статьи автор на ряде примеров определяет понятие предпринимательства и показывает предпринимательство как деятельность, которая необходимо предполагает расчет, риск и мотив получения наибольшей прибыли. Из-за этих особенностей предпринимательство является также ценностным понятием, и поэтому необходимо выяснить, что следует считать необходимым, возможным и допустимым на регулируемом рынке.

При функционировании рынка предприниматель замечает возникновение новых потребностей, а также возможность удовлетворения старых потребностей иным образом. Для этого предпринимателю требуется мобилизуемый капитал и ресурсы, а также доступ к рыночной информации. С этой точки зрения представляется необходимым создание независимой от государственно-административного управления организации собственников, которая разделите с предприятиями риск и прибыль предпринимательств. Такая организация собственников могла бы обеспечить подходящие рамки для того, чтобы и в государственной сфере начались процессы, ведущие в направлении создания более здоровых масштабов предприятий, которые, в свою очередь, способствовали бы тому, чтобы готовность и способность к предпринимательству проявлялись бы не только в сфере мелких предприятий.

В экономике, где предпринимательство получило общее распространение, не только основным объектом, но и инициатором структурных изменений является прежде всего сфера предприятий. Поэтому в ней аспекты и инструменты проведения государственной структурной политики также должны быть иными, чем в такой экономике, где любое размещение капитала происходит в результате централизованного отбора. Автор доказывает, что такое изменяющее структуру воздействие предпринимательства может проявляться в институционально открытой в отношении внешних рынков экономике.

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INCOME REGULATION OF SMALL INDUSTRIAL COOPERATIVES IN HUNGARY

The exaggerated centralization of the organizational structure of the Hungarian industry impedes the growth of favourable effects of the system of control and regulation. At the same time, the system of economic control and management itself hinders the formation of flexible small organizations and within it the foundation of small industrial cooperatives.* The evolution of a size-structure of enterprises better corresponding to economic policy goals inconceivable without changes in the economic environment, first of all in the system of income regulation, the subject of this paper.**

The income interests of industrial cooperatives

No uniform concept has developed as yet about the economic contents of the interests of state-owned enterprises and cooperatives operating under the conditions of socialism. Differences in opinion are basically related to the different interpretations of the category of socialist ownership and its actual forms of movement. In general, Hungarian economists do not distinguish between enterprises of state-owned industry and the industrial cooperatives. This is also characteristic of the present regulation of income and earnings: in devising it the central organs paid no attention to the particular features of industrial cooperatives. The approximation of cooperative regulators to those of the state sector met with the endeavours of industrial cooperatives, particularly earlier, when the position of the industrial cooperatives was more disadvantageous in this respect than that of state-owned industrial enterprises. However, coupled with forced centralization, this process led to a situation where the possibilities inherent in the cooperative character were not sufficiently exploited. The cooperative character of the industrial cooperatives became increasingly blurred.

Cooperatives and state-owned enterprises have of course many similar or even identical features. Beyond the fact that both are independent legal entities operating in a framework regulated by the state, on their own account and at their own risk, both are part of the socialist sector and – and this is generally accepted in Hungary – cooperatives are no less organizations of a socialist type than state-owned enterprises. Beside the basic identities, the most important characteristics of the cooperatives, which determine their

*The problem of small industrial cooperatives was discussed in detail in an earlier article of mine [3].

**The solutions proposed for small cooperatives in the article were introduced on January 1st, 1982.

objective interests and which cannot be left out of account when regulating their incomes, may be summed up as follows:*

1. Cooperatives are founded by prospective members in the interest of their own welfare. The funds necessary for the foundation of the cooperative and its continuous operation derive mostly from their financial contributions and credit; non-repayable state support is negligible. The financial risk of the members is considerable: if the cooperative fails, they may lose not only their personal income, but their shares, target-shares, and even their mortgaged personal property. The cooperative disposes as owner over its entire property and over the part of its income determined by the state. The cooperative is thus the enterprise of its members and the state shares in its income not by the right of owner, but in the form of taxation.

2. A cooperative member is a member of the collective of owners and a worker at the same time. As a member of the collective his interest is related to the property of the cooperative, as a worker to raising his own personal income. The members of the cooperative are interested in the future of their cooperative both as workers (ie. because of the possibilities for work and an income) and, *a fortiori,* as owners.

3. Membership can be suspended only in definite cases and mainly at the request of the member; it cannot be terminated by giving notice as in the case of employees. The efficient employment of members has to be arranged basically within the cooperative. If there is no possibility for it, the interest in income of the members affected will obviously force them to seek other employment and leave the cooperative.

4. Since the members of the cooperative work themselves with their own means, their share according to work done is not wages (not the cost of living labour input), but the result of common efforts. In the case of state enterprises the state guarantees wages making up the decisive part of personal income, and only a small part of this income depends on the economic performance of the enterprise, in the case of cooperatives, however, the state is committed only to the extent of minimum wages.

5. As regards autonomy, an important difference is that while the state delegates authority to its enterprises, the membership of a cooperative takes decisions by right of ownership. While the state often interferes directly with the management of its enterprises by right of ownership, the state control of cooperatives is realized through indirect instruments; direct interference will occur only exceptionally. A state enterprise is headed by a manager appointed by the state, while cooperatives are managed by the members themselves or by bodies and office-holders elected by members.

Thus cooperatives and state enterprises, cooperative membership and being an employee are categories which differ in content in many respects. The differences are also reflected in different objective interests.

*The cooperative features to be presented assert themselves in Hungarian cooperatives to a small degree today – basically in consequence of the fact that the interest of members in cooperative property has been declining over the years and is negligible today. The features indicated do not so much reflect the actual situation of the industrial cooperatives, but rather the unused opportunities and that of the planned small cooperatives.

1. The interest of the cooperative member as employee is related to increasing his share according to work done, his interest as owner to preserving and increasing the wealth of the cooperative and, through this, to increasing his dividend. In the case of a member of an industrial cooperative the interests of employee and owner are inseparable from one another, just as is the case with small commodity producers. As against this, the employee of a cooperative – since he is not a member of the owner collective, and receives income only for work done – has no interest in property.

2. The highest objective of the cooperative is to satisfy the needs of its members; that is, the interest of the cooperative as an economic unit basically coincides with the interests of its members as individuals. Nor can the interest of cooperative executives be confronted with that of members.

3. Beyond the immediate interests of its members, an industrial cooperative as a cooperative enterprise serves global cooperative, local and territorial, and global societal interests as well. To this extent the cooperative interest is a higher, autonomous interest relative to those of its members, but which does not run counter to the interests of its members. Taxes paid to the state and to local government can be interpreted as compulsory contributions to common tasks of the society. The cooperatives take part in the maintenance of the cultural, sports, social and health institutions of a given town or village. Meeting the function of accumulation, constant additions to cooperative property, keeping the factors of production at an up-to-date level and their efficient utilization are simultaneously an interest of the members of the cooperative as well as of the cooperative movement as a whole and of society. Voluntary contributions to the joint cooperative funds, as a means of supporting cooperative developments coinciding with social and economic-policy goals, the joint bearing of burdens and risks, serve the interests of the whole of the industrial cooperative movement.

4. Cooperative net income* is the source of dividends paid to members for their work and property, the additions to cooperative property and the taxes serving to cover common expenses of the society as well as other inputs, and the common cooperative funds. In Marxist terminology: $(v+s)$. Therefore, the immediate objective of the cooperative as a collective enterprise is the highest possible per capita net income.

5. To attain this objective, the cooperative has to combine and exploit the factors of production in a rational manner, and care for adequate shares between personal income and accumulation. Thus, the increasing of net income, as a basic interest, does not make questionable the role of surplus (s).** Both personal income and surplus are organic parts of net income. It follows that it is the cooperatives with large and expanding (per capita) net income that can attain high and growing personal incomes (remuneration for

*The Hungarian term "szövetkezeti bruttó jövedelem", in literal translation "the gross income of the cooperative" has been translated in this article as "net income" in conformity with the English usage. (Translator's note)

**The Hungarian term "szövetkezeti nettó jövedelem" in literal translation "the net income of the cooperative" has been translated as "surplus", referring to surplus in the Marxian sense. (Translator's note)

work and dividends) and also increase their property. Even within that, per capita net income can grow faster where current personal incomes are set lower than would be possible and emphasis is laid on accumulation improving efficiency. Furthermore, the greater the per capita net income, the more favourable is profitability and also the return on factors of production. Centralized social income is the highest possible if net income is at a maximum. Thus, at least in the long run, the raising of per capita net income is alike in the interest of individuals, groups and the economy. Of course – in consequence of short-term and perspectivic interests and also of conflicts between the interests of individual workers – this does not mean a complete harmony of interests in industrial cooperatives.

From what has been said, the important conclusion may be drawn that the interest of industrial cooperatives in net income is a concomitant of the cooperative form; its objective base is the cooperative (group) ownership and the financial interest of the members. Thus, the income interest of the industrial cooperatives basically differs from that of the state-owned industrial enterprises, but essentially agrees with that of agricultural cooperatives.* At the same time, the position of the industrial cooperatives in peculiar relative to the agricultural ones inasmuch as in the latter also the different membership density of cooperatives farming on a land area of given size and quality differentiates per capita net income, while in an industrial cooperative there is no such differentiating factor and, therefore, the impact of the need to find employment on moderating income per member is smaller.

The actual content of the cooperative interest undergoes, of course, modifications with changes in the conditions of management – without a basic change in its nature (The same holds, of course, for the interest of state enterprises as well.) In general, it can be stated, that the 1968 reform of economic control and management – by reducing the number of exceptions and strengthening the uniformity of the control system – brought the system of economic conditions of the state-owned industrial enterprises nearer to that of industrial cooperatives.

The economic content of cooperative interests was modified by the forces of centralization and concentration in an unfavourable direction; its extent is shown by the fact that between 1960 and 1980 the number of industrial cooperatives fell from 1613 to 883, that is, by more than 45 percent. As a rule, smaller and weak cooperatives were merged into larger and economically more powerful ones, and many cooperatives performing the same activity were amalgamated. In some cases, the fusions were for personal reasons. It also occurred that industrial cooperatives were liquidated in order to solve the labour problems of some state-owned enterprise. The larger size of cooperatives weakened the direct personal links between the leadership and members. The standards of manage-

*The part of this statement relating to the agricultural cooperatives agrees with the view that is current though not dominating among agricultural economists in Hungary. (Cf. [1], [10], [11]), (Different views are reflected, among others, in [2], [4], [9]). The interest of state-owned enterprises, different from that of cooperatives, is formulated in [5], [6], [7], but other views exist as well [8].

ment, the economic results and autonomy as well were unfavourably affected by the fact that in consequence of the mergers the number of establishments per cooperative increased.

In recent years a characteristic change has occurred in the income interests of industrial cooperatives: the financial contribution of members, and thus their interest in property has gradually diminished. This is partly a consequence of spontaneous processes. In the fifties a large part of the founding members were artisans with their own assets, but this was no longer characteristic in the sixties and seventies. At the same time, as a concomitant of technical progress, rudimentary means of production were replaced by modern equipment requiring major investment. Even in 1966 only 6.1 percent of property worth 3 billion forints was share capital, by 1980 it was merely 1.6 percent of 33 billion. Thus, the source of accumulation was clearly incomes originating in the course of the operation of the cooperatives and the cooperative common funds. But the fact that the financial contribution of the members and the share (dividend) due to it were pushed into the background is not an exclusive consequence of spontaneous processes, but also of views which considered the indivisible part of the cooperative property as the highest indicator of their socialist character. While the remuneration for work of a member increased to its multiple in the course of decades, the shares subscribed on entering – usually amounting to one month's wages – did not rise. The end-of-the-year dividend was, and still is, distributed according to work done and the years spent in the cooperative, irrespective of the property with which a member joined. The personal income of members bears the marks of secured wages, blurring the difference between the members of the owning collective and the employees of the cooperative. In the absence of palpable advantages of membership weight shifted in favour of employees in the course of time and this process is expected to continue. The target-share has not become customary in the industrial cooperatives to this day, and the institution of loans by members has atrophied. Under the combined impact of the listed and some other factors the interest of cooperative members related to the property of the cooperative has become blurred, thus weakening an interest in cooperative net income.

Thus while, as pointed out, the system of conditions of the state sector approached that of the cooperatives, with the blurring of the characteristics listed above the situation of the cooperatives approached that of state-owned enterprises.

The small cooperatives will greatly differ from the present industrial cooperatives. Shares can be a multiple, but will be at least double of one month's wages. In addition, the monetary savings of members can be drawn into the financing of the cooperative in the form of target-shares and loans. Except for the service branches, these cooperatives cannot really reckon with non-repayable state subsidies, and they have to repay loans received on foundation within a few years. The interest of industrial cooperatives in net income can assert itself in the purest form in the small cooperatives. But the atrophy of the financial contribution of members as a source of financing cooperative development should preferably be halted also in the cooperatives now operating – mainly to strengthen the ties of ownership.

What is required of the income control system of small cooperatives

The economic control system tries to influence cooperative behaviour, basically dictated by objective interests, by adjusting to changing external and internal conditions of management, promoting an effective contribution to satisfying needs on the part of the economic unit. In spite of the relative stability of interests, the behaviour of the economic units changes under the impact of changes in economic conditions and regulations. From the point of view of the success of control it is decisive whether it corresponds to basic interests, that is, whether it creates stimulation in harmony with the latter.

It can be said without exaggeration that one of the most delicate problems of small cooperatives is the regulation of incomes, precisely because of the close cross-impacts between the small cooperatives and the enterprise and cooperative economic organizations. Every false step may cause troubles in the functioning of the units operating under the present system of control.

The income control of small cooperatives has to be simple and stimulating – else there will not be a sufficient number of small cooperatives. At the same time there cannot be concessions – e.g. lower taxes – since this would start an unjustified migration of labour from existing enterprises and cooperatives to the detriment of social efficiency. To avoid this, the income regulation system of small cooperatives also has to be worked out in a manner adjusted to general requirements, that is, 1. it should powerfully stimulate the improvement of efficiency and the rapid exploration of reserves, thereby raising national income; 2. it should secure the planned and proportionate outflow of purchasing power in respect of both personal incomes and sources of accumulation, so as to ensure adequate proportions between personal incomes and accumulation; 3. it should ensure a proper share of national income both for the state and the economic units; 4. it should raise identical uniform requirements towards economic units, differentiating between them on the basis of efficiency in respect of development possibilities and the increase of personal incomes; 5. it should allow risk-taking on the part of economic units, also through the creation and free use of reserves that are proportionate to these risks; 6. it should be simple and easily surveyable by decision makers.

Essentially identical requirements have to be asserted in different forms of regulation, conforming to the particular situation. Since the interest of the small cooperatives is linked to net income, and since this is in harmony with social interests, it is expedient to apply the system of interest in net income instead of the profit motive. Further, a basic condition of exploiting the advantages inherent in the form of small cooperatives is to apply a control system that is much more simple than that of large enterprises employing several thousand people. At the same time, the principle of uniform rules can be more consistently enforced with small cooperatives. They can more flexibly adjust to modifications in economic conditions – if necessary they can change their product-mix, markets and even production lines and demand additional work and even financial sacrifice from their members. On the other hand, the possible failure of a small coopera-

tive does not cause the kind of social and political tension that might compel the state budget to intervene and offer assistance. Not even the personal income of the base year need be guaranteed through the control system, and a tax liability can be prescribed for every forint of personal income. In my opinion, this tough requirement better corresponds to the actual Hungarian economic situation than the rule that personal income flowed out in the base year can be paid in the current year also in the absence of profits.

Since the small cooperatives can hardly be expected to grow smoothly year by year, the regulators have to make transitory stagnation and even a setback supportable. The basis of control must not be the base year, but the actual level attained. It follows that the forms of enterprise wage control – complicated enough in themselves – cannot be applied to small cooperatives.

Wage-bill control would not in fact allow a flexible adjustment of employment, nor wage-level control that of the composition of staff to the tasks.

For the control of small cooperatives a simpler and firmer system of incentives and, while observing the rational uniform requirements, more direct and stronger stimulation are needed. Translating this into the language of regulators this means that in the domain of below average profitability the degree of income taxation has to be increased, while in the domain of above average profitability it has to be reduced. An income distribution more proportional to the results attained increases the incentive power for more efficient management.

Net income regulation

In my opinion, it is the regulation of net income that corresponds to the general requirements that the system of incomes control and the cooperative features reviewed must satisfy. In the case of a collective enterprise whatever is put at the centre of interest by incomes control, (e.g. profits), the behaviour of the enterprise will be determined by interest in net income.

On net income a linear tax is levied which corresponds to the sum of the present "urban and communal contributions", as well as that of the general and progressive profit tax.* The social insurance contribution does not differ from the general one in extent, but it is levied on net income less income tax and is to be paid also on the end-year dividends – but on the latter the progressive tax otherwise due to be paid after the sharing fund will not be levied. The payment of personal incomes and the use for accumulation purposes is not restricted by any other tax or administrative prescription. No tax is levied on dividends on shares, target-shares or on the interest on loans by members. Because of the higher risk it is justified to set the dividend and the interest on loans at a higher level than the rate of interest on savings deposits. To the extent of the valid per head quota the

*The interest of local governments in the foundation and efficient operation of small cooperatives would be served if a greater part of taxes were due to them. This would also facilitate the granting of tax allowances to small cooperatives performing services.

small cooperative may form welfare and cultural funds free of tax, and may complement them from the fund formed out of net income less income tax. It is expedient to debit costs with technological development costs and those arising from repairs under warranty without creating special funds for this purpose.

The system of net income control also regulates purchasing power without any special system devised for the purpose. Personal income is a share of after-tax net income, whether paid as an advance or at the end of the year. The tax and social insurance contribution on the advance and the end-year dividend are also identical. Wages are only paid to the employees of the cooperative.

It is a special feature of the income control of the small cooperatives that the state guarantees the income of the members at most to the extent of the obligatory minimum wage (at present Ft 1350 a month), and those of the employees to the extent of the lower limit prescribed in the wage agreement for the category in question. Above these limits personal incomes may move both upwards and downwards depending on the results. This expresses the risk taken by members as entrepreneurs and, simultaneously, their responsibility for their own activity. The cooperative may guarantee as advance even 80-90 percent of the total share-out; in this case members may expect a further 10-20 percent of their income once the yearly balance sheet is approved.

The personal income of individual members and employees is determined in a work contract concluded with the cooperative, bearing in mind current classifications and wage tariffs. Depending on their activity, however, their actual income may be a multiple or a fraction of that. Wherever possible, it is expedient to determine the advance on the share-out to be paid in the course of the year on the analogy of performance wages, and the end-year dividend should be distributed in proportion to the income attained through performance.

Amidst uncertain conditions of management and great risk, the small cooperative proceeds rationally if it keeps personal payments during the year within sound limits. As against that, in the present profit-motivated system it is expedient for the enterprise to go as far in increasing personal incomes accountable as costs as is allowed free of tax under the present system of wage control. Such wage increments – on which only social insurance contribution is levied are much cheaper for the enterprise than the dividend paid at the end of the year, which is formed from after-tax profits and on which a progressive tax is levied. Since it is known that wages are rigid downwards, this in itself restricts the possibilities of enterprises in using personal incomes as incentives and for manoeuvring. A control of incomes which accords a greater role than is the case today to end-year dividends within total personal income better corresponds to cooperative characteristics and traditions. In the small cooperatives where development – if it promises to be a sound investment – is in the interest of the whole membership, and where direct democracy has a great role in decisions on the distribution (and use) of income, in the reconciliation of short and long-term interests, the interest of management cannot be distinct from that of the collective. In the system of net income control this requirement can obviously be satisfied.

Since the objective interests of the executives of small cooperatives basically coincide with those of members, while the success of the collective depends above all on management, the selection of those best suited for leadership must be left to members. The basic income of executives – to be determined, like that of ordinary members, by starting out from prescriptions valid for other economic units – is complemented by a considerable moving income. It is expedient to link the latter to the important indicators of efficient management, chiefly to the ratio between per capita net income and advance payments during the year. The prevention of an exaggerated outflow of personal incomes thus also depends on the interests of the executives.

Own resources of development and reserves

In the small cooperatives, not only personal incomes, but also development costs and reserves are covered from that part of net income which remains after taxes. The long-term interests of the cooperative collective and the leaders provide a sufficient guaranty for the development of correct proportions between personal incomes and development. Members putting their personal savings at the disposal of the cooperative will obviously take care that their property should not depreciate in consequence of neglected development. At the same time, probably not each of the small cooperatives will be growing; in fact, some of them will probably fail and close down.

One of the sources of fixed capital investment is, therefore, after-tax net income. The other is the depreciation allowance, from which a depreciation fund has to be formed and it should be left to the small cooperatives whether they wish to apply accelerated depreciation and how many groups of fixed capital they form beside real estate. Conditions for control will, of course, have to be created.

The justified replacement and expansion of assets, based on sound considerations of management, is helped by the system of net income control itself and – in case of need – by the internal rules of the cooperative. Such an impact is obtained if per capita net income can be raised through intensive development. Furthermore, the depreciation fund can only be used for the replacement and expansion of fixed assets, but not for personal incomes. (In the case of an absence of profits – i.e. a loss – depreciation also serves to cover the loss.) Nor should it be underestimated that while only income tax is levied on the part of income used for development, personal incomes also have to pay a social insurance contrubution. Finally, the collective of the small cooperative may decide to raise the share capital every year by 1-2 percent of their personal incomes, to counterbalance the depreciation of the shares. In fact, if the cooperative needs it, there is a way of buying new shares (target-shares).

After-tax net income also serves as reserve; it would not be expedient to prescribe obligatorily the creation of a separate reserve fund and centrally regulate its use. The risk that is objectively greater for small cooperatives than for other economic units anyway makes reserve building a paramount issue.

Concerns and objections

It may be justly argued that, given a lack of interest in property, the maximization of per capita net income may distort the valuation of resources: it demands a higher efficiency from labour input than justified, and a lower one from the expansion of capital. Accepting this, we have to draw the conclusion that the introduction of the proposed regulation is only warranted where the interest in net income is sufficiently coupled with a powerful interest in property, or where capital-intensity is negligible. If these conditions are missing, the outflow of personal income has to be regulated separately, directly or indirectly, by regulating accumulation.

But the fear that personal incomes will grow unreasonably in small cooperatives at the expense of accumulation is only partly justified. This danger cannot be excluded particularly in the case of a sharp wage-competition and a rapid rise in price levels. It is, however, likely that the above-average rise in personal incomes would characterize only the early years, and – assuming that the small cooperatives satisfy actual market demands – there would be work done (product or service) backing this growth. In the longer run, however, incomes will presumably level out between the small cooperatives and other economic units under the impact of market mechanisms. The price and income raising forces can be braked precisely by the growth of competition, given an excess supply.

Furthermore, it must be assumed that in the small cooperatives members obtain income in proportion to their individual performance and merits, since this is the elementary interest of the collective. It is thus not justified to prevent high incomes. Instead, a way must be found for the individual taxation of outstanding incomes.

Finally, it has been said in discussions about small cooperatives that, even today, the flow of capital is unsatisfactory among economic units in Hungary and that the control of net income would put a further brake on it. In my opinion, this is not sufficiently proven. A responsible position in this respect could only be taken up after the conditions of the management of property and of the economically meaningful flow of capital will have been worked out.

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Surveying the main features and expected impact of the proposed control of net income it can be said that it deviates from the present system of profit taxation in a sound direction. The requirements which industrial cooperative enterprises must satisfy are adequate and they considerably help in the evolution of cooperative property advantageous to society. The true proof of viability will be the experience of operation and this will also serve as basis for further development.

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НЕКОТОРЫЕ СООБРАЖЕНИЯ О РЕГУЛИРОВАНИИ ДОХОДОВ МАЛЫХ ПРОИЗВОДСТВЕННЫХ КООПЕРАТИВОВ

Л. КОНЯ

В венгерской промышленности невелико число малых и средних предприятий и кооперативов. Одной из причин является то, что малые организации не в состоянии вести сегодняшнюю сложную канцелярскую работу и удовлетворять прочим требованиям государственного регулирования. Поэтому эти требования следует упростить.

Интерес отдельных индивидуумов состоит в максимизации собственного дохода («v»). Интерес промышленных кооперативов состоит в обеспечении материального благополучия своих

членов как на короткую, так и на долгую перспективу. Максимизация личного дохода в расчета на одного человека на долгую перспективу, однако, может быть достигнута только при применении современной техники. Наряду с личными доходами, таким образом, необходимо создать и необходимые ресурсы накопления («m»). В соответствии с этим промышленные кооперативы заинтересованы в максимизации валового дохода («vm») в расчете на одного человека, точно так же, как и сельскохозяйственные производственные кооперативы.

Было бы целесообразно ввести такую форму регулирования доходов малых промышленных кооперативов, которая была бы адекватна их интересам, то есть вместо настоящей системы заинтересованности в прибыли ввести регулирование валового дохода. Выручка таких малых кооперативов облагалась бы после вычета затрат на сырье и материалы и амортизационных отчислений, а также издержек прочего характера — линейным налогом, а нынешняя система жесткого регулирования оплаты труда в малых организациях не функционировала бы. При такой системе рост личных доходов работников, налогообложение, а также заинтересованность руководителей были бы связаны с валовым доходом.

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G. FINK

DETERMINANTS OF SECTORAL INVESTMENT ALLOCATION IN HUNGARY*

According to Hungarian economists the poor efficiency of Hungarian investments is caused mainly by the exaggerated interference of central agencies with the investment decisions and thus instead of efficiency considerations those of growth "need" are dominating.

In the paper an econometric model is constructed in which the investments in the 21 sectors depend on the following variables: capacity exploitation in the preceding years, capital coefficient, replacement needs and relative prices. The computations carried out proved the statement by Hungarian economists that costs have hardly any impact on investment decisions and that investments adjust mainly to the output dynamics of the preceding years.

Most of the Hungarian economists are rather dissatisfied with the economic results of investment activities in Hungary. In stressing that the actual outcome of investment does not come anywhere near meeting expectations or theoretical possibilities they mention, first of all, the close participation of central authorities in investment decision making as a reason for insufficient capital productivity [1, 2]. Investment decisions are hardly guided by "efficiency considerations" but rather by the so-called "necessities" [3]. The enterprises' share of 54.3 percent in investment financing within the socialist sector or of 61.2 percent within socialist industry *(Table 1)* does not convey the proper picture of decision making power.

A special investigation into the investment decision making process showed that in 1976 the enterprises could autonomously dispose of only 10 percent of the total volume of investment, in all other cases either banks, or the supervising ministry or planning authorities participated in the decision making process *(Graph 1)*.

This proposition poses questions to the outside observer: Did the role of enterprises in investment decision making really remain so small? Is there virtually no possibility for enterprises to influence central authorities and banks in their investment decision making? On the other hand I cannot accept the proposition that ignorance dominates in the central authorities' decision making process, which is said to pursue imaginary interests rather than real economic considerations [3].

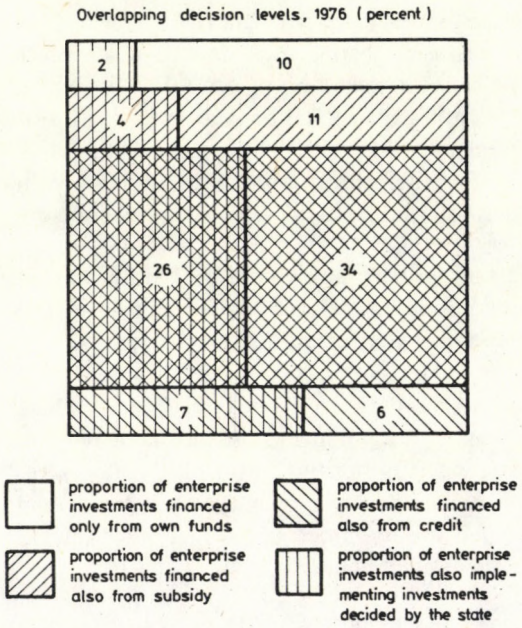
*This is a revised version of a lecture given at the meeting of the "Ostausschuß zum Vergleich der Wirtschaftssysteme des Vereins für Socialpolitik" and of the "Hungarian Economic Association" at Tutzing, FRG, on June 23, 1982. The estimated equations shall form the investment part of the input-output model on the Hungarian economy, which is set up within the INFORUM group (Interindustry Forecasting, University of Maryland).

Table 1

Investment by decision making authorities in the state and cooperative sector of the economy

Year	in total economy		in industry	
	state	enterprises	state	enterprises
	shares in percent			
1975	43.9	56.1	31.9	68.1
1976	45.7	54.3	37.9	62.1
1977	43.7	56.2	34.5	65.5
1978	43.0	57.0	33.6	66.4
1979	45.4	54.6	36.3	63.7
1980	45.7	54.3	38.8	61.2

Source: Statisztikai évkönyv (Statistical yearbook) 1979, p. 113 and 1980, p. 117



The model

In my own investigations I shall start from the hypothesis that investment decision making basically follows economic considerations, irrespective of whether these decisions are taken by central authorities or by enterprises. This hypothesis makes it possible to describe investment decision making by means of a model which can be tested.

In my thinking I start from the fact that enterprises dispose of a large portion of financial means earmarked for investment. In any case the enterprises are interested to spend the money and not to keep it in a banking account. In a medium-term perspective an enterprise has only advantages when investing: increase in output is more easily achieved, prestige is improving, and, in addition, today's investment secures future reinvestment *via* depreciation allowances. [4]

Central authorities also dispose of a substantial share in finance for investment. These financial means may be used autonomously, e.g. for establishing new branches in the economy (pipeline transport) or for setting up new and modern enterprises; but central authorities are free also to participate in investment of already existing enterprises.

Since enterprises have only advantages from investment and from increasing their stock of fixed assets, they try to attract as much finance as possible from central authorities for their own enterprise investment. There is strong competition for the central funds.

If our assumption holds that decision making follows basically economic considerations, the enterprises have to put forward first of all economic arguments to succeed in influencing the decision makers.

The strongest argument in this respect is a pressing need for further capital equipment, i.e. capacities utilized at limit and excess demand, which cannot be met because of lack of capital equipment. In most cases an enterprise will try to avoid the case of substantial excess demand. Already in a period of increasing capacity utilization, when output grows fast, the enterprise managers will start to plan further investment. This hypothesis of enterprise decision making on investment allows us to formulate a criterion which will help us to distinguish enterprise induced from autonomous central decisions on investment: If investment is positively correlated to previous output development, investment, very likely, is induced by enterprises. In other cases the central authorities have probably decided autonomously.

Of course, output is not the only argument in investment decision making. Next we must mention the capital coefficient, the ratio of capital to output, which helps to formulate the relationship between planned output increase and necessary investment to achieve this output increase. In addition, the necessity to replace worn out equipment influences the investment demand of enterprises. Finally, relative prices may have some influence. On the one hand an enterprise whose value added per unit of output is rather high can accumulate substantial funds for investment, on the other hand, if prices for equipment are relatively high, the purchasing power to buy investment goods is limited.

The above considerations lead us to propose a sectoral investment function in the following general form:

$$I = \Delta K = f(Q, K, d, Pv, Pe)$$

where

I – net investment
ΔK – increase of capital stock (fixed assets)
Q – output
K – capital stock (fixed assets)
d – rate of depreciation
Pv – value added per unit of output
Pe – price of investment goods.

These elements can be easily transformed into an investment function which is used in Western literature, without giving up the above reasoning about investment behaviour.

Starting from a CES production function (Almon & Barbera, 1978)

(1) $$Q_t^{\beta} = A_t (vL_t^{\beta} + (1-v)K_t^{\beta})$$

where

Q – output
L – labour
K – capital stock (fixed assets)
A – a function of time
v and β are constants,

we differentiate with respect to K, hold L constant, solve for K, getting

(2) $$K_t = B_t Q_t \left(\frac{\delta Q}{\delta K}\right)^{-\sigma}$$

where

$$\sigma = \frac{1}{1-\beta}$$

and B_t is a function of time only.

We shall further assume that enterprises invest only up to a point where investment costs do not exceed the discounted returns on investment. Returns in the year of investment amount to $Pv\frac{\delta Q}{\delta K}$; in the year t after investment under the assumption of a constant rate of depreciation d, returns amount to $Pv\frac{\delta Q}{\delta K}e^{-dt}$ only.

There is no need to consider further components in our investment function: The tax on fixed assets had a rather limited allocative effect, because of the extensive

subsidization policy which accompanied the tax all the years after its introduction in 1968. It was only logical that this tax was abolished in 1980. Interest rates in Hungary are extremely low, and finally the expectations of price increases were also low during the period under investigation. We can therefore assume that a rational investment policy will lead to investments up to the point where

$$Pe = \int_{t=o}^{\infty} Pv \frac{\delta Q}{\delta K} e^{-dt} \tag{3}$$

or

$$Pe = Pv \left(\frac{\delta Q}{\delta K}\right) \frac{1}{d} \tag{4}$$

and

$$\frac{\delta Q}{\delta K} = \frac{Pe \cdot d}{Pv} \tag{5}$$

Substituting (5) for $\frac{\delta Q}{\delta K}$ in (2) we get

$$K_t = B_t Q_t \left(\frac{Pe \cdot d}{Pv}\right)_t^{-\sigma} . \tag{6}$$

Equation (6) implies that capital stock changes immediately when output or capital cost changes. Such behaviour cannot be expected to take place. It will take some time until the enterprise management has convinced the civil servants in the central authorities that investment is urgently needed. The enterprise itself will not be in a position to step up investment immediately when its income (value added per unit of output) goes up. Neither will it be in a position to reduce planned investment immediately when prices for investment goods go up. In view of this it is useful to introduce lags into our equation. After introducing a definition

$$r_t = \left(\frac{Pe \cdot d}{Pv}\right)_t \tag{7}$$

we can replace equation (6) by*

*Definition (7) is introduced in analogy to [5]. With the help of this the following investment function and further transformation becomes identical to their function. This allows us to use the estimation program developed by C. Almon, A. Barbera and others for our equation (11). I am grateful for the computer programs I have received and used for the preparation of this paper.

(8) $$K_t' = B_t \prod_{i=o}^{m} Q_{t-i}^{w_i} \prod_{i=o}^{n} r_{t-i}^{-\sigma_i}$$

where

$$\sum_{i=o}^{m} w_i = 1, \quad \sum_{i=o}^{n} \sigma_i = \sigma.$$

Under the assumption that $B_t = B_o e^{at}$, where a is a small number of the order of .01, we take logarithms of both sides of equation (8) and take first differences. We obtain

(9) $$\triangle K_t = a + \sum_{i=o}^{m} w_i \triangle Q_t - \sum_{i=o}^{n} \delta_i \triangle r_t$$

where the symbol $\triangle$ means first differences of logarithm, which we shall approximate by the fractional change:

(10) $$\triangle Q_t = \frac{Q_t - Q_{t-1}}{Q_{t-1}}$$

After multiplication of (9) with K_{t-1} we get

(11) $$I = \Delta K_t = aK_{t-1} + K_{t-1} \sum_{i=o}^{m} w_i \frac{Q_{t-i} - Q_{t-1-i}}{Q_{t-1-i}} - K_{t-1} \sum_{i=o}^{n} \sigma_i \frac{r_{t-i} - r_{t-1-i}}{r_{t-1-i}}$$

The data

It is beyond the scope of this paper to describe all sources used and all adaptations of data in detail. The period under investigation is 1961–1980. In Statisztikai évkönyv (Statistical yearbook)** 1980 on pp. 110 ff. we find data on *investment* in 1970–1980 at current and constant prices for 9 industrial branches and five broader sectors of the economy, which are further disaggregated into a number of subsectors. Since it is not possible to get all data needed in the same classification we finally use a 23 sector classification in our investigation (for the classification see *Table 2*).

Data for the years before 1970 can be found in older editions (SY 1976, pp. 75–83; agriculture SE 1971, p. 86; all other sectors SY 1970, pp. 83–103). The time series were linked to each other, while preference was given to data published in more recent yearbooks. In most cases, therefore, time series were linked twice: 1966–1969 on the basis of 1970, and 1961–65 on the basis of 1966. Data for 1961–65 of the four subbranches in construction industry were estimated under the assumption that invest-

**Further in the text we shall use the abbreviations SE – Hungarian edition, SY – English edition.

Table 2

Estimated investment equations using weights 1.0, 1.0, 1.0 in the objective function (12)

	R	constant term	sum of weights (w_i)	sigma (σ)
Mining	.858	612.9	.842	.500
Electricity	.938	−608.8	1.153	.062
Metallurgy	−.362	779.7	.858	.001
Machine building	.767	.0	.946	.0
Construction materials	.433	934.4	.963	.033
Chemical industry	.872	−502.8	.875	.113
Light industry	.586	1084.9	.987	.0
Other industry	.881	42.1	1.099	.0
Food processing	.707	1112.0	1.125	.0
Buildings	.868	534.6	1.196	.002
Non-building construction	.837	267.6	1.188	.071
Fitting and mounting	.681	64.0	1.119	.0
Designing	.396	100.3	.941	.0
Agriculture	.704	6384.1	1.153	.063
Forestry	.648	193.1	1.006	.104
Water management	−.094	1907.1	.377	.0
Rail transport	.528	2131.5	.236	.089
Road and urban transport	.770	0.	.546	.0
Other transport	.348	256.1	.694	.093
Telecommunications	.397	807.4	.052	.720
Home trade	.796	1354.0	1.152	.116
Foreign trade	.846	123.5	1.145	.0
Services	.901	1807.3	.980	.008

ment in all four subbranches has developed at the same growth rate as in total construction.

Data on *output* of 21 branches of industry at constant prices in 1970–1980 are found in SE 1980, pp. 166/7. These data were aggregated and linked to time series given in older yearbooks. The same procedure, in the main, was applied to the data on the other sectors of the economy. Sometimes data from older yearbooks were used for interpolations between data for the years 1960, 1965 or 1970, which are published in more recent yearbooks.

Particular problems had to be overcome for putting together the time series on output in the transport sectors. Here, only data expressed in current prices are published

(and further disaggregated to subsectors in a few years only). We therefore have derived an index of output in real terms from published quantity data:

In *Rail transport* freight-ton-kilometers and passenger kilometers were aggregated with weights 1.5 and 1. These weights were derived from data on the Federal Republic of Germany (Statistisches Jahrbuch 1977, pp. 258–260) and are similar to data on Italy (1.6:1) (Annuario Statistico Italiano 1973, p. 273).

Similarly an output index for road and urban transport was created, but missing data on freight-ton kilometers in 1961–63 had to be estimated (same rate of growth as in 1964–1968) and data on passenger kilometers had to be interpolated (1961–1964 and 1966–1969). We have assumed the same weights as in rail transport.

For output of "other transport" we have assumed the weights:

Freight-ton kilometer in	
Water transport	150
Air transport	1500
Pipelines	75
Passenger kilometer in	
Water transport	1000
Air transport	1000

The same problems arises in "Communications" where we have assumed the weights:

Letters	100
Telegrams	1000
Parcels	500
Telephone:	
local calls	100
long distance calls	500
Newspapers	30

Missing data on telephone calls 1961–64 were interpolated, data on years after 1976 in number of impulses were converted to unit calls: a local call 1000 impulses, a long distance call 5000 impulses.

Time series on *value added* (at current prices) per unit of output were derived *via* the data on net production, which is calculated at current prices as the difference between output and production costs. The time series with indexes of net production were divided by the time series with indexes of output at constant prices. In those cases where data are available for a broad sector only (construction), but not for subsectors (building, non-building construction, fitting and mounting) we have assumed the same development in all subgroups. Missing data for the years before 1968 are estimated with

the help of information derived from the input-output tables 1958, 1965 and 1968 and appropriately interpolated.

Price indexes for investment were calculated by dividing the investment times series at current and constant prices. For the years 1961–1967 the published price indexes for broad sectors (industry, agriculture and forestry, etc.) are assumed to hold for all respective subbranches.

The *rate of depreciation* is calculated as the ratio of depreciation allowances to fixed assets (both at current prices). Missing single data (mostly for subbranches in transport and construction) are estimated or interpolated.

The method of estimation

If the theory in the described model of investment as in equation (11) holds, we can expect the following results: If investment is determined solely by economic considerations, development of output and capital costs should be sufficient to explain the development of net investment. Thus we would expect the constant term to be relatively small.

In the case of a constant capital coefficient and explanation of investment solely by output we can expect the sum of the weights in the lag structure to be equal to unity. Thus, even without formulating any presumption on the development of the capital coefficient, we think that in this case the sum of weights can be expected to be not too far from unity.

As to the time distribution of the lags, we expect a regular time pattern, e.g. it does not seem plausible that the years two and four should have higher weights than one and three. We would rather expect that years farther back have a smaller weight than more recent years. With lags becoming shorter the weight is increasing; but the weight may decrease again for the most recent year (e.g. because of incomplete or preliminary information about the last year).

The estimation technique applied was developed by C. Almon et al. [6, 7] based on G. B. Dantzig's "Quadratic programming" [8]. This technique allows us to use the a *priori* expectations as to the results of the estimation procedure for interpretation.

Almon intended to achieve results which are best suited for projections. A constant term close to zero, the sum of weights close to unity and a distribution of lags as developed by Shirley Almon [9] fits best into projections.

To achieve such results without losing too much of the explanatory value of the coefficients estimated an objective function was introduced to minimize:

$$Z = G1\,(1-R)^2 + G2\,(1-\sum_i w_i)^2 + G3\,(\frac{a}{v})^2 \tag{12}$$

where G1, G2, and G3 are the chosen weights in the objective function
R — coefficient of determination
w_i — the weights of the Almon-distributed lags
a — the constant term
v — the variance of observed investment.

In other words, we are willing to give up some explanatory value (coefficient of determination) if the sum of weights comes closer to unity or the constant term closer to zero.

We shall use these features of the estimation procedure in the following way: If it is possible to keep the constant term small and the coefficient of determination remains significant, we can assume that investment decisions have not been made autonomously by the central authorities. In this case enterprises do have an influence on the investment decision. If, in addition, we can identify a significant sigma (larger than 0.1), then the investment decision was also influenced by efficiency (productivity) considerations: enterprise income, prices of investment goods and cost of depreciation have influenced the investment decision.

Table 3

Estimated investment equations using weights 10.0, 1.0, 1.0 in the objective function (12)

	R	constant term	sum of weights (w_i)	sigma (σ)
Mining	.838	1470.9	.315	.500
Electricity	.952	−3170.9	1.705	.085
Metallurgy	.087	2387.9	.016	.005
Machine building	.767	−2539.3	1.374	.0
Construction material	.441	1260.7	.739	.028
Chemical industry	.873	−97.4	.809	.112
Light industry	.589	1499.8	.820	.0
Other industry	.881	17.8	1.189	.0
Food processing	.715	−252.4	1.724	.0
Building	.869	247.7	1.581	.014
Non-building construction	.843	116.3	1.734	.133
Fitting and mounting	.682	39.4	1.691	.0
Designing	.391	140.4	.665	.0
Agriculture	.720	7667.7	1.067	.089
Forestry	.649	241.4	.882	.085
Water management	−.094	5171.1	.009	.009
Rail transport	.752	2794.9	.008	.067
Road and urban transport	.771	−4157.1	.996	.007
Other transport	.369	745.9	.383	.057
Telecommunications	.475	1062.3	.0	.514
Home trade	.803	947.7	1.411	.002
Foreign trade	.847	82.0	1.366	.0
Services	.901	3133.1	.939	.009

The results

We have estimated the investment equations with three sets of weights: first with all weights equalling unity; second, the weight for the coefficient of determination being 10. and the other weights 1.; and third, to suppress the constant term, with G3 10. and G1 and G2 0.1. In all equations we have estimated four Almon lags.

The findings of Hungarian economists [2, 10] that capital costs have little influence on investment decision making,* are confirmed by our results. Only in the case of four branches (mining, chemical industry, non-building construction, and telecommunications) we get in all three variants of the estimations, a sigma bigger than 0.1. The case of mere coincidence cannot be excluded, namely because of the substitution effect between the constant term and sigma. When suppressing the constant term *(Table 4)* we get sigma bigger than 0.1 in eight cases.

Table 4

Estimated investment equations using weights 0.1, 0.1, 10.0 in the objective function (12)

	R	constant term	sum of weights (w_i)	sigma (σ)
Mining	.864	26.9	1.132	.500
Electricity	.929	−25.8	1.060	.073
Metallurgy	−.356	47.5	1.111	.012
Machine building	.767	−29.3	.950	.0
Construction material	.403	69.9	1.348	.037
Chemical industry	.873	−14.3	.811	.112
Light industry	.570	62.2	1.307	.0
Other industry	.881	2.1	1.196	.0
Food processing	.718	86.5	1.337	.0
Buildings	.868	42.8	1.505	.0
Non-building construction	.842	25.6	1.507	.109
Fitting and mounting	.681	7.7	1.359	.0
Designing	.353	6.0	1.407	.0
Agriculture	.601	304.1	1.738	.0
Forestry	.647	13.4	1.328	.117
Water management	−.094	77.9	.546	.0
Rail transport	.068	100.2	.848	.146
Road and urban transport	.770	−74.3	.554	.0
Other transport	.342	16.5	.792	.100
Telecommunications	.218	45.8	.181	1.239
Home trade	.782	105.2	1.438	.311
Foreign trade	.843	10.7	1.371	.0
Services	.901	75.6	1.026	.009

*Similar results were obtained for the FRG [11]

The results of the estimated equations show that development of output in the four preceding years has a high explanatory value for investment. Suppressing the constant term has only a little effect on the coefficient of determination, which remains bigger than 0.5 in 16 out of 23 economic branches.

Little or no explanation of investment by output could be found in metallurgy, construction material industry, designing, water management, the transport sectors and in telecommunication. In transport and telecommunications this may have to do with the poor data, but also with an infrastructure, which was neglected for decades and with new developments in transport (pipelines). Similar considerations may be applicable to water management. In the construction material industry we observe grave fluctuations in investment since 1971, which can hardly be explained by branch specific arguments. It is difficult to falsify the presumption of an investment process suffering permanently under abrupt changes in the priorities of the central decision making authorities.

Table A1

Investment in Hungary 1961–1980, at 1972 prices
mio. Forint

	1961	1970	1980
Mining	3 459.0	4 972.0	8 136.0
Electricity	2 996.0	4 402.0	12 061.0
Metallurgy	2 072.0	3.773.0	7 059.0
Machine building	3 211.0	6 759.0	9 869.0
Construction material	1 460.0	2 628.0	2 824.0
Chemical industry	2 647.0	5 568.0	6 683.0
Light industry	1 628.0	3 925.0	4 113.0
Other industry	48.0	466.0	644.0
Food processing	1 178.0	3 845.0	7 385.0
Buildings	450.0	1 999.0	2 643.0
Non-building construction	274.0	730.0	1 147.0
Fitting and mounting	18.0	81.0	357.0
Designing	51.0	292.0	333.0
Agriculture	6 073.0	20 044.0	19 453.0
Forestry	286.0	571.0	1 132.0
Water management	667.0	4 260.0	9 746.0
Rail transport	2 868.0	5 401.0	6 961.0
Road and urban transport	1 490.0	5 339.0	8 730.0
Other transport	359.0	1 266.0	2 243.0
Telecommunications	325.0	1 441.0	3 640.0
Home trade	1 196.0	2 950.0	7 718.0
Foreign trade	40.0	441.0	744.0
Services	11 897.0	26 190.0	46 868.0

After having achieved these results we agree with most Hungarian economists that prices and capital costs play only a very limited role in Hungarian investment decision making. The tendency to base investment decisions on the development of output in the

Appendix

Table A2

Investment in Hungary 1961–1980, at 1972 prices
shares in percent*

	1961	1970	1980
Mining	7.7	4.6	4.8
Electricity	6.7	4.1	7.1
Metallurgy	4.6	3.5	4.1
Machine building	7.2	6.3	5.8
Construction material	3.3	2.4	1.7
Chemical industry	5.9	5.2	3.9
Light industry	3.6	3.7	2.4
Other industry	0.1	0.4	0.4
Food processing	2.6	3.6	4.3
Buildings	1.0	1.9	1.6
Non-building construction	0.6	0.7	0.7
Fitting and mounting	0.0	0.1	0.2
Designing	0.1	0.3	0.2
Agriculture	13.6	18.7	11.4
Forestry	0.6	0.5	0.7
Water management	1.5	4.0	5.7
Rail transport	6.4	5.0	4.1
Road and urban transport	3.3	5.0	5.1
Other transport	0.8	1.2	1.3
Telecommunications	0.7	1.3	2.1
Home trade	2.7	2.7	4.5
Foreign trade	0.1	0.4	0.4
Services	26.6	24.4	27.5

*rounding errors make totals differ from 100

preceding years seems to dominate. In other words, an expansion oriented rather than an efficiency oriented investment policy was pursued during the last 15 years. There seems to be little conflict between enterprises and central authorities in using past output as the main argument for future investment. In the infrastructure sectors investment decisions follow a different set of arguments, which cannot be identified with a statistical analysis as applied in this paper.

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ФАКТОРЫ, ОПРЕДЕЛЯЮЩИЕ МЕЖОТРАСЛЕВОЕ РАСПРЕДЕЛЕНИЕ КАПИТАЛОВЛОЖЕНИЙ В ВЕНГРИИ

Г. ФИНК

Венгерские экономисты (например, А. Деак, Т. Бауэр, И. Барта и А. Шоош) считают, что причиной низкой эффективности капиталовложений в Венгрии является в первую очередь чрезмерное вмешательство центральных органов в принятие решений относительно капиталовложений, в результате чего основное внимание обращается не на аспекты экономической эффективности, а на аспекты „необходимости".

В этой связи возникает два вопроса: действительно ли так могла роль предприятий в принятии инвестиционных решений и действительно ли руководствуются при принятии этих решений центральные органы внешнеэкономическими аспектами.

Пытаясь ответить на эти вопросы, автор разработал экономическую модель, в которой решения о капиталовложениях основываются прежде всего на соображениях экономичности, независимо от того, идет ли речь о централизованных капиталовложениях или о капиталовложениях предприятий. Были составлены уравнения капиталовложений по 21 отрасли, капиталовложения каждой отрасли зависят от использования в этой отрасли имеющихся мощностей, величины капитала, амортизации и, наконец, от относительной цены произведенных и вложенных.

По расчетам автора, в большинстве отраслей затраты капитала почти не оказали воздействия на принятие решений о капиталовложениях. В действительности капиталовложения в первую очередь определяются выпуском за предыдущие четыре года. Таким образом, политику капиталовложений на самом деле определяют цели увеличения производства, а не соображения экономической эффективности, и с этой точки зрения, видимо, нет различий между решениями, принятыми в централизованном порядке, и решениями предприятий.

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F. JÁNOSSY

AN EVOLUTIONARY ALTERNATIVE

What follows was meant as a contribution to a volume containing the material of a conference arranged by the Faculty of Sociology at the University of Paderborn in West Germany in May 1980, under the title "Alternative living". Taking part had inspired me to meditate on the opinions of those – mostly young – men and women who certainly do not feel at home in the proposperous society of a highly industrialised country and who are on the look-out for alternative and better ways of life for themselves or society as such.

The discouraging recognition that the huge growth of the forces of production and hence of labour productivity, which has lasted almost two centuries now, since the industrial revolution, has no doubt led to material welfare of a sort but certainly not to the happiness which is the fruit of a meaningful life does not in itself justify engaging reverse gear, or eliciting a flight into alternative, in practice pre-industrial, ways of life and production. Only once the conviction hardens that highly industrialised countries find themselves at a dead-end, and that carrying on in the old ways will inevitably lead to a catastrophe, leaping from the moving vehicle before it plunges into the abyss begins to make, at least subjective, sense. Whether they only wish to save themselves, encapsulated in the alternative-oases of existing society, thus shedding the responsibility for the prospective end of the world, or even entertain the illusion that their oases will be able to transform the structure of society as such by destroying the sick tissue around them should be left open here. But however unrealistic or even absurd some of the ideas entertained may be, the very existence of such collectives clearly demonstrates where the trouble lies.

What is involved basically is the well-known discrepancy which has existed since the industrial revolution. The division of labour is on the one hand the necessary condition of an important and lasting improvement of labour productivity, on the other it destroys, as soon as it effectively appears – these days no longer confined to manual activities – that meaning of life which derives from all that is actively creative and worthy of man. Let me mention something that *Marx* quotes from *Urquhart* – first said in 1855 – merely to indicate that one would have to go back well over a century to find the Promised Land: "To subdivide a man is to execute him, if he deserves the sentence, to assassinate him if he does not . . . The subdivision of labour is the assassination of a people." An early and highly dramatic warning, certainly not the first: Stop! Back! This road leads to destruction! This prophecy of the end of the world, like most such prophecies, if not all, derives from an all to rigid extrapolation of the past into an unlimited future. Unfortunately this only becomes evident *ex post facto* and one is then inclined to dismiss what was said as naive. Urquhart did not, and could not, foresee that the industrial workers of his time who had been dehumanised to the level of beasts would within a few decades become the

class-conscious working class fighting for its rights let alone that after a further century, still doing dismembered and monotonous work, but only for eight hours a day and five days a week, these same workers would spend their leisure – no longer such militants by a long shot – staring at the Idiot Box that had been meanwhile invented, travelling to distant countries in their holidays, to escape monotony, as tourists of course, not as journeymen.

Marxists should not turn up their noses either. True, Marx has no doubt foreseen much more than Urquhart, but he had no notion whatever of the capitalism of the 20th century, indeed he had excluded it as a theoretical possibility. Nevertheless the following reasons suggest that Marx's discussion of extended reproduction be our starting point.

In my view the seventies produced a turning point in the highly developed industrialised countries, a point that is, where the previous process of development has disavowed its own conditions and cannot, therefore be continued unchanged. At such a point extrapolation into the future turns misleading, carried through consistently it must, in view of the immanent contradiction, conclude in the prediction of the end of the world. That we are – or stand before – such a turning point is, however, no more than a hypothesis worth considering, which will have to be confirmed – or denied – by future developments. In trying to describe the most essential features of such a turning point one must therefore consider a past one. The one which might prove most rewarding is that turning point up to which the rules of the game discovered by Marx really determined the nature of progress, the point where in keeping with Marx's presumptions – capitalism should have ended or led into barbarism. That things happened differently – although things very much looked like the end – or barbarism – during the Great Depression of the thirties – that capitalism, in order to survive escaped from rules of the game that had turned into shackles, further developing by changing the rules of the game, shows how unexpected this radical about-turn was. There is need to take a good look at that turning point also because it will only be possible to properly evaluate the one due now if one bears in mind those changed rules which came in force then and does not dogmatically cling to Marx's views which have already lost their validity.

The first turn of events in the history of capitalism

What was decisive for the features of capitalism in the 19th century was not yet the division between capital and wage labour but the ongoing vehement process of this separation. The progressive destruction of independent handicraft production was not an accompanying symptom but the absolute condition of the growth of capitalist production. On the one hand the growing number of wage-labourers was recruited amongst ruined independent artisans, on the other the misery produced by their ruin made it possible to keep down wages to the bare minimum necessary for reproduction. The latter was not only possible but – at that stage still unambiguously – advantageous since low wages permitted a high rate of accumulation. Marx rightly placed the accumulation of

capital at the centre of the circular flow of extended reproduction which he most plastically describes in his argument with figures. In these (as a simplifying abstraction which does not accord with Marx's view but all the more so with actual developments) the organic composition of capital, the profit rate and the rate of accumulation are presumed to be constant, and as a result growth is in terms of a geometric progression, which is true both for capital and for the number of wage labourers employed by capital. Thus if capital doubles in 15 years, it will quadruple in 30, grow eight-fold in 45&c and, presuming that at some early stage 1 percent of the population are employed as wage-labourers, 15 years later (population growth being left out of account to simplify things) 2 percent will be so employed, 4 percent after 30 years, 8 percent after 45&c. But this &c. soon comes to an end. 16, 32, 64 percent still goes, but this progression already exceeds its absolute limit of 100 percent in the next phase. At that point the whole of the population would consist of capitalists and wage-labourers exclusively and the extended reproduction of capital would have become impossible as such. It is to the credit of Rosa Luxemburg that she recognised this logical limit of extended reproduction – offering the necessary theoretical proof – already before the Great War when the world, standing wide open to the expansion of capital, still seemed to be without limits.

The obvious objection that capital accumulation could take place even given a constant number of wage-labourers as long as there is a growing organic composition of capital is logically sound but irrelevant in practice. The huge growth in the means of production (the mass of their use value) was accompanied by such a great increase in the productivity of labour in their production that their value per worker employed – most unambiguously given by the number of working hours which are reified in these means of production – grew barely, or not at all, indeed temporarily it even declined in industrially highly developed countries such as the United States. (Attention! Figures given in currency of declining value are misleading!) Nor should one allow oneself to be misled by the constantly necessary replacement of worn out and obsolete (morally worn out) means of production. Although replacements take place at a higher technological level they nevertheless remain in their totality investments without accumulation.

In a thoroughly capitalised world surplus value could then no longer be accumulated and the surplus product created by surplus work could not be invested in means of production.

Astonishingly capital accumulation, more precisely an accumulation limited exclusively by the profit available for the purpose, exhausted itself at an unexpectedly early point in time, before even one country, let alone the whole world, was capitalised through and through. The beginning of the end took place in the US, where it can be most clearly recognised, already soon after the Great War. Nevertheless investments in the twenties took place as if there were still no limits to the extended reproduction of capital. The result was a blind rush into what was not merely another cyclical crisis of overproduction but the purgatory of the Great Depression. In my opinion the Great Depression was the end of what Marx could predict and tellingly described, and the New Deal started something that he could not predict even theoretically. It is therefore

right to stick to Marx's terminology up to this point, but only up to this point, and no further. Unfortunately a number of interesting questions must be left unanswered here or we will never come to an end. I therefore wish to mention one only of the reasons for the apparently premature end of unlimited accumulation. The capitalist mode of production obviously first established itself and spread where conditions were most favourable; capitalism, as it was, first swallowed the most easily digestible bits until – in one's own country as well by world standards – at the time of the Great Depression there were only barely digestible – or only very slowly digestible – leftovers.

Of all the essential changes which had to happen and de facto happened because of the decline of the totality of opportunities for investment well below the added up capacity for investment of existing firms, I wish to consider a single change only, one which is of decisive importance for the turn of events coming ever closer. And this is that the connection between real wages and the productivity of labour which only gradually became firm in the past, turned into a tow rope which definitely tied all growth in real wages to that in the productivity of labour.

A last look at the times before the turn of events is necessary in order to display the reasons for and the importance of this change. The always valid fact that the flow of goods produced must ultimately end up either in consumption or accumulation leads Marx to presume – more or less justifiedly for capitalism before the turning point – that the primarily given magnitude is the consumption of wage-labourers limited by the reproduction of labour power, and since competition also holds the personal consumption of capitalists within limits, the volume of production and consumption are primarily given magnitudes the difference between which i.e. the remainder, assures accumulation. Since there is nothing in the way, it is in fact accumulated. What happens at the turning point is that one of the primary given magnitudes exchanges places with a secondary one. The volume of production continues as one of the two primarily given magnitudes but the second is the volume of accumulation limited by limited opportunities for investment. The remainder – almost the whole net volume of production – must be consumed, otherwise the circular flow is interrupted as it was during the Great Depression. Consumption must therefore grow more or less in proportion with the growth in the productivity of labour.

The importance of this interdependence will be demonstrated at the hand of the development of the United States since the Great Depression. In the course of the half century which has passed since then both the productivity of labour and real wages have increased roughly four-fold. Let us presume – to carry the argument ad absurdum – that, in spite of the growth in production, real wages have not risen at all but have stayed on the 1828 level. Whatever the share of those employed in the consumption of the total product might have been, it would have dropped to below 25 percent by now. Three quarters, or more likely four fifths, of the total product would have had to find some other outlet. Continuing and even increasing competition between firms – in spite of monopolies – makes it impossible for employers to step into the breach. Was it then perhaps the state which acquired the share of the total product which found no

customers (around two thirds of it) destroying it in one way or another? Indeed, I said: destroyed. Were it to use this growing quantity of the total product for purposes that benefited the population a result would be produced which, in the last resort, amounted to a growth in real wages which is here excluded. Destruction could take the form of war material, but long before armaments found themselves in the position to absorb two thirds of national income society would have fallen apart, unless it had earlier acquired the shackles of a totalitarian regime.

Real wages therefore necessarily had to rise in order to maintain existing society, and they did indeed so rise, since the Second World War, keeping pace with the growth in productivity in all the industrially highly developed countries. The exception that strikingly proves the rule is Japan where – in view of a half century delay in development the turning point, accompanied by the same consequences, only occurred in the seventies.

Care must be taken not to interpret the consequences of the basic economic change wrongly – and even tendentiously – as its cause.

There is thus e.g. an inclination to ascribe growing real wages to the growing power of the trades-unions leaving out of account that, after the turning point, the trades-unions had to be given this power in the interests of capital as such since individual firms were – in view of competition – still interested in keeping wages low.

The technological and scientific revolution as well was not a cause but a consequence. On the one hand – in view of limited opportunities for investment – excessive resources were made available to research, on the other technological research became a necessity not only for individual firms but for industry as such. The threat of decline forced firms to take part in technological progress – if possible based on own research – yet for their totality those research results proved of decisive importance which led to the production of novel consumer goods. It is noteworthy that research, and technological progress as such, *de facto* took two separate directions, and the resulting economic vector allowed the dynamic equilibrium of production and consumption to continue. On the one hand newly developed and perfected means of production and technologies ensured rising labour productivity and as such growing real wages, on the other technological progress permitted the invention, production and marketing of novel consumer goods to exhaust the growing purchasing power which was the result of the growth in the productivity of labour.

The second turning point becomes due

At first everything worked smoothly. To start with elementary needs that had not been satisfied in the earlier period had to be catered for, then mass consumption was extended still relatively free of friction: motor cars, radios, television, telephones, cameras and movie cameras, refrigerators and vacuum cleaners and the rest were still sufficient to take care of growing purchasing power so that even those who worked hard for it were satisfied. In the end much useless stuff had to be invented, advertised and

marketed as absolutely necessary in order to maintain the equilibrium of consumption and production. Since a constant yearly growth in productivity produced a geometric progression of growing real wages, from doubling to quadrupling, to the eight fold &c., this process as well had to come to an end sooner or later much as the extended reproduction of capital had done, coming up against barriers that could not be transcended. A turning point was inevitable, a turning point of at least as great an importance as the previous one at the time of the Great Depression, and that at a point in time when the growth in consumer goods resulted in a relative satisfaction of needs. At the first turning point a barrier was raised to the accumulation of capital yet a valve was opened for the flood of consumer goods, at the turning point due now, however, this valve is becoming throttled as well owing to the relative satisfaction of needs and as a result the growth of the total volume of production is reaching its limits.

The relative satisfaction of needs

The notion of relative satisfaction of needs requires further explanation. An absolute satisfaction lies not only outside all real possibilities but would be a nightmare. It would mean that there was nothing left to wish for, that one would have to defend oneself against overripe roasted pheasants that tried to take one's mouth by storm. Relative satisfaction occurs when all needs are satisfied which – it is felt – are worth working for, and only those remain unsatisfied which are not worth satisfying. More concretely: relative satisfaction occurs when given the dilemma of consuming more or working less leads to decisions which allow the total volume of consumption to stagnate or to grow in a minor way only.

That such a relative satisfaction of needs is not merely theoretical is clearly shown by the recent switch in trades-union demands from increased wages to shorter working hours.

Not much need be said here since all that was expounded in connection with the supposition that real wages remained on the 1828 level clearly also applies to the present case where consumption has found a more or less constant level in view of the relative satisfaction of needs. It should not really occasion surprise that problems appear at the turning point which is ripening now which appeared to have been finally solved and overcome at the first one. What has not changed since the industrial revolution early last century and is not likely to change in the immediate future either is the steady growth in the productivity of labour which unavoidably led to the first turning point as well as leading to the second which is currently due. Metaphorically speaking the growing flow springing from production first had to fill the reservoir of capital to the brim, then – at the first turning point – the flood gates which had up to then only permitted a relatively small quantity to flow to the population had to be opened till a point was reached, at the present turning point, when there is a threat that this field might be flooded and not just irrigated. This means that either new fields will have to be found that will take the over-flow, or else the flow will have to be throttled at source.

The role of natural limitations

Whether, and under what circumstances, zero growth will be produced, whether a small degree of growth can still be maintained or whether even a drop in the volume of production might be necessary or advantageous need not be discussed here. It is essential however to get a proper view of the various limitations on growth. There is the relative satisfaction of needs of course, but another barrier as well is increasingly coming into evidence which still permits growth but nevertheless commands a stop. Growth must already be stopped now, at the very least the brakes ought to be applied, if the world is not to slide into a catastrophe. There will be a crash at this barrier if there is no timely stop in the waste of natural resources including air and water. At the same one finds oneself in a contradiction if one pleads for zero growth in the volume of production undoubtedly leads to an additional burden on nature, on the other hand this growth is absolutely necessary if the already achieved standard of living is to be maintained, in order to dispose over the immense resources needed to restore and maintain ecological equilibrium. The same is true concerning the replacement of resources that are becoming scarce by others in ample supply, e. g. of oil by solar energy, something that cannot be done without considerable expenditure. The contradiction does not arise, of course, if zero growth is taken to refer to consumption and not production. Demanding, however, that the quantity consumed grow no further is not asking much since this means not much more than what is due anyway owing to the relative satisfaction of needs.

It is an interesting question why people begin to be seriously worried about natural limits to growth, even paint the devil on the wall with a certain *Schadenfreude* at a time when the relative satisfaction of needs anyway limits further growth. It is easier, of course, to call a halt when one is no longer interested in continuing the journey, and to be satisfied with stopping, knowing that the path leads into an abyss.

Let me repeat: in order to make a growth in the volume of production possible at a time of stagnating personal consumption new fields must be opened up where it will prove possible to realise the surplus. At present, except for rearmament (see above) and development aid – which in the future as well is unlikely to take up more than a few per cent of national income – there is nothing essential in view other than the maintenance of nature. Quite a share of national income could be used up for that. It does not matter there that expenditure only could figure in national income since the result lies outside the market. After all the same is true of many things, e.g. education, that are tacitly accepted.

In spite of the fact that expenditure on the maintenance of nature largely consists of investments, some even within industry, it would be a mistake from the present macro-economic aspect to consider them as identical in nature with investments that serve the extension of production or the improvement of the productivity of labour. Though investments and indeed all expenditure that serves the maintenance of nature create employment it is nevertheless basically false to try and achieve the same result by an increased investment activity on the part of firms which – though promoted by the

state – would nevertheless be guided by competition. This would be driving out the devil by Belzebub. True enough, it is possible to divert a temporary surplus into investment activities but as soon as the investment comes to an end, the multiple of the diverted quantity flows back since every investment that pays from the point of view of a firm must lead to an improvement in the average productivity of labour. If one takes no notice of relevant experience one will fare like someone who, digging ditches to drain a meadow, taps ever new underground sources, only increasing his troubles.

It should also be noted concerning the maintenance of nature that expenditure on this subject will very likely be insufficient in the long run for a definite avoidance of throttling the sources, i. e. of reducing the total labour needed since, given a constant volume of production, the next, not too distant doubling of labour productivity would already produce a 50 percent surplus in the absence of such throttling, i. e. as much as the total present national income.

Whichever way one may twist or turn, the rate at which the total work done will be predictably diminished will depend on two essential factors: a change in the volume of consumption possible even within the framework of relative saturation, and the growth in labour productivity.

An estimation of future changes in the volume of consumption demands attention to a tendency which reduces needs and another which increases them. Not only a falling off of prestige consumption will have a reducing effect (things accessible to all have no prestige any more) but also the fact that a generation that has grown up in prosperity will justifiably question every kind of consumption artificially increased by manipulation. A reduction in working hours and more leisure may however, as it has already done, lead to perhaps increased new needs, and the reducing tendency may be compensated, and even overcompensated.

Labour productivity and working hours

A second factor, growing labour productivity, can be estimated with greater reliability. It is as good as certain that automation will accelerate the rate of growth of productivity.

What has been briefly outlined here allows one to presume that the possibly continuing small growth in the volume of consumption might compensate for the acceleration in the growth in productivity that, in other words, the geometric progression will continue unchanged with the difference that the time span of the doubling of the volume of production will be replaced by an equal halving of the labour needed, that is of working hours if full employment is maintained. Presuming that the annual increment of the productivity of labour only exceeds that of the volume of production by 3 to 4 percent – let us reckon with 3.5 percent – then working hours will be halved in roughly twenty years.

If one bears in mind that working hours have not even been reduced by half from their maximum early in the 19th century, that more than a hundred and fifty years were

needed for what ought to happen in the immediate future, in the next twenty years then, like it or not, one must recognise that something new is ripening and under way. Were are at the start of an age when a lasting and radical reduction in working hours has become both possible and necessary. This throws a new light on the replacement of a 40 hour week by a 35 hour week. A reduction by half over twenty years to ensure full employment means that the 35 hour week could only last for four years, being soon followed by further reductions.

Such a major and ongoing reduction in the amount of socially necessary labour gives rise to new problems. The distribution of the product of labour used to be the central and much disputed problem; now it is the distribution of work itself, that is a distribution which guarantees the right to work.

In my view a general reduction in working hours will not suffice to cope but there is another possibility expressed most unambiguously in job sharing. For too long those in employment have fatalistically accepted an inequality, or they have not noticed it at all. They are able to purchase a larger or smaller quantity of any given product, as they chose, but their labour power can only be sold in the given quantity of 40 hours a week, neither more, nor less, that much or nothing. But a working day is not a genuine entity, like an apple, but a quasi-piece of arbitrarily determinable length, like e.g. a meter or other standard of measurement for continuous magnitudes. The division of labour, and particularly wage labour, led to a rigidifying of this quasi-piece, a regulated working day being necessary if wage-labourers neglecting their own personal needs, were to be forced to accept a unified working day which suited the ryhthm of production.

Only if it should prove possible to dissolve this tie, or at least to loosen it, will the right to work become a right which will not face one with an either/or alternative but allow one to sell as much of one's labour power as corresponds to one's needs, making one's own decision on how many hours one is prepared to work. As indicated above job sharing might offer a solution.

If a group – so to speak a collective employé – collectively undertook to carry out a certain number of jobs, e.g. if a number of turners undertook to man four lathes, they could themselves decide how to share out the work, and the wages. It would not matter to the firm who was working at any given time, since the length and continuity of the working day would remain unchanged. I said a number of turners in order to draw attention to the fact that there need not be precisely four; four lathes could be manned by five turners in one shift thus reducing per capita working hours from 40 to 32 hours, that is by 20 percent, without changing the rhythm of production in any way. There is no need to repeat all that has already been said about the mutual advantages of such a reduction in working hours, or about the problems raised, as always happens when there is talk of breaking with an established convention. It suffices to stress the essentially new. Job sharing appears to be the only already existing possibility of distringuishing between the hours worked by an individual and the working hours of a plant, thus adjusting working hours to individual needs. It facilitates the necessary radical reduction in total hours worked and is, at the very least, a pioneer of a general reduction in working hours.

The necessary provisions in labour law will still have to be made to allow today's sporadic beginnings to become a common type of employment. This will not be easy since resistance on the part of the trades-unions can be expected. As soon as job sharing has become sufficiently widespread to become a factor that cannot be neglected an additional problem arises.

Every reduction in working hours, even of the most radical kind, can only ensure full employment if real wages do not decline simultaneously. Were they to be reduced in proportion then the volume of consumption, and of production as well, would also be reduced, and thus also the total amount of labour needed. One would enter a never-ending spiral of reduction which would theoretically end only at the point of nil consumption, nil production, and nil work. The demand for full wage-compensation is therefore macroeconomically as well fully justified and necessary. This also applies to job sharing. If five share four jobs they clearly contribute to the reduction in unemployment if one of them had been unemployed earlier but if they are satisfied with the wages of four they start off the spiral – something that is not visible or provable in the particular case – which reduces the total amount of labour needed, that is they nullify the immediate effect on unemployment. In order to avoid this fatal feed-back the missing wage must somehow be compensated for, perhaps by adding the unemployment benefits previously paid. It will certainly not be easy to give job sharing the green light but if one is serious about full employment and the right to work then this particularly advantageous way must be tried as well.

The quality of work

Economists are inclined to consider only factors they can handle or measure. Talk about work also concerned quantities, that is working hours, no particular attention being paid to the nature of the work done, this being taken as more or less known. One cannot, however, even properly evaluate the need for shorter working hours and more or less known. One cannot, however, even properly evaluate the need for shorter working hours and more leisure if one does not discriminate between types of work. A narrowly economic point of view also neglects a problem which has gained in importance with prosperity and reduced working hours and is likely to become one of the major social problems within the not too distant future. What kind of work is it? Is it monotonous or creative, under what conditions is it done, is it alienated or self-directed?

Two cases allow for a better grasp of the problem since they, as it were, define the whole spectrum. Assembly line work, the uninterrupted and monotonous repetition of a few simple actions, stands at one extreme. It contains even less meaning than the work of a semi-skilled bricklayer who goes on placing one brick on top of another, since he, at least, watches his wall going up while the product of the assembly line keeps on disappearing. Work without satisfactory meaning or tangible result is only done for the wages that sustain one. Concerning such work it is obvious that any reduction in working

hours is an improvement, since even time killed loafing makes more sense than the hours of work. That work gives meaning to life is despicable demagoguery concerning work of that sort, usually propagated by those who themselves prefer doing nothing to any type of work. And yet even justified opposition to that sort of talk should not induce one to consider all work a necessary evil, particularily not work at the other extreme. A good friend, a Budapest mathematician, tellingly, though sarcastically, described his own position as follows: "Every one according to his abilities, and to every one according to his needs, that is communism. As far as I am concerned I have already arrived there since I work according to my needs and the Institute pays me according to its abilities!" Before I became an economist I spent fifteen years at the drawing board as a mechanical engineer and then a few more as head of a designing office. My own experience confirms my friend's views. Talented engineers work primarily because they are interested in their activity, neither better, nor worse if the "ability" of their office to pay them varied, nor did they do less work if their official working hours were reduced. The accent is on "official" since it often happened to me as well that I caught myself in my leisure hours – once in a theatre – that I heard and saw nothing while my brain ticked over concerned with a construction problem, i. e. I was working.

The problem is so to speak two-dimensional. The quantifiable proportion of working hours and leisure is only one dimension, the other is given by the spectrum of qualitatively differing work. That there is no standard for the latter, as there is for the spectrum of colours, in no way diminishes its importance. Smells cannot be measured either, though from stinking to flagrant there lies a whole spectrum and similarily we have a pretty good idea of the nature of a job whether it "stinks" or is "flagrant" without being able to quantify the situation.

We all know that industrial development has, in the interests of increasing production, deformed the spectrum of work in the direction of what is not worthy of man. The tendency was there right from the start, it did not change at the first turning point, at the time of the Great Depression, nor is it likely to change at the present one, certainly not as far as wage labour is concerned. How essential the need for meaningful and life-like work has become can also be judged at the hand of the many alternative work collectives where not less work is done, but more, as a rule, than would otherwise be necessary to maintain oneself. The growing attraction of various trades and crafts is based on the same need to do something that has not been deformed by the division of labour.

All this however offers a satisfactory solution only for relatively few people, and certainly not for the whole of society. Completely eliminating the division of labour would be akin to using the quillotine as a headache remedy. It is relevant, however, whether, and to what degree, the spectrum can be improved, given a division of labour that is essential for high productivity, primarily by reducing, as far as possible, completely monotonous work, such as assembly lines. In my opinion too much hope is placed in automation, and also in the notion that participation in decisions might diminish or even eliminate alienation.

Automation differs from earlier methods of improving productivity also in that it once again makes possible an integration of large stretches of the process of production and does not go on dissecting it. The more inhuman an operation is, the less skill and intellect are needed, the easier it is for automation to take over. Work such as Chaplin's who tightens screws at an assembly line till he goes mad is most easily eliminated. Making ready, controlling and maintaining automation, though not necessarily creative, is at least skilled work, and not mind-destroying. Nevertheless I think it an illusion that automation will solve all problems due to the division of labour. One ought not to forget that the all too long chain of mediation between individual activity and the satisfaction of a human need is further lengthened, and that this very likely further increases the alienation of work. Automation might eliminate monotonous work in factories but creates it in offices. Things become particularly questionable once automation is not confined to mass production. I would prefer to make tools in small series rather than transfer data given by technologists onto punch cards. The working out of a detailed technology which used to be the job of a skilled tool-maker operating a specialized machine becomes part of a disqualifying division of labour thanks to automation. Automation will also raise productivity much more quickly than it will prove possible to improve the structure of work. A more or less satisfactory spectrum of wage labour would thus only come about once – thanks to the shortening of working hours – wage labour will have lost its importance in the lives of men.

As against automation and technological progress, as such, participation in decisions has no direct role in increasing productivity and all the greater a role in reducing alienation. It is however often misinterpreted, or demagogically interpreted, arguing that monopotonous and mind-destroying work might become meaningful and bearable if its place in the total process is known and understood. Chaplin's position at the assembly line would not have become better in any way if he had known whether the screws he tightens belong to tractors or machine-guns, and if he had had a say in the matter, nor does it make any difference whether things happen in Budapest or Detroit. There is importance however in that those who actively participate in decision making will then do creative work as members of the management in addition to their unchanged monotonous work.

That is more or less all I wish to say about present trends of development in industrially highly developed countries. I should, however, like to add a few things to the problems raised early on, concerning alternatives for the future.

The possible goals of the evolutionary alternative

Both the romantic alternative-movement and the marxist revolutionary movement essentially wish to eliminate the alienation of work thus making a meaningful life possible. Since alienation is *de facto* the product of capitalism it is presumed that one ought either to return to pre-capitalist relations of production or else overthrow capital-

ism in a revolutionary manner, creating something new. The romantic road is obviously not suitable and the revolutionary one leaves out of account that alienation is above all the product of the division of labour as such, and cannot be overthrown. As against these two I consider a third way, an evolutionary alternative, to be worth consideration. Its starting point is that a radical reduction in working hours would mean that, though wage labour would remain largely alienated, it would no longer determine the lives of men. The next and next but one halving of working hours will surely suffice to ensure that the few hours a day or the few months a year, spent working and belonging to the realm of necessity, would no longer determine ways of life.

What then will take its place, what will become decisive for life no longer shaped and distorted by alienating work. That question will have to be answered or at least considered to give substance to notions about the future.

If there is no solution it may well come about that too much leisure will produce a vacuum in which men will drink themselves to death, or out of sheer boredom, kill each other, acting as individuals, or communities. But the need for leisure, and this is the only real alternative in my opinion, can sooner or later be transformed into a need for creative activity. The question then is how much room for such creative activity will be made, or can be made. Relatively few will do creative work in the realm of necessity, which will continue to rest on wage labour, all those doing monotonous work will therefore have to find an opportunity outside this sphere. (Participation in management will, of course, as mentioned, be an exception.) I am confident that outside production – including transport, trade, and an important part of services – there will be sufficient scope for creative work that cannot be dismembered by the division of labour, work in which teleology and praxis combine. My conviction is based on the following considerations.

Industrial development and particularly mass production has led not only to enrichment but also to impoverishment, that is to a standardization, and therefore impoverishment of needs. Many individual needs which could not be satisfied by mass production died out, but they could be, and very likely will be, rekindled. There are many signs of this already, including the spread of do-it-yourself activities. A renaissance of the crafts is likely, not in competition with industry but as a necessary supplement. There are many areas where mass production has intruded but could be overcome. I am thinking of present education e.g., of schools educating for wage labour, where pupils are not motivated by their curiosity and interests but paid in good marks, like wage-labourers. These can neither satisfy the individual needs of pupils nor really employ the talents of teachers. Craft-like teaching with a staff-pupil ratio of 1 : 10 or better, would not only give greater scope to the creative activities of teachers but would also raise a generation with its need for creative activity strengthened. The domination of production based on wage labour made all things outside this sphere to shrivel, allowing only such fields of activity to survive which could not be incorporated since they demanded too much creativity to permit the separation of capital and wage-labour. I do not wish to overwhelm readers with too obvious or problematic examples. Every one can look around

and find things for themselves where there is sufficient scope for work that has not been alienated and which will satisfy the individual need for activity.

Merely to indicate the direction in which the evolutionary alternative might move I shall briefly – and explicitly as a utopia – sketch the sort of social system as which such an alternative might end up.

In Utopia as well the dream of a paradise identical with the realm of freedom, where there is no realm of necessity, has not come true. The Utopians are convinced that the realm of necessity which maintains their prosperity will have to continue, regardless of the fact that there, in view of the highly specialized division of labour, they will have to go on doing monotonous and alienated work. A life worthy of man is nevertheless made possible for all by the fact that if monotonous work is distributed among all who are able to work it would take up only a few hundred hours a year, thus playing a subordinate role in the lives of people. The way in which such work is properly distributed is by making it the only paid work, so every one will have to do it to obtain the money paying for the goods made and marketed in the realm of necessity. What type of work is considered monotonous and will therefore be paid is given by itself thanks to the fact that the need for creative or non-monotonous activity is so great that there will be a sufficient number ready to undertake it without pay.

Otherwise the Utopians spend most of their days in a manner that resembles the ideas of the romantics about returning to a pre-industrial age, and perhaps even in better ways. It is like it inasmuch as a renaissance of the crafts will have taken place, but better since the Utopians will be motivated exclusively by their desire to be active when they decide to engage in some craft or do something else, and not by the need to make a living. In Utopia the market and money will continue in the realm of necessity, but lose all its importance in the realm of freedom. The aim is a kind of reciprocity which will become so much second nature in time that people as not keep accounts any more, not even in their heads.

The prospect that present industrial development and the progress of technology as such will lead into Utopia and not to destruction is admittedly very small. And yet, since there is no way back on the one-way road of history, there is little else one can do than do one's bit to ensure that the chances of such a Utopia, however small they might be, will improve somewhat.

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ЭВОЛЮЦИОННАЯ АЛЬТЕРНАТИВА

Ф. ЯНОШИ

В первой трети XX столетия, столкнувшись с пределами роста личного потребления, капитализм — согласно предвидению Маркса — изжил себя и должен был или отмереть, будучи смененным новым строем, или впасть в варварство. Капитализм вплотную подошел к этой грани в период мирового экономического кризиса тридцатых годов, но оказался способным к изменению «правил игры», грозивших ему гибелью. С тех пор рост реальной заработной платы в США в течение пяти десятилетий, а в остальных развитых индустриальных странах — со времени второй мировой войны идет в ногу с ростом производительности труда. Это был первый переломный момент в развитии капитализма.

Неизбежность второго переломного момента назревает в наши дни, поскольку возможности для роста производства, открытые расширением массового личного потребления, постепенно сужаются по мере достижения состояния относительного насыщения личных потребностей. По достижению определенного уровня потребления меняются устремления людей, предпочитающих увеличению потребления материальных благ удовлетворение иных потребностей. Лишь один фактор экономического развития действует неизменно и неуклонно со времени промышленной революции, это — рост производительности труда, за которым уже не может поспевать рост объема потребления. Поэтому неизбежно сокращение рабочего времени — процесс, который протекал весьма медленно за минувшие полтора столетия.

Автор считает, что в предстоящий период на место проблемы распределения созданного богатства выдвинется проблема распределения труда, точнее, возможности или права на труд для каждого человека в рамках всеобщего сокращения рабочего дня. Решение этой проблемы даст, очевидно, система разбивки и распределения рабочего времени (job sharing), сопряженная с гибкой организацией процесса производства.

Появившееся в западных странах движение за «альтернативный образ жизни» стремится, как и революционное марксистское движение, ликвидировать отчуждение и создать более разумную жизнь. Поскольку отчуждение появилось при капиталическом способе производства, то первые романтически предполагают возвращение к докапиталистическим производственным отношениям, а вторые желают революционным путем свергнуть существующие и создать новые производственные отношения. Романтический путь несостоятелен, а приверженцы революционного пути упускают из вида тот факт, что отчуждение порождается в первую очередь разделением труда, которого, однако, нельзя «свергнуть». Автор предлагает третью, «эволюционную альтернативу». Эта альтернатива исходит из того, что вследствие радикального сокращения рабочего времени наемный труд, хотя и останется большей частью отчужденным трудом, перестанет определять образ и содержание жизни людей. Сокращение вдвое и больше рабочего дня приведет к тому, что труд, исполняемый в «царстве необходимости» в течение нескольких часов ежедневно или нескольких месяцев ежегодно, потеряет нынешнее, детерминирующее образ жизни значение. Меньшинство людей будет иметь, по-прежнему, возможность творческого труда в «царстве необходимости», но большинство обретет достаточно времени и пространства для творческой деятельности вне этой сферы отчужденного труда.

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THE SOCIAL POLICY ASPECTS OF THE CENTRALISED REDISTRIBUTION OF INCOME IN CAPITALISM

The article approaches income redistribution under capitalism from the social policy aspect, that is, the subject of the study is the income equalizing effect of income redistribution. The authoress realizes that, although the more unequal the original distribution mathematically is, the more income equalizing the given redistribution ought to be in reality, it is characteristic that the income equalizing effect of redistribution is greater where also the primary distribution is less unequal. While for taxation to exert a positive income redistributing effect both the volume and the proportion of taxes have to be progressive, benefits have a positive income levelling impact as long as their proportion is regressive, that is, their proportion diminishes in the higher income brackets, even if the extent of benefits increases with growing incomes.

1. *The conceptual sphere and correlations of centralized redistribution of incomes*

The redistribution of incomes is to be understood as the income flows in a given country in a given period, as compared to the primary distribution.

The centralized redistribution of incomes is a combined system of the taxations of incomes and of the social benefits (transfers) by the state which is realised in the budget on the macroeconomic level and is expressed in the relation of the final incomes of households to the primary incomes from the micro-economic aspect.*

The social policy effect of the capitalist centralised income redistribution is a reduction of the income inequalities (in the following: "income equalising" effect),** which it is important to analyse from the macro-economic as well as the micro-economic aspects. The redistributing effect must be examined in its relations to economic development level, political and social conditions, the inequalities of the primary income distribution and the systems of income redistribution, observing also the changes in time of the effect reducing the inequalities of incomes, and the trend of these changes.

*I do not examine the income flows within the household sphere, nor the benefits received in the scope of enterprise social policy.

**Of the functions of social policy reduction of the inequalities in income is one of primary importance. The fight against inequalities has played an important role in the social policy of the capitalist countries from the mid-1950s, when it became clear that social inequalities persisted in the welfare states and poverty did not disappear, either. In the 1970s a new and not so highly aimed effort began to show: equality was given up as irrealistic and the word "equity" has been substituted for it in a growing number of cases.

International comparisons of the extent of global redistribution and of its income equalising effect are scarce as against the theoretical literature of the question.*

The statements of the "Incomes in Postwar Europe" on the subject reveal that in the advanced capitalist countries no coherent redistribution systems work as a rule. The various systems of taxation and transfer channels develop as they do independently of each other, gradually, and according to current needs. The analysis says that this is because they were not created with the primary objective of reducing inequalities and that they are manifestations of changing government policies. No uniform tendency is observable in the changing effects exerted on inequalities either: during the period under examination, the income equalising effect of redistribution was growing in some countries and decreasing in others. We can accept the statement of the authors of the study: transfers have, at least relatively, a greater equalising effect than taxes (levies), even though total taxes exceed by far the social benefits.

According to the above-mentioned study by Casenave and Morrison, the comparison of the data of Great Britain, France and the U.S.A. – three countries in approximately the same income zone – does not show a positive correlation between economic development level and the equalising effect of income redistribution. Such correlation is significant between groups of countries (advanced and developing countries) on different levels of development. A reverse correlation can be found between the inequalities of primary income distribution and the income equalising effect of redistribution. Finally, experience shows that, at a higher rate of economic growth, the inequalities of the primary income distribution are growing, and they decrease less through redistribution.

The income equalising effect of redistribution depends – in addition to the factors examined in the study with methods of correlation computation – on the structure, functioning and prescriptions of the redistributing systems that have developed under the relations of class forces and under the influence of the power structure.

An international comparison of the Hungarian Central Statistical Office has revealed that in the countries under examination the original income distribution shows the highest inequality in Sweden, while in consideration of the effect of redistribution it is among the capitalist countries with the most equal income distribution.

However, according to the above-mentioned OECD study – presenting the Swedish income distribution within a larger international framework – already the original income distribution of Sweden proves to be somewhat more even than the average (its Ginicoefficient is 0.346, while the average is 0.366). The study throws light also on the cause of even this inequality of income distribution in Sweden: the rate of one-person households

*A large-scale international analysis is found in "Income in postwar Europe" [1]. A later study by Ph. *Casenave* and Ch. *Morrison* [2] draws a parallel between the data of Great Britain, France, and the U.S.A. A few years ago the Hungarian Central Statistical Office initiated an international comparison of relative incomes [3], in which the data of Hungary, Finland, Spain, Canada, Sweden and Czechoslovakia were processed. Important results have lately been contributed to the international comparative literature by the study of M. *Sawyer.* [4]

– whose income is lower than that of larger households – is there extremely high: 37.6 percent. The fact that after redistribution Sweden aligns with the countries showing the most even distribution proves the success of a well planned *social* policy intervention. Therefore, the Swedish example is not a counterexample, either. That is to say, the Swedish case is a further proof that the income equalising effect of redistribution will be more intensive in a country where the original income distribution is not extremely uneven either.

Probably, in the countries in question the given power relations affect both processes of the distribution, though in the primary distribution no or hardly any social policy requirement is asserted in capitalist countries. And yet the effect of the social power relations is important in the sharing between capital and labour. The social policy motive – the reduction of inequalities of income – will be then an important, though not exclusive, factor of redistribution.

The OECD examination under discussion reveals interesting facts about the social policy effects of income redistribution. I shall now mention only those particularly interesting for our subject.

– The income equalising effect of taxation on the decile division of income brackets is manifest mainly in the changing shares of the two lowest deciles and of the highest one.

– The extent of poverty by country cannot be established from the relative incomes in the lower deciles of family incomes, since in individual countries the different family size by income brackets may have a greater effect than the differences in the incomes of the heads of households.

– The ranking of the countries by income inequality after redistribution is rarely different from that set up according to the primary distribution. (This fact again supports the correlation mentioned previously.)

– The ranking after redistribution, according to inequality indicators, is the following, from below upwards: Holland, Sweden, Norway, Japan, and the United Kingdom. Final distribution is the most uneven in France and Spain.

– Inequalities diminished almost everywhere in the 1950s. In the 1960s and 1970s this tendency continued in Italy, France, Japan and Holland. However, in the United States inequalities have been expressly growing in the last twenty years.

2. *The social policy content of centralized redistribution*

The centralized redistribution of incomes – examined here from the social policy aspect – which is the resultant of levies and social benefits, has several functions. The social policy function is just one beside the fiscal and anticyclical tasks. It is mainly in state levies, but also in benefits that, beside the social policy income equalising function, other considerations do not just have a part, but are often dominating. Fiscal policy is – beyond the fiscal consideration – an instrument of economic policy to influence the

business cycle and long-range economic growth. Even social benefits are used for such purpose, particularly to "smooth out" growth cycles, though, as it has been mentioned, the social policy motive is there of greater importance than with taxes. In addition to the different motives and functions, the use of redistribution as a social policy instrument is limited also by the prevailing system of the various forms of taxes and benefits as well as by their nature. All this, however, does not lessen the importance of the social policy aspect of redistribution.

It may be ventured that differences between countries in respect of the equalising effect of redistribution taken as a whole are somewhat smaller than in respect of the effects exerted by the various particular systems of taxes and benefits. If, for instance, the weight of direct taxation (which is usually progressive, though to different extents) is relatively slight in a country, then the indirect taxation regressive on incomes contains more progressive elements, at least in respect of consumption. At the same time, the financial resources of the social insurance system and their composition are different in each country. In countries where social insurance is covered in most part by the government's and employers' contributions, the income equalising effect of social insurance is greater than in countries where the contribution is borne in a greater proportion by the employee.

The effect of the redistribution of incomes is also dependent on the inequalities of the primary income distribution. This is because all the transfers which are less unequal than the primary income distribution have, finally, an equalising effect. Therefore, in judging the taxes and benefits from the social policy aspect, it is important to know the extent of their progressiveness or regressiveness, not just the positive or negative tendency of the redistribution.

I consider it an important finding that while the positive social policy effect of taxes infers progressiveness both in their volume and in their rates, benefits can be of a positive effect – even though to a smaller extent – also if only their proportion is regressive (decreasing with growing incomes), but their volume is increasing.*

*This can be clearly seen from the following simple example in which three income categories are distinguished:

Primary income	Benefit	Benefit in percentage of the income primary	Final income
50	10	20	60
100	15	15	115
150	20	13	170

It appears from the example that, if the extent of benefits is growing parallel with the growth of income, while its percentage relative to the primary income is decreasing, the final distribution of incomes will be less unequal than the primary distribution. It follows that several such benefits have an equalising effect which have been considered so far as unfavourable from the social political aspect. This is a significant factor in the capitalist countries, since there the primary income distribution – which is the basis for comparison – is more unequal than in socialist countries, thus in these countries

The use of the adjectives positive, neutral and negative for benefits – instead of progressive, proportional and regressive used in general for taxes – is further justified by the fact that in the case of benefits related to primary income, it is exactly progressiveness in the strict sense of the word that has a negative and regressiveness that has a positive effect.*

The redistributing effect of benefits can be examined relative to the primary gross or net earnings. With the former the positive redistributive or income equalising effect will be stronger, since net earnings (reduced by the taxes) are less unequal, if taxes are progressive.

The realization of the fact that societal benefits have a positive effect from the social policy aspect as long as their distribution is more even than that of the primary incomes is important because, on account of their scope and present systems, but also their nature, the bulk of the societal benefits can reduce only the relative income differences. With the exception of the minimum pensions, basic pensions and selective welfare benefits, there are few social benefits that reduce also absolute differences (the size of which diminishes along with the growth of income). This happens only as a consequence of special circumstances, for instance, with benefits distributed upon the basis of such demographic criteria (number of children, age, etc) which are negatively correlated to income. (Of such effect is, for instance, that pensioners use health services to a greater extent.)

Thus of the two channels of income redistribution, the progressive income taxation is theoretically the only one apt to reduce inequalities in the absolute sense. Where no such system is functioning, in the course of redistribution the inequalities will not or hardly reduce in an absolute sense, in the best case they remain unchanged.

Societal benefits are to be considered practically only as the means of a relative redistribution. This does not exclude, of course, that they should have a considerable effect in changing the original inequality – particularly if one assumes a case in which they do not exist at all –, not mentioning their function in providing for the security of existence.

In family supports both basic channels of redistribution are used. A benefit with such objective granted in order to reduce tax by a certain amount can also play a positive role in income redistribution. However, in countries where the lower income categories are exempt from tax, those with the lowest incomes are of course deprived of such benefit. The kind of benefits to reduce taxation, used for instance in France, where taxable income is divided by the number of the family, is disadvantageous from the social

there are a particularly great number of benefits progressive in volume but regressive in proportion and having thus, finally, a reducing effect on the inequalities of incomes. This throws a new light – also under socialist relations – upon the income redistributing effect of outlays on, e.g. public health, university education and culture.

*In the case of benefits "rates" rarely meant administratively determined percentages as used in the case of taxes. In deciding the progressive or regressive character, "rate" is considered, instead, as the proportion of the actual benefit to the income.

policy view: families in the higher income categories come into a more favourable position from the point of view of tax payment. It is now widely recognised that family allowance based upon tax abatement is less efficient from the social policy aspect than the support based upon direct benefits; the role of tax reductions is diminishing in the family support systems of a growing number of countries, and it is being replaced by paying family allowance or increasing it.

The income equalising effect of income redistribution is the resultant of taxes and benefits, while taxes provide coverage, among other things, for benefits. As for the financial resources of benefits, it would be best from the social policy aspect if coverage were provided by progressive taxation; in the present system such are the direct and mainly the personal income taxes. However, in most countries the social insurance benefits within the societal benefits are covered primarily from social insurance contributions, which are usually proportional, respectively, above a fixed upper limit they are already regressive levies. Although the part of the social insurance contributions covered by the employer affects indirectly wages, and directly also prices, the benefit will still appear as an addition in the hosuehold incomes, as will also the benefits covered from other tax revenues of the state. If an upper limit* is fixed in the prescriptions for social insurance contributiton (in particular for the part paid by the employees), the levies will assume a negative character – and the more, the lower is the fixed limit. In the microeconomic redistribution this negative effect will even be stronger, if such levies are used to cover benefits in positive correlation with income. If regressive taxation covers regressive benefits, the sign of the collective redistribution effect will be the resultant of the components: of contributions and benefits.

In the last resort the two basic redistribution systems: taxes and benefits are to be treated in principle as of the same value from the point of view of reducing inequalities of income. As a rule, the income equalising effect is greater with benefits than with taxes, though the volume of the taxes is much larger than what is used of it for social transfers. This is explained by the motives: with the former the priority of the social policy motive is more characteristic. In spite of this – and now the nature of the income redistributing systems come to the fore – it is practically only the progressive income taxes that are apt to reduce the absolute income differences. Benefits are in fact one of the instruments to reduce relative income differences. The conclusion is also to be drawn from the preceding that the absolute inequalities of income distribution are determined through the primary, fundamental distribution – exclusively, if progressive income tax is not applied, and primarily, if it is. The income equalising effect of the progressive income tax is strongly limited by the well-known fact that the different incomes are available to taxation to a different extent, depending on their sources. Thus, for instance, incomes from capital, the earnings of the self-employed, and the so-called second economy are hard to reach. Therefore, the bulk of the burden of tax payment is borne by wage and salary earners. In

*The upper limit surpassed, contributions are not calculated by the fixed rates, thus the percentage of contributions is decreasing beyond this limit.

capitalist conditions, however, in which the primary distribution is determined by the capitalist production relations, the taxation of incomes is an indispensable means for correcting the income distribution with a social policy objective.

The effect of the redistribution system on the primary inequalities of income is obviously the more advantageous from the social policy aspect, the more progressive the taxes and the more regressive the benefits.

The income equalising effect of redistribution is nil if taxation and benefits are proportional to income. The most advantageous redistribution is reached by progressive taxation if benefits are unified, that is, of regressive proportion, or, even better, if they have a fixed upper limit. Taxation with an upper limit and unified benefits may still have a positive effect on redistribution, however, such taxation with benefits proportional to income is already of a negative effect. Finally, the effect is the most negative from the social policy aspect if benefits are covered from taxation with an upper limit, and are progressive in their volume, or, what is worse, in their proportion.

Thus, the income equalising effect of redistribution depends, beside its relation to the primary distribution, on the rate, structure and system of taxation on the one hand, and on the ratio of taxes spent on societal benefits, on the other hand, as well as on the structure and system of the benefits.

3. *The changes in social insurance receipts and expenses, as well as in benefits in cash and in kind with rising prices and wages*

The revenues and expenses of the social insurance system are changing differently in relation to each other. The coverage of social insurance expenses is provided usually from contributions by the state, the employers, and the employees, to extents different in each country. As a rule, the contributions of the employers and the employees are rising automatically with rising wages, if no upper limit is set. If there is, the upper limits are usually raised. Contributions may also increase through raised rates on wages and salaries.

There is usually a discrepancy between the contributions of employers and employees and the size, expressed in monetary terms, of the benefits to the employees. Most of the social insurance contributions grow automatically with rising wages, while among benefits it is only sick pay and pension that are granted in proportion to earnings, and only the former is paid exclusively in proportion to the current earnings.

If not linked to rises in prices and wages, pensions will be lagging the more behind the prevailing wages, the earlier they were stated, and the higher the rate of inflation and of the increase of real wages in the given country. The fixed amounts of benefits in cash – such as the fixed part of the family allowance and of the unemployment benefit – rise only upon special intervention. It has not yet become a general practice to yearly control short-term benefits, or to link them to the consumer price index. Benefits of a fixed amount lose in their real value through the rise in prices, and are reduced in proportion through the increase of wages. Therefore, with the exception of the sickness

benefits, the per head expenses of social insurance are growing more slowly in general than contributions.

Simultaneously with the lag of the real value and of the relative level of the various benefits on the microeconomic level, additional costs are incurred on the macroeconomic level. The reason for this is, in several countries, the increasing number of those covered by the insurance usually with a lower contribution. The other reason is the rising average age, which adds considerably to the volume of pensions to be paid out, even with an unchanged level of pensions.

After using some of the social insurance benefits as determined by demographic changes, the additional receipts can be distributed in several manners. They can be spent so as to approximate, to different degrees, the original real value, or, relative level of the benefits, or to increase the number of those covered by social insurance (to finance that part of the resulting additional costs which is not covered by additional contributions), or, finally, it can help to raise the standards of certain benefits.

It is a primary requirement of social policy to maintain at least the so far achieved real level of the benefits. It is then secondary to consider the further possibilities of using the additional receipts in a way best suited from the aspect of society and social policy.

Under capitalist conditions the incomes of those covered by social insurance are widely different. For instance, the average earnings of the agricultural workers are lower than those of the industrial workers and these employed in the tertiary sector. The benefits to craftsmen and merchants – with contributions sometimes lower than those of the employees – are doubtful as regards their income equalising effect.

Of the benefits in cash making up about three-quarters of the social insurance benefits enjoyed by private households, it is only the sick pay that keeps pace with the rise in wages. The real as well as the relative value of pensions – if they are not linked to the rise in prices and in wages (indexing) – is falling, and so is that of the benefits of a fixed amount, even if they are raised periodically.

The expenses of social insurance on public health benefits in kind are rising for several reasons. They are affected by the changes in the price and, in general, in the cost level. They are increased by the improved level of health services. And, finally, the number of those receiving the benefits is growing in several countries, among other things because of extension to members of the family. The number of those entitled to the benefits is growing with contributions usually lower than those of wage and salary earners.

That is how the tendency is born that the costs of the health benefits in kind are growing faster than of those in terms of money. The slower rise of the latter is also due to the fact that some of them do not keep pace even with the inflationary rise in prices, and even less with the rise in real wages. (While the cost level of benefits in kind includes the rise in wages.) From the microeconomic aspect, this consequence is the more serious, the higher the inflation, and the faster the rise in real wages in the given country. The maintenance of the real and relative value of the monetary benefits in cash necessitates their linking to the rise in prices, as well as to the rise in wages. It happens that of the two

versions it is the one more favourable at the given time that is actually used (price indexing, of course, only with falling real wages).

It follows from the preceding that, on the macroeconomic level, the increase of receipts surpasses that of expenses all the more, the higher the inflation, the faster the rise in real wages, the higher the ratio of contributions of employers and of the employees, proportional to earnings, in covering the social insurance benefits, and also, the lower the ratio of the benefits proportional to earnings within the total of social insurance benefits.

4. *The social policy aspects of income taxes and of societal benefits*

In the following the various income redistribution systems; taxes and benefits will be analysed, from the social policy aspect, watching their effect on the development of income inequalities.

Centralised levies are effectuated practically through the system of taxation, and the benefits partly without and partly within the social insurance system – most of the former in kind, and the latter in the form of social benefits.

A. *The social policy criteria of taxation policy*

In evaluating income taxation, I shall not examine the tax burdens of the whole capitalist or worker class, but I shall investigate first of all their effect on the groups formed according to size of income for taxation purposes, and on the family incomes. In examining the various tax assessments, the most important considerations will be, who and to what extent are affected, and of what direction the changes taking place in the systems are.

It may not be without interest to recall the three main functions of taxes: to finance public expenses (fiscal aspect); to help implement economic policy objectives; finally, to serve social policy objectives. Different demands – sometimes clashing against one another – are raised by the three functions; the interests rooted in the first two may easily suppress the use of taxes for social policy objectives.

In the advanced capitalist countries taxation is considered to be the more progressive, the higher the rate of direct taxes.* This approach comes from the fact that while direct taxes are usually progressive, even though to different extent, indirect taxes** affect only consumption, and not savings, the proportion of which is growing in the higher

*In assessing direct taxes – upon the basis of individuals' and companies' incomes – the circumstances of the taxpayer are usually taken into consideration (not only the size of the income, but also the property status, the size of the family, etc.).

**Indirect taxes are levied on the whole or a definite part of trade, sales or purchase, and consumption of products and services, irrespective of the taxpayer's individual circumstances. (See [5].)

income brackets. Therefore, in the case of uniform rates, indirect taxes have a regressive effect. This regressive effect may be counterbalanced by the differentiation of the indirect taxes. (At least regarding consumption.) The requirement of a highest possible rate does not hold for the social insurance contribution, though technically it is considered to be one of the direct taxes. What is more, it seems desirable from the social policy aspect that societal benefits should be covered as much as possible from the revenues of direct taxes, usually of a progressive character. This is explained by the fact that in the capitalist countries the social insurance contribution systems are at best proportional today, and in some cases regressive.

The progressive character and positive social effect of income taxes are considerably reduced by the concealed incomes of those not living on wages. And the regressive effect of indirect taxes asserts itself the less, the larger the differentiation, since tax rates are usually the lowest with the basic necessities, and the highest with luxury articles. The redistributing effect of indirect taxes is determined by the resultant of the two components: progressiveness arising from differentiated tax rates, and regressiveness arising from the difference in savings ratio between the different income brackets.

However, caution is needed in evaluating differentiation. This is because the effect of the higher tax rate of certain consumer goods is not clearly progressive, though, on account of the differentiation according to quality, very often the income elasticity coefficient of these articles is above unity.*

Thus the social policy criteria of the fiscal policy show some diversification. They include the increase of progressiveness of the personal income tax, the relative abatement of the tax burden on wage-earners, reduced possibilities for tax evasion by the self-employed, tax exemptions to those with low incomes, reduction – possibly uniformly from the tax itself, in proportion to the number of dependants; and increasing the burden on capital and capital incomes, which affects, beyond progressiveness of the income taxes, also the existence and extent of the property and corporation taxes. Further social policy criteria of the direct taxes are the rate of the transfer, gift and inheritance taxes, and their progressiveness depending first of all on the value of the legacy.

The system of the social insurance contributions is the more advantageous from the social policy aspect, the more societal benefits are covered from the direct tax revenues of the state, the larger the share of the contribution borne by the employer and the smaller that borne by the employee, finally, if contributions are at least proportional and have no fixed upper limit.

Beyond the relative diminution of the share of indirect taxes in the revenues of the state, differentiation is required, and staple consumer goods should have to be exempted. Thus the social policy measure of the indirect taxes is the progressive differentiation corresponding to the consumption pattern changing with each income bracket, and the share of the total income spent on indirect taxes.

The foregoing provide only a rough outline of the social policy criteria of taxation policy. Taxation will be appreciable from the social policy aspect in fact only in the

*This means that on a unit growth of income, the indirect tax growth is higher than unity.

framework of the complete redistribution process, that is, in its relation to the utilisation of the incomes taxed away.

B. *The social policy criteria of the societal benefits*

The expression "benefits" is questionable within the conceptual sphere of the societal benefits, yet I use it myself. Instead of "societal", however, I shall use "social" in appropriate cases.* Of course, all social benefits are considered as societal ones, but it is not the direct and basic objective of all societal benefits to equalise incomes, which is the primary demand on social benefit.

Since the beginnings of modern social policy [6], benefits have been given through the centralised redistribution.** Here belongs the central support to the poor, since it was only before the development of modern capitalism that this had been covered to a considerable extent by the churches and from private resources of charity. In our age, enterprise social policy has started to develop also under capitalist conditions, under which the company does not provide benefits through the centralized redistribution of incomes, but directly – of course, only to its employees. It is, however, only in a few advanced capitalist countries that this adds considerably to the benefits covered from centralized resources.

In our days the scope and extent of societal benefits are very wide and increasingly so. Their core, however, is still made up of the benefits given within the framework of the various social insurance systems. Here belong the allocations in cash and in kind in case of sickness, the disability, widow's, and old-age pensions, family allowance, and the unemployment benefit.

The scope of the societal benefits within the framework of the centralised redistribution of incomes is, as I have already mentioned, much larger than that of the social insurance benefits, and even of the social benefits. In certain cases it is difficult to delimit the "social" from the "societal". The proper place of the benefits can be clearly defined only afterwards, upon the basis of their actual effect, though it would be very important to decide beforehand, which are the aims to be served primarily by the different benefits at a given place and time. The distinction is the ordering principle in defining the aims; in the examination of the effects it is merely an aspect of analysis.

*"Societal" is meant in the strict sense of the word. All the benefits come under this attribute that serve, directly or indirectly, and comprehensively, to improve the living conditions of the population. Within this, "social" benefits are those to make up for temporary or final loss of income, the allowances for dependants, as well as the benefits exempting totally or partly from expenses on certain kinds of consumption, which are meant to reduce, temporarily or permanently, the differences of income per wageearner, or, of per head family incomes.

**Therefore, on the macroeconomic level, they usually appear in the form of expenditure items of the budget serving directly or indirectly the welfare of the population. However, social insurance benefits do not go through the budget in every country to reach the insured, but in several countries they are given directly by independent social insurance institutes. In such cases only that amount figures in the budget that the state puts at the disposal of the social insurance institute to cover its expenses.

Educational and cultural allocations, and the part of the central resources spent on housing and not reimbursed by the owner also belong to the sphere of societal benefits (beyond the social insurance of a clearly social character and the institutionalised support to the poor social aid) and, though it is open to question, I consider to belong here also that share of the subsidies which are to support the prices of products and services directly consumed by the population.* Societal benefits also include the part of the operational costs of infrastructure serving the societal consumption of the population, which is not reimbursed by the latter.

An overlap of societal benefits with social benefits within them is present already in expectations: for instance, the subsidies of consumer goods and services, which belong, as grants on some special kind of consumption to the system of criteria of societal benefits. If, however, they subsidise the products and services which are present in a larger proportion in the consumption of those with low incomes, then they are also social benefits.

The changes in the extent and scope of societal benefits, as well as in the number of those receiving them can only be understood if all the social, economic and political changes are known which have led from the first elements of social policy to the development of the modern societal policy, and which have become, in our age, one with the process of social policy growing into societal policy. [7]

Therefore, by societal benefits I mean all the measures and institutions which aim at the reduction of income differences to the benefit of those in a disadvantageous position (this is what I consider social benefits within the societal benefits), improvement of the population's welfare beyond the primary income distribution, and the promotion of societal consumption considered to be of a higher order. In a longer perspective, also the latter has to fulfil the social policy requirement, it has to reduce the inequalities of incomes. This is achieved if those with low incomes can have an increasing share of the preferred consumer articles and services. (If, namely, the social differentiation of consumption does not lessen, the collective will cover in a higher degree, more or less permanently, the consumption of those in the higher income brackets.)

The development of infrastructure serving the population's consumption is not considered in itself as a benefit by the author, but is interpreted as a precondition of certain societal benefits. This is because on the microeconomic level they do not appear as benefits, and on the macroeconomic level they do not belong to consumption, but to accumulation.

Societal benefits may assume the form of allocation in cash and in kind. In literature also direct and indirect benefits are distinguished. However, as is the case with the different kinds of taxation, or even more so, it is difficult to clearly mark them off.

*I list this component of price policy with the benefits, because it is a factor of redistribution with a specific effect on social layers, although it is disputable, if subsidy is a benefit. Subsidy may also be considered as a negative tax, and, in case of introducing the negative income tax, it would figure clearly as a benefit.

Theoretically, the criterion of making a distinction between direct and indirect benefits is whether they are due to certain persons (direct), or are dependent on the consumption of certain products or services (indirect). In classifying benefits, other categories, mainly sociological, are used as well, such as: of individual effect, of neighbourhood effect, of global societal effect; universal, selective, etc.

Cash benefits to individuals are clearly of the direct kind as are direct taxes, whether they are to complement income, or to make up for loss of income. Most of the benefits in kind, realised in the consumer's use of certain products or services are clearly indirect, as are indirect taxes. In some cases, however, benefits in kind may also be direct, conferred on individuals (such as protective drink, work-clothing, baby outfit*). Such is in fact the flat received as allocation, though this is a border case according to the definition.

Thus all benefits in cash to individuals are direct, while not all benefits in kind are indirect (though most of them are).

The division of societal benefits into direct and indirect ones is important from the point of view of the social policy requirement. This is because it is important, according to the criterion of social benefits, that in getting a share of some of the indirect benefits a role is played by the aspiration level, or, by the actual possibilities of consumption; this is positively correlated with incomes, at least in the absolute sense, that is, in volume.

In the following I classify societal benefits according to the forms in which they appear for those receiving them:

1. Replacement of temporary or final loss of income (sick pay, unemployment benefit, various pensions, etc.)

2. Benefits to complement incomes (family allowance, social aid)

3. Partial or total exemption from income reducing expenses, such as:

a) preference of certain kinds of consumption; subsidy to consumer goods; free health, educational, cultural, etc. services (including the full or partial reimbursement for the costs of therapy advanced by the individual); public supports to housing;

b) tax abatements and tax exemption (the social clauses of personal income tax) affecting the relationships between gross and net incomes in the case of low income brackets, or family support.

Judgement of the effects exerted by the functional systems of the societal benefits depends basically on the approach to the problems – which is again expressive of the process of social policy growing into societal policy and of its consequences. The societal security and consumption objectives to be reached by means of the societal benefits may temporarily suppress the social policy objective to abate inequalities of income.

It is, however, very important to know the effects resulting from the nature and character of systems, for it is only in this knowledge that the appropriate system can be assigned to the required objective. To reach the social policy objective, which is income equalisation, a system is needed which will help that the distribution of benefits be less

*The above-mentioned direct benefits in kind are part of the factory social policy, although it is open to question, if work-clothing and protective drink are to be considered benefits at all.

unequal than that of the primary incomes. Such effect may be attained in certain cases – first of all with indirect benefits in kind – also if consumption, related to the aspiration level as well as to the actual societal possibilities, is in a positive correlation with the income level but is not growing in direct proportion to it.

C. *Evaluation from the social policy aspect of the social insurance benefits*

In the preceding the basic criterion of judgement from the social policy aspect has been stated: reduction of inequalities in income distribution. This principle may be related to any of the societal benefits, yet it holds particularly for the social insurance benefits, which latter are considered to be in the sphere of the social allocations, thus with these the social policy objective is held to be of primary importance. It is to be stressed, however, that this is not the only criterion for the evaluation of societal, and within it of social, benefits.

It can be stated that in general the income equalising effect of the social insurance benefits is the more positive, the higher the rate and the larger the volume of the benefits that are in negative correlation with the primary income. First of all family allowance and benefits in kind in the case of sickness are cases in point. These reduce income differences per wage-earner and per head both in space, as well as cross-sectionally, relative to the primary income distribution. The other social insurance benefits, sick-pay, pensions, unemployment benefits mainly reduce income inequalities within the life cycle. The effect of such benefits cannot become negative from the social policy aspect, except if their distribution is more unequal than that of the primary incomes. This does not happen in practice: the redistributing effect of social insurance benefits is positive from the social policy aspect, first of all horizontally, that is, within the life-cycle, but also vertically, in space.

The evaluation of these effects cannot be narrowed down to the basic criterion of social policy, income equalisation, either. The effects of social insurance benefits must be examined also from the societal policy aspect.

Further, attention is to be paid to the feeling of social security, which, beyond affecting consciousness, may release forced savings with the given consumption level. Through allocations in kind in case of sickness it orientates social consumption, and, in general: social security is a vital component of a balanced way of life.

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ЦЕНТРАЛИЗОВАННОЕ ПЕРЕРАСПРЕДЕЛЕНИЕ ДОХОДОВ И СОЦИАЛЬНАЯ ПОЛИТИКА В КАПИТАЛИСТИЧЕСКИХ СТРАНАХ

Ю. ГАРА

В статье дается определение понятий и рассматривается централизованное перераспределение доходов в капиталистических странах с точки зрения социальной политики, то-есть перераспределение доходов анализируется как фактор выравнивания доходов. Автор использует важнейшие положения международной экономической литературы по этой теме и дополняет их результатами собственных исследований на основе индуктивного и дедуктивного методов. Затем автор подробно анализирует более узкую область перераспределения доходов — перераспределительный эффект социального страхования.

Поскольку отправной основой перераспределения является первоначальное распределение доходов, выравнивающее воздействие перераспределения должно быть тем сильнее, чем более неравномерно математически первоначальное распределение доходов, однако в действительности — согласно результатам анализа — воздействие перераспределения на выравнивание доходов тем дальнее, чем менее неравномерно первоначальное распределение. Это вызывается тем, что на обеих фазах распределения действуют определенные соотношения классовых сил.

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COMMENTS AND CRITICISMS

Development of various forms of so-called small entrepreneurship has strongly engaged public opinion in Hungary in recent years. Beside the initial practical steps in this direction (various forms of small cooperatives, associations, leaseholds, private entrepreneurship also the much debated activity of Tibor *Liska*, who has elaborated a radically new theory of socialist entrepreneurship, arouses great attention. Tibor Liska (born 1925) has brought about, with separate government support, and is heading the Research Group of Entrepreneurship at the Karl Marx University of Economics. This Group initiated and is monitoring a few experiments which intend to test T. Liska's proposals in practice. It also carries on a propaganda activity enjoying great publicity in order to make people acquainted with and understand Liska's ideas. At the centre of this activity are open and public debates organized by the group where the participants – invited experts and other interested people – confront their opinion and ideas with the theoretical conception and practical proposals elaborated by Liska.

Hereunder three authors discuss T. Liska's ideas and proposals. The study by Jenő *Bársony* gives a summary review and analysis of Liska's views. (Since up to now Liska has not expounded his views in a comprehensive form in writing – apart from some sketchy and partial internal materials not intended for publication – the study by Bársony may be considered the up-to-now fullest and correct summary of Liska's theory. (Liska himself considers it as such.) The critique of János *Kornai* was delivered as an introduction to one of the public debates with Liska. György *Varga* examines the experiences of a practical experiment relying on his impressions obtained on the spot.

The ideas of Liska are quite novel and he developed quite a few new economic terms. Thus we were forced to coin some new English terms as well. Since the terms are all explained within their context, we hope our readers will have no difficulty in interpreting them.

The Editor

J. BÁRSONY

TIBOR LISKA'S CONCEPT OF SOCIALIST ENTREPRENEURSHIP

In recent years, numerous interested experts gathered, week after week, at the perhaps most interesting "debating society" of Hungarian economists, at the "research debates" of the Entrepreneurial Research Group of the Karl Marx University of Economics (Budapest), to witness the mental excercises in the course of which, on the one hand, the head of the Research Group, Tibor *Liska* explained or confronted his views concerning socialist entrepreneurship, and on the other, prominent representatives of Hungarian economic science took a stand concerning the questions being discussed. Some people may have considered these meetings a creative scientific workshop, others a "sect" in the process of being born, but it is undeniable that problems of decisive importance were being discussed, aiming in the last resort at finding the authentic model of socialism. In the meantime, more or less in accordance with the theoretical ideas, "experimental" socialist small enterprises were being born in Hungary in a growing circle, especially in agriculture. Later, operation under contract, and the "biddings" connected with it, unfolding in the retail and the catering industries aroused great interest and rendered the new entrepreneurial possibilities a daily topic of conversation also beyond the professional circles. The legal regulation of the matter of small enterprises began. The new statutes which entered into force in 1982, for instance, made the establishment of small cooperatives, industrial or farming trade groups as well as of economic partnerships (working parties) possible [1].

Tibor Liska is undoubtedly a peculiar personality of Hungarian economic science, who searches passionately for the uncommonly new. He is a fanatic in his intentions to improve and in his agility; due to the extremeness stemming from his convictions and his agitative zest he may be called a prophet and a daredevil at the same time, who is often – groundlessly – not being taken seriously. Even if his proposals seem to be utopistic, his opinion always gives rise to thoughts and points to the essence.*

*According to one of his interpreters, Maria *Petsching*, "he is being considered today the 'miraculous healer curing all ills' of Hungarian economics because he is able to diagnosticate wonderfully, is able to write out wonderful prescriptions, and can believe in that miracles can be made to come true". We may add that he is inclined to reject summarily all "achievements" which have so far been made by economic theory. In his polemical treatise entitled "Ökonosztát" (Econostat) Liska accepted himself earlier his being called a "miraculous healer", commenting that "as a miraculous healer I may still achieve more than as a graduate physician who considers the patients only treatable but not curable".

If we search for the source and theoretical "kinship" of Liska's views, we must find first of all that he is unequivocally a Marxist, especially in respect of the essence of Marxism, which is the critique, relying on reality of society, the rejection of private property and exploitation, the humanistic objective of the many-sided development of human personality. In some respects his views are nevertheless close – even if Liska perhaps ignores this – to those of some representatives of neo-Liberalism which is gaining ground in the Western world.*

With incisive criticism he unequivocally rejects the system of directive planning and demands open market conditions, and in this he meets with the foundation of the self-management system, but opposed to the latter he rejects the limitations of group ownership. Although – in spite of the ruling general etatistic view – he is in some respects in harmony with new endeavours in Hungarian economic science, he does not pay for the time being much attention to the theoretical antecedents and the search for new ways in Hungary, and proclaims an entirely new socialist economic principle. Although he cannot count on the rapid realization of his concept, he nevertheless expects, on the basis of "rationality", the gaining ground of his ideas from today's leaders. At the same time he does everything for the "learning" effect of the broadening practice.

Tibor Liska was among the first in Hungary to voice – opposed to the then ruling dogmatic views – the opinion that socialism was basically a commodity-producing economic system; that the aim was not the repression of commodity (market) relations but their freer development on a socialist basis, because, where at the given state of the forces of production the market and competition cease, there inevitably a monopolistic situation arises, bureaucracy, privilege, arbitrariness, parasitism gain ground. All of which – as features alien to socialism – have a regressive, ruinous effect on society and on the economy.

The "Critique and concept"

Already in his article published in 1963 and entitled *Kritika és koncepció* (Critique and concept) [1] Liska made some fundamental statements which appeared to be shocking and theoreticaly unacceptable to the then ruling dogmatic socialist economic public opinion.** Referring to the historical antecedents, we may point out that in the course of examining the role of the law of supply and demand in socialism, recognition of the neces-

*Similar to F. A. *Hayek*, also Liska opts for the market against the system of commands, rejects in principle the social allowances based on the paternalistic principles of the "provident state", and finds the root of economic troubles in the redistribution by the state. He too has recognized that in a game of hazard – and the free economy is such one – only the behaviour of the players can be fair, but certainly not the result. Liska sees the assertion of the social interest in that "the ball should always be passed to the player who is in the best position".

**The critics who condemned him – characteristically – later exercised self-criticism in one way or another. The debate with Liska also obviously contributed to the development of their views which later played an important role in the reform of the Hungarian mechanism.

sity for commodity production began to come to light, which – especially after the appearance of the increasing operational and efficiency difficulties of the socialist economy – led to certain reform ideas under the liberating influence of the 20th Congress of the CPSU. The Yugoslav concept of self-management appeared on the scene. As early as 1960 W. *Brus* wrote his fundamental work in Poland [2] about the two models of socialism, which revealed that several models of socialism were possible; but this became known in Hungarian only in 1966.

Liska's ideas in 1963, which in many respects, were still immature – but which contributed considerably to the laying of the theoretical foundations of the Hungarian reform of economic control and management in 1968 – may be summed up in the following principal theorems.

1. The system of directive planning is not identical with socialism itself, it is not the authentic model of socialism.

2. Socialism is not communism, "socialist society does not produce directly for needs but for the market". Socialism is a society with commodity production "and, in addition, it may conduct more advanced commodity production exactly on the basis of social ownership and, consequently, of the greater opportunities offered by the social division of labour".

3. Socialism cannot exist without advanced commodity production, without a market and without real money. More advanced commodity and monetary relations than those existing in capitalism can be created only "on the basis of social ownership relations which are more adequate to the societal nature of production". (This is one of the important starting points for Liska's later views!) "Planning . . . is contradicted by the reduction of the commodity and monetary relations to a primitive stage. The ulterior market control of the price mechanism is not the opposite of proper planning but its condition." "The endeavours at turning the price mechanism and money into formal ones, at restricting the law of supply and demand wrested out of the hands of the socialist state the most powerful instrument for organizing the economy, and replaced it by much less efficient, formal plan instructions. Without information and valuation supplied by the market, with soft budgetary constraints losses and the wasting of social labour cannot be avoided."*

4. The source of numerous troubles is that interpretation of socialism which, due to the hypothesis of labour taking on a directly social character – on the basis of public ownership – considers the social division of labour apt to be planned centrally, essentially in physical terms, submitting the forms of value to the arbitrariness of this planning, isolating the national economy from the world economy in an autarkic way, and delivering planning into the hands of a bureaucracy.

He summed up the negative features caused by prices planned on the basis of inputs, i. e. by the application of construed prices, by the elimination of the market conditions and of real (convertible) money in 25 points. Out of these, the following are the

*This problem was exposed profoundly in the work by János *Kornai*, published in 1980 [3].

most important; a) Recognition of the domestic cost of production "finances technical backwardness", impedes technical progress, because the costlier the product is, the higher the price that can be asked for it. b) The possibility of clearsight in economic questions ceases. In a price system built on the domestic cost of production profit is not suitable for either demonstrating efficiency or stimulation, because "it is primarily a function of subjective decisions and chance". c) The arbitrary fixing of prices without the control of the market, especially of the world market, creates values of a fictitious magnitude and has therefore necessarily an inflationary effect. d) Due to the false relative prices which are without economic foundation, the efficiency of production and of the division of labour cannot be judged. e) The forint of one sector is worth more than that of another. f) The "let it cost what it costs" practice of price formation is not interested in what the product is worth on the world market. Poor work is also recognized: the enterprises live in the safety of a glasshouse.

Local and *individual* interests and tendencies, opposed to the interests of the national economy, gather strength. Without an objective (market) control, subjective judgements, the making of exceptions, privileges, through these the formation of power groups, the abuse of power, corruption proliferate. The deflection of farm prices and of consumer prices create conflicts of interest and troubles in the judgement of economic efficiency.

An unlimited demand and struggle arise on the part of enterprises for gratuitous state investment funds. The "milking cow system" and the struggle for the exploration of hidden reserves are the main impediments to the flexible re-grouping of resources and their better exploitation. It was with this recognition that one of the main starting points of the concept emerged: "In our autarkic price system, when allocating resources, the question cannot be put unequivocally (i. e. in a way which can be determined in *forint increments that can be realized and are to be paid in): "how much do you pledge for it? "* Consequently, on the *plan-market of the socialist monopolies,* the resources are not allocated among *(socialist) entrepreneurs".* (It should be noted that here Liska still meant by the notion of the "plan-market" that all enterprises and sectors "bargained" as monopolists for investment funds, promising everything, and manipulating with figures, arguments, patrons, etc.). A spurious stimulation arises in the course of planning, because it makes enterprises interested in "plan fulfilment", in the fulfilment of the various prescribed indices, and not in economic efficiency.

5. The more and more complicated planning creates an increasing and costly administration, a parasitic bureaucracy which uses its power to interfere with everything and wants to determine everything.

6. Liska's main proposal was: "The planning of the new, up-to-date mechanism of economic control and management must set out from the reform of the price system." He took a definite stand for a domestic price system based on world market prices, i.e. for domestic prices adjusting to prices which can be achieved in foreign trade, as a main orienting factor. In this "the price centre for every product that is the object of foreign trade or may be its (alternative) object would be the world market price which has in the

average been achieved or may be achieved by Hungarian foreign trade, ... converted at a uniform exchange rate". It should be noted that 17 years had to pass until the realization of this idea of Liska was at all put on the agenda.

In the formulation of prices elasticity is the main thing. "The bureaucratic idea of centrally normalized prices is increasingly being breached by the practice according to which prices are established in agreements between sellers and buyers, and the Price Office only prescribes the principles of the agreements and puts on record the results of the price agreements". The important thing is not that the producer should in every case have his way but that he should adjust to the economic reality.

In connection with the changes in prices incomes must be modified too. Already then the idea of his appeared that, instead of social allowances and as an indemnity for the increase in the basic costs of living, it would be preferable "for every citizen to obtain from the socialist state a monetary rent assuring his or her subsistence, which could be withheld only, through due process of law, from criminals and notorious work-shirkers". As may be seen, he proposed to substitute for the free or cheap social allowances a monetary rent at real prices (fees), which would be a better stimulant for the more rational utilization of services (for instance housing).

He expected from the economic clearsight achievable through the reform of the price system that a genuine substance could be given to the category of profitability, which would render the planning of investment projects more reliable too.

In respect of the taxation of enterprises, he took a stand – as opposed to the "tax office mentality" siphoning everything progressively off from everybody – a fixed tax set in advance for at least ten years. He already then looked for the solution of long-term incentives.

The "Econostat"

Liska exposed his maturing views in more detail and in a more advanced form in his longer unpublished polemic treatise, which he wrote in the mid-sixties, the *Ökonosztát* (Econostat), as a sort of critique of the then ruling views in the science of political economy of socialism. (By "econostat" he meant the self-regulating mechanism of socialist commodity production.) At that time he was expected to further efficiency calculations through world market "re-pricing". Instead, he pointed out that in the given circumstances it was not at all possible to calculate economic efficiency (which made planning fumble in the dark), and it must not be "calculated" at all, but market conditions had to be created where economic efficiency would assert itself automatically through the interestedness of the enterprises. He also recognized at the time of the preparation of the reform of economic control and management that it was not bureaucratic tinkering that was needed but a radical change affecting the conditions of production, the bringing about of the historically justified *more societal social ownership*. He tried to prove that socialism – as opposed to war communism and later to Stalin's "feudal socialism" (which liquidated the Leninist self-criticism of the NEP) – was in fact a higher stage of commodity

production than capitalism, because, eliminating the constraints of private ownership and liberating the labour force it created, on the basis of social ownership a much broader possibility for democratic, free entrepreneurship. The communistic traits must not be asserted through an economy managed through physical indicators relying on a moralistic foundation but in the replacement of the wages (salary) which were increasingly degenerating into a "fee for presence", by a "fee for not even being present" (a social rent similar to the sick-pay, old age pension, or unemployment benefit) which would ensure for everybody the financial conditions of subsistence. (This was with Liska the source for his later idea or concept of the "social inheritance".) In this case the toilers must not receive wages but an additional income corresponding to their entrepreneurial performance. If social property universally becomes credit capital, anybody may have access to it, anybody may become an entrepreneur. According to Liska's proposal, the social property must be entrusted to a special banking system which lets it for use to the highest bidder through a tender in the framework of a "plan-market competition". Democracy is the condition of free entrepreneurship. The economy is formed by voluntary collective enterprises. The ideas of the acceptance of the "put-up leasing fee", of perspective sharing, of entrepreneurial responsibility arose already then. In the "Econostat" Liska tried to draw an unequivocal line between his ideas and both free market or state monopoly capitalism and directive planning or self-management socialism.

Attempts to solve the burning problems of society

Since Liska felt that in the Econostat he had found the key to the questions of the economic theory of socialism, he turned towards some burning economic problems of social interest to propose solutions applying his theoretical conviction in practice and confirming at the same time his theory in the course of the solution of the problem. He dealt with the housing problem [4], the critique of human ecology [5], and later in the mid-seventies he searched already for the possibilities of complex entrepreneurship (e.g. in connection with the exploitation of thermal waters in Hungary) [6].

His analysis of the housing question also confirmed that behind the measures of welfare policy meant to have a socialist nature, in fact features unworthy of socialism were hidden. The dwelling (the real estate) creates inequalities among people, which are inherited and essentially determine the way of living and livelihood. The housing shortage vitiates human lots, the larger dwelling may become a source of economic rent. The cheap rent for the dwelling, its mostly "benefit" nature does not create an incentive for a more intensive utilization of the existing dwellings, for the possible moderation of demand for dwellings. Since the rent paid does not even cover the maintenance costs, no adequate stimulation exists for the building of dwellings. In the state construction of dwellings the lack of direct interestedness contributes also to the deterioration of the quality of work. Most alien from the principles of socialism is however the system of the state distribution of dwellings. By receiving a dwelling the "fortunate" new owner gets a private asset which

is worth the income of many years, a "benevolent gift" at the cost of others who do not receive such gift. This situation is a hotbed of personal selection, privileges, and abuse.

For Liska, this question reflects – as the sea does in a drop of water – beyond the sphere of production of goods too that the "running ahead" towards the communistic principle of "to everybody according to his needs" is at the given state of the development of production forces much rather a step back towards feudalistic conditions; it makes even more universal the monopolist position, the drawing off (centralization) of resources and their distribution selecting among persons, which Liska calls today the system of lawful "sharing in plunder". At the same time this "welfare distribution" attitude is far from being efficient; by its bureaucratic methods it impedes the mobilization of resources for the solution.

Liska's proposal seeks the way out through the only adequate language of the conditions of shortage and conflicting interests, i. e. prices. There should be a free and real price for the dwelling, as well as a real rent (and estate tax); and the raising of the rent to an equilibrium level should be compensated for in the wages. In this case the demand for dwellings is adjusted to the ability to pay, and this sets dwelling space free. Demand creates supply, housing construction becomes lucrative and gets under way, and under entrepreneurial (competitive) conditions certainly becomes economically more efficient. On this basis clearer and more efficient conditions would be created also for large-scale housing construction and genuine welfare policy measures. (It may be noted that, however shocking and utopistic Liska's proposals should have sounded in 1969, today's housing policy measures in Hungary point gradually into this direction – even if far from consistently doing so – but rather strengthening private ownership and consequently less efficiently.)

Problems of the economic reform as a historic background

Although Liska's concept refers in the last resort to the economic system of socialism itself, his views nevertheless belong to the range of ideas of the reform ot the mechanism. These were developed in the course of the reform endeavours of the sixties, and took on a more mature shape at the time of the new wave of "perfecting" in the late seventies.

In the meantime a lot happened concerning our topic in the world around us and in Hungary: on the basis of historic experience several experimental models of socialism were born. In accordance with Liska's perceptions, these are connected on the one hand with the interpretation of socialist ownership, and on the other with the acceptance or merely formal recognition of the commodity-producing nature of socialism, or the restriction of the commodity conditions, respectively. The once (in 1921) already overtaken concept of war communism – as a system advancing the communistic traits and relying in its control on great arbitrary actions and the "revolutionary" spontaneous activity of the communes, as well as a strictly egalitarian system of distribution – were transitorily again tried out, for instance in China and in Cuba. In China the views about the historic situation and the nature of socialism have since then been revised and they have

arrived at the recognition that contemporary socialism is necessarily an economy with commodity production. Alone in the Korean People's Democratic Republic has the communistic system relying on discipline been stabilized and become a model. (Incidentally, Liska's idea exposed in the Econostat has been confirmed there that it is possible universally to satisfy the fundamental needs freely, but Liska considers this to be desirable not in kind but in the form of a monetary rent ensuring free utilization and entrepreneurship.)

In the European CMEA countries – with the exception of Hungary – the system of centralized directive planning relying on state ownership has essentially been preserved, with its prices subordinated in essence to planning in physical terms and construed in an autarkic way on the basis of inputs. Towards the end of the seventies experiments were started in several countries to "perfect" this system. The essence of these endeavours is a certain measure of "decentralization" within the framework of centralized planning (balances) and governmental (state) control of the economy; the establishment of combines (and end product-oriented monopolistic re-production complexes) accorded economic autonomy within the system of *khozraschot* under the sign of democratic centralism. (In the views of the present author, this system has become a particular model in the GDR, due to the particularities of that country.)

In Yugoslavia, the "organisation of associated labour" has unfolded on the basis of the concept of self-management, as a further model of socialism. This restored the commodity- and money relations and opened up the way for enterprising; and it put the means of production in fact into the group ownership of the local self-government. (Liska maintains the latter to be the main limitation to this system.) Recently it has increasingly become clear that self-management cannot cope either with certain important problems (insufficiently effective interestedness in production, inflationary consequences of the assertion of local interests, market-disturbing effect of central interference – as import restrictions –, etc.).

It has recently been proved in Poland how grave the consequences of the omission of the reform of economic control, its substitution by an arbitrary "developmental" policy were. It is characteristic that one of the principal problems – in respect of the economy – is the different interpretation of the "self-management" to be introduced, i. e. the conflict of state ownership *versus* group ownership. (It may be noted that self-management is being spoken of in Romania too, although as a component of an essentially directive planning system; while in Hungary self-management is not put forward, although the economic autonomy of enterprises has been achieved to certain extent and we have taken steps in the direction of shop-floor democracy.

The Hungarian reform of economic control in 1968 – under the influence of the then prevailing conditions – was inconsistent and turned out to be ambiguous.* It was of decisive importance that the system of directive planning was replaced by economic reg-

*This was shown in detail by the studies published on the occasion of its tenth anniversary (See e.g. Acta Oeconomica, Vol. 20, Nos 1–2 (1978)

ulation and a greater economic autonomy of the enterprises; the commodity- and money relations conquered some ground; and enterprises had to face conditions of the world market more than before. However the idea was asserted that central planning was to be implemented not through instructions but through regulators. In consequence the artificial value proportions survived, and plan bureaucracy was replaced by a regulatory bureaucracy; the protected, individually preferential situation of the enterprises continued to exist partly. The regulatory, drawing off and licensing system which came about in this way was called by Liska the "reform policy of the 'new Prussian way' fattening the existing bureaucracies". Also, it was this negative experience which gave rise to Liska's fundamental aversion to the proliferation of official decrees and instructions, as well as, in his critique, to the summary rejection of state intervention which wants to determine everything, the qualification of its efforts as being rather damaging; a view which may seem to be ultra-liberal.

In recent years the recognition has gained ground among Hungarian economists that we may find a way out of our economic problems only by returning to the basic principles of the reform and by implementing them more consistently. The endeavours for strengthening the links with the world economy, making the forint convertible, for ensuring the normativity of regulation (and thereby increasing the responsibility of the enterprises), facilitating the establishment of small enterprises, all point in this direction. It is becoming more and more obvious that we can cope better with the problems caused by the epochal change in the world economy and the changes in competitive conditions on the world market only through the reform of the mechanism. In Hungary it was exactly the reform of economic control that created – even in its ambiguous form – more open economic conditions which are still confident in spite of the well-known difficulties.

Nowadays – while observing certain fundamental constraints – possibilities for seeking new ways in connection with the further development of the Hungarian economic mechanism may be considered relatively favourable. This atmosphere has given the green light also to research into socialist entrepreneurship, offering opportunities for the exposition of Liska's most recent views.

The preconditions of Liska's socialist entrepreneurial system

Liska's concept does not stay within the scope of the existing reform endeavours, but sets the goal of a more radical modification of the economic system. He does not delude us by wanting to reform only planning, only the system of control, only the mechanism, or only the organizational structure. For him the reform of the mechanism creates only the conditions for a substantial change which renders the *socialist ownership much more societal.* The whole system is primarily built on some *axiomatic* preconditions, without which it cannot be imagined.

1. Socialism is based on the elimination of the private ownership of the means of production and thereby of exploitation. The social ownership of the means of production must be ensured, so that nobody should be able to appropriate them (including the state or, respectively, a bureaucratic stratum in its name), acquiring thereby privileges (a monopoly of disposition).

2. Under socialism, due to the given stage of development of the forces of production, the social division of labour takes place necessarily in the form of an advanced commodity production; and this demands *real money and market,* and that on a world economic scale. It follows that Hungary must join in the international division of labour, in the world economy, to the fullest possible extent. It must have a convertible currency which links the national economy to the world market through an active exchange rate. All possible barriers must be removed from the path of market relations so that prices should be formed – under the influence of the world market – freely according to the requirements of supply and demand; consequently prices must not be "deflected". The possibility and freedom of competition must be ensured in all areas to the fullest extent.

At this point it is clear to Liska too that this is a hard nut to crack and is possible only as a tendency. He pointed out himself – "how long it took even for the 'competitive price' to be introduced, and yet how far this too still was from the price formation regulated by convertible currency and based on world market prices, and all other conditions for making the 'plan-market' competition more open than even the most modern capital markets". The ideal market competition and price formation did not exist in the 19th century either, and such a thing is even less possible nowadays. Nevertheless – even in spite of the high degree of monopolization – a certain oligopolistic competition is to be found in the world economy not least for the higher demand ensuring a higher revenue. The so-called world market prices, too, reflect some world market reality. Hence the desired condition is to have prices corresponding to the economic reality existing at any time (and not arbitrarily construed prices), which express what the commodity is worth to the national economy (for how much it may be exported or imported, for how much it is sold, or how much is offered for it). In this case the difference between the price and the input, and the resulting profitability, already orientate and stimulate.

3. The ensuring of the *freedom of competition* deserves special emphasis, because this is the cardinal point of Liska's concept. So far socialist evolution has done everything – through defining production profiles and through mergers – to eliminate competition, as a consequence of which a monopolistic position has arisen almost everywhere, with its pampering effect.* The organization of enterprises, wherever possible, into a single gigantic and dominating enterprise, protected even from foreign competition, ensured – especially under the conditions of universal scarcity – the dominant assertion of the inputs and of the producer's interests. Consequently it is difficult to bring about the freedom of competition. In many cases there is even no chance for it, because the skill,

*This is pointed out in Iván *Schweitzer*'s article [7].

the knowledge of the situation, the connections, the "presence" in the given situation ensure inevitably a monopolistic privilege.

The bringing about of competition is not even desired by everybody, especially not by those who in some way already share in power. In fact, people themselves long for some monopolistic situation: lasting power, possession, security; they only wish the competition when and where other monopolists restrict them "without any foundation", or if feeling themselves to be stronger they wish to conquer a better position. But against the stronger, they rather strive for "protection" instead of competition.

Consequently, the essence of the matter is not a quixotic struggle against the monopolies, but rather the furthering and ensuring of the chances for competition in all possible ways. It must not be forgotten that the main instrument for this is *democracy*, i.e. the principled political struggle against the existing and always reappearing privileges. One of the main sources of socialist equality is the right of free competition for the social positions.*

The criterion of success in competition can only be the *performance* offered to society. But for this, it must be possible to measure this performance reliably (unambiguously). This is served by the genuine commodity- and money relations. By this, competition and real prices reciprocally assume each other's existence.

The freedom of competition demands the elimination of every sort of autarky, including also the fullest possible joining in the international division of labour, which furthers the development of the forces of production through comparative advantages. Organic connection with the world market mediates evaluation by international environment in the given period, checks on performance, and may orientate enterprises. For this reason, Liska is in favour of the open economy, of export orientation, of prices adjusted to the world market.

4. A further fundamental premiss of Liska's concept is that the authentic social attitude of socialism is *entrepreneurship*. The livelihood of the individual is provided by his ability to undertake something. Servility, military dependence and fulfilling of orders, the attitude of officials are in effect feudalistic features which stunt the growth of people, kill their critical spirit, and make their self-realization impossible. Marx laid bare the complete alienation of the wage worker under capitalism. In contemporary capitalism attempts are made to improve the efficiency of wage labour exactly through different forms of "participation". The capitalists as private entrepreneurs are mostly restricted by private ownership. The entrepreneurial type of our period, the manager is also forced to enter the service of either capital or of the state, and to operate within the limitations of office provided by this. According to Liska, only under socialism is it possible to fully unfold the entrepreneurial spirit.

*Yugoslav experience in this respect is summed up by J. *Laca*, as follows: "Since the introduction of self-management our socio-political system has evolved in the mark of an unceasing struggle fought against all varieties of all sorts of monopolies wielding power over the toilers". [8]

Socialism itself started as a series of huge enterprises. The proletarian revolution, the organization of production, the building up of socialist industry, the formation of large farms – were all huge "strategic" enterprises. (As an example, we may even refer to the bringing about of the Soviet atom bomb.) But these enterprises led to the bureaucratic control of the planned economy. In these circumstances, another sort of getting ahead evolved in opposition to the entrepreneurial endeavour, which – even though with a communistic colouring –, is in essence of a rather feudal nature: to get into a hierarchy of decision-makers on the basis of "reliability", to obtain an "office", viz. to belong to the disposing *élite*.

As opposed to this, Liska sees the essence of socialism in that – freed from the fetters of private ownership – it makes the possibility of entrepreneurship free for everybody in the economy. For this he wants to ensure to everybody as a starting capital his "social inheritance", the right to utilize the social property in the framework of competition, and then through increasing his "goodwill capital" the possibility of entrepreneurship on a growing scale. As he sees it, in socialism everybody must have the right and possibility to exercise his (her) ability for work in an entrepreneurial way on the basis of social ownership, and thereby fully develop his (her) creativity.

There is and there will be, of course, a qualitative difference between the level, range, requirements and profitability of the different entrepreneurial opportunities. The situation is different if somebody undertakes to solve an automated communal network, or to operate a petrol station, a textile manufacturing enterprise differs from a handicraft workshop. According to their talents and inclinations, there will be people who will undertake smaller or larger tasks and risks. In this way there will continue to be a difference in the situation of the entrepreneur who creates something new, who is creative or of the manager type, and of his "team", but the entrepreneur can no longer be a monopolist (he is not a private owner or a state official), but a competitor who undertakes obligations (performances). His "team" will not consist of wage workers, but of such individual entrepreneurs who feel that they can best develop their abilities within this particular collective. In such cases – as Liska points out – the main profit of enterprises may come from their being able to organize rational, more creative, and more useful "subentrepreneurial" work opportunities for the members of their team, ensuring them through this at the same time an income which is in accordance with their performances. (It should be pointed out here that this view differs from the conventional principle of "to everybody according to his work", which is built on the hypothesis that everybody participates in the purposefully divided labour of society according to his abilities, and shares according to its measure in the total social product. The acquisition of an income according to performance is something else and more than merely a "distributory" principle. Incidentally, the principle of "to everybody according to his work" means in practice rather the payment of wages according to the type of job, age, and the qualification existing on paper.)*

*This is pointed out convincingly by A. *Vacic* [9].

According to Liska's concept, turning entrepreneurship into a general principle would not only modify the alienated wage-earner situation of workers, but would to a considerable extent render superfluous also the swarm of unproductive (administrative) workers.

In relation to turning entrepreneurship into a general principle it may be asked whether this is not a petty bourgeois interpretation of socialism (as against the collectivism of the workers in large factories, the spirit of emulation). There have always been in the working class – exactly in protest against the alienating, soul-killing nature of wage-work – endeavours directed at the independent entrepreneurial, creative nature of work. These become of petty bourgeois nature, if they can only be realized on the basis of small private ownership, and thereby within the narrow limits of the latter.

The higher efficiency of the entrepreneurial behaviour, its broadening unfolding can also be observed in Hungary, especially in the "second economy". It is more and more frequent that the workers consider their "official" wage, which entitles them to a pension, only a safe basic income, on occasions indeed only as a "fee for presence". They are ready to make genuine efforts rather on the household plots, on private building construction work, in private shops, for tips, or against private commissions. An entrepreneurial stratum has evolved also in the state sector and even more in the co-operative sector, the "successful people" of our days, who acquire a higher income and a social prestige not only for themselves through their inventions, recognized export opportunities, ideas, and connections, but also "give an impetus" to the opportunities of the enterprise collective for getting on and obtaining income. But so far all this has been connected with monopolistic positions.

On the one hand, Liska is happy about the spreading of the idea of entrepreneurship, but on the other he is worried "that from the private capitalist small enterprise through the enterprises of the traditional state and co-operative bureaucracy to the new type of experimental socialist entrepreneurship going even beyond the partly novel small scale contractual operation, everything is bundled together under the name of 'entrepreneurship' ". He therefore considers it necessary to distinguish his socialist entrepreneurial concept from the private enterprises which are being revived. As he points out: "Although in principle the flexible small enterprises are also established by 'right of citizenship', they mostly require capital which does not go with the citizen's rights. They do not acquire their opportunities to obtain credit and their orders as citizen's rights either, but through their inherited or already acquired private wealth, and what is often even worth more than that, through their connections which also have the nature of privilege, from the conventional sectors." "Consequently, it can certainly not be expected from these forms that they will assert the principle of socialist entrepreneurship which broadens the circle of entrepreneurs to the optimum, in order to open up the competitive conditions for everybody, that every suitable person should be able to become an entrepreneur as a *'personal social owner'* ".

On the other hand, with the spreading of the smaller private enterprises it will become more and more urgent "to widen the socialist entrepreneurial opportunities for

those who do not dispose of private capital", otherwise the relatively few competitors are rather likely to create new monopolistic positions, and the dissatisfaction of those who are shut out of these opportunities would be further increased.

As may be seen, Liska *strives beyond the unfolding of ventures for the ensuring of their socialist nature* (as opposed to the spreading of private enterprise). For this it is necessary first of all to achieve conditions for free competition, so that everybody should always have the right and possibility to compete for the entrepreneurial opportunities, and that the chances for obtaining them should be set out in objective and controllable rules of the game. The socialist entrepreneurship – according to Liska – "is free if and to the extent that there is no protectionist lobby, state, co-operative, sectoral, functional or regional legalized maffia which could save the producers of losses as parasites, and put them back on the necks of the others".

Finally – referring back to what has been said – it is indispensable for all this that the performances of the enterprises should be measurable through real market prices.

The "personal social ownership"

Liska's socialist entrepreneurial concept is in fact a complex system of ideas which penetrates the depth of the production relations, and which sets as its goal the elaboration of the "genuine" economic model of socialism. In his heart of hearts Liska considers this also to be the world model of the future.

The basis of his ideas is the particular *interpretation of social ownership.* Liska ranks the today known forms of ownership as follows: private ownership, state ownership (which can be found both in state monopoly capitalism and in the socialist systems with directive planning, associated group ownership (this is characteristic of the co-operatives and of the self-managed organizations of associated labour), and finally the socialist social ownership. The last mentioned socialist ownership is social because nobody can appropriate it (neither the offices or entrepreneurs, nor the collectives), but always that person can dispose of it and operate it who brings the highest profit to society. This property which is in essence the object of entrepreneurship is called by Liska "personal social ownership". This dialectic concept which appears to be self-contradictory, expresses that the social property can become through free competition, democratically the "personal" property of anybody through the fact that an entrepreneur can operate it who ensures responsibly its most profitable utilization. This creates a unity between the global social nature of ownership which cannot be monopolized and the most personal incentive which guarantees efficiency.

On the one hand, the property consists of objects of wealth. Liska divides social wealth into three groups: the means of production, the environmental wealth (to this he has so far paid little attention), and the 'human wealth' (the work performing and entrepreneurial ability of the members of society, and their foundation in wealth). The "personal social ownership" refers primarily to the means of production; but going

beyond the total of the objects of wealth complexes (machinery, plant, motorcar, etc.) which can be separated and ensure the minimum of autonomous economic operation, he includes all delineable functions, "plants" (school, medical practice, etc.) of the social division of labour which can be solved in an independent enterprise, and are suitable for the latter. Thus the elements of social ownership are only partly objects of wealth which have a market value (price) and depreciation (becoming amortized in the course of use). The entrepreneur has to safeguard – as we shall see: in his own interest – the value of this in fact functioning capital, must pay it back or renew it. It is not only his right but his well-considered interest to modernize, reconstruct, rationalize it, possibly change it or exchange it in the interest of a better venture. He must not account for the wealth taken into use in kind but – if this arises – in terms of value. The social wealth is not a museum where the inventory must always remain the same, but the material foundation of ventures which are being continually renewed.

However, the social ownership unit taken into personal entrepreneurship is an even broader, more dynamic concept. The value of a functioning enterprise is not what figures in the balance of assets and liabilities (the amount of capital tied down in it or what its assets will fetch in the case of liquidation), but its genuine "value" is its ability to bring profit, to fetch an income. (To use a trivial example' the "wealth" of a pizza-baker, the source of his income is not only and not primarily the stall where he makes and sells his ware, that of the owner of a fashion-boutique not only the shop and the momentary inventory, that of a toy-maker not only his workshop, but all the situationary elements which make these profitable.) This value is a market reality which depends from numerous factors of personality, reputation, management, market, and business cycle. The momentary magnitude of the entrepreneurial value is expressed under capitalism – in the case of large enterprises or companies – at the stock exchange, in the current value (fictitious capital value) of the shares.

In Liska's terminology, four different capital value concepts figure in connection with taking the existing social property into personal entrepreneurship.

1. The real value, existing at the transfer, of the social *objects of wealth* (building, equipment, machinery, etc., i. e. the fixed capital) which pass into personal disposition, exist and are taken over. Not at some fictitious "inventory" value, but what they would in fact fetch if they were sold "dismantled". The entrepreneur need not keep intact the assets which he has taken over, he can dispose of them freely; he need neither calculate nor record depreciation. But at the end of his entrepreneurship – if he leaves the business for some reason – he must either return the value which he took over or must pay for it.

2. *The minimum fictitious capital value* of the existing social property as a potential enterprise against which the organ representing society is prepared to give it into personal entrepreneurship. This must be fixed as the *"put-up price"* of the entrepreneurial auction when it is being given into entrepreneurship for the first time. This may be done by estimating the expected profit of the concrete entrepreneurial unit, assuming careful management, deducting the expected cost of the continuous investment necessary for lasting operation, and the expected net income thus calculated is being capitalized at the

effective rate of interest. This value must be fixed with circumspection, because the interest paid on it will be income of the manager of the social property (the bank).

3. The value of the socialist enterprise accepted at the auction, as *"the equilibrium price of the operation of the social wealth unit"*. This is the highest fictitious capital value achieved at the auction, and on which the entrepreneur who has entered into possession must pay the system (bank) an interest (dividend) in accordance with the effective rate of interest. Liska calls this fictitious capital value of the unit of social assets which is fixed at any time in the existing market situation – as we shall see – by bidding, overbidding, or reduced bidding, the "plan-market value". This terminology is surprising, and requires an explanation. What is involved here is a value which has been fixed by the entrepreneurial market, a fictitious capital accepted as a price. The use of the concept of "plan" – which apparently does not fit the situation – arises from the fact that on the one hand Liska wants to emphasise its radical difference from the stock exchange of capitalism (Liska himself does not speak of fictitious capital, we apply this concept only as an analogy for the sake of explanation with the aid of accustomed terms), and on the other, because – as we shall see – the entrepreneurial market where this value is fixed replaces or represents according to Liska the planning of the social division of labour.

As may be seen, personal social ownership is thus always present in two forms: a) as functioning capital, which is used for production and operation; the magnitude and composition of this is in fact something that concerns only the entrepreneur (this being especially obvious if, for instance, he does not take over any object of wealth, since he establishes the entrepreneurship himself out of credit); b) as fictitious capital which represents the income-fetching ability of the entrepreneurship. At the start of the system this latter also has two orders of magnitude: the officially estimated potential value (the "put-up price"), and the accepted value, which it is worth to the highest bidder for acquiring the opportunity for entrepreneurship (the "plan-market value").

Public opinion considers social property the sum of objects of wealth. But in the circumstances of today's accelerated technical-economic progress this must not be viewed statically, since the technique and technology of production must be renewed all the time. (The unchanged plant which continues to function even after the value of assets has been completely written off often ruins competitiveness.) Liska's concept of the social ownership is dynamic: it does not concentrate on its maintenance but on its expansion through constant changes of the particular business. According to Liska (as he already pointed out in the Econostat), the supremacy of socialist ownership exists also in the fact that it takes on increasingly the nature of credit (through the fixed and working capital lent to the enterprise), and becomes thereby mobilized. Consequently, the personal ownership also means that the *entrepreneur may count on credit from society* for his flexible, dynamic ventures *by undertaking the obligation of increasing the social property, the "plan-market value"*. The material (functioning capital) side of the property is the competency of the entrepreneur, since it is in his interest to renew it as fast as possible in order to

make his business competitive. At the same time, in this case the principle of personal incentive ensures the possible most economical use of the means.

4. The difference between the "plan-market value" (fictitious capital rate) fixed at the auction and the "put-up price", and in the case of overbidding the difference between the new and the earlier "plan-market value" is the *"goodwill capital"* of the entrepreneur. Liska calls it so because, for the time being, this fictitious capital value is only the obligatory offer of the entrepreneur by which he has undertaken to increase the social property above what it was worth before.

The question may be asked what sense it makes to use the described notions of fictitious capital value instead of the owner's income (return) on the tied down capital or the entrepreneurial profit. First, this "projection" onto the property (treatment as fictitious capital) expresses (similar to the market value of the capitalist shares) the "here and now" income fetching capacity, entrepreneurial value of the entreprises. Second, the *capitalization at the rate of interest* introduces a new dynamic, self-regulating element into the system. According to Liska, the *equilibrium rate of interest* may be suitable "for filtering out" the change in price level (inflation), as well as to mediate the cyclical fluctuations, which may contribute to the *"self-regulation of the entrepreneurships"*.

The plan-market of the entrepreneurs

The basis for the functioning of the system is the social ownership, and the entrepreneurial market respectively, the *"plan-market of the entrepreneurs"*. This is the socialist "terrain" (process) which may be compared to the turnover of shares at the stock exchange, and where *every unit of social property has a market price.* This price is "in the beginning", i. e. when the organ representing society auctions off the existing unit of property in order to transfer it into personal entrepreneurship, the "put-up price". At the end of the auction the bid of the highest bidder is valid (the fictitious capital value) until somebody promises more later. In the case of a later "overbidding", the operating entrepreneur – in order to be permitted to continue the entrepreneurship – must accept this value (and must pay interest on this value), or must cede the entrepreneurship to the overbidder. As may be seen, the possession cannot be monopolized, because – within sober limits – it may be attacked at any time by presenting a higher offer. Liska is right in emphasizing that the entrepreneurs have more cause to be afraid from overbidding by their competitors than from all auditors who threaten them today. In the course of his operation the entrepreneur may overbid himself too – if the profitability of his business increases – in order to avoid overbidding by others; or in the case of a fall in the profitability of the business he may "reduce the bidding" (at the expense of his own "goodwill capital") to the value of the highest external bid. This fictitious capital market ensures that every unit of social property should always be in the

hands of the person who sees the highest perspective in it, who undertakes to exploit it best.

Liska calls this competing acquisition of the ownership of the particular business – by an expression which perhaps may appear self-contradictory – *"plan-market competition"*, indicating probably that this capital market auction has a socialist nature and the acquisition of entrepreneurial opportunities in this manner replaces in a way the planning of the social division of labour from above. It is his conviction that this entrepreneurial competition ensures more effective planning – exactly due to the rationality based on personal incentives – than does bureaucratic economic planning.

In characterizing the "plan-market competition" Liska points out that the "positive bids conjure up the increase of the capital value of a given venture through some sort of increased efficiency out of nothing, and the negative bids may render nought part of a capital value which was earlier believed to be existing".

This value market ensures at the same time the *self-selection of the entrepreneurs.* In this system anybody has the right and the possibility for entrepreneurship, to the extent of the guarantee-background that he has acquired himself. There is no need for a manager to be appointed or elected, because that person will be the entrepreneur who, accepting the risk, has responsibly promised the most, viz. "competition decides the right and obligation of the autonomous management of the social property". Of course, only that person can promise who, beyond his skill, is in every respect capable of carrying out the enterprise successfully, viz. who possesses a certain competence and can also count with suitable helpers.

Liska points out that the socialist entrepreneur is an entrepreneur not because he is a private owner or the manager servant of the latter, but he turns into a social owner because he is an entrepreneur, because he undertakes something in the socialist competition (on the "plant-market"). In this system an entrepreneur is always a responsible person, who has become an owner in the course of the auction, and who continues to be in permanent competition for this property. This does not permit a blurring of responsibility. At the same time, it is exactly the interest of the entrepreneur that necessitates good co-operation with other entrepreneurs, sub-entrepreneurs, the "team" of the entrepreneurs.

The financial sources and guarantees of the enterprise

In order for anybody to become an entrepreneur, it must be clarified on what financial basis he can enter into a business, and where the *credit guarantee* necessary for this may come from. What is the warranty against fraud and adventurership? It is an old rule that only that person can obtain credit who has own assets and risks them. Under capitalism the private property is the guarantee. In socialism with the so-called "planned

economy" there is in fact no individual entreprise, but everything is done at the risk of the state; the responsibility is mostly blurred in the course of the official planning and authorization; the leaders risk their prestige at most.

According to Liska's concept, for the socialist entrepreneur the primary entrepreneurial fund is represented by his own "human assets", and this is made up of two sources: of the personal assets which he obtains at birth, i.e. "the social inheritance", and of the "goodwill capital" acquired in the course of his life.

The *"social inheritance"* is a peculiar element of the concept. Every citizen, in addition to the family inheritance which he may have, would dispose – as a shareholder in the social property – also of a social inheritance: this is the per capita share of the sum total of the existing means of production and infrastructure (the national wealth), of which until now the various offices and enterprises disposed centrally, but which, in principle, may also be devided to the account of the population in the form of tied down credits. In addition to this, socialist society spends on every citizen a substantial sum in the course of his life, a considerable part of the national income in addition to their wages, in the form of free or cheap social allowances. These include the kindergarten, the school, vocational training and adult education, the allocated dwelling or the housing loan, the cheap rent, the low property-tax, the free medical care, the sick-pay, the recreation, the cultural services, the pension, etc. According to Liska, these allowances are not the forerunners of communism but signs of state tutelage. He emphasizes that these "are not worth the money", because they are of a poor quality, on account of the lack of incentives they are often of a wasteful nature, their management is inefficient, they are a hotbed of picking among persons and of abuse. He proposes that everybody (as a future entrepreneur) should receive at birth as a potential starting capital, "as his social inheritance" the average sum of allowances that a person would receive during his whole life. (To use Liska's analogy: daddy state should deliver the child's patrimony.) Against this the entrepreneur would renounce all social support that has existed so far. After this, he would buy in the course of his life the services he needs, as he needs them, and pay for them their market price, opening up thereby new areas for efficient entrepreneurship. (Liska also proposes the transformation of the scientific, cultural, social, communal, etc. budgetary institutions, which are only consumers today, into business activities drawing them into the "plan-market competition".) In his lifetime everybody would be permitted to use up only the interests of this social inheritance, paying himself for – as he needs them –, for instance, educational, family- or recreational "aid", sick-pay, basic pension, possibly unemployment benefit. He could also rely on this to "become able to pay on the free rented housing market, without having to be grateful for any bad flat". On the other hand, one part of the social inheritance would serve as a risk fund to start enterprising. This is on the one hand a severe guarantee, because irresponsible hazarding would have grave consequences for the later standard of living; and on the other, the permitted extent of hazarding would be insufficient to put the entrepreneur into a fatal situation.

The other part of the human assets – which serve as a pledge – accumulates in the course of successful ventures, to a growing extent, *as goodwill capital.* The goodwill

capital is the difference between the "plan-market value" and the "put-up price" and between the earlier "plan-market value" and that increased by overbidding, respectively, which remains tied up during the business (e.g. until the entrepreneur has paid off the "put-up price", or has been replaced by another entrepreneur). A fixed part of the human assets becomes an automatic credit source when a business is won in the course of bidding.

A further financial source may be obtained for the business through the *special-purpose credit out of the social savings.* This is analogous to a situation where the entrepreneur would issue "shares" for his business. These special-purpose credits, as tied down deposits, provide for him a credit guarantee; against this he would pay, in the case his business is successful, an "interest increment" to his supporters, transferring to them the interest on the increment of his "goodwill capital" which is due to them. Through this proposal Liska would draw some of the personal savings into the financing of other ventures, promoting by this too the flow of social resources into the promising ventures.

The extent of the human capital that can be risked, or its extent achieved by increasing the "goodwill capital" would determine the *magnitude of the business* which somebody may undertake. It follows, that it is mostly possible to begin on a small scale, and the first successes (the goodwill capital accumulated through them) offer a fund for a bigger business, for accepting a greater risk.

The income distribution of the entrepreneurial system

The method of the *distribution of incomes* is an essential element of the operation of the system. The entrepreneur disposes freely of the social property unit which has come into his possession. He covers his expenses out of his receipts. He also decides freely what he spends the depreciation value of his fixed assets on. If he wants to withdraw from the venture, he gradually pays this amount to the organ which lets the enterprise, and thereby pays off the ("plan-market") value taken into the business. If he wants to maintain his business unchanged, he may spend the depreciation on renewal (modernization). But he may also change the enterprise itself into a more profitable direction; in this case he will acquire other kinds of fixed assets out of the recovered sum or other sources (e.g. credit), (of course, while maintaining or increasing the entrepreneurial responsibility, the already accepted "plan-market value").

The entrepreneur does not have to account to anybody, and consequently needs accountancy only for his own costing (and for the supply of the few statistical data which may be required). This reduces administration by orders of magnitude. The entrepreneur may decide himself – in accordance with the market conditions – on his price and business policy, the maintaining or transforming, expanding or liquidating the enterprise. But he does this – let us not forget – in the circumstances of the

market and "plan-market" competition existing at any time, under the pressure of this competition.

He also disposes of the amount remaining over the expenditure (the income). *He must pay* out of this *the interest of the accepted "plan-market (fictitious capital) value" at the effective rate of interest,* i.e. the tied down (agreed) return of the business. He pays this amount to the organizing and financing organ of the entrepreneurial system, its bank, which is, thus, the curator of the social property. The further division, recording and handling of the deposits occurs there. The organ representing society receives the part of interest due to the entrepreneurial value set on the social property when given into entrepreneurship, i.e. the entrepreneurial value estimated officially at the auction, the "put-up price". (The clarification of the nature and function of this organ is left for later.)

The remaining part, as interest on the "goodwill capital", i.e. the increment of the return on the venture attained by him, belongs to the entrepreneur. But for the duration of the venture this remains in deposit; he can only raise its interest. He pays out of this the *incremental interest of the credit guarantee* provided by his supporters, if any, as special-purpose credit, or respectively, if he has availed himself of the credit, the full *dividend* due to it. He disposes freely of the remaining sum, he may invest it or consume it. In the case of investing it, it is advisable for him to increase the "plan-market value" of the particular business (including of course also his "goodwill capital") by voluntary bidding.

The entrepreneur must not touch the paid in interest on the goodwill capital itself, which he must keep tied down during his business, because it was in fact by undertaking this that he obtained the business against others, and this also serves as a pledge. But against this he may automatically receive a loan for the purpose of his venture. But on terminating his business, his goodwill capital forms a transferable fund for his new (possibly already larger-scale) venture. On the death of the entrepreneur both the *accumulated goodwill capital* and the remaining part of the social inheritance revert to society, forming thereby the basis for a new (equal) social inheritance.

At this point it is necessary to clarify why the entrepreneur shall "admit" the surplus income obtained, and even tie it down as goodwill capital, when he should be able to spend the part exceeding the interest (he may buy a house, or a car for himself or his children, etc.). First, in an entrepreneurial society it is worthwhile not to hoard the savings but to invest them. Second, he is induced to do so by competition, because if in the case of the increasing profitability of the venture he does not raise his goodwill capital by voluntary bidding, he lays himself open to "overbidding".

In connection with this Liska makes interesting reservations. If the enterprise remains with the earlier entrepreneur, the increment of the "goodwill capital" brought about by overbidding, as well as its interest is due to the overbidder (merely because he recognized and would have accepted the additional opportunities inherent in the business). On the other hand, if the entrepreneur cedes the enterprise to the overbidder, he keeps the goodwill capital which he has accumulated until then, and continues to

enjoy its interest. On the one hand, this keeps up the entrepreneur's perspectivic security, and on the other, he will be interested in the survival of the enterprise and even in that, with modifications in his entrepreneurial ambitions, there should be somebody to take the enterprise over from him.

The risk of the entrepreneur

Liska's concept sets out primarily from the optimistic hypothesis that – freed from the restrictions that hold them down – business enterprises will be more efficient, and it can be expected that through constant renewal – brought forth by self-interest – they will be able to keep up and even to increase efficiency. The perspectivic incentive is an assurance against the milking (selling out) of the entrepreneurial assets, or against their ruthless exploitation. At the same time we are aware that the economy is not a "one-way street" which always leads upwards; that not every venture is successful; that every product and enterprise has a rising and a descending curve; that capital not only earns profit but also depreciates constantly. Technical progress, modifications in demand, shifts in the competitive world market conditions may not only create new opportunities for entrepreneurship but may also pull the rug from under existing enerprises.

Aware of this, the question arises whether the *risk* which the entrepreneurs have to accept is not too high. It is difficult to give an unequivocal answer to this question. There is always a risk, but without a responsible person the loss is divided among the members of society unnoticed, while responsibility is blurred over. The personal risk puts and end to the anonymity of responsibility, and thereby ensures better careful prognostication, modifications in time, and thus the more likely avoidance of losses. Out of the depreciation allowance and the credit which is due to him on account of his increasing goodwill capital, the entrepreneur is able to carry out continuously the development of his products and production processes.

In connection with this question it is worth examining when the entrepreneur has the right to *"leave"* the business. a) If he dies, the enterprise reverts its given condition to society. b) If he cannot fulfill what he undertook (pay in the interests), he is first obliged to draw a credit at the expense of his goodwill capital, or may reduce his bidding to the highest earlier external acceptance. If this does not help either, *bankruptcy* follows, the enterprise is liquidated. Those who have accepted the risk must compensate for the difference of the "plan-market value" and the amount received on liquidation; first, the entrepreneur out of the risk (coverage) part of his human assets, and second, the special-purpose creditors (to the extent of their shares). c) The entrepreneur – if he considers the risk too high or the business is no longer sufficiently attractive – may voluntarily close his enterprise, if he *pays off* (pays in) the "plan-market value" of the business, i.e. *withdraws* from it. d) If the business (the "relay baton") *is taken over* from him by an overbidder.

It may be seen from all this that it is not in the interest of the entrepreneur to exploit ruthlessly, to withdraw the functioning capital, because he must compensate for it. He is rather interested in the prosperity of the enterprise, its renewal, in increasing his goodwill capital and thereby his opportunity for entrepreneurship, or at least in keeping his interests.

The state's benefit and its modified economic role

But what is the *state's benefit* from the entrepreneurial system, if the bidding only increases the goodwill capital of the entrepreneur, and its return-increment (interest) belongs fully to the entrepreneur, who is not burdened by any further tax commitment?

By letting into entrepreneurship, higher profits than earlier can be expected, which is expressed in the higher "put-up price", and in the higher *return which is to be paid on this in the form of interest.* According to Liska the annual sum of the interests on the put-up prices will be much higher than today's taxes. The majority of the administrative expenses also become superfluous. An increasing part of the budgetary expenditure which has until now been covered from taxes may be rendered superfluous by the socialist enterprises replacing the (e.g. welfare) institutions. The entrepreneurs themselves will – on the basis of their goodwill capital – develop the enterprises, and it may be assumed that they will do so more efficiently than has been done until now. The risk of losses will also be passed on to society only as a last resort. If the social property reverts from the entrepreneur to society, the enterprise can be advertised for letting into entrepreneurship, on the basis of the higher profitability achieved already, at a higher "put-up price", corresponding to the last "plan-market value". The main gain of society would nevertheless be derived from a prosperous economy, the increase of its performance and of its competitiveness on the world market. Liska emphasizes that "all these sources can be set free as a huge new power in the system of socialist entrepreneurship, if taxation – as their principal destroyer inducing withholding of performance – is abolished".

Consequently, the state would be able to count with income from business exceeding the present level. At the same time, in the tendency of his concept Liska does not intend to impute a great role to the state in the economy. He counts on the self-regulation of the economy, on the one hand through the market, through competition, and on the other, through the "plan-market competition" (the capital market) and the credit market.

He wants to entrust the handling of the social property to an institutional system which would function like banks, but he does not think of a single central financial institution but a system of banks which also would function as business enterprises.

These financial institutions would have to look after the following main functions: (Some of these are in essence the tasks of a tax office, others those of a notary public, again others of a savings bank or account keeping ones.)

1. The "curatorship" of the social property. Within this all basic units of social property which can be let into independent entrepreneurship (personal social ownership) must be defined and recorded. Their "put-up price" must be determined. They have to carry out the auctioning of the entrepreneurial units in the course of the "plan-market competition".

2. They have to record the "plan-market values" and the changes which occur in them.

3. They must carry out the income distribution in connection with the entrepreneurships. Out of the paid in interests of the "plan-market value" they must transfer the interest on the "put-up price", the interest on the deposits, or dividend, as well as the interest on the goodwill capital. They must record the "goodwill capital" and the changes occurring in it.

4. They must record in a closed account and handle the "social inheritance" of the citizens, looking after the desired payment of their interests.

5. They automatically provide credit to the entrepreneurs for an indefinite term to the extent of a definite part of their "social inheritance" and the interest on their "goodwill capital".

6. They collect the savings of society (on interest or as special-purpose credit for the entrepreneurs).

7. They conduct an interest rate policy on the credit market. They establish the current equilibrium rate of interest.

Liska attributes an important self-regulating role to the equilibrium rate of interest. He expects from this the regulation of the business cycle, the stimulation of business and also curbing it. If the interest rate rises, a higher return must be paid in, for instance, on the "plan-market values", which of course curbs both the overbiddings and the starting of new ventures.

Liska expects that in time the business enterprises will not come about only and not even primarily through the auctioning off of the existing social property units, but independently on the basis of credit, and that the establishment of enterprises will itself become a particular kind of entrepreneurship. In this case, the "put-up price" slowly disappears or at least its importance diminishes, and thereby also its interest as state income. This is only produced through the death of the entrepreneurs and by letting into a new entrepreneurship. And this is also needed, for instance to hand out the "social inheritance" of the newborn, and for increasing the "social inheritance".

But if Liska's system does not know taxes, what can the state expenditure which continues to be necessary be covered from? (The hope of the withering of the state is remote.) First of all, of course out of the interests on the social capital manifested in the "put-up prices". In addition, the income of the banking system handling the social assets and incomes can also come from the creation of an interest margin between the collected and the paid out interests. For solving the above-mentioned problem in Liska's circle the idea has arisen that this interest margin may be the source also of the necessary but reduced tax, which in this way would uniformly be a charge on every kind of income.

Some demarcations

In sketching the outlines of Liska's system, it is worthwhile to draw some demarcation lines in order to avoid any misunderstandings.

The question may arise whether Liska's model is not *a variety of the Yugoslav self-management system.* There are indeed some kindred features at the source of the two models, as for instance the rejection of state monopolism (etatism) and of the system of directive planning, the development of commodity- and money relations, openness towards the world economy, the stimulation of entrepreneurial competition, the construction of the economy from below, from the associated collectives of the toilers. However, self-management sets out from the associated economic and regional political self-management organizations of the working collectives (the workers and the intellectuals working with them), in essence from their group ownership (which, according to Liska "revived the primitive, soil-bound, holding down force of the physical private property, even if in a collective form"), which is directed by elected managers and politicians; the "little bureaucracies operating as local autonomies" called upon to hold this together and the central power organs are built on these.

Within the self-managing groups, too, there is a "nucleus", the socialist entrepreneur, but he is not a personal owner but is subordinated to the worker collective and must increase their share in the profit; at the same time he also depends on the state organs. This leaves ample room for the local bureaucracy and for manipulation, as well as for local constraints. On the other hand, Liska's system is centred on the personal ownership of the entrepreneurs, and on the entrepreneurial competition, which may lead to a higher mobility of social ownership as well as to a higher degree of managerial selection and personal responsibility. The managers under self-management are also entrepreneurs, but as elected officials they must not only represent efficiency, but in the first place the group interests. And if the demanding leader is manoeuvred out of his job from below or from above, the enterprise and toilers usually remain (and see only later the harmful consequences of their short-sighted subjectivism). In Liska's concept the table is turned. The entrepreneurship is tied to the entrepreneur; on the other hand, anybody may become an entrepreneur who can undertake and perform more for it, and already disposes also of sufficient goodwill capital.

Some may think that Liska's model is a late reverberation of the illusions of 19th century *laissez-faire capitalism.* In opposition to this belief, first of all two things must be pointed out. First, in his system the constraining basic features of capitalism: private ownership and the defenceless situation of the workers, who are deprived of the means of production, are absent; on the contrary, everybody has free access to the unlimited opportunities of entrepreneurship. Second, Liska does not think at all of "bringing back" the small-scale (handicraft) features of entrepreneurship. He considers the entire advanced armoury of commodity- and money relations to be applicable, but is fighting in all areas for the freedom of entrepreneurship (i.e. free of the monopolies of the proprietors and of the state). How this is possible, is a further question awaiting clarification.

The question may occur to those who are acquainted with the contemporary social democratic ideas of self-management or "participation", how in this entrepreneurial system the *relationship between the entrepreneur and the "toilers"* (meaning the workers according to today's notions) develops? What will ensure the protection of the interests of the latter? According to Liska this is a spurious problem, behind which he again sees a manifestation of bureaucratic tutelage. In the competition of socialist entrepreneurs, in essence, every function of work can be solved through entrepreneurship, i.e. everybody can be an entrepreneur. The entrepreneur of a larger unit can only rely on the entrepreneurs of the smaller part-units, and these on the entirely individual entrepreneurs (as on social "atoms"), who constitute their "team". The essential element of entrepreneurship is efficiency, and this creates a mutual interest in association, in co-operation. The enterprise has no leader who enjoys a monopolistic security, nor has it a permanent "crew". Consequently, in the socialist entrepreneurial system relying on the personal social ownership the social position of the toilers *would change radically.* In Liska's system not only the leader of a factory or of a plant would be an entrepreneur but also the worker on a machine (or a truck driver), or a work team. In this case, for instance, the "norm" could represent the "put-up price", and the profit of the additional performance accepted as a "plan-market value" would be due without restriction to the person who undertook the task (as goodwill capital and its freely usable interest). It would not be the small entrepreneurs (the "toilers") who elect the "top entrepreneur" (the executive) nor would the latter be able to pick arbitrarily (excluding competition) the members of his "team". However, the compulsion of performance would create a mutual interest between them; they would in fact provide to each other the opportunity for entrepreneurship and this would make them dependent on each other. (In this way it would not be possible to undertake the operation of a plant without suitable collaborators, without part-entrepreneurs who are willing to co-operate, but these would not be able either to find this entrepreneurial opportunity without the person who organized the plant and who undertook the business.)*

Progressive features of the entrepreneurial system

After having described Liska's entrepreneurial system we may pass over to evaluate it as a theoretical model. First we shall sum up those features which – in the opinion of the interpreter – may be qualified as positive from the aspect of social progress.

First of all, we consider as such the *change in the social position of man, which* – in the Marxian sense – would make possible the *accomplishment of his human essence.* It

*The possibility for entrepreneurial solidarity derived from interdependence is shown under entirely different – more rigid and consequently less favourable – social conditions, for instance, by the Japanese economy.

would become a reality for social property to be considered by everybody as *his own* through the entrepreneurial attitude. Everybody would be his own master, and the maker of his own fortune, disposing as an adult of the goods obtained through society. He would be able to undertake freely the filling of the social function fitting his ability, and his performances would be the criteria of his success. The relationship of people to each other, their social attitude would change fundamentally: out of subordinate workers or officials of a hierarchy they would become *free entrepreneurs,* who – instead of the false security of dependence (servitude, power) would have to achieve their position through their confirmed performances.

The unequivocally creative *orientation towards performance,* following from the above under the pressure of competition, would considerably increase the efficiency of the economy. The labyrinth of the instructions, regulators and incentives of today's planned economy would cease, the ground would slip from under the feet of the proliferation of administration. The conditions for the monopolies, privileges and picking of persons would be driven back. Long-term business interests would keep alive and competition would even compel *permanent readiness for innovation,* for less expensive, more favourable, more modern, more inventive, better quality, and thereby for the search for solutions creating a bigger demand and thereby being more efficient. The system would induce the intelligent, forward-looking exploitation and development of social property, on the basis of entrepreneurial incentive. Besides providing the income demanded for society, it would force the development of abilities, the increase of the entrepreneurs' own income (goodwill capital).

It would free human *readiness for entrepreneurship* from the senseless bureaucratic barriers and the distortions which adjusment to the latter involves, and would make it possible for entrepreneurship to assert itself lawfully, in the fundamental socio-economic activity instead of in the side-street of cunning (the second economy).

Through economic *transparency* there may be more favourable conditions for *planning business.* If the income of the individual depended on his performance, *talent and performance would be held in higher esteem.* To sum up: these undoubtedly socialistic production relations, which would be based on social ownership and make the worker and official equal entrepreneurs, would promote their principal function: *the better development of the forces of production.*

Open problems

In the course of this evaluation we cannot keep silent about *our doubts* either. Liska cannot be blamed for his system still being rough in many regards, since detailed minuteness is a rather naive and side-tracking feature of the utopias. Liska himself says in one place: "The emphasis on roughness (the lack of elaboration) is a too well-intentioned acquitting critique." But at some points fundamental questions are also open. Among these we shall mention here only a few, rather as indications.

1. *The socialization of production* has risen nowadays already to a very high level in many areas. Modern technique and technology, today's rate of progress demand the powerful concentration of means, the combined performance of large scientific R and D, organizational and producing collectives, the long-term planning of this activity (see: nuclear energy, space research, the ensuring of primary energy sources and raw materials, electronics, etc.). This does not contradict the idea of entrepreneurship but rather demands it; however, *spontaneity must necessarily be replaced by the requirement of organization, long-term planning and market security of a higher order,* as this is shown by the example of the large multinationals. The intervention by goverments, the role of the international financial institutions are not only caused by the socio-political contradictions of the capitalist world but by the complexity of the modern economy, the requirement for planning and organization. These long-term planning and organizational functions on a society-wide scale surpass the described framework of the entrepreneurial system. (Although Liska is inclined to attribute such objections to etatism, the apology of bureaucracy, the "blindness" caused by "excessive" economic education, he should rather emphasize that his ideas are not aimed at opposing the small enterprise to the big, but represent against alienation and the abuse of power the freedom of entrepreneurship within the big enterprises too.)

It is true that these large economic complexes must start "from below", from small enterprises, but greater attention should be paid to their organization. Human life is finite, and if everybody had to start to collect his goodwill capital from the beginning, he would never arrive at the stage which would provide the guarantee of the "goodwill capital" necessary for undertaking the entrepreneurship of the enterprises of our time (say, a chemical works or a car building factory).

2. Liska's concept relies on the automatic regulatory operation of the money and capital markets. However, so far this optimistic hypothesis *has not been confirmed* either theoretically or historically. In addition, Liska's basically anti-etatist, anti-bureaucratic system can hardly eliminate a number of functions which demand official paths and decisions on a higher level. Let us mention here but the most important ones:

a) The issue of money and its regulation. If the right and possibility of this remains in the hands of the state, then – in the absence of the right of taxation – it can break through the barriers of state income in this way too. The changing of the equilibrium rate of interest is an insufficient instrument for the neutralization of this.

b) Determination of the interest rate policy. This refers first to the magnitude of the rate of interest, and second, to the decision on the margin between the lending and the borrowing rates of interest. The first can also be established by the competition of the banking enterprises; but in respect of the second the question of the solution of the taxation through this arises: in this case, its magnitude must also be fixed.

c) The formulation of the credit policy. In the system there is an automatic granting of credit against part of the "social inheritance", and further against the "goodwill capital". However, these securities cannot be mobilized. Demand for credit is increased first by the general endeavour for entrepreneurship, and second, by the

compulsion of keeping up with the rapid evolution of the world economy. Additionally, considerable special credits would be needed for rehabilitation and reconstruction whenever it became necessary. The entrepreneurial, and especially the investment endeavours could easily lead to an excessive money supply, and this may cause the well-known phenomena of inflation or shortage. The self-regulation occurring through the adjustment of the rate of interest would by itself hardly suffice to avoid cyclical fluctuations.

d) Formulation of the investment policy. Liska's concept, which has been explained so far, covers in fact the better utilization, modernization and more flexible operation of the existing social property. He does not deal with the *establishment of new social property units,* the question of *new investment projects.* In this respect Liska does not see any essential difference, because he sets out from the fact that the entrepreneur who wins in the competition must automatically receive credit, since it is only by this that he can make even the old more attractive, for instance through rationalisation and reconstruction. In reality, in respect of the existing assets the question of utilization exists as opposed to depreciation (obsolescence, loss of efficiency). If the entrepreneur succeeds in "inspiring life" into this through a smaller innovation, then earlier accumulated values are saved and become again profitable. But for new investment projects new resources must be tied down, and this makes sense only in the case of more substantial income also guaranteed (probable) in the longer perspective.

It follows from Liska's concept that the new investment projects should also be advertised as entrepreneurships. For this purpose, credit auctions should be arranged to the extent of the free credit means available to the banks. However, in the case of larger investment projects greater risks and more important decisions are involved than the entrepreneurs can undertake individually on the basis of their "goodwill capital". Consequently, the application of an investment policy in respect of the extent of accumulation as well as the allocation can hardly be avoided.

e) As has already been mentioned, in Liska's system the curator of the social property is a banking system. However, the structure and hierarchy of it is not clear. (Only for the purpose of the experiments at present being conducted has the proposal of establishing a bank-like "centre" arisen; the Plan Treasury of Entrepreneurs would have special rights and function within the framework of the existing state administration with the participation of a helpful brains trust.) If we assume these to be a network of free banking entrepreneurships, the question of deciding on their competency in respect of the existing social property arises.

As may be seen, this financial system would have to look after a number of – already mentioned – "authority" functions. For instance, it would have to look after the identification of the social property units, the implementation of their auctioning, the elaboration (possibly modification) of the "put-up price", the recording and handling of the capitals and incomes. The elaboration of the "put-up prices" is by itself a gigantic tax office task, which demands more than a small apparatus and expertise. The situation is eased, according to Liska, by this being necessary only when the unit is let into entrepreneurship for the first time. When the unit is again let into entrepreneurship after

the death of the pervious entrepreneur, the last "plan-market value" can already be the "put-up price", or at least its basis.

A number of other question also require elaboration and "superior" decision, including the size of the social inheritance, the share of it which can be risked as a security for credit; what should be the difference between the lending and the borrowing rates of interest and between the dividends of the special-purpose credits; up to what part of the "human assets" is automatic credit "due". It must further be decided whether interest is payable on the goodwill capital acquired in the course an entrepreneurship, if the enterprise (in the hands of the successor) has declined, ceased to exist, or has been entirely transformed by the successor during his own entrepreneurship.

f) The necessity for an exchange rate policy and foreign trade policy also points beyond self-regulation.

g) Finally, it may be presumed that a controlling authority would also be necessary, because the "plan-market value" would not be able to exclude entirely abuses, the deterioration of quality, corruption, gangsterism, the formation of lobbies, fraudulent manipulation, failure, the manipulation of prices, the pollution of the environment, the smuggling of values abroad, etc.*

The institutions filling the enumerated functions would have to function on the one hand, on a *democratic basis,* and on the other on an *entrepreneurial basis,* which would involve their responsibility for the efficient and profitable activity of the area supervised by them.** In the opinion of this critic, an interested, hierarchically constructed system of councils or a system of supervisory boards may meet such requirements, of course without any kind of role by which it would control or regulate the entrepreneurships. Its main task, as a *political organization* would be to ensure the freedom of competition, prevention of monopolistic positions, and a moral-political struggle against possible abuses. (Liska himself raises in one place the demand for an "anti-trust committee".)

3. The idea of the "plan-market" of the entrepreneurs also harbours problems. Identification and delineation of the social property units to be let into entrepreneurship alone is not easy either. These often are interlinked, overlap, form a complex. For instance, if a factory, its various plants, its individual machines and equipment (or its groups and ensembles forming a unit) are property units constituting the object of different entrepreneurships, the auctioning and formation of the plan-market value of these are interconnected and are difficult to separate from each other.

*We may note that, for instance, "unfair competition" can be defined too, nevertheless in everyday practice this is not an easily achievable task for social struggle, but can only be approximated.

**It is no coincidence that in the course of "perfecting" the system of directive planning the drawing of the control organs into *khozraschot* also arises, in order that the economic consequences of their measures should become measurable and thereby their responsibility should grow. However, the absence of actual commodity and money relations (the formation of the prices on the market, control) generally impedes the realistic measurement of performances, and makes it therefore possible that the offices should at any time be able to justify their own actions.

4. The universal validity of the entrepreneurial system is questioned by the fact that in some rather secondary areas, which nevertheless figure in the concept, *performance cannot be defined adequately,* especially not its quality. Such are especially the cultural, welfare and health services (education at school, medical treatment). Consequently, the solution of these through market entrepreneurship presents a problem. (It is not by coincidence that exactly these have become public social services; in these areas, entrepreneurship would also be hardly likely to put an end to monopolies and privileges, it would only increase publicity.)

5. Beyond the problems of principle mentioned, we must voice our doubt about the historic chances of Liska's model of socialism, about the possibility of realizing it in the near future.

First of all, the described *mechanism preconditions* of this model *are lacking* and will presumably be lacking for some time: the commodity- and money relations, the fitting into the international market relations, the assertion of democratic competition. And without these the efficiency stimulating role of economic transparency, costing, and control by the market are not ensured. And without a convertible currency, realistic price formation, the elimination of monopolistic situations, the existence of a commodity- and capital market, and free enterprise, much of the vitalizing atmosphere of this system is lacking.

The introduction of genuine commodity and money relations, of universal democratic competition, of the new method of socialist ownership would *fundamentally alter* the present system of planned economy and would in fact represent a *"revolution against bureaucracy".* And he would have to win over for this reform – because Liska is unequivocally of a *reformer* attitude –, following the example of the Utopians, those whose leading role is rooted exactly in these conditions, and who identify the given system of planned economy with socialism itself. Liska himself is pessimistic in this regard: "The gentlemen who operate the economy in an official capacity and are not forced to shoulder personal financial responsibility are many and are much stronger than we are."

There are also many who doubt whether *society is sufficiently mature* for the degree of autonomy and responsibility which is assumed by the entrepreneurial system. They believe that the paternalistic tutelage of the authorities is "still" necessary, as well as the social handling and allocation of goods, because people would not be able to make proper use of their social inheritance. Democracy, competitive spirit, entrepreneurial reliability, culture, a broad outlook and business flair are not yet ensured to a sufficient extent either. Liska expects too much from people: as an entrepreneur, everybody would have to become a *homo oeconomicus,* beyond skill in the trade or profession he would have to be versed extensively in the affairs of business life too. (It should be noted that in the second economy such aptitude can often be found and in a wide range!)

A considerable part of people do not long for the risk of entrepreneurship either. The present conditions have become accustomed, and for the time being they offer a certain comfortable security and acceptable circumstances.

But Liska looks at history in a longer perspective, and trusts in the rightness and future of the entrepreneurial system. He counts on the clarification of the still open questions of principle when the time becomes ripe for them.

The tactics of small steps: the socialist entrepreneurial experiments

To the opposing views being raised Liska also answers that room must be provided for the socialist entrepreneurial experiments, and in the course of these practice will create its forms.* He expects that the tendencies of entrepreneurship will break their way in the course of practice, widening the circle of the persons who are interested and the camp of those who have the ambition of becoming socialist entrepreneurs. This is why, independently of the "big" perspective model concept it is worthwhile to pay attention to Liska's "minimum programme" experiments. These today already noteworthy experiments are directed in Hungary at the area of the *small ventures,* for instance in agriculture, in retailing, in catering, in the management of dwellings and recreation homes, in the productive (designing-organizing) free professions. Their main aim is to lead them from the areas of private ventures based on accumulated small private capital or from the doubtfully lawful "second economy" *to the path of entrepreneurship of a socialist nature.* The entrepreneur may obtain the entrepreneurial opportunity on the basis of social ownership (the previous accumulation of private property is not a precondition), undertaking and achieving beyond the – more favourable than before – "rent" (tax) to the state, the highest possible profitability at an auction (in essence, for the benefit of society and himself). Entrepreneurship provides substantially more rights, and thereby may fetch more than the lease, because the entrepreneur can dispose of the entrepreneurial assets, may transform and modernize them, or may even alter the profile of his venture (e.g. transform the dairy shop into a confectionery shop, or a stable into a repair workshop). Liska endeavours to free such enterprises from the senseless bureaucratic restrictions.

In the course of the experiments certain *successes* can already be shown. This includes for instance the establishment of the self-managing small groups of the Baksa farming co-operative; in the case of the Igalpuszta dairy farm, competition between socialist entrepreneurs has already been realized too. At the Felszabadulás agricultural cooperative of Szentes an entrepreneurial system based on bidding is being prepared. The contractual operation of catering establishments through a "bidding competition" undertaking additional payment exists already on a broad scale, where Liska and his associates have succeeded in winning over the official apparatus to help the letting into entrepreneurship – although at the expense of some concessions of principle (some bureaucratic

*This of course does not exempt from the scientific responsibility of clarifying the still open question of the theory.

barriers to competition degrading it to a simple lease having remained). The entrepreneurial system may be especially beneficial, in addition to the catering industry, in *agriculture,* where the independent peasants turned into members of cooperatives may again become *farmers* having their own incentives and responsibilities. In these economic area the piece-rate is especially senseless and sometimes harmful, because it induces the doing of superfluous work. Opposed to this, the undertaking of a return in one sum mobilizes thoughtful management and brings forth the reserves. It is, however, questionable whether, owing to the uncertainties in farming, it does not devolve on the entrepreneur too high an individual risk. Farming being tied to the spot, competition is more limited too. The separation of some entrepreneurial groups may also violate the common responsibility of the co-operative.

It appears that the most recent framework statutes have given the green light to the small ventures, but a lot has certainly still to be done to overcome distrust. However, an even greater danger than the existing obstacles is represented for the entrepreneurships by the economic (mechanism) conditions constituting their vital element: the shortcomings of free market price formation, of money, of competition. In consequence the entrepreneurs may meet with various "surprises" (price regulation, supply problems), they may be at the mercy of their suppliers or the official organs; on the other hand, due to the limitations on competition further privileges may arrise, and abuses at the expense of the consumers may become possible.

Liska is clear about the *diversification of practice,* the variety of the concrete problems. He soberly seeks with his associates the *entrepreneurial opportunities* arising in the given circumstances and adjusting to them, counting also with the fact that the corresponding local demands, the *inclination* for entrepreneurship must also develop.

This is the terrain where Tibor Liska fulfils here and now an *historic role,* as the apostle of free (democratic) entrepreneurship of a socialist spirit, i.e. promoting through personal incentives the social interests, in an inventive way, tirelessly, and overcoming the senseless obstacles. In this he may count not only on an increasing social demand and interest, but also on winning the support of the "superiors". And this is no little task or honour for a socialist entrepreneur of the Liska calibre and of his "team", who are ready to shoulder personal responsibility for social ownership.

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J. KORNAI

COMMENTS ON TIBOR LISKA'S CONCEPT OF ENTREPRENEURSHIP*

In my remarks I am not aiming at completeness, either in criticism, or in praise. I should like to concentrate my comments on a relatively few but – according to my opinion – important questions.

I do not adopt the terminology of Liska. Instead, I will use the standard expressions of common economic language.

I make no efforts to be original; in several points my remarks will resemble those of others; in some questions they may even coincide with statements made by others.

The merits of Tibor Liska: Some main points of accord

I appreciate the work of Tibor Liska very highly. The economic efficiency computations initiated in 1954, using the then new "Liska–Máriás" indicator,** the proposals stressing the role of world-market prices, the paper "Econostat", the study on the housing market and now the conception of entrepreneurship are outstandingly important milestones in Hungarian economic thought. I cannot fully identify myself with the content of any of his works; I have some reservations and objections to all of them. Nevertheless, in all of them many important – often extremely significant – ideas can be found. Liska's spiritual independence, his moral courage and perseverance, the depth of quite a few of these thoughts are worthy of respect.

Liska's conception regarding socialist entrepreneurship constitutes a rich and multifarious system of thoughts, covering several aspects. These aspects are sometimes economic (market, auction, rate of interest, credit), sometimes political, sociological and

*The comments were orally made in a discussion held on the 28th of January 1982, at the Karl Marx University of Economics, Budapest.

socio-psychological (the entrepreneurial function and behaviour, the forms of public property and the relationship of the citizen to public property) and socio-philosophical and ethical ones (the rights of citizens and their "shares" in public property). Exactly because we are facing a complete system of thoughts, it would be improper to classify it according to taste and say: I like this part of it but do not like that one . . . Notwithstanding, I feel obliged to tell what I sympathize with in it, – before commencing my critique.

– I agree with Liska in his critique of the old mechanism based on plan-instructions and in the criticism of the Hungarian economic mechanism as it developed since the 1968 reform. There are some differences in opinion between us regarding these questions but agreement or close likeness are dominant.

– Similarly to Liska, I approve of those endeavours which impart a great role to the market in allocation – a much greater one than has been so far the case. I agree with him also in that the market ought to play a significant part in the allocation not only of the material goods proper but also in that of services and infrastructural activities.

– I agree with giving prominence to the category of the "entrepreneur", stressing that it is not synonymous with that of the "manager" who is appointed by the capitalist owner or the state. In my opinion Liska is right also in raising the question whether the entrepreneur in the true sense of the word is necessary in the socialist system. If so, how can this social role be "institutionalized"? To raise the question is in itself already fruitful.

If the system of Liska were functioning – what would be its deficiency?

I should like to expound my critique in two steps. First – in this passage – let us presume that Liska's "rules of the game" are inaugurated on national level in the way he pictured them. The question then is: would they bring about the results their creator expects from them?

The next step of the analysis will be to put the question – and it will follow in the next passage –: is it possible for a real society to work according to the rules recommended by Liska?

a) In any society definite persons (individuals, smaller or larger groups) are in command of the means of production (meaning not the formal right of ownership but the real power of disposal). Socio-economic systems differ from one another, among other things, in how these persons are selected. How is this *selection* carried out – not according to declaration documents but in true life? What part is played in it by the property inherited or acquired by the individual during his own life, his political position taken in the system, or his capabilities and so on?

Liska wishes to link this selection to a single criterion, i.e., to the one-parameter bidding at the auction for the disposal of capital. He who bids higher can take away the right of disposal from the one who has hitherto exercised it. A bid is always only a *promise.* It will turn out only later if the applicant was able to keep it or not.

This is a one-sided, narrow and improvident principle of selection. It attaches irrealistically great importance to the self-esteem of the individual: to the judgement of the bidding person in weighing up what he is able to undertake. This is an important virtue indeed, – but not an exclusive one.

b) One of the basic conditions of enterprising is *security.* It needs a long time horizon. The individual entrepreneur must be allowed to suffer partial or transitory failures if he is subsequently able to cope with the difficulties.

"You can take it away at any time by a higher bid" – this principle entirely undermines security. The entrepreneur under Liska's rules of the game never knows whether the capital in his possession would not be taken away from him tomorrow because someone appears who is bidding higher. It is not when he will have finally failed or when he will be willing to give it away that he will lose command but he can be deprived of it at any time – even if he operates successfully – in the case a higher bid is declared.

Being aware that he personally would not suffer any material loss does not compensate for this permanent insecurity. A personality of really entrepreneurial character does not only want to make money but he is ambitious to enjoy the power of disposing of the means of production, the excitement, the prestige, etc. of enterprising and command. A genuine entrepreneur would not be comforted if he were asked to leave his general managerial office, receiving at the same time a letter of guarentee promising that his earnings will not diminish in the future.

c) A Walrasian equilibrium rate of interest (or the analogous indicator of Liska's) cannot be the sole regulator of a properly functioning capital market. It might misdirect the decisions on allocation if they reacted solely to a single information, i.e., to the current rate of interest. Every real capital market is forced to act on the basis of a more complex control mechanism.

Is it possible for a real system to operate according to Liska's conception?

The question is not the expected resistance to the implementation of the concept in the given Hungarian society; or, whether there is any chance for it to be adopted. Let us assume, for the sake of discussion, that all the competent organs have accepted the suggestion of Tibor Liska, they are prepared to codify and enact the necessary laws, statutes, etc. What would then happen?

The rules of a game may be freely invented. The rules of playing chess are codified. Still somebody invented the so-called "French chess" where the winner is the party whose pieces are first taken. The rules of the game of real societies can, however, not be contrived at will. Here Liska shares the fault of those whom he usually severely rebukes, i.e., who contrive new "regulators" for the Hungarian economy every second year, believing that the economy will work in accordance with the rules they invented.

A real economic system consists of living people whose positive and negative characteristics have to be equally reckoned with in the ideas regarding society.

a) The information basis of the "auction" will be inevitably distorted. It is easy to make a decision for somebody who wants to undertake the running of a filling station. He will observe the turnover for a few days and, in knowledge of the expenses born by the filling station and the returns from the sales he will decide whether or not to undertake it. But what should a man do who is planning to take over an export firm? He is completely exposed to the information he is able to get from the person who managed the enterprise prior to him. The latter will disclose or deny as much of information and distort it as his interests may require, depending on whether he wishes to keep or intends to give up the business.

b) The proposal considers the socio-economic system as consisting of independent entrepreneurs, competing with one another. In reality cooperation, the building of coalitions, cartellization, or concentration are inevitable.

c) The proposal reckons with the perfect self-limitation and self-restraint of the state institutions. They must confine themselves to play "neutral" parts, being the "auctioneer" of the public auctions, the cashier and book-keeper of the nation, the watch-keeper of the rules of the game (the "umpire" of the match). In my opinion a modern state is not satisfied with such neutral and "power-free" spheres of roles. The bureaucratic power will not cease to exist only because we reprimand the people exercising it and ask them to confine themselves in the future to fulfilling the above-mentioned neutral functions.

d) The proposal of Liska would prescribe a single homogeneous rule of the game for every field of the economy. In fact, it allows for experimentation but if the experiments were to bring to the fore another rule, it would prescribe this rule – again for the whole of the national economy. In reality every modern society creates *simultaneously* several various sectors which differ from one another from the viewpoint of ownership, control and, at the same time, in behaviour. One of the promising features of the present Hungarian situation is that it has become more diversified in this respect. A uniform and universal form of ownership that is valid for every section of the economy is undesirable – and it cannot even be realized.

Methodological remarks

Liska's conception is such a normative theory that is not sufficiently founded by descriptive and explanatory examinations. It is not enough to expound what kind of social structure would be desired. We must be profoundly in knowledge of the particularities of the formations which are – in some features – similar to those we are aiming at.

The economic rules of Liska resemble in many of their features the laws of a capitalist market of commodities and of capital. I know that Liska is striving after a formation which differs in its basic characteristics from capitalism. It is, however, impossible to formulate scientifically founded statements about the system he imagines without making profound, objective and unprejudiced comparisons with the functioning

of the capitalist economy. How are there the capital market, the credit system, the rate of interest, the stock exchange, the foundation of enterprises, the transfer of enterprise ownership, auction and bankruptcy, etc. functioning? What is the position of the small, the medium and the big enterprises? Which are the types of ownership, the roles of proprietors, managers and entrepreneurs, and so on. Liska does not convince us that the system conceived by him will be in possession of those advantages which are exhibited by the capitalist economy – in spite of the fact that he intends to eliminate "normal" capitalist ownership. At the same time, he also cannot convince us that his system is free from those socio-economic disadvantages which reveal themselves in a capitalist economy – solely as the result of his endeavour to eliminate "normal" capitalist private ownership.

Again much more experience would be needed regarding the knowledge of how the various "forms of entrepreneurship" are working in the socialist countries. It is true that none of them is exactly what Liska proposes, but there are also some formations not quite unfamiliar to his ideas, what is more, some of them are even akin to them, being various combinations of social ownership and personal possession and command. What are the experiences regarding the functioning of these forms?

This empirical research – i.e., a thorough survey of the analogous phenomena in capitalism and socialism – is indispensable. It cannot be replaced by "inventing" some rules of the game. It is relatively not too difficult to plan an ideal system on paper. It is especially easy to "prescribe" for a hypothetical system that it should be free from those faults, troubles and vices which characterize the various actual systems. I do not like bureaucracy: thus, let our society be free from bureaucracy. But I also do not like monopoly, private ownership and inheritance of property. Thus, let us have a society where all these will not appear. Unfortunately, in actual societies all these phenomena appear, maybe, in a cumulative form. A normative theory can be considered scientifically well-founded if it takes soberly into account the tendencies which give birth to these kinds of phenomena and does not simply "eliminate" them from the invented rules of the game.

Social usefulness of Tibor Liska's research

As a scientific researcher I have a number of substantial objections to the ideas of Tibor Liska. However, it is not a contradiction that I consider his activities, his research works and experiments in enterprising to be useful in many respects. Now I am going to stress two of these.

a) A form similar to the ideas of Liska may take shape as one of the sectors of the economy, i.e., that real capital is and remains in public ownership but for the purpose of operation it is given on a rental basis to a private person or a group of private persons. If there are several aspirants, a competitive bidding may take place to decide which of them will be granted the right of operation.

I presume that – beside some essential similarities – in practice this model will be in many details at variance from the actual rules drawn up by Liska.

It is my conviction that this form will not become exclusive, nor will it be a dominant sector embracing the larger part of the economy. It is imaginable, however, that it will grow considerably wider relative to the present situation. Whether it has any advantages over other existing forms can be proven (or disproven) solely in the course of competition with the latter.

b) I attach greater importance to the effect in mental fermentation of the proposal than to the concrete forms of public ownership connected with personal command and enterprising recommended by Liska. In Hungarian economic science and especially in practical ecomonic life the idea has become widespread which expects solutions to the problems from repeated revisions of the "regulators", saying that wage preferences granted to the enterprises must depend on this or that; the rate of profitability must be adjusted to one or to another factor, and so on. Liska directed our attention to issues lying deeper, i.e., to the interdependencies between ownership, selection and economic control. I think that this call for attention is beneficial even if the concrete answers he gave to the questions raised by himself do not seem convincing to me. Despite its limitations Liska's conception helps create a public spirit which is hostile to bureaucratic solutions and sympathizes with initiative and personal responsibility.

The Liska proposal, in my opinion, does not stand the test of being scientifically founded. Social changes are, however, prepared usually not by "scientific" thoughts but by ideas of mobilizing power. The conception of Liska has a stimulating effect – and I think it is mobilizing in a basically right direction.

GY. VARGA

THE EXPERIMENT OF SZENTES

A noteworthy debate is in progress among economists about Tibor *Liska's* concept of socialist entrepreneurship. The basis of the concept is a particular interpretation of social ownership. This ownership is social in the sense that nobody can appropriate it, but always that person can dispose of it who uses it most profitably for society. The property which forms in essence the object of the entrepreneurship is called by Liska "personal social property". The foundation for the operation of the system is the "plan-market of the entrepreneurs".

The organ representing society lets the property unit into personal entrepreneurship at an auction. At the end of the auction the bid of the highest bidder is valid as long as somebody does not overbid later. In the case of later overbidding, the operating entrepreneur – in order to be able to continue his business – must accept this valuation or must cede the business to the overbidder. The entrepreneur – if the profitability of his business improves – can overbid himself too. This fictitious capital market would ensure that all units of social property should always be in the hands of those who pledge the highest return.

This market of values ensures at the same time also the self-selection of the entrepreneurs. According to Liska's concept, for the socialist entrepreneur the primary funds (resources) for business are his own "human assets". These are made up of two sources: first, his personal assets received at birth, i.e. the "social inheritance", and second, the "goodwill capital" acquired in the course of his life. The first is the *per capita* share in the national wealth, part of which would provide an initial risk fund for starting a business. The second, the so-called "goodwill capital", is the difference between the initial value and the value increased by overbidding. Out of this differential amount a Goodwill Capital Account is "opened" for the entrepreneur. If the sum of interests on the pledged increment – the goodwill capital reaches the capital value, the increment pledged has been realized, and then the entrepreneur can collect the interests accumulated until then on a closed account.

Out of the surplus the entrepreneur pays in the interest on the "plan-market" (fictitious capital) value at the effective rate of interest, i.e. the set return of the entrepreneurship. The residual, as interest on the "goodwill capital", belongs to the entrepreneur.

A model of Liska's concept – with some differences, partly due to the small size of the experiments – is being tested at some agricultural cooperatives in Hungary, one of which – the most spoken about – has been introduced at the "Felszabadulás" Cooperative in the country town of Szentes.

It would be too early to evaluate the results of the experiment of Szentes. So far eight out of the twelve ventures have been operating successfully.

The entrepreneur exercises the rights of a manager of foreman who has considerable powers. For instance, some of the entrepreneur lorry drivers and the poultry breeders, too, work together with an employee each. A certain amount of wages is fixed for the business, and within this the entrepreneur decides about his own and the employees' wage. If the entrepreneur wants to pay a wage *exceeding* the basic amount of wages, he can do so out of his entrepreneurial profit.

If the entrepreneur wishes, the management of the cooperative may transfer the employee somewhere else, but this does not mean his firing from the cooperative. There is an assumption according to which the relationship between the entrepreneur who has come from outside and the cooperative member employee gives rise to a *conflict situation,* since the co-owner of the cooperative can become the employee of an entrepreneur who is an employee of the cooperative. According to the chairman of the cooperative, this cannot give rise to any problem, because two different situations are concerned: the *position of ownership and the position occupied in the work organization.*

In the forwarding business the experiment is successful. The entrepreneurs who have come "from outside" claim that at their previous work places they "were underemployed"; their working capacity was not used fully. As entrepreneurs they now try to make use of every opportunity. (For instance, the carriers perform 250–300 working hours monthly.)

It is possible in principle for the interest of the cooperative (its demand for transportation) to clash with the interests of the entrepreneurs, especially at harvest time. They wish to exclude this possibility by stimulating the entrepreneurs through an adequate freight policy to carry first of all for the cooperative. Calculated at the internal interest rate it is a great advantage that while the cooperative *immediately* credits the entrepreneur's account for performing the carriage, the payment for services rendered to other economic organizations is received only after 3–4 weeks. Further, carriage for the own cooperative is not burdened by the 13 percent production tax. Incidentally, the accounts of the entrepreneurs are kept by the office of the cooperative. Cycles are closed every quarter and then the interests of the goodwill capital are transferred to the Realized Goodwill Capital Closed Account. But from then on not the internal rate of interest of the cooperative (in the given case 20 percent) is applied, but the *effective Savings Bank rate of interest.*

The entrepreneurs do not reason in monthly incomes. They are interested in fulfilling the pledged profitability requirements and in maintaining the profit bearing capacity of the business. They subordinate their economic decisions to these requirements, including the decision on how much to devote out of the entrepreneurial profit to the various costs, their personal consumption, and the formation of a reserve. For instance, the entrepreneurs ponder carefully where to have their lorries repaired, how much the standstill time can be, etc.

Some entrepreneurs have the ambition to *expand the range of their services* later, put supplementary equipment into operation, work with several employees permitting them or one of their employes to engage only in the organization of the business.

Out of the twelve ventures, four poultry breeders have not fulfilled so far their pledge. The reason for this is that the breeding stock had been contaminated, and that the bidding went too high, while the market price of chickens fell. Let it be noted that the poultry breeding businesses had not been won by expert entrepreneurs. I am unable to tell what role the various circumstances played in the unfavourable results of the poultry entrepreneurship so far. It is a fact that all are part of the *risks* of economic entrepreneurship.

The ventures in question do not operate in the most important areas of large-scale farming. But in the opinion of the chairman, entrepreneurship is possible also in the ploughland cultures and in animal breeding, if expertise is set as a condition.

The chairman sees no obstacle to the cooperative's transferring the state subsidies etc. to those ventures where the activities in question are being carried out.

The question has arisen how in the case entrepreneurship were extended the cooperative would participate in the various *production systems.* The entrepreneur will certainly ponder *what he gets from the system manager and at what price;* whether the service increases the value of his goodwill capital or does not. Incidentally, the entrepreneur decides – in general – freely on where he obtains the necessary specialized knowledge from.

Would the entrepreneur operating on the ploughland cultures be interested in maintaining *and improving the fertility of the soil?* The experimenters are of the opinion, that since the entrepreneurs are *not* tenants with whom a contract for the use of land is made for a definite time but they have an entrepreneurial contract *for an indefinite time,* and are interested in increasing the requirements for returns even by voluntary bidding, the maintenance and improvement of the fertility of the soil would also be in their interest.

Their opinion about the assertion of the effect of *price fluctuations and changes in the economic regulators* is that first, they are part of the entrepreneurial risk, and second, the entrepreneur is able to follow the deterioration of the market situation to a certain extent by reduced bidding or by paying off.

How would the *extension of the entrepreneurial system* influence the future of the *household plots and of the auxiliary farms?* According to the experts, entrepreneurship is a *more advanced* and efficient system of farming than the household plot. Consequently, *in principle,* the "household plot" would be replaced in time by the socialist entrepreneurship. This change would occur, of course, according to the rules of the game of *economic competition.* It is likely that the household plot and entrepreneurship would operate – through a shorter or longer period – side by side and complement each other.

The entrepreneurial system applied in the "Felszabadulás" Cooperative of Szentes *differs* from the original concept of Liska at some important points. Thus for instance:

1. From the point in time when the interests on the goodwill capital are transferred to the realized goodwill capital account, the effective Savings Bank rate of interest is applied as against the earlier 20 percent interest rate.

2. If too many closed accounts were "released" simultaneously, in order to protect the liquidity of the cooperative, the drawing of the amounts accumulated on the realized goodwill capital accounts would be made possible only after having *given notice.* This is how the cooperative takes care of maintaining the liquidity of the *cooperative farm* even in the case of broader entrepreneurship.

3. In order to increase the responsibility of the overbidders and to strengthen the feeling of security of the entrepreneurs, the cooperative stipulates that in case of a bidding accepted at an auction or in the course of overbidding, *the new entrepreneur is not permitted to reduce the bidding within one year.*

4. The entrepreneur plans freely: he draws up his operational and development plans, which are built by the management into the plan of the cooperative and submitted to the general assembly of members. The general assembly has a right to modify the plan, which may either be accepted or not by the entrepreneur, and in the latter case he may withdraw from the venture. But the entrepreneur maintains in this case, too, his right to his goodwill capital, and in this case either the new entrepreneur of the cooperative farm must produce its interests.

5. Before the auction the cooperative may make various *stipulations* to the entrepreneur for performing certain services, carrying out certain actions, or applying professional skill.

*

The *results* of the experiment *so far* can be summed up as follows:

a) The entrepreneurs have *increased their performance* vigorously;

b) The *return on* the invested *capital* (its efficiency) has increased;

c) The services adjust to the *market demand* and have broken through the forced paths of sales which existed earlier;

d) The cooperative farm has been freed from carrying out some tasks of work organization;

e) The entrepreneurs have developed a cash-flow oriented attitude: a way of complex thinking and approach pondering the long-term inputs and returns. The perspective, consideration of the real risk and preparation for some alternative situations play a greater role in their decisions. *Definite manifestations of the feeling of ownership and consciousness can be experienced;*

f) Since the entrepreneur does not enter into an obligation concerning some performance in physical terms, but for a capital return, it may happen that his priority differs from the priority of the national economy. This problem may in principle occur anywhere in the entrepreneurial sphere. If the is such a difference, it can be an *indication* to the economic control that in order to assert the objectives of the national economy it may be necessary for instance to modify prices or taxes, etc.

I can claim all this at present only about such ventures as trucking, where the object of entrepreneurship is rather *simple,* the volume of the business is *small* and the qualification for work is *low.*

In connection with the experiment certain question can also be formulated:

The experiment causes a division in the cooperative. According to the entrepreneurs, some cooperative members and employees disapprove of the entrepreneurship. It is questionable whether a backwardness in consciousness is only involved here, or the members feel instinctively, perhaps they have even recognized that the entrepreneurs become the actual owners of the common assets, and the ownership position of those who cannot or do not want to become entrepreneurs may become nominal. It is a question how in the case if elementary ventures become preponderant the forums and specialized management of the cooperative self-government could fulfill their task?

According to the *original model,* the head of the work place selects himself in the course of the bidding by pledging a higher performance than anybody else. But the example of Szentes also directs attention to the circumstance that the entrepreneurial system can be viable if, in addition to the "self-selection", the *function of the owner of the means of production* is exercised by managers who are in a real power position – i.e. are *not* "self-selected" and coordinated by the market mechanism.

The entrepreneur *risks the assets of the cooperative farm.* An entrepreneur who has come "from outside" is obliged to deposit three percent of the put-up price as a surety. It is a question whether in the case of failure this would cover the loss, i.e. the difference between the value pledged by the entrepreneur who failed and the highest return capacity pledged at the auction repeated after the failure.

The final ambition of the individual entrepreneur is to realize his goodwill capital, to repeat this process, i.e. the *accumulation of capital.* Some small entrepreneurs may become sooner or later big entrepreneurs, and this can hardly be hindered by the possibility of overbidding by the employee, since the entrepreneur disposing already of a substantial goodwill capital and experience can feel safer in undertaking the risk of voluntary bidding (raising of return) per unit of capital. Whoever has won an entrepreneurship once, will be very difficult to force to hand over the entrepreneurship by overbidding, if only because the new entrepreneur will also have to work "for the benefit of the pocket" of his predecessor (will have to produce the interests or his goodwill capital), and this supposes already the pledging of very hard requirements as regards returns. If not in principle, in practice the entrepreneurial monopoly may develop in this model too. (On the other hand, if this process does not exist, the uncertainty of being overbid would probably have a stifling effect on the perspective incentives of the entrepreneurs.)

It is a question how on large farms and in industrial enterprises of a vertical setup, linked to the domestic and international markets by many ties, where temporary sacrifices and investment demanding a reduction in income and reconstructions must also be undertaken, the *elementary* ventures or entrepreneurial mosaics can be organized. The question is the more justified since so far the experiment of Szentes cannot be considered a *complex system,* and no such operating system has so far been described.

The profit-maximizing orientation of economic entrepreneurship is linked by many ties to the social, environmental and cultural conditions of their own operation, to the formation and development of these conditions. It is not clear how these *external factors* of efficient management are built into the operation of the entrepreneurial model; how economic action is linked to its social aspect and processes.

The *experimenters of Szentes* endeavour to adapt the "model of socialist entrepreneurship", taking the realities into consideration. However, at the present stage of the experiment there are many doubts in connection with the feasibility of the model on a factory or enterprise level, let alone the feasibility of the concept as a *national economic* model.

It is possible that some of these doubts could be dispelled if the Szentes cooperative applied the entrepreneurial system successfully in the sphere of *production too.* Let practice decide: *where and within what scope* can in reality this form of letting into entrepreneurship or some *modified variant of it* be applied.

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BOOK REVIEWS

KÖVES, P.–PÁRNICZKY, G.: *Általános statisztika* (General statistics.) Budapest, 1981. Közgazgasági és Jogi Könyvkiadó. Vol. I. 363 p., Vol. II. 387 p.

This book is the third, revised edition of "General statistics"; the first edition was published in 1973. It is the textbook used by the Karl Marx University of Economics, Budapest, and the authors are professors there. Apart from that, the purpose of the book is to serve as reference and guidance for practicing economists in the use of statistical methods.

Statistical operations belong to the routine activities of most economists, therefore statistics constitute an important subject in the training, and it is, as a rule, included in the curriculum of economic faculties throughout the world. The question is, however, what is needed precisely; to what extent should the undergraduate student be exposed to the theory of statistical inference (largely mathematical), and what methods should be learned. The didactic problem is to find the correct balance between fundamental theory and practice-oriented application. A "cookerybook approach" of teaching readily applicable methods only, might be just as counter-productive, as sticking to pure theory. The merit of the book, reviewed here, is in my opinion that the authors have succeeded in finding the proper balance: concepts and theorems are precisely formulated and presented, but there are no proofs or derivations *per se*, and guidance to economic applications is stressed throughout the book. Well chosen numerical examples are presented to illustrate the points, mostly real data, taken from economic statistics.

Hungary has always been an advenced country in the field of statistical practice. Its relatively developed level is reflected not only by the active role Hungarian statisticians play in international statistics (e.g. various international comparison projects), but also by the well structured, comprehensive and integrated domestic economic and social statistics. E.g. the Hungarian national accounting system comprises both Eastern (MPS) and Western (SNA) concepts and indicators, and from this point of view is unique in the world. The book under review, of course, does not try to give a detailed description of the Hungarian statistical practices, but it reflects very well most of the achievements in this field by describing the basic theory and many of the conceptual problems of what is done in the practice.

Roughly speaking, the first volume can be labelled "descriptive statistics", and the second "statistical inference", although quite a few concepts of inference are already introduced in the first volume. I do not wish to present an exhaustive, chapter-by-chapter, description of the book here, but rather confine this review to selected parts of special interest to economists.

The *first volume* (Chapters 1–8) has some remarkable features. I shall mention first the presentation of the *statistical information system* (Chapter 2). This is a very good application of the system's concept to the organisation of statistical operations from observation to analysis, including data storage and retrieval in computer environment. Classification, coding, data organisation and documentation are integrated in the discussion of this subject. Most other textbooks of statistics I am aware of, either neglect this topic (and let the student speculate how data are generated), or provide a traditional and rather outdated description of data collection and processing. Special mention should be made here also of the integration process of statistics, now a major concern in all countries with developed statistics. Historically each branch statistics (industrial, agricultural etc.) developed independently from each other, in each field their own

concepts, definitions, classification systems were created which were not, or at least not enough consistent with each other. The integration of statistics, now a process in progress in many countries tries to eliminate all these inconsistencies.

I found Chapter 4, entitled *Analysis with simple tools*, very instructive and also worth mentioning. It contains a comprehensive discussion of rates, ratios, percentages, as well as guidance for the tabular and graphical presentation of statistics. The chapter is richly illustrated by examples, designed to keep the reader's interest alive, covering topics relevant to the economist (e.g. population density, growth rate, productivity). The simple tools of analysis, discussed earlier in this chapter, are then applied to the study of concentration, and statistical relationship, such as association and correlation.

Two outstanding chapters are devoted to *index numbers* (Chapters 7 and 8). The discussion proceeds with scholarly precision, covering every relevant feature of price and quantity indices, including the choice of the formula, index number tests, runs (series) of indices, the technique of chaining, etc. A special section, entitled *The "economic" school of index theory* deals with the measurement of price and quantity changes based on indifference curves and utility functions. The change in the average level is examined in Chapter 8. Both the additive and the multiplicative decomposition of this change is presented, using the technique of standardisation. The idea is to separate the component representing the mean change, and the one showing the shift of structure effect. Examples range from the comparison of mortality rates to the changes in productivity, wage rates, and other areas of interest for social and economic studies. The unit value index is also discussed in this context.

The *second volume* (Chapters 8–13) covers the field of statistical inference (estimation and hypothesis testing), as well as related subjects, such as simple and multiple regression analysis. Although the primary user of the book is the undergraduate student of economics, some sections of this volume go beyond the range of knowledge required at that level. As stated in the introduction, these sections ,were included to help the practicing economist on the one hand, and to be studied at post-graduate level on the other hand.

The chapter devoted to *sample surveys* (Chapter 10) is also worth mentioning here. The general ideas and concepts of statistical estimation (such as sample, estimator, bias, confidence interval, etc.) being presented earlier, this part is confined to the specific problems of sampling applied in social and economic statistics, e.g. household budget surveys, market research, crop estimation, etc. Designing a sample for such purposes is a fairly complex task, because of the territorial spread of the population, and the usual limitations, *par excellence* budget and man-power. Although an "ideal" or "optimal" design fit for every purpose cannot be presented, the methods and techniques desribed in the book can be applied to find the "best design" for a given objective. Ratio estimator, stratification, cluster sampling, in particular, can be used to improve the efficiency of the sample design.

The chapters on *simple and multiple regression and correlation* (Chapters 11 and 12) were conceived to teach the user, ie. they cover the fundamental concepts and theorems, which help to understand the computations involved in regression analysis, without forcing the reader to follow long derivations and proofs of pure mathematical interest. The student is thus prepared to formulate his problems in terms and symbols of the regression model, and to interpret the results furnished by the computer.

Most regression programmes currently offered to the user by computing centres include measures of precision and other relevant data (e.g. test of residual distribution), in addition to the estimated regression coefficients and correlation indicators. The economist should unterstand and use this information for a critical examination of his regression model, postulated initially. The book presents the tools just for this purpose and has some very useful additional features, such as the description of the step-wise regression programme, guidance for the use of dummy variables in multi-regression. The revised textbook compares favourably with other Hungarian and foreign textbooks in the field of applied statistics.

L. DRECHSLER

ÉLIÁS, A.–SEBŐK, E.–UJHELYI, T.: *A mezőgazdasági és élelmiszeripari termékek az új világgazdasági helyzetben* (Agricultural and food industrial products in the new world economic situation.) Budapest, 1980. Közgazdasági és Jogi Könvkiadó. 290 p.

The authors undertook the task of reviewing the situation in the world production and marketing of agricultural and food industrial products, a segment of enormous and ever growing importance of world economy and especially of the Hungarian economy. The treatise is based on a broad range of information coupled with very exacting processing and raising a series of problems in a manner that is new in the Hungarian literature. Extensive analysis is given of the food supply problems of the world in the 1970s. Although the treatise is predominantly on global connexions, agricultural and food industrial problems of the industrially advanced countries – in this context of the advanced capitalist and the European socialist countries – and of the developing countries are covered separately. With respect to the latter great attention is devoted by country groups to the specific difficulties faced by different big geographical regions, the oil-producing countries and the most underdeveloped areas.

There is a vast rift between the levels of food production and consumption in advanced industrial countries and in developing countries and this forecasts the shadow of a global catastrophe within a foreseeable length of time. These days, according to data of international organizations, some 1.3 billion people suffer from chronic undernutrition. One-third of them are literally starving, and this number includes nearly 270 million children under the age of 5. The other pole is represented by the United States and the EEC countries. One quarter of world grain production and nearly 40 percent of grain exports belong to the USA. At present foodstuffs are used by advanced industrial countries as a political weapon on basis of their prominent role in the production of and international trade in grain and other foodstuffs. The authors note that the geographical location of agricultural and food industrial production is not the only determining factor but the resolution of global problems is also influenced by political and societal causes as well as by the activities of international monopolies.

The authors rightly point out the problems whereby, owing to Common Market agrarian regulations, international trade in agricultural and food industrial products is distorted and the system of traditionaly established trade relations in this field are upset. During the seventies EEC agrarian economists became increasingly aware of the absurd external and internal implications of carrying on the common agricultural policy in unchanged form. The subvention paid to EEC agriculture amounted to 13.5 billion units of account in 1981 and, at the same time, the artificial separation of internal and external prices and the institutional application of the most extreme forms of agroprotectionism cause great damage to the socialist countries and the developing world alike. It is extremely expensive to produce the chronic EEC agricultural surpluses and then to liquidate the unnecessary stocks. One of the outcomes of agroprotectionism is the fact that along with high subsidies it pays to produce and market products that are not justified by climatic or production conditions. Owing to high energy costs the use of one oil calory is estimated to be only sufficient for the production of 0,16 to 0,30 food calory.

The authors review the prospects of nutrition till the turn of the millenium. They list the factors that basically affect the development of agricultural production and food supply. Using the available statistics and analyses made by international organizations, the study is completed for the major products. The authors note, firstly, that the expansion of cultivated land areas and the world-wide use of already known methods and technologies are enormous reserves of production and, secondly, they point out the almost insurmountable difficulties which make the utilization of the said opportunities practically unfeasible in big areas of the world. One has to fully agree with their statement that "the world-wide change of agrarian conditions and the consequential mobilization of reserves cannot be expected to totally realize in the span of one or two decades." Reference is made to the development of agriculture and food economy attained in socialist countries as well as to the causes whereby any more considerable expansion of production

is hindered and the marketing opportunities of agricultural exporting socialist countries are limited.

Most of the book deals with foreign trade with respect to the Hungarian agricultural and food industrial products as well as to the material-technical conditions in this sector. The authors set out from the fact that the Hungarian climatic and soil conditions are suitable for the production of all the food raw materials of the temperate climate zone with an internationally acceptable degree of efficiency. They also point out the role played by agriculture in Hungarian economic life. Agriculture and food industry give more than a fifth of total Hungarian export and Hungary's share in world food export is over one percent.

During the seventies important changes took place in the marketing of a number of basic export products. The book must be appreciated for presenting the export and import problems of the Hungarian agriculture, its decisive role in the equilibration of foreign trade, the question of prices, the export efficiency of the sector, and the conditions of competitivity with painstakingly thorough statements always backed up by facts.

The authors do not indulge in details of problems of agrarian cooperation between the CMEA countries but repeatedly hint at related opportunities. One must agree with their statement that "the biggest and safest market of Hungarian foodstuffs will remain to be the CMEA countries and mainly the Soviet Union". I believe that in the sector of agriculture and food industry the cooperation between CMEA countries will be even more necessary in the future than it was in the past. The forms of cooperation are extendable. All that is becoming especially important under the new world economic circumstances emphasized in the book and with the outlined perspectives of world food economy.

The authors also discuss problems of the international organization of the Hungarian food industry and of organizing its foreign trading activities and, beside the reasonable extension of the right to foreign trading, they also propose other forms of relations and accounting. Problems of foreign trade from the aspect of material and technical supply of this sector are treated in a special chapter. In this context the presentation of the export of the more and more broadly used production systems, of other food industrial services and the analysis of the necessary domestic conditions are particularly important. The authors' work is remarkable from several points of view. First of all, it is a useful summary for experts and readers interested in the subject and at the same time it is inspiring for research workers in the field. The clear language in which analyses are formulated is exemplary in the Hungarian economic literature.

J. GULYÁS

BALASSA, B.: *The newly industrialized countries in the world economy.* New York–Oxford–Toronto–Sidney–Paris–Frankfurt, 1981. Pergamon Press. 461 p.

The latest work of the well-known international expert dealing with relationships between economic development and the international division of labour is the newest link in a chain of continuous research work lasting for a quarter of a century. In the volume of studies it is examined on the one hand how industrialization influenced the movement of comparative advantages at national economic and international levels, and, on the other hand, how the economic development and participation in the international division of labour of countries at various development levels were and may be most efficiently promoted by development strategies.

The book, divided into two major parts, contains 18 studies of essay character on the topic mentioned. In the first part summarizing also previous research results of the author basic strategical alternatives of economic development are reviewed together with the effect of world economic shocks after 1973 on newly industrializing countries, the character of strategic responses to world economic challenges, major trends and features of the industrial division of labour between developed and developing countries. Researches serving for the basis of various statements were concentrated on such countries industrializing with a historical delay where per capita national income was between $ 1100 and

3500 in 1978 and the share of manufacturing within the gross domestic product exceeded 20 percent. According to the author this definition is valid for Argentina, Brazil, Mexico, Uruguay, Hong-Kong, Israel, South-Korea, Singapore, Taiwan and Jugoslavia out of countries, considered traditionally "developing"; for Greece, Portugal, Spain and Turkey in the group of OECD-countries; for Bulgaria, Hungary and Romania among the socialist countries.

In the first essay the author reviews basic strategic connections of industrial development on the basis of an approach starting from the periodicity of the character of economic growth. The author admits that the character, rate and efficiency of industrial development are influenced by several objective factors, thus by country size, endowment with natural resources, geographical position, international economic policy environment, foreign investment and aids, educational system, political and social relations. At the same time the author emphasizes that it would be wrong to overestimate the role of objective factors because their importance changes in time and interrelations. Thus, for example, country size influences savings resulting from economies of scale, domestic competition and practical limits of inward-oriented industrial development, at the same time big countries are often postponing such fundamental reforms on this basis which are carried out by small countries being in an emergency situation. Similarly, countries relying on advantages of country size frequently follow a more protectionist policy simultaneously narrowing down effects of development impulses resulting from the international division of labour. It is not expedient to absolutize the determinant role of geographical position, either. South-Korea and Taiwan have established much more dynamical relations with the remote USA than with the neighbouring Japan since this latter is not free from political tensions. Though geographical position may stimulate regional economic integration with neighbouring countries, in the case of cooperation between less developed countries this may easily lead to the development of regions at high costs and internationally less competitively as it is shown among others also by the economic cooperation between Central-American countries.

Basic questions of strategy of industrial development are grouped around the development of expedient proportions of domestic and international division of labour, furthermore the choice between inward or outward-oriented strategy. On the basis of experiences of the countries examined and post-war industrial development the author states that in the interest of efficient industrialization

– the extent of preferences unavoidable in the initial stage of economic development should be kept possibly within narrow bounds;

– in the interest of efficient allocation of resources and the assertion of comparative advantages export-oriented and import-substituting branches should be given equal economic policy treatment;

– decisions on specialization should be left within the competence of enterprises;

– the system of incentives should be stable, easy to survey and of automatic character.

According to the opinion of the author in case of a consistent development of the system of objectives and tools of outward-oriented industrial development no real limitations to the buyer's market and competition of over-supply should be reckoned with, since previous comparative advantages of countries having reached a higher level of development and specialization are falling away and moving to less developed countries catching up in the next wave.

In the second and third essays the situation following the oil crisis of newly industrializing countries is examined. Beside the ten newly industrializing developing countries mentioned, also on the basis of the analysis of the general growth performances and development strategy responses of Columbia and India, the author points to such common features as deterioration in the terms of trade, slowing down of growth, relying on external resources to a greater extent, export stimulation, import substitution. While South-Korea, Taiwan, Singapore carrying on an outward-oriented policy or Chile and Uruguay starting to apply it precisely in the period of world economic challenges could neutralize external shocks within a relatively short time and reached or even exceeded previous growth rates, the growth performances of India, Brazil, Columbia, Israel and Jugoslavia turning towards import

substitution as well as of Argentina and Mexico not willing to give up the economic policy of expansion deteriorated.*

The fourth and fifth studies present major features of the economic policy environment of international industrial development. It is pointed out that after the increasing liberalization of 25 years following World War II a protectionist economic policy impeding the expansion of new industrial exporters has become stronger in industrially developed countries from the mid-1970s on again, which is a new form of protectionism appearing in the form of restrictions of "non-tariff" character, budgetary subsidies and cartel agreements. In the opinion of the author the GATT negotiations in Tokyo may impede or even revert the spreading of neoprotectionism.

The sixth study deals with the migration of comparative advantages to be observed in the course of economic growth on the basis of the examination of specialization trends of 18 developed and 18 developing countries, and it is stated that the export structure is changing parallel with the accumulation of physical and human capital. Further three studies are based on this chain of thoughts presenting particularities and future possibilities of the industrial division of labour between OECD and developing countries. The author emphasizes that at present OECD-countries are exporting physical and human capital against the import of products manufactured with less skilled labour. In an empirical way the author comes to the conclusion that this kind of division of labour does not narrow down employment in developed countries either, it animates demand and production and enables the substitution of the labour of guest workers immigrating legally or illegally by commodity import.

The author's exposition of possibilities of international industrial division of labour in the 1980s is of great importance for countries following export-oriented industrial policy. According to Béla Balassa in the period from 1978 to 1990 GDP will increase by yearly 3.9 percent on the average in the OECD-countries and by 5.6 percent in developing countries. The growth rate of the volume of export to developing countries will amount to 9.7 percent, within this that of products of the engineering industry to 11.2 percent. At the same time the volume of the import of industrial products from developing countries would increase by 12.5 percent, within this that of products of the engineering industry by 17 percent and by 1990 47 percent of the industrial exports of developing countries to OECD-countries estimated at 180 thousand million dollars (1978 prices) would consist of products of the engineering industry. The estimation according to which 59 percent of the increment of so-called extra-regional industrial exports (not including regional turnover between the United States and Canada as well as among countries of the Common Market) and 45 percent of extra-regional industrial imports would fall to developing countries is aimed at indicating the future importance of developing countries as buyers and suppliers. The author emphasizes that in case of a more powerful liberalization of international trade, the international industrial division of labour could be extended even more.

In the second part of his book the author presents economic plans and the system of economic policy incentives of some countries, simultaneously submitting proposals for expedient economic policies. The author examines the adjustment endeavours and performances of Brazil, Portugal, Greece, Turkey, Hungary, South-Korea and Taiwan in the changed world economic situation having become more difficult from the viewpoint of export orientation in greater detail. In general, the author considers the strengthening of outward-orientation and liberalization, better reliance on effects of the market mechanism, modernization of economic structure and enforcement of comparative advantages by indirect tools as adequate remedies. He emphasizes that if the transformation of economic structure and product pattern or the introduction of new export activities necessitate state subsidies, then not protectionist measures but temporary subventions may be the expedient tools. Liberalization of the economy and elimination of various protectionist measures should be realized on the basis of a schedule fixed and

*Analyses of the author did not cover consequences of the second wave of the oil price rises.

proclaimed in advance so that participants of economic life may gradually prepare for the necessary adjustment.

The author emphasizes the importance of the continuous modernization of the goal system of development strategy several times, especially when evaluating development projects of South-Korea and Taiwan. If the economy has to overcome simultaneously problems of improving equilibrium and maintaining the dynamics of growth, then national economic interests of vital importance are attached to the reduction of investment estimates of metallurgy, heavy chemical industry and heavy machine-building industry which are much more capital-intensive than the average, pay off during a much longer time and draw away resources from export branches. Fast economic growth and a slower rate of inflation may not be achieved without maintaining the growth-promoting role of export. The author emphasizes in several contexts that in small countries with limited domestic markets it is not expedient to strive after the vertical development of up-to-date branches of the engineering industry requiring much human capital because of the well-known difficulties of access to the world market. Instead, the manufacturing of parts and units realized in the framework of wider inter-enterprise cooperation may be the basis of economies of scale and of specialization. In this connection attention should be paid to granting an economic policy treatment on equal terms to small and medium-sized enterprises providing optimal organizational frameworks for the manufacturing of parts.

The author states that in Hungary the wage-level of skilled labour is low relative to that of unskilled labour by international comparison. This circumstance is a source of comparative advantages in Hungarian industries requiring skilled labour. Referring to his computations the author mentions that the ratio of human capital to physical capital costs, is 0.2, in precision engineering, optical industry, manufacturing of radio and television sets, 0.35 with non-electrical machines, while in the chemical industry it is 1.25–1.92. Structural rationalization of the Hungarian industry developed in a too wide spectrum at present, industrial specialization on the basis of existing and potential comparative advantages, a more intensive participation in international economic cooperation and the dévelopment of an appropriate system of goals and instruments required for this may promote the improvement of the economic situation of the country and of its international economic positions.

B. KÁDÁR

HERNÁDI, A.: *A csendes-óceáni térség. Erőforrások, fejlődési utak, kapcsolatok* (The Pacific region. Resources, development paths, connections.) Budapest, 1982. Kossuth Könyvkiadó. 167 p. + 21 tables

One of the most striking phenomena of world economic processes in the last one and a half decades was the extraordinarily fast development of countries located in the Pacific region, their considerably strengthening positions in world production and world trade. This region has become one of the growth centres of world economy and will remain so according to forecasts in the 1980s. Events taking place in this region will have considerable impacts also on other regions of world economy in the years to come. Precisely on this account, András *Hernádi*'s book presenting the economic (and, to a lesser extent, political) development and contemporary situation of capitalist countries in the western basin of the Pacific Ocean is very topical.

The subtitle of the book (Resources, development paths, connections) simultaneously indicates the examination method of the author – not very frequent in Hungary yet. Instead of a series of studies presenting individual countries separated from others András Hernádi gives a *cross-section* of countries in the region with a "regional approach", according to various viewpoints (growth factors, economic policy, foreign trade, etc.). Thus considering the region as a complex becomes possible, and the *interrelations* between individual countries which have largely contributed to the dynamic development of the region can be presented.

András Hernádi's decision to choose the more difficult but only expedient analyzing technique should be appreciated so much the more as the countries of the region are very heterogeneous as

regards economic development, ranging from Japan belonging to most developed countries of the world, Australia and New-Zealand outstanding first of all with their extracting industries, through newly industrialized South-East Asian countries quite to Thailand and the Philippines with a $ 500 per capita GNP.

In the *first chapter* the author presents the place of the region in world politics and the complicated system of relations of political forces working there. With *Chapter Two* the analysis of factors influencing the development of economies, namely, of external and inner resources of growth, the individual development paths, foreign trade within and outside the region as well as of integration endeavours begins.

Among the sources of growth labour is placed first and this is very correct since in the case of both Japan and the newly industrialized countries one of the most important factors of their rise was manpower, its quality, i.e. the so-called human factor. At the same time it may be mentioned as a deficiency here that the author examines only the quantitative side of labour, while factors determining quality – first of all the cultural heritage from China regulating the way of thinking of people even at present, and education – and their economic effects are not analyzed thoroughly enough.

From the viewpoint of economic development capital is another very important factor. In the part dealing with this subject the author analyzes in detail the supply with capital of the individual countries and its sources.

The author gives a successful description of the modifications in capital exporters' and importers' positions during the last decade in relation to developed industrial countries and the developing countries of the region. It is a great merit of the author that he recognized the importance of the fact that newly industrialized countries of the region, though, remaining net capital importers, began their capital export to countries of the region less developed than they are. This is a very important development from the viewpoint of both the structural development of the countries concerned and the deepening of the regional division of labour.

The part of the book dealing with the development paths and economic policies of the individual countries is very thoroughly elaborated. The author separately discusses the countries relying decisively on the development of manufacturing ,industry (Japan, newly industrialized countries) and the countries realizing some combination of extractive and manufacturing industries, respectively.

In case of the first group characteristics of export-oriented industrialization policy are analyzed together with its effects on the development of the structure of production and foreign trade. András Hernádi presents how Japan, changing its industrial structure under the effect of internal and external economic factors, has a stimulating effect on neighbouring countries by relocating her industries and, respectively, how also the economic structure of these countries changes under the effect of changed circumstances.

It is a very important conclusion of the author that when developing their economies these countries do never support lagging industries, but – with a view to the future – further the establishment of more capital and technology-intensive branches and leave those having become non-competitive without any "remorse" to their fate. This policy is in sharp contrast to the subsidising system of West-European countries where a considerable part of financial assets are spent on the maintenance of non-competitive branches already "moribund".

The second group of countries in the region – as opposed to the first one – is rich in minerals and also has considerable agricultural production. Thus it is natural that they lay great stress upon the extractive industries. At the same time, development of the manufacturing industry has become more topical also in these countries from the later seventies on. In the case of Australia and New-Zealand first of all the manufacturing of special high-quality products based on special domestic demands and possibilities has been started beside the processing of raw materials into semi-finished products. In developing countries of the region the manufacturing of industrial articles already removed even from newly industrialized countries, first of all of textile clothing articles began to develop.

In *Chapter Four* the author examines the development of trade of countries in the region with each other and with countries outside the

region between 1970 and 1979. With an analysis of the commodity pattern of exports very well supported by statistics – he illustrates the process as a result of which Japan's positions in the manufacturing of labour-intensive products are more and more taken over on the world market by newly industrialized countries. With the expansion of the division of labour in the manufacturing industry within the region the share of industrial products increased also within the total exports of "less developed" developing countries.

With the analysis of foreign trade all more important factors determining the development of the region have already been examined. Everything is known to us that has generated the growth of the region during the last one and a half decades through economic pressure: owing to changes in the internal and external economic environment more developed countries *are no longer able to economically produce* in some sectors of the individual industries requiring large amounts of simple labour, therefore they *transfer* their production to less developed countries through *capital export.* Due to the quality of their manpower and their export-oriented economic policy less developed countries are able to absorb capital efficiently and produce *exportable* goods. Products manufactured in this way are then reexported to more developed countries which brings about a further cutting down and so forth.

The author presents this by now already multi-level process (Japan – newly industrialized countries – other developing countries of the region) clearly and unambiguously. There is only a single part whose more detailed exposition is missing from the description: a more complete revealing (by sectors) of the relationship between the export of capital and the trade generated by it. This deficiency may, however, be explained presumably by the difficulty of obtaining adequate statistical data.

The author chose a fortunate solution when (following the presentation of various concepts on regional integration and of the practical realization of integration) he presented the economic development and contemporary situation of Singapore, undoubtedly having an important part in the economic life of the region and following a typical way of development of newly industrialized countries, in an analysis of country study character as a summarization, concentrating partly in this chapter those ideas and questions which he would like readers to raise and think over after having read his book.

Finally, summarizing the foregoing we may say that András Hernádi's properly edited, exact and clearly written book is a valuable contribution to the better knowledge of this region of the world relatively less "charted" in Hungary as yet.

P. SZÉKÁCS

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Dr. Márton TARDOS, see Vol. 26, Nos 1–2

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János GÁCS, b. 1948. Research worker at the Institute for Economic and Market Research. Author of "Planning and adjustment" in Eastern European Economics, forthcoming; "A study of planning behaviour on the national-economic level" Economics of Planning, 1973. Nos 1–2 (co-author); "Import constraints, shortage phenomena and enterprise adjustment" in Hungarian.

Kamilla LÁNYI, see Vol. 24, Nos 1–2

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Dr. Gerhard FINK, b. 1944. Research worker at the Wiener Institut für Internationale Wirtschaftsvergleiche, formerly that of the Osteurope-Institut, München. Author and co-author of several studies on the commodity composition of East-West trade, on the indebtedness of the CMEA countries, international comparisons with input-output analysis.

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