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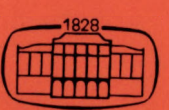

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L. SZAMUELY

THE FIRST WAVE OF THE MECHANISM DEBATE IN HUNGARY (1954–1957)*

Two kinds of approaches exist in the socialist countries for the improvement of the mechanism of directive planning of the socialist economy. The first wants to improve on the imperfections of the plan indicators, wants to construct and introduce new indicators, and link the incentive for the economic units to the fulfilment of these indicators. According to the second approach, it is not sufficient to modify the range or content of the central instructions issued to the economic agents, but the situation of the agents themselves, their relation to each other, and their economic environment as well must be changed. In Hungary, in the debates and researches of economists the transition occurred very rapidly from the first approach to the second in the mid-fifties and the concept of a comprehensive economic reform was also formulated which wanted to replace the mechanism of directive planning by another system of regulation.

The reform of the economic mechanism has been and remained for over a quarter century one of the central questions of the Hungarian economic and social life – though not the only one. Although its treatment has been linked organically sometimes to the solution and sometimes to an even stronger tangling up of all the problems of Hungarian domestic and foreign policy, and economic policy, this writing discusses nevertheless – perhaps in a somewhat artificial way and one-sidedly – but this one of the central questions.

The second restrictive comment refers to the range of sources which have been used and the nature of the examination. The political and economic history of some period, the role of the various persons and institutions, the motives of the decisions which were made or omitted, the mainsprings and obstacles of actions can often only be explored on the basis of the archives which are perhaps unknown or inaccessible to the great majority of the contemporaries but are available to the historian of posterity. Very interesting studies about the economic history of the period in question saw the daylight most recently from the pens of Iván T. *Berend* [1, 2, 3] Ödön *Barla Szabó* [4], and others, who have added to our knowledge about this period by the elaboration of sources which were inaccessible until now.

The situation is, however, different if we examine the history of social thought of a period. The social consciousness is shaped at all times by the means and channels of

*The study is based on a paper presented at the conference "Debates by contemporaries about the economic and social evolution of the past quarter century" of the Hungarian Historical Society held in Budapest on April 8, 1982.

communication considered public in the given society. The reason is not only that the social consciousness is shaped if society is "conscious" of something, if it possesses information about it. An often more important reason is that only publicity can make the informations freely accessible and controllable, making it possible for all members of society, and thereby their community, including science, to refer to this information and to reproduce it. From the aspect of the shaping and handing down of the social consciousness there is a great difference between a publication of however small circulation and "classified", "confidential", etc., information distributed in a however large circle. This is why we attribute a greater importance, from the aspect of the formation of contemporary public opinion, to an article published in an obscure little trade periodical than the voluminous papers elaborated within official bodies and institutions of high authority, if the final user of the latter is the archivist or the curious historian of the future. This is the explanation why our investigations hereunder will be restricted exclusively to the public writings of the period.

The bumpy road to cognition of the economic mechanism

The concept of the economic mechanism emerged in the Hungarian economic terminology towards the mid-fifties. Since then the term has had an adventurous career, until it has become by today one of the most often used technical terms. This combination of words which used to be disregarded or even prohibited in earlier periods, became acceptable in the second half of the seventies in many socialist countries: party resolutions, governmental documents, official declarations urge, if not the reform of the economic mechanism (sometimes that too), but at least its development, its "perfection". However, this fashionable terminology covers different concepts, different substances.

According to the interpretation which is usual in Hungary, the economic mechanism is the concrete form of appearance of the production relations in a given society, the operational system of the economy; *viz.* the sum of the economic, control and incentive methods and institutions. Since the production relations must necessarily develop and change in a socialist society too, this demands changes first of all in the social organization of the economy. It follows that the socialist economy does not have a single possible operational system, economic mechanism, but several ones, and even necessarily has several such systems, since harmony with the evolution of the forces of production can be maintained only in this way, it is only in this manner that the undisturbed unfolding of the productive force of social labour and their utilization through society can be ensured.

These theses are already commonplace today, and it may almost seem unbecoming to repeat them. And yet, in the traditional Marxist interpretation of the socialist economy the entire range of problems of the economic mechanism did not exist, it was unknown. In the socially consciously organized and controlled economy brought about through the liquidation of private ownership there are – according to this view – no conflicting interests, society has a homogeneous structure and, consequently, the social

conditions are crystal clear and the administration of people is replaced by the administration of things. This terminates even the justification for the existence of the science of political economy as a science engaged in studying the production relations, and it is replaced by some kind of organizational science. As is well known, this latter view was treated in the Soviet Union and in the Marxist circles of the international labour movement as an irrefutable dogma until the thirties.

In addition, the conventional Marxist view of the socialist economy was determined for a long time by the particular historic circumstance that the socialist planned economy was generally identified with the concrete form which it took in the Soviet Union in the twenties and thirties. It is not our task now to analyse to what extent the external and internal conditions of industrialization in the Soviet Union justified the greatest possible centralization of the development resources and the most direct method of central control, the system of plan instructions by the central bodies covering everything and striving after a completely closed system (which, of course, could never be achieved). But it can be established without any further examination that the purpose of this mechanism of economic planning was to achieve the fastest possible quantitative growth (primarily of heavy industry), and that this mechanism was over many decades capable of fulfilling this task.

But it is a relevant question for our investigation how this conventional approach treated and interpreted the disturbances which could not be reconciled with the in principle harmonious, trouble-free rational operation of a socialist economy. As a matter of fact, both in the Soviet Union and in the East European countries which adopted the Soviet system of directive planning, the acceleration of economic growth was accompanied from the beginning by such phenomena as the wasting of resources and simultaneously increasing shortages in materials, machinery, food, consumer goods. Protraction of investment projects, the coming about of sectoral proportions which differed from the planned ones, slowness of technological change, the objectionable quality of products, deterioration of the infrastructure were the object of permanent complaints and critiques.

Exploration of the causes for the well-known shortcomings and troubles, their recognition proceeded along a very bumpy road in the socialist economies.

1. The first stage of this bumpy road can be characterized by reference to *extra-economic factors*. Such a factor can be the destruction caused by war or civil war preceding the socialist transformation, an economic blockade or other actions by the hostile external environment. But the endeavour may be included here too, which seeks behind the economic difficulties criminal behaviour, conscious damaging activity and intention. This harmful activity is usually attributed to an ideological, political, social, or ethnic (nationality, race) minority. The "search for the enemy" is the oldest answer to and explanation for the economic ills, which was general in every socialist country, but luckily came to an end with Stalin's era, at least in the European socialist countries. However, a relapse is possible at the time of great social tensions, as we often hear it as an explanation for the reasons of the Polish economic crisis, lately.

2. *The organizational approach and treatment* of the shortcomings of the socialist economy is almost as old as the former explanation. According to it, the cause for the ills is to be sought in bad organization, lack of discipline, possibly the faulty structure of the organizational system; in the subjective shortcomings (lack of education) of the leading persons, possibly their inability to look after their tasks. Reference to the backward consciousness of the toilers may also be included here. This way of treatment already deals with phenomena within the economy, but gets stuck on their surface. This has been the most widespread in the socialist countries, till today. The explanation is that it offers a spectacular and easy cure for the ills and, in addition, it is in harmony with the above mentioned conventional interpretation of the socialist economy. The cure operates on two levels. One is: administrative measures (reorganizations, personnel changes, the issuing of more detailed or stricter instructions and prescriptions, discipline, praise); the second is: the development of agitative and propaganda activity to influence consciousness. The adoption and utilization of methods and processes elaborated by western management science, which has been spreading in the last one or two decades may also be included here. Due to the superficiality of the organizational measures taken to eliminate the economic shortcomings – and their failure within a short time – this way of action, and the recommended medicines often prove to be placebos. Although it deals with phenomena within the economy, this organizational approach lacks the foundation by economic science, and is in reality outside the scope of economic science.

3. An examination of the operational disturbances of the socialist economy is placed on a scientific foundation when – instead of examining the activity of some individuals and institutions – it looks at the system of economic control itself, the methods of economic control, the real situation and interests of the economic agents – enterprises, control bodies, producers and consumers –, in one word, at the *economic mechanism.*

The first steps on this road are necessarily superficial. They usually examine first whether the central plan directives moving economic agents reflect and express truly the central will, whether they communicate to them the harmonized requirements of society. They discover that the financial and moral interestedness in the fulfilment of the plan indicators does not stimulate the production units to satisfy the social needs in the most rational and most economical way, but only to fulfil the large number of partial tasks set for them by the central bodies.

After these initial steps, two kinds of approach or, if they are separated in time, two stages are possible in the improvement of the economic mechanism. The first wants to improve the imperfection of the plan indicators and, consequently, wants to construct and to introduce indicators which reflect better the quantity and quality of work, and possibly the requirements of the user, and to link the incentives for the economic units to the fulfilment of these indicators. This approach is also based on the objective examination of reality, on the recognition of the different interests of the participants in the economy, and wants to correct the recognized shortcomings by channeling the interestedness. It therefore differs qualitatively from the two earlier discussed kinds of the

conventional treatment of economic problems. But it stays strictly within the limits of the existing directive planning system, wants to rationalize its functioning, even limiting the latter to the relationship between the enterprise and its guiding organ. "Perfection" of the economic mechanism in this sense is what is meant in most socialist countries officially by the economic reform, and what is being implemented under this name.

But from this first approach the transition is very easy to the recognition that for improving economic activity it is insufficient to modify the scope or content of the central instructions issued to the economic agents, but the situation of the agents themselves must be changed, their relation to each other, and also their economic environment. In other words, the entire system of planning, decision-making, stimulation, price, credit, wages, investment, supply, distribution, foreign and domestic trade must be revised, the economic mechanism itself must be changed.

This transition has been made by the economists of most socialist countries in their research and in their works, but in few countries has the transplantation of their conclusions and ideas into practice been tried. Hungary is one of these few countries.

The starting of the mechanism debate in Hungary

In post-liberation Hungary, the initial impetus to the starting of independent, really scientific economic research was given by the June 1953 session of the Central Committee of the Hungarian Workers' Party. That party resolution of epochal importance indeed opened up a new stage in the life of Hungarian society, proclaiming and bringing renewal in almost all areas of political, economic, cultural, and scientific activity. It was especially important for economists, since the resolution directed its main attention at the burning questions of economic development in the country, condemning the arbitrariness existing in economic policy, the forced collectivization of agriculture, the unrealistic objectives in the course of industrialization ignoring the conditions of the country, the reduction of the standards of living of the population. The emphasis was of course on the correction of the political and economic policy errors and distortions, and the initial economic arguments turned around these questions. Questions discussed included rationalization of the methods of economic planning, over-centralization, the struggle against bureaucratic excesses, the substitution of material incentives and personal interestedness for administrative methods.

At the beginning the characteristic feature of the treatment of the latter questions was what we called above the organizational approach. The slogan of the "new stage" proclaimed in June 1953 was in the area of economic control "rationalization", the fight against the bureaucratic sea of papers. There certainly existed a lot that needed to be abolished, liquidated, rationalized. By way of illustration, we quote but one example from the report of the special committee dealing with the simplification of planning. The report was prepared in the Summer of 1954 for the Rationalization Committee of the Government, and had the following to say about the exaggerated details of the

central plans: "It happened that the approved plan determined those activities of some enterprises which were not at all decisive from the aspect of the satisfaction of the requirements of the national economy. So for instance, in the existing system of planning the national economic plan prescribed how much imitation jewelry or toy railway trains the State Mint how many identity cards the State Banknote Printing Enterprise should produce etc. The national economic plan determined further – although in forint value – the quantity of the refuse to be removed, the tasks of the housing management, sanitary, funeral etc. enterprises in the various counties."

Very characteristic of the attitude of the period, of the treatment of solutions was, for instance, the article by György *Péter,* President of the Central Statistical Office, published in the August–September 1954 issue of Társadalmi Szemle, entitled "About the methods of control in general". [6] We quote György Péter's article, although we may also refer to the articles of many other contemporary authors, to indicate how that Hungarian pioneer of the reform of the economic mechanism, commonly held important on an international scale too, still shared in Summer 1954 the view that then existed. The article suggested that the main reason for the exaggerated centralization and bureaucracy was the wrong selection and bad working method of the managers. Accordingly, the situation must be improved by the managers' learning the correct style of work, and for this the author gave a number of – otherwise perfectly correct – advices about how to organize the setting of objectives and their execution, the democratic and humane behaviour of managers, how to ensure the independence of the subordinates through proper control of and calling to account for work, etc. As he wrote: "The root of the mistakes existing in bureaucratic management is often but the lack of information and experience of the managers, and that they have not yet learned the proper methods of leadership." [7] Of course, he did not explain the subjective mistakes of the leadership merely with the ignorance of the managers alone, but the fact that the attributed primary importance to the subjective factor may be seen from one of the closing explanations of the article: "The cause for wrong, bureaucratic leadership is often hidden more deeply in the wrong political attitude and behaviour of the managers. Those leaders who inundate their collaborators with a mass of resolutions and instructions, who believe that they must make decisions also on the mass of detailed questions of small and local importance, often commit the error of dictatorial behaviour, conceit, the underestimation of the toilers (not least their own direct collaborators and the leaders of lower rank). They fall into the error of conceit, inasmuch as they believe that they alone are able to see through all detailed tasks of the area subordinated to them and are able to solve every arising question by means of power, by central measures." [8] Of course, in the system of the personality cult the subjective qualities of the leaders become "objectivated", and it is fully understandable that the contemporary economist examining the system of control and management set out from the subjective factor.

It was, however, soon discovered in Hungary that the dragon of bureaucracy could not be destroyed by cutting off some of its more accessible heads. "Rationalization" proved to be nothing but a spectacular surrogate action. They wanted to exorcise the

devil by cutting its tail: they thought that over-centralization could be abolished primarily by dismissing white-collar employees. But, surprisingly, a reduction in the numbers did not occur to any noteworthy extent in spite of the severest decrees, since the functions carried out by the white-collar employees were needed in the unchanged system of economic control, and the decrees could be evaded by transfers, hiding the real number, etc. (It is interesting how often the economic leadership which is forced to take a step but lacks advice or is impotent takes recourse to the bringing to heel of the offices and officials, instead of facing the real problems. In Hungary we could more recently witness this phenomenon in the mid-seventies.)

As early as the end of 1954 the first analyses appeared which may with full justification be considered objective and scientific examinations of the economic mechanism. Two publications were especially important: the article by Sándor *Balázsy* in the November issue of *Többtermelés*, and the article by György Péter in the December issue of *Közgazdasági Szemle*. Although in the social sciences the point in time when some writing appears has no special importance, since the scientific value and the standard of the research results are not determined by priority in time, it is nevertheless worth taking note of the time: November and December 1954. The reason why this deserves attention is that analyses, proposals of a similar direction and spirit began to see the daylight in the other socialist countries (primarily writings by Polish, GDR and Soviet economists) only in 1955. The difference of a few months indicates only that the mechanism debate beginning in Hungary had a domestic root, it was rooted in the Hungarian reality. Differing from many earlier and later stages of the history of economic thought in Hungary, the appearance of the mechanism problem in the Hungarian economic literature did not receive its inspiration from abroad, did not follow foreign examples, but was born by the direct demand for the solution of the domestic social and economic tensions and contradictions.

Both articles created a great stir, and in the following months a number of sharp comments appeared in the two periodicals, which in their majority opposed and rejected the two articles. The first wave of the mechanism debate started in Hungary.

From the correction of the indicators to the revision of the economic mechanism

The article by Sándor Balázsy, who then belonged to the youngest generation of economists, in the periodical on industrial economy entitled *Többtermelés* [9], made a proposal which did not seem to be of great momentum: instead of the gross output value prescribed as the main indicator of enterprise plans, the net value of output should be applied (i.e. the indicator of the performance of the enterprise should not be the total value of products turned out by the enterprise, but only the part remaining *after deduction* of the materials used by the enterprise, semi-finished products supplied by others, as well as the depreciation of building and machinery; i.e. the new value created by

the enterprise). The importance of this proposal, which seems to be obvious economically, is shown for instance by a Soviet party and government resolution dated a quarter century later, in 1979, which foresees the gradual introduction of a similar indicator in the Soviet economy, and as we are aware from the daily press, the implementation of this resolution is still in progress.

What was really involved was that the absolutely dominant quantitative approach of the era should be replaced by the consideration of quality and efficiency aspects. Balázsy enumerated in his article those enterprise attempts – which have since then been made fun of in many cabaret-jokes – trying to produce, for instance, casts of the greatest possible weight, the largest possible pots, but as few fittings and replacement parts as possible, because fulfilment of the plan prescribed in terms of the gross output value made the enterprises interested in using as much material as possible, in obtaining components and semi-finished products as expensive as possible and burdened by the highest possible freight. Balázsy was perfectly right in calling the "therapy" applied by the control organs, – the central prescription of still more detailed item by item assortment plans, strict material norms, etc. – a palliation. Of course, if Balázsy's proposal had only contained the substitution of one plan indicator for another, it would have been a characteristic and respectable example, and considering the time of its publication even the forerunner, of the superficial approach described above as the "perfections" of the economic mechanism. It is interesting, however, that the explanation and proposal linked to this change of indicators went much further than this and contained also radical ideas which became later substantial elements of the comprehensive Hungarian reform concepts.

The fact was that under the pretext of "narrowing" the range of the centrally approved plan indicators, Balázsy proposed that the central prescription of the output plan to the enterprises should be abolished, i.e. the very essence of the directive planning system, the obligatory "breaking down" of product plans in kind onto the enterprises. As a compulsory basis for rendering account, the enterprises would receive only two indicators, the net value of output and the absolute value of the accumulation to be paid into the state budget, i.e. – to use our present day terminology – the gross income to be achieved and the fixed item of the profit tax. (There are cursory references in the article also to the introduction of a profit-sharing system.) It is worthwhile to quote verbatim the – then extremely bold – idea of the author about the planning system to be introduced: *"The role intended for the assortment production plans should be filled by the delivery contracts, which have largely filled this role until now.* – All this does not at all render the drawing up of material and product balances superfluous. These balances must support – we are thinking of course of much more reliable balances than have existed until now – the national policies on investment, price, foreign trade, and production lines. But the data of the balances must be communicated to the concerned ministries and enterprises as informative material. They will be sincerely grateful if the Planning Board informs them of the expected demand. – The enterprises would draw up – for their own use – plans by articles and summarized plans about production, labour,

materials, and costs, but not in order to be called to account about them, but to plan *for themselves* in this way how to fulfil the net output and accumulation tasks and their obligations existing in the form of delivery contracts. If necessary, they would inform the Ministry and the Planning Board too, about these plan figures, and these bodies would use the data received in the formulation of their own investment, price, foreign trade and production policies." [10]

It is interesting how Balázsy supported his ideas about the abolition of the obligatory product plans in physical terms, which then – and for a long time after – counted as being rather heretic. In his above quoted first sentence the statement is not coincidental that in the existing directive planning system, too, the delivery contracts largely fulfilled the role which was attributed to the production plans. Balázsy set out from practice, from the nowhere described reality, which contradicted the claim of the textbooks and books on planning according to which "the plan is the fundamental instrument of the organization of production", "the plans determine all essential indicators of enterprise activity." According to Balázsy this was the formal function of the plans. But in the practice of the directive planning system the main function of the plans was to serve as a yardstick, as a basis for accounting in the evaluation of enterprise activity, in the moral recognition of enterprise work, in paying premia to the managers. But in reality productive activity could not be based on the approved plan, and this was not being done so either. As he wrote: "In the case of numerous enterprises the plan has hardly any other function, because the actual contractual obligations, the material, technical and administrative preparation of production is not being done on the basis of the production plans but on that of orders, authority decisions outside the plan, foreign trade contracts, etc. They cannot act otherwise, since the approval of the annual plan is not in the hands of the enterprise, even in the best case, but one or two months before the start of the plan year, and in quarterly plans the situation is similar or even worse, the enterprise often receives the approval of the plan during the plan period, or in less frequent cases at the end of the plan period."

". . . The plan is not for it [the enterprise] . . . the basis for the organization of production, for this it would arrive too late even if it preceded the plan period not by one but by two quarters, but is a basis for accounting, and is thus the better the more it covers the production already prepared by the enterprise (production for which orders, materials, designs, capacities, external cooperation, etc. are available), and in respect of its total volume is as much lower as possible than this production, so that it should be possible to overfulfil it, or in the case of unforeseen factors it should contain as much leeway as possible." [11] Balázsy here already outlined the everyday practice which later was called in professional jargon the 'plan bargaining': the enterprise hides its potential in order to obtain a looser plan, i.e. a more favourable basis for the appraisal of its activity; it is ready to show some of its cards only if in return it receives an adequate benefit when the plan is finally approved.

The bulk of the many kinds of reactions to Balázsy's article were a good indication of the lack of understanding, doubt, and ideological blinkers which were amply met in

later debates, too, in Hungary and in other socialist countries as well. And if we disregard those objections which denied the existence of the mechanism problem itself, and explained the errors and shortcomings by mistakes of economic policy, bad methods of management, inaccuracies in planning, the indiscipline and "abuses" of the enterprise managers, etc. from the aspect of what happened later it is worthwhile to discuss two objections which may be considered typical.

One was the fear that due to the incentive being linked to the gross enterprise income or profit, the enterprises would prefer the profitable articles and avoid those which entailed a loss. In his second article answering the comments, Balázsy found a methodically very good argument to support his view. He touched on the internal contradiction of the directive planning management in the system of economic accounting which is caused by the forced marriage of the approach in physical terms and the commodity and monetary relations subordinate to it, as he wrote the following: "In every case when enterprises operate on the basis of the principle of independent, economic accounting, they are interested in the manufacture of profitable articles and in the non-manufacture of articles entailing a loss. I do not believe, however, that for this reason the participants in the debate recommend the rejection of the principle of economic accounting." [12] As a matter of fact, the forced marriage could not be dissolved in either direction without putting an end to the entire directive planning system. And this was exactly what the critics warned against. But Balázsy's main argument was that the interestedness of enterprises in the manufacture of profitable articles was an incentive which was advantageous from the aspect of the national economy. But in order to assert this, an adequate price system was necessary which would show whether the production of some product was really profitable or causing losses in the given enterprise. This would make it possible for the control organs to "reorganize after proper considerations" the manufacture of this product, if this was necessary.

The second most emphatic – and since then so many times heard – objection to Balázsy's idea was that rejection of the obligatory approval of assortment production plans would restore the anarchy of production in place of the planned economy. Balázsy wanted to dispel this fear in two – somewhat contradictory – ways. The main line of his argument was to prove that the delivery contracts corresponded to the requirements of planned economy much more than the centrally fixed production plans in physical terms. They expressed real social needs, and were in addition adequately specified and thus more suitable for organizing production. He was also right in emphasizing that the enterprise need not be compelled through the prescription of obligations to satisfy the demand for its products, if its interest in the gross income dictated this in any case.

At the same time, Balázsy's concept attributed great importance from the beginning to the "setting of production lines", i.e. to the central prescription of the list of products that the enterprises may and must manufacture, the enterprise's "general obligation to satisfy the demand existing for the product belonging to its production lines". This obligation, accompanied by "the unequivocal determination of obligatory development

plan tasks (referring to investments, the establishment or expansion of capacities, the introduction of new products, etc.)" for addressee [13] would ensure according to him the economic guiding role of the socialist state, the avoidance of "anarchy". It is not difficult to notice the ambiguity of the author's views, since everything that he explained about the needlessness of the item by item central prescription of *current* production, supported by ponderous arguments, may be applied *mutatis mutandis* also to the *expansion* of production, the investment and development activity. It is also worth noting how the planning and regulation in physical terms approach persists hidden in the modest mantle of "setting production lines". The anticipation of the "supply responsibility" of the seventies was involved. Both elements inherited from the directive planning mechanism have been present ever since then, and are present today, too, in the various reform proposals elaborated in Hungary, and in their variants which have been put into practice since 1968.

As may be seen, Balázsy's ideas indeed went beyond the mere manipulation of plan indicators, and had a pioneering, not only a thought provoking importance. We must nevertheless see the relatively narrow, micro-economic nature of his proposals. The author restricted his investigations in essence to the relationship between the enterprise and the bodies controlling it. The entire economic environment of the enterprise was only present as a hazy background, with it the author did not deal specially (true, it would not be justified to expect this from a short study). Incidentally, this feature makes it similar to the mechanism debate which unfolded in the Soviet Union nearly one decade later, the so-called Liberman debate at the beginning of the sixties.

Development of the broad concept of the economic reform

The study by György Péter, which has an outstanding place in the history of the Hungarian reform idea, was published in the December 1954 issue of *Közgazdasági Szemle*, [14] almost simultaneously with Sándor Balázsy's article.* His message, the substance and direction of his proposals coincided with those of Balázsy, but the way how he handled his subject was characterized exactly by a broad macro-economic approach, an endeavour for theoretical-ideological generalizations going beyond the solution of the momentary economic problems.

*In fact György Péter had written his study earlier than Balázsy, and also presented it earlier for publication. As Sándor Balázsy, speaking at the conference of the Hungarian Historical Society said, György Péter's article had already been for several months in the editorial offices of *Közgazdasági Szemle*, which was started in the Autumn of 1954. Originally the editors wanted to publish it in the first issue of the periodical in October 1954, but due to various tactical considerations decided to do so only in the December issue. This was why, out of the two studies written entirely independently of each other, Balázsy's was published first. However, this sequence of publication, due to a coincidence, corresponds better to the logic of scientific perception, and thus makes the task of the researcher of the history of theory easier, too.

György Péter, too, set out from the chronic shortcomings in the quality of the products, in productivity, in the trend of the costs. He, too, analysed the reasons for the ineffectiveness of the great number of plan instructions, pointing out that the prescribed tasks, the indicators did not contain the main goal – the satisfaction of social needs in the most economical way – but regulated only the use of the various means (production resources) which must be used to reach the goal. Not the *achievement* of the goal, but the carrying out of the different tasks was demanded. In order to achieve the goal, i.e. to assert economic efficiency in the development of the national economy, according to Péter, the entire economic environment of the functioning of the enterprises had to be transformed, and the activity of the enterprises had to be based on the profit motive.

In fact, György Péter recommended in this article the change-over to the regulated socialist market economy, although the word "market" did hardly occur in his article. (The term market economy was used in the Hungarian literature of the fifties only in a pejorative sense.) The argument runs right through his study that the control bodies cannot duly control and evaluate the activities of the producers, this control can only be carried out by the buyers, the consumers.* The conditions for this must be created. As he wrote: "In order to achieve a situation where the interested persons themselves (the consumers or in general the buyers) are able to check the operation of the producing enterprises, it is necessary that those for the satisfaction of the producing or consuming needs of whom – in whose 'service' – the production occurs, should not be at the mercy of those who serve them" [16].

Péter saw two preconditions for the operation of this market control: 1. The existence of adequate reserves and stocks, namely that supply should somewhat even surpass demand, i.e. – as we would say today – the existence of a "buyers' market". 2. The functioning of a cost-proportionate price system in which supply and demand is reflected. György Péter did not challenge the mechanism of price formation by the authorities, but emphasized two aspects concerning the principles of price formation. One was that the price should contribute to creating a balance between supply and demand, viz. that it

*"The price, quantity and quality of the goods destined for exports are – as we know – strictly checked by the customer. He disregards the subjective or objective difficulties existing within the enterprise. He can examine the goods, make objections, refuse to take delivery, etc. Consequently, his demands appear with great force, with the relentless consistency of the realistic requirements. It is necessary that we should establish the same relationship – the correct relationship – between the consumers and buyers on the one hand, and the commercial or the industrial enterprises producing the consumer goods and also between the various producing enterprises on the other. We must ensure that the users, those who take delivery (those in whose interest the production or the work in general is carried out) should be able to set requirements concerning the assortment, quality and price of the product, should be able to choose, and to decide freely in certain cases whether they take delivery of, whether they purchase or not some goods or products which are not satisfactory in every respect (at the price at which they are offered). We must achieve that the requirements of the domestic buyers concerning the assortment and quality should have the same force, should assert themselves with the same relentless consistency of realistic requirements, as those of the foreign buyers." [15]

should be an equilibrium price, because it is only in this way that the continuous emergence of "goods in short supply" could be stopped. The second aspect was that the price ratios should be adjusted to the cost ratios, i.e. price should cover the production costs; the wide range of articles which were constantly losing or were made expensive artificially, should cease. Although Peter did nowhere go into detail about how the "average cost" should be calculated, yet from the fact that in one place, in connection with the "corrective factors" used in the correct formation of price ratios, he mentioned that the industrial enterprises should be debited with "some kind of charge ('interest') on the circulating assets and fixed assets used by them" [17], it may be concluded that he no longer thought of maintaining the traditional cost-plus price system already at that time.

György Péter thought that the fulfilment of the social interest – economic efficiency, increase of social welfare – was achievable not by suppressing the personal or group interests, by creating some kind of apparent harmony, but by "contrasting the various particular interests." He wrote about a "healthy competition" among the enterprises, which would lead to the satisfaction of the consumer with cheaper goods of better quality. According to him, by creating the appropriate conditions, "the material interestedness of enterprises would coincide with the interests of the national economy, which would ensure that their activity should not serve the carrying out of some one-sidedly characteristic partial tasks, but always the realization of the requirements included in the basic law of socialism." [18]

For today's eyes and ears it is perhaps not even possible any longer to sense adequately the bold novelty of this idea, the extent to which it deviated from the then existing dogmas of political economy and of ideology. For instance, Balázsy, in his article published one month earlier justified why he considered the indicator of net output the yardstick of enterprise activity by calling profit a category of capitalist production. For this reason, according to him, "accumulation" (this was for him the "code name" for profit – L. Sz.) could not be prescribed by itself . . . this would not correspond to the basic economic law of socialism." [19] By this Balázsy simply evaded the possible ideological accusations. On the other hand, György Péter openly threw himself into the fray against the fossilized dogmas, calling a spade a spade.

Towards the end of his study he himself wrote: "In connection with the described aspects the fear may arise whether they do not represent some rightist deviation: because "profit", "profitability", the effects of "supply and demand", 'interest', etc. – all these factors are similar to those which can be found and assert themselves in a capitalist society". Péter, a veteran communist, was obviously well aware that such a "fear" would arise, and preferred to meet it in advance. Recognizing the formal similarity of these categories, he took recourse to that argument which all reformers of socialist economy had had to use since Lenin. He explained why the similarity was only formal and why it did not have to be feared: "With the assertion of the requirements of economic efficiency and profitability, with the more consistent utilization of the organizing and controlling function of money we do not endanger either the power position of the working class in

alliance with the toiling peasantry, nor the assertion of the basic law of socialism or of the law of planned proportionate development, or of the principle of distribution according to work done; we do not slow down but promote the rapid development of the socialist national economy . . . To influence the enterprises in the direction that they should obtain the highest possible 'income' through the cheap production of many and good products, does not yet give rise to any kind of capitalism. To oblige the enterprises to increase production constantly and to compete in the better satisfaction of consumers will not yet give rise to a crisis of over-production. To achieve order and good organization, exactly through profitability, in our enterprises, will not yet lead to anarchy in the market" [20].

Nevertheless, György Péter's study too became the object of criticisms of a dogmatic conception. Three articles published in *Közgazdasági Szemle* berated Péter in essence by enumerating where and how his ideas departed from the conventional views on the socialist economy, as if the fact of the difference itself already proved the erroneousness of his ideas. This induced Péter to devote the main attention to some theses of the political economy of socialism in his responding two-part article published in the June and in the July–August 1956 issues. [21] He took a stand in such questions as the relationship in socialism between the conscious and planned economic control activity of the state and the operation of the law of value (this range of problems was called later in the sixties the problem of the "plan and market" in the international literature), the methods of economic guidance by the state, etc.

However, between Autumn 1954 and Summer 1956 Hungarian economic research had run – very rapidly – a course which had placed the debate around abstract theoretical questions into a different professional medium. The comprehensive revision of economic policy, the intention to correct the mistakes and distortions that had been committed, the work that had begun around the rationalization of the system of economic control set new and urgent tasks. The economists recognized that the abstract-normative description of the operation of the socialist economy, which could be found in scientific literature and textbooks, mostly made the desired appear to be real and, consequently, did not contain any guideline for the solution of the economic worries troubling the country, and did not give any answer to the questions occupying the public mind either. In order to learn how the mechanism of the socialist economy operated in reality, how it served the fulfilment of the social and economic aims of socialist evolution, how the economic laws of socialism in fact asserted themselves, about which such a lot of scholastic debates had been conducted in earlier years, they devoted their attention to studying concrete reality.

The empirical research of the economy started at the beginning of 1955 in the Institute of Economics then being established proved to be especially fruitful. In addition to investigations by András *Bródy*, Péter *Erdős*, and others, the work of a young researcher, János *Kornai* had internationally outstanding importance. [22] It was completed in the Summer of 1956 under the title of "Overcentralization in economic administration" and was published in book form in Hungarian in 1957. The nature of the

monograph was reflected exactly by the sub-title: "A critical analysis based on experience in Hungarian light industry". Kornai's book was the first economic sociography in the post-liberation Hungarian literature. It was at the same time the first work in the entire international literature on the socialist economy which did not explain what the mechanism of the economy under central plan directives *ought to be*, but how *it did operate* in reality, and why it did not ensure the expected planned development and efficiency of the socialist economy.

Kornai set out from the same features of the world of phenomena as György Péter, Balázsy, and others did before him. But nobody before Kornai had carried out their factual analysis point by point, the complex description of the chain of interconnections. If against Balázsy or Péter their debating partners could still claim (without any foundation, of course) that they did not grasp the typical but the particular, individual or casual phenomena,* after Kornai's book this could no longer be done. Kornai's reasoning, carried through with scientific circumspection and consistency, also proved that the contradictions existing in the directive planning system could not be solved by the "refining" of the indicators, their "more exact" prescription, or maybe through their replacement by others. Kornai's warning [24] proved to be almost visionary from the aspect of later endeavours in Hungary and in other socialist countries that not even the introduction of profit as the main plan indicator would solve the problems if this was not accompanied by the creation of such conditions as 1. a price system which correctly orientates and reflects the relationship between supply and demand; 2. the bringing about of a buyers' market, competition among the enterprises; 3. a system of incentives for the managers which truly reflects their accomplishments; 4. the increased utilization in the control of the national economy of such indirect instruments (investment system, financial and credit system, price policy, etc.) which ensure that the enterprises operating on the basis of profitability should fit into the framework of economic planning.

*For instance, in connection with Balázsy's article the editorial board of *Többtermelés* wrote in its "official" opinion closing the debate (which was discussed and accepted also by the Central Economic Planning Committee of the Union of Technological and Scientific Associations): ". . . the shortcomings, or their dangerous consequences respectively . . . are exaggerated and presented in a biased way in the article. It extends some larger phenomena experienced partly in the area of the engineering industry to the whole of industry, as if they were characteristic of our entire socialist industry, our planned economy, even as if our planned economy were characterized exactly by these mistakes. There are such insufficiently proven generalizations in the article concerning the magnitude of the mistakes of planning and control, the almost negative role filled by the plan in our enterprises, the conscious or half-unintentional falsification of the plan reports, the relationship between the ministries and the enterprises. And he blames all these mistakes one-sidedly on our system of annual enterprise planning." [23]

Culmination and ebb

However, the ideas remained ideas in Hungary in Summer 1956. The politically bankrupt Rákosi–Gerő party and state leadership was unable, and unwilling to introduce thorough economic reforms. It is a historic fact that the economists could begin to elaborate the programme of a comprehensive reform of the mechanism only after the armed fights and mass strikes of October–November 1956, on the initiative of and commissioned by the new party and state leadership. But this work proceeded very fast, and already in December 1956 and in the Spring of 1957, the various reform programmes were born. It is, however, also a historic fact that in Summer 1957 this work was interrupted. As we know from the documents published in Iván T. Berend's study, the reform plans were not discussed in merits by any governmental organ or political leading body, the decision having been connected with extra-economic factors, international political and ideological causes. [25]

This impression is confirmed by the fact that the open critique of the ideas concerning the reform of the mechanism, which began in 1957, stood entirely in the mark of the "ideological struggle". Differing from the earlier, incidentally not very friendly, debates of the mechanism (for instance in connection with the articles by György Péter and Sándor Balázsy), the unmasking of "revisionism" was carried out now almost exclusively by representatives of the ideological and political sphere, while economic practitioners and researchers did seldom play this role. This, too, indicated that Hungarian economic theory and practice, once it had been able to cut itself loose from the Procrustean bed of the fossilized ideology, was no longer prepared to lie down back on it. The "struggle against revisionism" was not part of the debate of the mechanism, since it did not even recognize the existence of the problem. It was but foam on the crest of the ebbing first great wave of the Hungarian debate of the mechanism.

The question of a comprehensive economic reform was taken off the agenda for a number of years. But what happened in Hungary in 1957, was not the restoration of the political and economic regime which preceded October 1956; it was not "normalization", but genuine consolidation, which has proved to be lasting to this day. In the economic sphere this was assisted by the acceptance of the commodity and monetary categories, the attention paid to the increased assertion of the principle of material incentives, the importance attributed to the extension of the autonomy of enterprises and cooperatives, the development of their initiatives, the attention paid to aspects of economic efficiency. Let us refer to but two very important practical measures.

In agrarian policy, from the system of compulsory deliveries which had been abolished in October 1956 a change-over was made to voluntary contracting and free procurement. This meant that in such a fundamental sector of the national economy as agriculture, the state placed the relationship with the commodity-producing peasantry, with the producers' cooperatives on a market foundation, applying commercial methods, endeavouring to keep to the equivalence of exchange, to ensure the productive will and motivation of the agricultural producers. With this, in Hungary, in fact the thread of

Lenin's NEP agrarian policy, which had been cut 30 years earlier was taken up again. We may add: the – mostly unfortunately negative – international experience which has accumulated since then in the nearby and more distant socialist countries confirms that procrastination in the application of market methods (for instance, in Poland the system of compulsory deliveries was abolished only in 1971) or their discarding sets back the development of the economy, and may lead to grave disproportions growing into social crises. The independent opening steps of Hungarian agrarian policy – in spite of later detours – laid the foundation for the social and economic stability of the country, for the at present enjoyed successes of Hungarian agriculture.

The other element, which had much smaller impacts than the first, but was nevertheless significant, was the introduction of the profit-sharing system in 1957. The profit-sharing system operating in "otherwise unchanged" economic conditions could not of course transform the economic mechanism, as had already been pointed out by Kornai, but aroused the interest of manual and non-manual employees of the enterprises in the profitability and economic efficiency of their enterprises. However loose the connection was – and mostly remained – between the real efficiency of enterprise work and the origin of the profit appearing at the enterprise, there has since then been a pressure on the managers from the staff below, to "bring forth" the annual profit-share which had become accustomed and was considered justified. Even if this was only a function of the good personal contacts of the managers, the profitability of the enterprise became an important element of the appraisal and personal prestige of the managers, which again demanded from them that they should pay much more attention than earlier to enterprise profitability, even if – we repeat – this was mostly fictitious.

The durability of consolidation in Hungary was strengthened from the side of the economy also by the circumstance that the importance of economic research rose in the eyes of both the Government and the broader public opinion. The political leadership expected, demanded, observed and – usually of course in situations that had become more critical – often adopted the views expressed by the economists. It is a factor not to be underestimated that in the past 30 years in Hungary – in a way which is singular in Eastern Europe – there has been full continuity in economic research. Although there was a considerable pause at the end of the fifties and the beginning of the sixties as regards the mechanism reform, the ideologically and politically motivated campaigns of either these or later periods – as distinct from some other branches of the social sciences – did not lead in economic science to interdictions of employment or publication; the new starts, re-discoveries, and lapses accompanied by great intellectual losses and drops in standards could be avoided in the evolution of the discipline.

Consequently, the ebb and the pause did not lead to discontinuity, and when seven or eight years later the political and economic policy conditions for a broad economic reform became ripe, the second wave of the mechanism debate, fully taking over the concept developed in the first wave, was able to intensify, broaden and enrich it and, most importantly, to transform it into a practical action programme.

The 1954–57 view and the development of the post-1968 Hungarian economic mechanism

The reform of 1968 was not, of course, the posterior implementation of the 1957 plans taken out of the archives and dusted. It offered more in every respect, went further, stood on a much firmer theoretical foundation, not to speak of the political soil. It would therefore be superfluous and senseless to list in what the reform programme implemented in 1968 was similar to and in what it differed from the ideas that had been outlined ten years earlier. It is, however, not useless if we examine the roots – of approach and attitude – of some contradictions and shortcomings of the at present operating economic mechanism, to see whether these have no intellectual affinity to some features of the erstwhile concept, inherited by the 1968 reform.

What concept of the desirable economic mechanism did finally develop in Hungary by the Summer and Autumn of 1956 as a result of the preceding debates and research? For the sake of authenticity we quote from a summary written then by Tamás *Nagy* in the foreword to György Péter's collection of papers: "On the basis of the social ownership of the means of production, by disposing centrally over the overwhelming part of the products serving the social needs, by centralizing the more important investments, by the central control of foreign trade, by price and credit policy, if need be through central instructions issued to individual enterprises concerning the quantity and assortment of production, and by means of other instruments the socialist state can ensure that the power of the material interests, the economic mechanism connected with the law of value should function within the framework of the centrally planned control of the national economy, and should serve the latter." [26] The carefully worded formulation reflects faithfully the attitude of the reformer Hungarian economic researchers in Summer 1956, the strengths but also the weaknesses of their mechanism concept.

First of all: what *model* of the economic mechanism is reflected in the then writings of the economic researchers and in the published summaries of the plans prepared for the Government [27, 28]. Was in fact a rejection of the directive planning model and a change-over to the decentralized market model involved?

The answer is not easy. Not only because such a question was not put and could not even be put then. For two reasons. First, these theoretical categories spread and became known in Hungary only in the sixties, after the translation and publication in 1966 of the theoretical work of fundamental importance by the Polish economist W. Brus. [29] Second, no socialist alternative existed to the directive planning system that had been developed in the Soviet Union. The Yugoslav market economy and self-management system – although the mere fact of its existence undoubtedly stimulated Hungarian social research and during a very short period (in 1955–56) could also serve as a point of reference – had to be ignored in the best case, and condemned in the worst for political and ideological reasons for a long time. Only a single alternative was known: capitalism. Consequently, for a Marxist economist or simply for a person of socialist sentiments the rejection of the directive planning system equalled then the rejection of socialism. (This

was incidentally also the main argument of the ideological campaigns against "revisionism": the critique of the directive planning system amounts to the critique of socialism, viz. the desire to restore capitalism, or at least "objectively" leads to it.)

But the answer is also not easy because in all important written documents of the period (perhaps with the single exception of the Balázsy article) reference can be found to the permissibility of central instructions concerning the quantity or assortment "in case of need" (Tamás Nagy), "in exceptional cases" (István *Varga*), "transitorily for the production and utilization of some (very few) materials or products" (György Péter), etc., but this does not decide the question, because the essence of the matter is not in the number of the "cases" or the length of the "transitions". And in addition, these "permissions" are often only stuck as beauty-spots on the proposals of the authors. The fact is that the arguments of all proposals and ideas were directed against the system of breaking down the plans, proving that it was superfluous, costly, and inefficient. The reformers of the years 1954–57 did indeed want to abolish the compulsory central prescription of quantitative and assortment plan indices, as a universal system. But what did they want to substitute for it?

It may be seen already from the above quoted circumspect summary by Tamás Nagy that no important decentralization of economic decision-making was contemplated. Even Péter Erdős, who played a great role in the starting of the organized research of the economic mechanism and thereby in laying the theoretical foundation for the necessity of a reform of the mechanism, warned in *Szabad Nép*, the central party organ, on 14th September, 1956, against the "unlimited unleashing" of the law of value. According to him, the consequence of this would be that the law of value "could regulate, with us too, the economy only posteriorly through the individual or at the utmost through the enterprise interests, and this would mean that we would renounce exactly the greatest advantage of socialism, the ability to develop our economy consciously and *directly* (emphasis in the original – L. Sz.) in accordance with the interests of the whole of society." He described how he imagined the desirable method of this conscious and direct development as follows: "The central bodies must firmly ensure the planned development of the economy, the realization of the planned main proportions in the national economy, *also* by the force of state laws, *also* by compulsory instructions. We must grasp some, not too many, properly harmonized, really decisive links in the chain of the economy, the firm control of which already ensures the planned development of the *essential* elements of the entire evolution. In this, instructions must play an important role. But even beyond instructions, through the planned harmonization of the mechanisms, levers, and incentives we must ensure that the direct interests of the enterprises should coincide as much as possible with the national economic interest communicated to them through the plans and in other ways, mainly their stock of orders." [30] János Kornai stressed in his article published in the October 14, 1956 issue of *Szabad Nép* that two kinds of methods may be applied for the sake of the fulfilment of the national economic plan: the administrative method of instructions, and the economic levers. It is desirable that the first method should be replaced by the second as much as possible, in the

national economy. [31] Let us add to this István Varga's formulation: "The aim is that the *centrally administered economy* which has existed until now, and which is characterized by the frequent change of enterprise plans during the plan period, should be replaced by a more real 'planned economy', i.e. a system where the originally conceived plans are better implemented." [32] According to his ideas, the plan should not be broken down onto the enterprises, with the exception of the investment plans. But by way of information, as a sort of non-compulsory prescriptions, main indicators should nevertheless be given to the enterprises. [33]

In this way the competency of the enterprises to make decisions would have covered only a very narrow area. For, the authors of all the published reform ideas were entirely united in one question: the investment decisions and means should stay in the hands of the central state bodies. Through this the enterprises would not have been responsible masters of the expanded, but not even of the simple reproduction process.

Let us refer in addition to something which – also uniformly – was missing from all reform ideas, viz. the raising of the question whether some change was needed in the institutional system of economic control, in the relationship of sub- and superordination between the state control bodies and the enterprises disposing of a greater autonomy.

From all this the conclusion must be drawn that in 1954–57 in Hungary the *rationalization of the then known model of planned economy was wanted in the sense that, possibly without formally breaking down the plans, by regulating the motivation of the enterprise the complete and as smooth as possible fulfilment of the centrally elaborated plans should be achieved.* In these ideas there was little room left for the *normative* nature of the regulators, which would make it possible for the enterprises to set for themselves the economical and competitive structure of production induced by the aspects of economic efficiency. It was rather the other way round: the centrally conceived rational structure of production was to be achieved mainly (but not exclusively) by influencing the interestedness of the enterprises in income. And if we think of the central "informative" indicators which figured in almost every conception, or of the central "setting of production line" for the enterprises, or of the further merger of enterprises recommended by some, we at once find ourselves in a familiar world: in the Hungarian world of the "breaking down of the regulators", the "regulator bargain", the "plan appraisal committee", the "responsibility for supply" of the seventies.

More recent analyses about this world point out that departure from the directive planning system did not mean necessarily a change-over to the regulated market economy. Several Hungarian economic researchers write about the development of a third model of the socialist economy. László *Antal* writes of the "system of breaking down regulators" which replaced the "breaking down of regulators"; [35] Iván *Schweitzer* – true, "as a working hypothesis" – introduces a new category of mechanism in addition to the directive planning system and the regulated market mechanism; the "economic control relying on the responsibility of the enterprises for supply"; [36] and Tamás *Bauer,* for the lack of a better name, calls the type of economy which has come about, the "system of neither plan nor market". [36]

However, this world of the seventies has not grown out simply of the fulfilment of the principles of the Hungarian reform of 1968, but also out of the recoiling from them, the stopping short of the reform, a process of retro-adjustment. The question is logical: retro-adjustment or stepping back to where? Obviously not to the "classical" directive planning mechanism. We have stepped backward – where the reformers of the mid-fifties wanted to go forward.

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ПЕРВАЯ ВОЛНА ДИСКУСИИ О ХОЗЯЙСТВЕННОМ МЕХАНИЗМЕ В ВЕНГРИИ
(1954—1957 гг.)

Л. САМУЭЛИ

В социалистических странах существует два подхода к проблеме функционирования системы директивного планового хозяйства. Первый стремится выявить недостатки централизованно предписываемых плановых показателей, степень их соответствия намерениям центральных органов и для устранения недостатков обычно рекомендует пересмотреть показатели плана, ввести вместо старых или в дополнение к ним новые, более точно отражающие количество или качество работы. Считается, что привязав интересы участников хозяйственной жизни к новым показателям, можно рационализировать функционирование существующего хозяйственного механизма, оставляя его в сущности неизменным. Иной подход к реформе хозяйственного механизма, когда полагают, что для повышения экономической эффективности хозяйственной деятельности недостаточно просто изменить число или состав плановых показателей, предписываемых участникам хозяйственной жизни, а следует изменить само положение этих участников, их взаимоотношения, окружающую их экономическую, а тем самым — и общественную среду.

В Венгрии в развернувшихся в середине пятидесятых годов экономических дискуссиях, научных исследованиях хозяйственного механизма директивного планирования сравнительно быстро произошел переход от первого ко второму подходу к проблеме хозяйственной реформы. В статье рассматриваются важнейшие работы венгерских экономистов 1954—56 гг. — Д. Петера, Ш. Балажи, Я. Корнаи и др., а также проект всеобъемлющей реформы системы хозяйственного управления, разработанный к середине 1957 года.

заключение автор останавливается на вопросе о том, какой моделью социалистического хозяйства хотели экономисты того периода заменить директивно-натуральную модель планового хозяйства. По его мнению, речь шла не о переходе к децентрализованной рыночной модели, а о такой рационализации существовавшей системы планового хозяйства, которая обеспечила бы более гладкое выполнение центральных планов без их формальной разбивки по предприятиям, централизованно регулируя в желаемом направлении материальную заинтересованность отдельных предприятий. Автор подмечает много сходных черт между этими представлениями и той конкретной системой экономического управления, которая сложилась в Венгрии в середине семидесятых годов.

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E. SZALAI

THE NEW STAGE OF THE REFORM PROCESS IN HUNGARY AND THE LARGE ENTERPRISES

The reform process started in 1968 came to a halt in the early seventies. In the present economic situation of Hungary a new, more radical step in the reform than the previous one is needed that partly preserves, partly transcends the achievements of the 1968 reform. In the halt of the reform process the counteroffensive of the large enterprises in 1972 had an important role. The article compares the present conditions with those prevailing around 1972 and comes to the conclusion that a radical reform in the near future will be less menaced by the danger of a counteroffensive on part of the large firms.

The Hungarian economic reform of 1968, even though it was implemented ambiguously and with considerable retreats, meant a significant progress towards developing adequate conditions for a socially controlled market economy. First of all not because the limited independence given to the enterprises released already considerable growth resources mainly in the small and medium enterprises and in agriculture. As the socio-economic institutional system and the structure of industry characterized by large enterprises did not change simultaneously with the declaration of independence to the enterprises, the short upswing following 1968 provided power resources rather for maintaining the already existing achievements that were to be transcended than for outgrowing them.

The lasting effects of the reform were usually quantitatively non-measurable changes* initiated partly in the way of socio-economic thinking and partly – intertwined with other external and internal factors – in these relations themselves which provide a basis for carrying on the reform process.

The lasting effects of the 1968 reform

1. The socio-economic processes of the period after 1968 gave birth to many new lessons. One of the most essential ones is that the reform endeavours starting from above, i.e., from the sphere of economic policy and the economic control system, facing the system of relations, the interests and intentions of the already existing socio-economic

*The idea of making a distinction between the quantitative and qualitative sides of the changes started by the reforms was proposed by L. *Antal* in his paper entitled: "Development – with some digression" [1]. Similar conclusions were drawn by T. *Bauer*, R. *Nyers*, and M. *Tardos* in a number of studies and lectures.

units, may be forced to the defensive and may become bearers of endeavours contrary to their original aims. Of course, it is not meant that prior to 1968 economic policy could have carried out its will boundlessly, yet the *visible* limits to implementing the targets were *quasi* stemming from outside the system itself. The constraints were such "interest-free" notions as the low level of consumption, excess demand for investment, excessive and increasing indebtedness etc. The objective foundation of this was that the sectoral, institutional and large-enterprise structure inherited in 1968 had unfolded by the mid-sixties, namely, it was then that the existence of the large economic organizations having independent interests and methods for asserting these interests had become a general and intimate property of the socio-economic system. Earlier, too, there were large enterprises and institutions representing them – sectoral and regional, party and state institutions – there were also earlier separate interests and methods of asserting them. But they did not mean such a concentrated power – and, accordingly, did not exercise such an influence on the economic mechanism – that the intertwined and antagonistic interests of those participating in the system could have come to the surface, together with their impact on the economic processes, as well as on the economic policy wishing to control these processes.

Through the great mergers in the early sixties gigantic organizations were created also in fields where the "nature" of the economy was contrary to them (light industry, engineering). As a result of the mergers a centralized enterprise structure almost unparalleled even by international comparison developed in the Hungarian industry. The large enterprises called into existence through administrative measures – to a certain extent independently of whether creating them at the given moment was reasonable or not – have become organic and indispensable elements of the national economy, and got hold of economic key positions.* This could and did make it possible for the managers and experts interested in the existence of these large enterprises to enforce the interests of their enterprise at the expense of other spheres of the economy, what is more, to survive for a long time even the bankruptcy of the enterprise. This possibility subsisted upon the "*quasi*-autarkic", structure of the economy,** i.e., on the fact that the structure that was autarkic in its skeleton, did not resolve, moreover, increased the openness of the economy as a whole. This meant that openness appeared in the form of dependency, for the import-intensity of the economy increased without creating the preconditions for profitable exports. This was followed, in turn, not only by the pressure towards substituting domestic production for imports in ever new areas (which in itself made the process self-generating): owing to insufficient exportability, to the permanent problems of external equilibrium, the endeavours of the large enterprises for subsistence, moreover, for growth, could hardly meet with resistance, and the cutting down of a great part of

*Several enterprises were exclusively "responsible suppliers" in the products manufactured by them.

**The term was used by F. *Jánossy* [2].

their production or replacing it by imports did not come practically into question even if their operations were uneconomical.

Based on their key positions, the Hungarian large enterprises were able for a long time to regroup and drain off incomes for themselves from other spheres of the economy through the "administrative market".* Also after the 1968 reform they disposed of the means suited for enforcing their interests. Thus they were able on the one hand to directly influence the aims set by economic and financial policies (for instance when making the economic plans for the years 1971–1975 and later on, the five-year plans for 1976–1980, the plans of some large enterprises became immediate parts of the national plan), and on the other hand to influence the economic, political and ideological "medium" in which the goals, plans and decisions of national significance were born. The assertion of the interests of the large enterprises, the tools of competition "manipulated" the abstractly construed market, thereby contributing ideologically to the repeated broadening of the system of central interventions and distinctions** which accelerated after 1972. In this process endeavours of the managers and experts interested in the existence of the large enterprises coincided with the interests of all those members and groups of socio-economic controlling bodies who strongly adhered to the conditions prevailing prior to 1968 and whose earlier achieved positions were threatened by the further advancement of the reform process. It was their common interest to knit together ideologically the interests of enterprise existence with those of the labour employed by the large enterprises. This, by seizing true aspects of the *momentary* interests, proved to be suited for influencing the public opinion.

One of the greatest lessons of the turn in 1972 and the period following it in Hungary was that the endeavours of the central economic control and management organs cannot be made permanently independent of the prevailing socio-economic and political relations. A reform policy or economic policy contradictory to them can only be transitory, if, on the one hand, the institutional system of management remains unchanged and, on the other, no such processes are initiated which promote the birth and development of new economic units potentially competitive with the already existing ones.

2. The circumstances in the period after 1968 were heavily contradictory to the interests of most large enterprises, for even the existence of a few became questionable. This occurred in spite of the fact that mainly with the aid of the sectoral ministries and the sectorally oriented bodies of functional institutions, furthermore, of the regional party organizations, the large enterprises in possession of key positions of the economy

*The notion of the administrative market was introduced in the Hungarian literature by L. *Lengyel.* The meaning of it is expounded by him in a number of studies [3, 4, 5] and also in a paper written by the author [6]

**The position held by the large enterprises and its consequences on the level of central control and management and economic policy appeared in the form of dubiousness of the market indicators – prices, price fluctuation, profits, – and their divergence from the "objective" processes.

were able to evade the uniform regulations, increasing thereby the sphere of exemptions and subsidization, which were envisaged only as transitory at the start of the reform.*

The socio-economic units which served as socio-economic bases for the endeavours of those interested in reversing the reform process were mainly the large enterprises and, among them, primarily those in key positions.

In addition to the large enterprises it was primarily the sectoral ministries who were interested in the turn made in 1972. The interestedness of the sectoral units of the functional institutions was not so strong and that of the local party organizations was not general and uniform. Thus, as the sectoral ministries ceased to exist, in 1980, the large enterprises have lost their most significant allies. This is true despite the fact that well-known signs of the sectoral attitude and individual interference have since appeared also in the activity of the Ministry of Industry. It is, however, impossible to re-establish the old circumstances in their totality.

Also the centrally initiated organizational investigation of the trusts and large enterprises started in 1979 was aimed at and served for weakening the large enterprise positions. As a result of this, some trusts have already been liquidated and smaller units, – able to stand on their own – organizationally separated.

3. Animation of the so-called second economy – through new forms of private undertaking and small enterprises – is a necessity partially arising from the present economic situation of Hungary. It is aimed practically at preventing the deterioration in the standards of living and at maintaining the capability of the "primary economy" to operate. Recognition of the economic significance of the second economy, as well as the demand for its institutionalized forms are links in both the economic reform and in the development of the related ideology. To put it a bit more strongly, it would be possible – with other antecedents – to react upon our present economic difficulties and the increasing problems in the living standards policy by dramatic administrative measures reducing the living standards. On the other hand we know beforehand that the second economy gaining now institutionalized forms will become anyhow a competitive partner of the large enterprise in the labour market, and this just in respect of the best experts.

4. One of the most spectacular phenomena of the period following 1968 was the increasing range of choice of commodities. The defencelessness of consumers diminished and, if in a rudimentary form, a rationalizing consumer mentality, pondering on alternatives has appeared. The liberties of the consumers, after it has become organic, cannot be withdrawn at any time.

Also the partial loosening of the labour market is very significant even if the fact is taken into consideration that, owing to the "improperly" adjusted regulators, the direction of the flow of labour was not always the most advantageous. The greater freedom than earlier, enjoyed in the spheres of consumption and employment and the skills

*The widening system of subsidies and its factors are analyzed in detail by M. *Csanádi* in her paper [7].

acquired thereby may create a basis for even widening strata of workers to participate in the control of production more intensively and more efficiently than so far.

I have emphasized those socio-economic effects and results of the reform process started in 1968 which provide more favourable conditions than earlier for taking further reformatory steps, more significant than the preceding ones. The slowdown of economic growth, the stagnation – at best – of living standards call, as an urging necessity, for further progress.

I see the way out in a pluralistic economy more diversified and unbound in its institutions than the present one, in accordance with the ideas of L. Antal and L. Lengyel [8, 9]. According to the concept of L. Antal the various spheres of economy ought to be: (1) A holding-type organization of the capital owners. (2) Self-governing bodies of workers. (3) Entrepreneurs renting public property. L. Lengyel distinguishes the following actors in the economy: (1) The individual entrepreneur. (2) The free association of entrepreneurs. (3) The self-managing venture. (4) New small ventures formed through the decentralization of some large enterprise. (5) Transformation of large enterprises into vertical concerns and into loose holding-type associations. (6) Separating the public utility enterprises into an independent type.

Analysis of the differences between the two concepts is not the subject matter of this paper. I consider, however, their common features as very important, namely, a looser economic structure, and the conception involving the coexistence of economic institutions which represent different production relations.

Although up to now the point under discussion was the results of the 1968 reform, namely, to see, how far the measures taken can be precursors of further ones, the desirable economic structure cannot be an extension of the process that was prevailing heretofore under any condition, but it must mean a dramatic qualitative change in relation to the preceding one. Thus two basic questions arise: one of them regarding the social basis for the structural changes and the paths leading to it, and the other about the real possibility of a counter-attack like that led by the large enterprises in 1972.

The social basis for the drastic reform of the economic structure and the paths leading to it

The interestedness and activity of the various social groups in a radical reform may vary depending on whether it occurs before or after the economic problems have reached the depth arousing a social crisis.

Which are the socio-economic groups *directly* interested in a radical reform before the economic difficulties would cause a social crisis?

1. The groups at the expense of which redistribution is continuously going on in favour of the other groups constituting the foundation of the given structure. For this reason their position is deteriorating in comparison to earlier times and/or to that of other socio-economic groups, or if not, their income is decreasingly proportional to their

"performance". Such may be some relatively profitable plants or units of unprofitable trusts or large enterprises when the advantage of appearing "under the colours" of the large enterprise becomes less than the disadvantage suffered by the redistribution of the gains; some agricultural units; small, and medium enterprises; some parts of the second economy not built into and not depending on the large-scale industrial structure (the existence of the latter can be directly imperiled: though they may operate profitably, some large-scale units may intend to amalgamate them or to link them up perhaps in some other unfavourable way. e.g. through cooperation, or, owing to the better and individual quality of their products, they put up a competition to the large-scale industry).

2. The group of intellectuals who are restricted by the given structure in unfolding their specific values, capabilities or professional knowledge.

3. The attitude to a drastic reform of those large enterprises which have been incessantly growing even since 1968 and therefore their leaders may hope that they will be able to keep up the stability of their enterprise even after a further reform, what is more, the coming reform will rather promote than hinder their development, is much more contradictory than of the foregoing ones, or it may change, respectively, according to the momentary power relations.*

The members of these socio-economic units are more or less able to change their individual position within the socio-economic structure; in addition, they have no independent system of political institutions, they do not constitute a uniform social power that would enforce radical reforms in the form of a movement coming from below. This at the same time does not exclude that they try to push against the prevailing frames already at present and become active participants in a starting process of radical reforms.

Economic troubles may change into a significant social tension if the situation of the majority of labour employed by the large enterprises grows worse in an absolute sense. This may come to pass when, owing to the stagnation or decline in other spheres of economy, there is no possibility for redistributing further incomes in favour of the large enterprises. In such a situation the social basis for starting the reform process will be the working class engaged in large-scale industry which is solely able to change its position not individually but through the transformation of the economic structure and the creation of its own institutions for asserting its interests.

*A potentially favourable attitude of these enterprises to a drastic reform might be brought about primarily by their *endowments*. In my earlier study I distinguished three basic types of the large enterprises, i.e., the market-oriented, the market-and-supply-oriented and the supplying-type large enterprises. Those belonging to the former two types, contrary to the supplying large enterprises are, or are forced to be in an intensive and relatively profitable connection with the world market, so they may be interested in a tendency of changing circumstances which offers them a sphere broader than earlier for the purpose of extending their foreign and domestic – so-called horizontal – relations. Besides, in comparison to the supplier-type large enterprises, they are less attached to the administrative market. For further details see my above quoted study [6].

The two ways of starting the process of reforms lead to differing structures of the economy not only in their process but also in their results. The reform initiated from above will give preference rather to the reform of the large-enterprise structure and to a rapid improvement of the sphere of private small ventures. In my opinion truly operating forms of workers' self-government may come into being first of all through initiatives from below. At the same time, it is not unimaginable that some germs of workers' self-government appear also in the process of reforms started from above. A condition of their long-lasting existence is, however, that such novel local institutions asserting the workers' interests should come into being which represent not merely short-term economic interests. Also for other socio-economic units the creation of such institutions is needed, in order to assure that no such "favourable" conditions may come about under which – no matter how it started – the process of reform becomes reversible.

Does the possibility exist for a new counter-attack by the large enterprises?

The question as to what extent a counter-attack of the large enterprises similar to that in 1972 is to be reckoned with depends on when and in which way the reform will be carried out. Even by taking the present situation for basis – i.e., that it will be implemented "tomorrow" – it is hard to give an answer. Still it is worth-while to make a comparison between the period about the 1972 counter-attack and the present situation. This part of my paper is based on the partial results of a larger survey in progress, entitled "The large enterprises and the changing economic mechanism".

The turn in 1972

Connected with the reform of 1968 no change occurred either in the relations between the party and the state-organizations or in the institutional system of management (of sectoral character) which meant institutional safety for the large enterprises in maintaining their achieved position and stability. Practically not even decision-making on development was decentralized. Despite the operation of these "built-in stabilizers" in the early years of the reform significant profitability troubles appeared in a considerable part of the large enterprises.* Between 1968 and 1972 the growth rate of industrial produc-

*The 50 largest industrial enterprises that were marked out for governmental "observation" at the outset of the reform represented 39 percent of those employed in industry, 60 percent of the total stock of the fixed assets of industry and the half of its output. Their capital-intensity and wage-level was higher than the average, their profitability, however, – despite subsidization considerably higher than average – was lower. The subsidy-content in the results of the designated 50 enterprises exceeded the same indicator of those that were not under survey already in 1968. *(contd. overleaf)*

tion declined, while the general growth of the economy accelerated. The annual average increment of the national income was 6.2 percent in the period between 1968–1971, in opposition to that between 1961–1967 when it was 5.3 percent. The favourable development of economic growth was first of all the result of the increasingly rapid growth of agriculture and the building industry. In comparing the period of 1961–1967 to that of 1968–1971, in the sector of agriculture the annual growth rate changed from 3.6 to 4.6 percent and in the construction industry from 5.5 to 8 percent, while in the whole of industry there was a decline from 6.8 to 5.7 percent. Parallel to the slowdown of industrial growth, first of all in the large enterprises, utilization of the capacities was falling back. The sales of the 50 largest enterprises increased between 1968 and 1972 less than those of the other ones.* The frontal counter-attack was started by the large enterprises in 1971.**

The resolution of the Central Committee of the HSWP of November 2, 1972 called attention to the situation of the large enterprises, saying that in order to improve the efficiency of the national economy, the organs of economic control should separately

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M. Laki [KOPINT (Institute for Economic and Market Research)] in his study entitled "The environmental factors affecting the introduction of new products and processes and the ability of adjustment in the enterprises" analyzed the history of 370 new products of 194 enterprises in the period 1968–1974. A passage quoted from his study: "it is also worth our attention that the 20 unsuccessful products which stimulate changes hardly or not at all are manufactured exclusively by medium or large enterprises which are thus representatives of the group having a greater than average share in the pattern of unsuccessful products."

*In that period the growth of employment was insignificant. At the same time the fixed assets engaged in production increased at a rate higher than the average. These enterprises enjoyed a share in the state investment funds also highly exceeding the average.

The increase of the volume of profit and its proportion to the value of assets remained below the average – despite the subsidies highly exceeding the average. The majority of those enterprises was belonging to this sphere whose restitution of solvency was possible only through unplanned expenditures from the state budget.

In this paper on "Distribution of the managers" L. *Lengyel* (PKI – Institute for Financial Research – manuscript) introduces the various forms of exchanging the managers in the enterprises of the Ministry of Engineering and Metallurgy and he characterizes the effect of the 1968 reform on the large enterprises as follows: "The mechanism of 1968 made it clear that the majority of the large enterprises can join in the international division of labour only by rebuilding their complete line of technology and all of the imperiled enterprises (CSA – Csepel Motor Works, BHG – Beloiannisz Telecommunication Works; HAFE – Factory of Transmissions and Painting Equipment; Ganz-MÁVAG – Ganz-Mávag Works; Kábelművek – Cable Works, etc.) were aware of the fact that this could be made solely with a major state subvention."

**Some large enterprise managers and other functionaries expressed their discontentment with the conditions at various forums already from the first day. But their appearance as a force capable of openly reversing the reform process began only in 1971. Thus, the condensed and qualified period of the counter-attack was that about 1971–1972. From this point of view it was very significant that after the peak of investments in 1971 very strong restrictive measures were taken. Connected with this, the cases of individual decisions multiplied and contributed to the growing power of the more conservative "wings" of the central bodies.

investigate and observe the activities of the largest 40–50 state-owned enterprises which produce the major part of the industrial output of the country.

In the course of an interview a member of one of the functional institutions spoke about this period in the following way: "In 1971–1972 the large enterprises came into the focus of economic interest, mainly in their relation to the small and medium enterprises. At that time the small enterprises were developing more rapidly, the expenses of which were, however, borne – according to the opinion of the large enterprises – by the latter. It was suggested by the public opinion that the flow of labour tended towards the small enterprises, to the auxiliary workshops of the cooperative farms, as the possibilities to raise wages were greater there; the small enterprises enjoyed a number of advantages stemming from the fact that the burdens laid on them by administration were much lower. It became a usage that the large enterprises regularly denounced the small ventures and auxiliary branches of the cooperative farms. Our opinion today is that this was an artificially stirred up atmosphere. *Which were the forums where these questions were raised?* Any possible forums: CC sessions, discussions of the Chamber of Commerce, the professional press. For instance the management of one of our large enterprises reported that an auxiliary workshop of a farming cooperative produced the same product the enterprise did, under worse conditions, yet with a higher profit. The other cause for selection was that the large enterprises were connected with the development of planning the national economy. The disadvantages of central planning from above became increasingly evident. The tendency then was to build up the plans from the bottom and in doing so the large enterprises determinant in the Hungarian national economy had to play a significant role. In setting out it had to be decided which would be the sphere of the centrally observed enterprises involved in planning. Suggestions were made and debates followed. In the course of discussions in the National Planning Office it was decided finally to deal with 80 enterprises. This was then reduced to 50, laying stress on the round figure. *And how did the 80 become 50?* So that the foreign-trade, and the home trade enterprises and those trading in the means of production were left out. *What criteria were taken into account in the selection?* The main points of view were regional and sectoral proportionality. The branches and counties made efforts in order to make their enterprises join the sphere of the "elect", at least in the proportion according to their weight in the national economy. Also the circumstance was considered which were the enterprises where the general manager was a member of the CC. *Finally, the decision as to which 80, or 50 will, respectively, be selected, was made in the National Planning Office. Where was the basic idea invented?* In the party centre. *And did the large enterprises exercise any kind of pressure in this question?* This is a rather delicate question, but . . . they did. First of all those, whose leaders were members of the CC. One of them was clever enough to present the problems of his enterprise as a general issue of the large enterprises. He said, for instance, that he was exposed to the outworker small enterprises, but he mentioned by the way that his foundry capacity was insufficient. In the period starting from 1972 it was a general phenomenon to present the problems as problems of the large enterprises. This was the way they were presented also to the district party committees."

Another co-worker of the same institution confirmed the latter statement and, what is more, he revealed further interrelations: *"On the occasion of an earlier interview you mentioned that the managers of the most important large enterprises were in those times significantly supported by the party centre. How was this done?* Well . . . yes, all the managers of large enterprises rushed in to their most well-known acquaintance in the party centre. It is quite sure they contacted them and made agreements beforehand. Following this the party centre convened a plenary session where, beside the managers of the large enterprises people of the functional state apparatus were present. When they left the session, the managers of enterprises were comforted." The functional apparatus – the National Planning Office, the Ministry of Finance and Ministry of Labour – were not too enthusiastic when they were carrying out the selection. One of the leaders of this work said: "Selection was made under pressure coming from 'topmost circles'. We were striving to select those large enterprises which needed care anyway for being in trouble. Other enterprises fell into the range because they were controlling complete industrial branches. We endeavoured to make the selection so as to cause least possible damage."*

The documents preparing the selection kept in view the possibility of dealing individually with the problems arising with the large enterprises from the outset, of course, only in cases it would be necessitated by national economic interests.

As a result of the changes following the turn in 1972 the allocation of incomes in favour of the large enterprises through individual channels was renewed, especially in connection with and following the drafting of the five-year plan for 1976–1980.

Thus, the first conflict between the conditions created by the 1968 reform and the interests of the large enterprises was settled in favour of the large enterprises. The change in circumstances, the coming to a standstill of the unfolding process might be, however, attributed not only to the endeavours and possibilities of asserting the interests of those concerned. The following were catalysts of the counter-attack, or causes of the standstill (without claiming completeness):

a) A consistently accomplished decentralization would have made it difficult to cooperate with the other CMEA member countries further relying on the system of directive central planning. "From our viewpoint it is important that in the past decade we failed to reach uniform acceptance regarding the main tendencies of the endeavours started in 1968 . . . The 'international mechanism' is always determined – according to the law of 'bottlenecks' – by those of the collaborating partner countries where the system of internal control and management is the most inflexible." [10]

*In the course of the selection five indicators were taken into account: the sales returns of the enterprise; the value of assets; employment; the size of profits; the value of exports.

In the document quoted the selection of only 40 enterprises was recommended. In respect of all five indicators 26, in that of four 14 enterprises belonged to the 50 greatest ones of the country. The remaining 10 were among the 50 greatest enterprises in respect of three or fewer indicators, the selection of those was due to some importance of other kind.

b) Growth was speeding up and the whole economic system became more open and sensitive. This brought to the surface the problems of equilibrium caused by the economic structure. For instance, the lagging behind of the infrastructure and of the background industries, the inclination to exaggerated investments, external imbalance, and so on [11].

c) A more open differentiation of incomes brought about by the reform released broad social tensions which were frequently also artificially kindled. The incomes of the workers employed in the large-scale industry and of those who migrated to the auxiliary workshops of farming cooperatives were compared and – though they were later on disproven – suggestions were made that the wages of employees in large enterprises were much lower than those of people working in other fields of the economy.*

Paradoxically, it was just the acceleration of growth that created the economic background for reversing the process: the available income was enough to afford allocations in favour of the troubled large enterprises.

The present situation of the large enterprises

The regained positions of the large enterprises are not the same as they were earlier. The causes of this can be derived from the general situation of the economy and the large enterprises on the one hand and from the changes in the system of institutions competent to mediate the interests of the large enterprises on the other.

At present, the general growth of the Hungarian economy is slowing down – partly owing to the satisfaction of claims for subsidies of the large enterprises which have been rising especially since 1972** – whereby, at the same time, also the amount of goods redistributable through the administrative market is declining. The narrowing of resources which can be drawn away from outside, from other fields of the economy, strengthens the factors of competition rather than those of solidarity in the mutual relationships of the large enterprises.

*A passage in the manuscript bearing the title "Analysis of the income and wage relations in a large enterprise" written by M. *Polgár* (PKI – Institute for Financial Research) runs as follows: "From the viewpoint of labour and wage relations in this period it was rather significant that in a number of (mainly large) enterprises the workers' faith in the perspectives of the enterprise was shaken. Several enterprises were unable to keep the preceding level of the annual shares in profit and, what is more, even the possibilities of wage increments became increasingly uncertain. In the enterprises struggling with economic troubles the discontent of the workers was prompted not by the low wages: especially in the large enterprises the wages were relatively high. But, according to the above mentioned circumstances, the ability to maintain their leading position did not seem sure at all."

**The rapidly increasing current and development-promoting subsidies weakened other spheres of the economy not only by the "amount" of incomes drawn away therefrom, and without having been "repaid" by rising efficiency in the sphere of the large enterprises. The effect of the respective mechanism delimiting the unfolding of initiatives was at least of the same order.

The limited size of this paper does not allow for drawing up a picture touching on every important issue *of the present situation of the large enterprises.* For similar reasons I have to restrict the presentation of the documents used and of the results obtained by calculation. Yet, I try to describe some important correlations.

Net profit in percentage of returns from sales of the selected enterprises practically did not change between 1972 and 1979 – it was 9.56 and 10.0 percent, respectively. The rate of profit in proportion to assets + wages increased from 8.5 to 10.5 percent, and the current subsidy-content of the profit grew from 67.8 to 89.0 percent.

In view of my subject matter it is important to see what changes occurred in the positions of the large enterprises in relation to one another between the two periods. Looking at the developments in the positions of the enterprises from the view of net profits in proportion to the returns from sales, an increasing differentiation can be experienced. Dividing the 49 enterprises (one of the originally selected 50 ceased to exist in the meantime) into 5 groups, progressing from the lower towards the higher values the averages by groups developed as follows:

Table 1

Net profits in proportion to the returns from sales, averages by groups (percent)

No. of enterprises	1972	1979
1–10	2.7	2.0
11–20	6.6	3.9
21–30	10.2	10.1
31–40	13.1	13.3
41–49	15.8	19.3

Increasing differentiation at the same time does not mean the "drawing apart" of the positions and relations of 1972; in the first group 5, in the second one 4, in the third one 3, and in the fourth and fifth groups 2 enterprises each maintained their place taken in the grouping of 1972.

The dispersion of profits in proportion to assets + wages widened, too, between the periods *(Table 2).*

Though the dispersion of the two profitability indicators differs from one another, the enterprises moving upwards or downwards were generally the same, meaning that no opposite movements occurred.

I made computations in order to see whether or not there was some correlation between the changes of profits in proportion to assets + wages and the distribution of external sources (credits, state loans, subsidies) used for the investments of the fifth five-year plan (1976–1980) among the enterprises.

The year 1974 was an important turning point in the relationship between the large enterprises and the administrative market. Immediately after 1972 expansion of the acting radius of the administrative market manifested itself in the widening subsidization system, the basic function of which was to remedy and make up for the burning shortages in the short run. This increased the dependency of the large enterprises in an unfavourable position on the administrative market. Since 1974, however, the system of individual judgements became more or less overtly part of the prevailing economic mechanism; the operation of this system, i.e., the "breaking down" of the regulators was tacitly "reckoned with" in developing the framework of the general economic control system. On the other hand, some large enterprises were given the possibility to change their external and internal endowments thorough centrally subsidized reconstruction programs. (External endowments are for instance: market prices, possibilities of raising loans. Internal endowments may be: the product-mix, or the character of connections between the productive units.)

Table 2

Average profits in proportion to assets + wages by groups (percent)

No. of enterprises	1972	1979
1–10	2.0	2.0
11–20	5.0	6.0
21–30	8.4	10.3
31–40	11.5	14.0
41–49	16.0	21.0

The year when decisions on reconstructions of the large enterprises were made was 1974. Therefore, I compared the external development sources received during the fifth five-year plan period with the shifting positions of profitability following 1974. The latter do not differ essentially from the changes between 1972 and 1979. (In 30 cases the positions or, respectively, the direction of changes in the positions were the same, movements in opposite directions appeared only in 8 cases.) According to my computations, though the development sources* redistributed in the administrative market affected the profitability position of the large enterprises in relation to one another, this effect was, however, weak and worked in uniform direction. The improving position was in correlation with a higher than average share in external development sources, though at the same time the enterprises with deteriorating position were not "under-favoured", and

*The proportion of the external sources used up in the fifth five-year plan period to the value of assets was 66.2 percent in the average of the 49 selected enterprises.

that is even more true if we consider the current subsidies, too. In the sphere of the enterprises in deteriorating position, the subsidy-content was growing in the economic results. In 5 of the improving enterprises it decreased, – in their case the share of external development sources was higher than average – in the rest of them it increased. In the totality of the selected enterprises the subsidy content increased from 79.4 to 89.0 percent between 1974 and 1979.

I presumed that the distribution of the external development sources was in closer relationship with the returns from sales, but such correlation could only be witnessed in the case of the engineering industry. In the course of the fifth five-year plan period the return from sales of the selected enterprises increased by 66.2 percent. A higher than average increase of returns from sales "belonged" to higher than average external development sources only in 25 cases from among the 49. With 17 of the 21 engineering enterprises the proportion of the external sources was higher than the average and also the increment in the sales returns exceeded the average. During the period of the fifth five-year plan one of the most important conditions of awarding external development sources was the promise to increase Western exports. Almost half of the granted loans consisted of preferential ones for increasing the supply of 'convertible' export commodities which participated in financing investment projects of a value twice the sum of the loans. Small and medium enterprises received only 20 percent of the loans. Between the proportion of the external development sources and the real growth of Western exports there was no correlation whatsoever. No correlation could be experienced between the changing profitability position and the increase of Western exports either. At the same time I became familiar with some cases where the declining position was correlated with under-fulfilment of the plan in the growth and/or the profitability of Western exports. In three enterprises of the engineering industry which reached the lowest category of profitability by the end of the plan period – Csepel Vas- és Fémművek (Csepel Iron and Metal Works), Egyesült Izzó (Incandescent Lamps Incorporated), and Szerszámgépipari Művek (Machine Tool Works) – significant shortfalls in the planned increase and profitability of Western exports were shown, what is more that the actual problems of the latter two may be attributed precisely to the above circumstances.

Summarizing the foregoing and continuing the reasoning: contrary to my expectations – on the basis of the factors I could study so far – the situation of the large enterprises has not become more differentiated since the turn in 1972, the main characteristic of the following period was rather a rearrangement of positions than differentiation.* Central redistribution in a part of the development sources as well as

*As regards the indicators for demonstrating the rearrangement the argument may arise whether it is justified to characterize the position of the enterprises by indicators of profitability under market conditions that are interwoven with individual interventions and what can be expressed by these indicators. It is certainly not the market operations of the enterprises in the classical sense, or the efficiency of their activity. It is not an abstract market where our enterprises are working. Thus, for the individual enterprise the relations between the various institutions and the intricate system of special interventions are given conditions as e.g. the formation of prices (although any of these

the differentiated participation of central bodies in the development activities of the large enterprises only provide a partial explanation for the rearrangement. Between the changing profitability positions and the expansion of Western exports, which is one of the main targets of the fifth five-year plan, the correlation was negative rather than positive. To detect the causes of rearrangement requires deeper analyses than were made up to now.

The rearrangement and the further "betterment" of some of the "good" ones resulted in that a few enterprises with decisive influence – contrary to the period about 1972 – have become recently and still are convinced that they will be able to survive more or less even within the frames of the general control system. This conviction was confirmed around 1979 by the fact that the managers of the most important large enterprises were openly involved in the preparation of changing the system of economic regulators. One of the co-workers of a functional institution said: "Certainly, the modifications in 1979 were much better prepared than those 2–3 years earlier. Already since September parallel discussions were carried on in the sectoral ministries where small groups of enterprise managers were invited and informed about the expectable restrictions and the situation of the national economy. Concrete measures were then not yet elaborated by us. After a month, the discussions became more detailed and the number of participants narrowed down. Everyone accepted the expectable measure in a positive mind. It was a special advantage that being acquainted with these facilitated the drafting of the enterprise plans. The managers of the large enterprises expressed their desire that information in the future should be similar and not only on behalf of the state but also on that of the social organizations . . . The large enterprises are determined to stand on the side of the government and approve of the measures. So said also the general managers of even very significant, prospering large enterprises, despite the fact that they too were aware of the difficulties of the situation. The general manager of one of the greatest large enterprises for instance declared that he would by all means keep himself to the annual 6 per cent wage increase and would provide for it by dismissing 1.5–2 percent of the present manpower. At the forum where he said so, somebody told him laughingly: 'there is no need to give the sack to the physical workers, they will leave by themselves'; to what he replied: 'no, I do not want those to leave who work well and who would earn more somewhere else – these will be paid better – those should go whom I want to send away' . . . As a result of the changed regulatory system in this enterprise profit will be

conditions could be influenced – depending on other potentialities – to various degrees). Consequently, the enterprise strives to maintain, moreover, improve its profitability position in this *existent* market. It is this position of the enterprises attained in the medium of the Hungarian economy of yesterday and today that is expressed in the profitability indicators. It must be added, though, that these indicators are extremely sensitive to the formation of the current subsidies. These have a levelling effect on the profitability relations and between 1972 and 1979 their share in the profits significantly increased; therefore, the profitability indicators would show a much stronger differentiation if current subsidies were subtracted from them.

decreasing but they will compensate for this by exploring internal reserves and by improving their marketing activity."

The general manager cited above who was a key figure in the 1972 counter-attack of the large enterprises, and at several open forums appeared as an "ideologist of the large enterprises", took a stand in 1979 in favour of narrowing the system of individual distinctions and increasing the severity of the general control system. This and similar forms of behaviour are, of course, interwoven also with tactical elements. Under hardening general economic conditions, when the additional incomes that can be pumped through the administrative market are narrowing, it is more expedient to tacitly accept the restrictions in general and then try to tread the way of individual "lobbying". Most recent experience has shown that the directives concerning the restriction of individual distinctions cannot be implemented as strictly as it was planned. The necessity of using tactics and choosing exactly these tactics indicate – as it is also supported by my recent observations – that the "good", until they do not feel that their vital conditions are endangered, do not, even for the sake of ideology, take position in favour of the "bad", what is more, they rather compete with them. With the narrowing of the resources that can be drawn in from outside – that will act also to the effect that those large enterprises will become stabilized and/or will develop more rapidly which will be able to work profitably without or with decreasing subsidies – the possibility and the chance of a new counter-attack by the large enterprises will be further reduced, at least for the near future. It is not sure, however, that this "near future" will last long.

The main objectives of the sixth five-year plan (1981–1985) – dynamic expansion of Western exports and cutting down the imports from Western countries – are not at all new in comparison to those of the fifth five-year plan. Neither is the conflict new between the objectives, but it is sharper and more perceptible for the large enterprises, as the objectives are broken down to the level of the individual enterprises much more than earlier.

The enterprises have to increase their Western exports more than earlier in a period when the level of investments remains unchanged, moreover, in manufacturing it is declining. For the majority of the selected enterprises the pressure to increase Western exports is no longer merely an expectation formulated by state organs; owing to the restrictions on investments, the demand for investment goods is slackening also in the domestic market, seriously afflicting the large enterprises manufacturing such products. First of all those who have carried out significant developments just recently [Magyar Kábel Művek (Hungarian Cable Works), Láng Gépgyár (Láng Manchine Factory etc.]. These try to protect themselves by directing their capacity originally destined to satisfy domestic demand toward the world market. (Owing to quota problems, the socialist market is frequently narrow.) This will, however, not grow into really profitable exports, – taking into account especially the differences of the two markets with respect to quality requirements – all the more because also the monetary sources for smaller investments aimed at improving quality are reduced and the imports of Western com-

ponents indispensable for assuring proper quality of the exports are restricted.* The competitive price system will at the same time indirectly transfer the profitability achieved in the world market to the inland sales – though the system of individual interventions damping its effects is beginning to act.

What applies today to the large enterprises manufacturing investment goods, may be valid tomorrow for the rest of them, too. Already now there is no such excess demand in the domestic market for the products of the large enterprises as was about 1972 and 1976. The effects of the narrowing domestic market may shift gradually also to the sphere of the large enterprises producing commodities for purposes other than investment. This may afflict them seriously all the more because earlier they were never as much indebted as they are at present.

The slowdown of growth, the narrowing of the internal market may sooner or later also affect those who are "good" at present. If until then no radical reform comes out or there will be no institutional guarantees for the reform to be implemented, in the relations between the large enterprises again the elements of solidarity may become dominant. It is noteworthy that already at present the spreading forms of private and small enterprises are considered hostile to the large enterprises, because of the – justified – fear that they will "lure away" exactly their most skilled experts.

From the viewpoint of asserting the large enterprises' interests liquidation of the sectoral ministries and establishment of the Ministry of Industry was a very important change; *this transformation of the institutional scheme of economic control and management is unfavourable for the large enterprises.* With the liquidation of the sectoral ministries they have lost their chief allies – just in the most important period of bargaining in the administrative market, i.e., at the time of preparing the new five-year economic plan.

A deputy manager of one of the large enterprises in Budapest said in the spring of 1982: "In my domain the old relationships still exist but in general the situation has changed. The way the Ministry of Industry intervenes differs from the method followed by the Ministry of Engineering and Metallurgy. In our present situation this is very bad indeed. We were accustomed to fight for the credits together with the Ministry of Engineering and Metallurgy which helped us in other respects, too." Another leading official of the same enterprise stated similarly: "We had very good relationships with the sectoral ministry – until it existed. As yet we have no problems with the Ministry of Industry, for its organization is practically not yet complete. We know personally a few

*Together with the increasing economic difficulties the significance and sphere of action of those import limitation mechanisms are growing which were very clearly described by J. *Gács* in his paper "Importkorlátozások, hiányjelenségek és a vállalati alkalmazkodás" (Import limitations, shortages, and adjustment of the enterprises) (KOPINT – Institute for Economic and Market Research). As quoted therefrom, according to the author the primary characteristic of this mechanism is: "The change (i.e., changing backwards, towards individual judgement of the import claims – E. Sz.) did not come about by altering the principles but by seemingly maintaining them. A comprehensive, multi-level informal mechanism of individual decisions has been built up, governed by internal orders and usage."

executives... At present we have problems with a solicitation of credit but we do not know who can help in the ministry. The other day a functionary of rather low rank visited us, we told him about our problems and we shall see what he can do."

In spite of, or, maybe, just because of the fact that the present five-year plans of the enterprises were drafted under much more difficult conditions than earlier, the earlier missing alternative formulation of the objectives and market conditions has appeared in them, i. e., the standard of planning work has risen. It is another question that in the final analysis the plans exceeded the provisions of the national economic plan.

According to an official of the Ministry of Industry: "The coming into existence of the Ministry of Industry in principle meant that the enterprises gained greater freedom. For the moment the tasks that were handled earlier by three ministries, have to be attended now by a staff that is three times smaller. This will not go. In principle we ought to shift towards conceptual work, but practical life does not let us become less operative. We cannot say about an issue that it is not within our competence, for the party committees would not tolerate it. The Price Office will not be enabled overnight to control foreign trade either. *So far also the National Planning Office was in a comfortable position for the contact with the enterprises was held by the sectoral ministries.* Also our partners in the socialist countries were accustomed to the fact that sectoral ministries existed to which they could appeal in questions of quantity. To whom should they now turn if, for instance, a factory equipment for an investment project was not delivered in due time? Such is the situation and we have to accept it. Also this kind of work has to be done, and you must be fond of it. *Still, we are unable to deal with the problems of individual enterprises in the depth we did earlier."*

Beside some appearing elements of the earlier circumstances a great many functions of the sectoral ministries were taken over by the National Planning Office, the Price Office and the regional party committees. It is, however, impossible to restitute the preceding conditions. Whether or not the new allies of the large enterprises or the old ones propping up in new forms will be as "efficient" as before, depends on the objective position of the large enterprises or rather on the circumstances affecting their position. If, in turn, despite contradictory tendencies the conditions for a novel counter-attack of the large enterprises were to come about, the Ministry of Industry will advocate their interests more effectively than its predecessors. This was referred to by the above quoted official of the Ministry of Industry when he said: "Our opinion weighs more than that of the earlier sectoral ministries. They had many unsettled controversies among one another which became sources of numerous tensions. The functional organs took advantage of these and frequently they decided between them. Now there is no such possibility, because disputes are settled indoors and outwards we take uniform standpoints. There were already several cases when we could help our enterprises."

Thus, if the activity of the Ministry of Industry shifted in the direction of strongly protecting the interests of the large enterprises, it would be able to help asserting them with greater authority and power than the earlier sectoral ministries which were liable to be split by the functional institutions.

Summary and conclusions

The "history" of the East European countries after 1968 justified the measures taken in Hungary in the direction of socio-economic democratization. But it is an equally important lesson that the paths of both economic and political democracy are inseparable and that without adequate institutional safeguards the process of economic democratization is reversible.

Despite the fact that every measure towards political and economic democracy diminishes the probability of a *lasting* (backward) rearrangement, the increasing economic difficulties necessitate more drastic reforms than earlier. These objectively lead to an economic structure more multifarious in the scheme of its institutions. Already at present the uniformity of the system of economic institutions (its large-enterprise character) is loosening.

It is a fundamental question, which the social movements calling for the drastic reform are, what kind of new forms it will create and what the relations of super and subordination between the new formations will be – holdings, self-governing workers' organizations, small ventures etc. The response will again depend on whether the reform will take place before or after the economic tensions are transformed into significant social tensions, or, in which stage of the latter, respectively. A similarly important factor is whether the initiatives starting from below – e.g. the already existing forms of self-governing workers' bodies – may keep their identity and whether they may bring about the system of institutions expressing their own separate interests, moreover, when, or in what stage of their increasing social importance it can be brought about.

A drastic reform to be implemented in the near future is less imperiled by a counter-attack of the large enterprises than it was in the period about 1972. The decreasing additional incomes that could be pumped through the administrative market, rearrangement of the large enterprises' positions, improvement in the situation of a few enterprises of decisive weight and the faith in stability (though this faith seems to be rather of tactical character, therefore it might be, to a certain extent, put between quotation marks) strengthen the elements of competition rather than those of solidarity in their mutual relation. The fact that the incomes coming through individual channels are decreasing means a further differentiation between the large enterprises, namely according to their real profitability. In addition, the possibility and chances of a counter-attack are also diminished by the liquidation of the sectoral ministries and thus by the collapse of the earlier power relations and the system of personal contacts.

However, owing to the slowdown of economic growth, the hardening of the limits to exports, and the narrowing of the domestic market, the crisis phenomena isolated so far may spread through the whole sphere of the large enterprises, endangering the conditions of even those who at present belong to the "good ones". This process may be speeded up by the development of the sphere of private and small ventures and by their competition – mainly in the labour market. In this situation the *majority* of the large enterprises may become basically interested in a fast and powerful "tapping" of the

spheres outside of their area which by nature mean the disregarding of the general regulations. If the reforms do not take place precedingly and/or the institutional assurances to protect the achievements do not come into existence, two alternatives are possible (that may follow upon one another):

1. By obtaining international loans and by redistribution of the incomes produced outside of the large enterprises it may still be possible to avoid a considerable decrease of the income of the labour force employed by the large enterprises. In this case some of the managers of large enterprises in decisive position and having powerful influence may become active and will not only be willing but – relying on the economic power and political weight* of their enterprise – strong enough to formulate anew and advocate the ideology of large enterprises. Thereby, exerting pressure on the administrative market – besides broadening the system of individual distinctions – again a new growth wave entailing a relative, though only transitory prosperity of investments which can momentarily mitigate the troubles of marketing, can be started.

2. If a significant fall in the living standards of the labour employed by the large enterprises in key position cannot be avoided even by obtaining foreign loans and redistributing the incomes achieved outside the large enterprises, the ideology of large enterprises will lose its already unstable social basis and the demand for the reforms will be formulated as the conscious demand of the labour employed in the large-scale industry.

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*Economic power in this context does not mean efficiency or profitability but a key position based on the production of a definite quantity of use-values.

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НОВЫЙ ЭТАП ХОЗЯЙСТВЕННОЙ РЕФОРМЫ И КРУПНЫЕ ПРЕДПРИЯТИЯ В ВЕНГРИИ

Э. САЛАИ

Хозяйственная реформа 1968 г. в Венгрии по своим долгосрочным воздействиям означала значительный сдвиг в направлении создания условий для находящегося под общественным контролем рыночного хозяйства. В 1971—72 гг. развитие реформы приостановилось. Социально-хозяйственными единицами, заинтересованными в повороте 1972 года и составшими его социальную, экономическую и политическую базу, явились прежде всего крупные предприятия и, в частности, крупные предприятия, занимающие ключевые позиции. Новые условия, возникшие после 1968 г., глубоко противоречили интересам подавляющей части этих предприятий и даже поставили под сомнение само существование некоторых из них, несмотря на то, что в связи с реформой не произошло изменений ни в государственно-партийном аппарате, ни в организационной системе управления экономикой. Стремления заинтересованных в существовании крупных предприятий руководителей предприятий и специалистов совпадали с интересами всех тех представителей и группировок аппарата общественного и экономического управления, которые были сильно привязаны к дофеременным условиям.

Фронтальное контрнаступление крупных предприятий началось в 1971 г. 1972 г. постановлением ЦК ВСРП было выделено 50 промышленных предприятий, производящих значительную часть всей промышленной продукции в стране. После этого оживился процесс процесс перераспределения доходов в пользу крупных предприятий через индивидуальные каналы.

При нынешнем экономическом положении страны со всей осторогой встала необходимость дальнейшего развития начатого в 1968 г., а затем приостановившегося процесса реформы, причем в направлении создания более разнообразных институтов, более свободной и многоплановой хозяйственной структуры. Основной вопрос состоит в том, какие общественные движения могут привести к реформе, направленной на создание многоплановой хозяйственной структуры, какие новые формы она создаст и в каких отношениях — подчинения, руководства или сосуществования — будут находиться эти различные формы (холдинги, рабочее самоуправление, мелкое предпринимательство и т. д.) между собой. Для радикальной реформы ближайшего будущего меньшую опасность представляет возможность контрнаступления крупных предприятий, чем это было в 1972 г.

Однако из-за замедления экономического роста, более жестких ограничений для сбыта на внешнем рынке и сокращения спроса на внутреннем рынке существующие в настоящее время обособленно кризисные явления могут распространиться *на всю сферу* существования крупных предприятий, поставив под угрозу и условия существования «хороших» предприятий. В такой ситуации *большинсмво* крупных предприятий может вновь стать заинтересованным в быстром и существенном изъятии ресурсов от находящихся вне крупных предприятий хозяйственных сфер.

Если до всеобщего распространения кризисных явлений не будет проведена радикальная реформа и (или) не будут созданы институциональные гарантии, защищающие завоевания реформы, то имеется две возможности, которые могут последовать одна за другой:

1. Благодаря перегруппировке доходов, произведенных вне крупных предприятий, можно избежать значительного понижения доходов рабочих крупных предприятий и (в этом случае) могут активизироваться находящиеся на рещающих постах руководители крупных предприятий, которые не только способны, но и — опираясь на экономическую силу своих предприятий и используя личные связи на вышестоящем уровне — достаточно сыльны для того, чтобы ссылаясь на интересы рабочих крупных предприятий вновь сформулировать и представлять идеологию крупных предприятий. В этом случае — применяя нажим на административный рынок наряду с расширением системы индивидуальных привилегий — может вновь возникнуть волна экономического роста, которая хотя и не может оказаться продолжительной, однако в данный момент облегчит проблемы сбыта и даст относительное изобилие капитальных вложений.

2. Если при перекачке дополнительных доходов нельзя избежать значительного понижения жизненного уровня рабочих крупных предприятий, занимающих ключевые позиции, то идеология крупных предприятий утратит уже сегодня непрочную общественную базу и потребность в реформе созреет как сознательное требование также и рабочих крупных предприятий.

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ON ENRICHMENT IN HUNGARY*

The number of families having some wealth has increased in Hungary in the seventies. Such families can be found in every social class and stratum. The majority of families have some real estate. Also incomes deriving from wealth exist to a limited extent. To expand the scope of families having substantial wealth is a major economic and social interest.

In the period immediately following the Second World War the vast majority of Hungary's population possessed no particular riches. Although a restricted stratum were left with their earlier fortunes these were not significant since the capital invested in immovables and means of production were nationalized, while money capital became devalued and disappeared as a result of the rapid pace of inflation. The number of families possessing significant wealth increased especially during the 1970s – enrichment became a mass phenomenon. Simultaneously, social judgement also changed. The endeavour to make a fortune – if it is based on honest work and is not immoderate – is accepted by the majority of people. The process of enrichment cannot be hindered even by the stagnation of the real incomes. Even if at a slower pace, it continues to make progress.

There is no uniform definition of the concept of wealth. All objects representing value and that can be sold in case of need, thus, i. e. durable consumer goods, too, may be considered wealth – in the widest sense of the word. However, it is difficult to handle the concept in such a wide sense. With regard to this survey only those elements, objects of wealth are of significance that considerably influence the financial position or their owner or possessor.

The traditional notion of wealth is based on the concept of ownership. In the modern economy this relationship has loosened, and wealth does not necessarily mean ownership. Under Hungarian conditions, for instance, the tenancy of state-owned flats is also a form of wealth that may be exchanged for either money or a privately owned dwelling.

Current income only determines the financial living conditions together with the property conditions. It is evident that with identical per capita incomes the living standard and way of life of a family that possesses an adequate dwelling, a weekend-

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cottage, a car, etc. are entirely different from those of a family lacking all these provisions. Property differences play a basic role in differences in the financial position of the individual families. Our numerical knowledge of the population's financial situation is extremely scarce, almost lacking. We are in possession of certain data that can be detailed to the family level only concerning real estate and passenger cars, while our information on savings deposits are only of a general character, and those on other elements of wealth, value objects, works of art, etc. are even fewer. This is not a Hungarian speciality. The statistical consideration of family wealth is extremely insufficient in other countries, too, even if not to the extent as in Hungary. "Sensitivity" is also a reason for this. The gathering of such information is considerably resisted to everywhere.

The family property has a treble function: firstly, it is a use-value; secondly, it has a value preserving; and thirdly, a value increasing role. The property functioning as a *use-value* is utilized by its owner (possessor) in natural form, as a use-value: he lives in his flat, spends his holiday in his cottage, uses his car, works with his means of production, decorates his home with his works of art, etc. At the same time, the possession of valuables that also include value objects, is part of the material framework of a higher standard, more contentful manner of living. Under modern conditions a high-level manner of life is unimaginable without these. All value objects also possess a *value preserving, accumulating (hoarding) ability*. If a value object were capable of preserving its value only to a limited extent, it would fulfil the role of wealth only to a limited extent. It is its ability of preserving value that makes it suitable to function as a financial reserve, safety reserve. Functioning as a financial reserve, valuables provide protection against expected and unexpected events of an unfavourable character, processes of financial character, enabling provision for needs that can only be satisfied with the help of savings during a longer period. Under our conditions wealth may also possess a *a value increasing function*. A large portion of value objects ensure incomes for their owners, possessors continuously or non-recurrently – realized at the time of their sale. This will be discussed in more detail later on.

The socio-economic significance of family wealth is increasing in Hungary. This is primarily related to two circumstances. On the one hand, to the relatively high rate of increase in the real incomes in the recent period, and within that to the more frequent high incomes, providing a possibility for substantial accumulation. These have established the financial basis for enrichment. (The extension of the so-called secondary economy also played a role in this. The spectacular processes of enrichment during the 1970s were partially based on this.) On the other hand, the demand for acquiring wealth, and in some respects even its necessity was extended, or was established by the fact that it had become evident: the state was incapable of fulfilling the role of providing for everything, of completely fulfilling its citizens' basic financial needs in a societal manner, the role attributed to it by earlier illusions. The families themselves have to solve these problems to a greater extent than it was once imagined.

The system of social provisions (benefits) in Hungary is of a very high standard – when compared to the economic possibilities – but faced with the earlier ideas, it cannot

fulfil many just demands. The most important circumstance here is that the larger portion of the financial burdens of acquiring a dwelling must be borne by those concerned. Under conditions when the state mainly depends on the means of the population in solving the housing problem, the accumulation of family wealth on a sober level is actually socially expected. One who wants to ensure a dwelling for himself or for his children must possess – in the majority of the cases – a certain amount of wealth, and, when compared to the average level of incomes, quite significant wealth. But in other fields, too, financial reserves, wealth play a supplementary role in complementing the system of social provisions. The different commotions that occur to families (deaths, inability to work, a decrease in the ability to work, etc.) also have financial consequences that are balanced only partly, if at all, by our social insurance system. This may be partially complemented by the financial reserves of the family. In addition, the state has at present difficulties in maintaining the actual value of old-age pensions, guaranteeing a compensation for the increase in the price level. Under such conditions an adequate amount of wealth may provide protection against old-age poverty, it may compensate for the devaluation of old-age pensions because of the rise in the price level, and it may play a significant role in an old-age pensioner's ability to maintain his earlier way of life.

Income and wealth

The formation of wealth primarily depends on the incomes. The most important manner of increasing the population's wealth is through savings from incomes, through giving up the consumption of a part of the income. On a certain level of incomes wealth formation is a natural consequence. A slowing down in the increase of incomes generally results in the slowing down of wealth formation. However, this relationship is not a mechanical one. Wealth formation also depends on the distribution of incomes. With low average living standards significant wealth only comes about when there is a considerable differentiation in incomes. This holds true to a smaller extent in the case of higher living standards when enrichment may be a wide-scale phenomenon even in the case of smaller differences in incomes, when significant wealth, and at the same time, significant differences in wealth may come about. As a result of the stagnation of the real incomes, and its decrease in the case of certain strata, the process of enrichment will probably not extend in the following years. The number of families capable of significantly increasing their wealth will not grow, and may even decrease. (This was already reflected in recent years by the slowing down of the construction of dwellings and holiday-cottages.) At the same time, as a result of the expected intensification in income differentials the wealth of a portion of the population may increase at a faster pace than before. All in all, a slower, but more differentiated increase in wealth may be expected.

The relationship between the size of income and wealth may naturally also be reflected in that the majority of the most wealthy families are among those enjoying a high income, and the other way round. However, here too, the relationship is not

automatic. The same income may be spent in many different proportions on consumption and accumulation, the creation of wealth. On the other hand, wealth as a stock variable is influenced not only by the income of the given period, but also by the financial past of the household, including the values inherited from previous generations. Experience has shown that the relationship between the size of income and wealth also depends on age and occupation. In the case of elderly people, old-age pensioners, it is not rare to find very low incomes and considerable wealth (immovables, jewelry, etc.) simultaneously. In contrast to that situation, young people with high incomes often lack any wealth at all. In the capitalist countries those with independent existence, artisans, tradesmen, smallholders, are typical of possessing a large wealth compared to their incomes. In Hungary this is less typical for the time being, but it may become characteristic as a result of the modernization of small industrial workshops, plants.

Wealth in Hungary today – in a manner similar to the size of incomes – is not attached to classes or the usually defined social strata (agricultural physical labourers, industrial physical labourers, intellectual workers, etc.). There are a large number of families both with and without wealth in all classes and strata. In the following an endeavour is being made to provide a schematic outline of the stratification of the population with regard to their financial situation, with special attention paid to the relationship to the size of the incomes, and within that, to the portion of the freely disposable incomes. (With regard to wealth formation the portion of the incomes that can be freely utilized plays the determining role.)*

– *Families without wealth.* Their possession merely include the durable consumer goods used in their households. They do not possess own dwellings, or only very outdated, run-down ones. Their money savings are small and irregular. Their majority belong to the low income bracket, where the portion of the freely disposable income is merely 10–20 percent. The number of people belonging to this group is approximately 1 million in Hungary, a country with a population of 10.7 million.

– *Families with modest wealth.* They possess an average level dwelling, averagely furnished and well equipped with durable consumer goods. A part of the families in this group also possess a passenger car or a modest holiday plot. Their money savings fluctuate, a few tens of thousands of forints. Their value objects function as use-value, they have a dominating character of directly fulfilling needs. The majority of these families have an average income, and within that the freely disposable portion is 30–40 percent. They are only capable of creating wealth by a way of life characterized by saving. This group includes the vast majority of Hungarian families, nearly 8 million people.

– *Wealthy families.* They possess rather good, higher than average dwellings furnished and equipped with much care. They exchange their durable consumer goods, cars for new ones rather often. Their majority also possess valuable holiday-cottages.

*I depended on Alojzia *Falusi*'s work [5] in my systematization and numerical estimations.

They are capable of fulfilling the following generation's needs for housing. Their money savings are about 100 thousand forints. They also endeavour to ensure the long-term fulfilment of their plans to acquire dwellings, the preservation of the value of their savings for that purpose by acquiring holiday-cottages and by purchasing objects of lasting value. Thus, the objects of value do not merely serve the purpose of fulfilling needs, but also serve value preservation, occasionally the increase of value. The majority of these families have high incomes, and the freely disposable portion of their incomes exceeds 50 percent. They are capable of a continual hoarding of wealth without too much saving. The number of families belonging to this group is estimated to be approximately 300 thousand, that is, about 1 million people.

– *Families with great wealth.* * They possess all the forms of value immovables (real estate), value objects and art treasure on a high level. Their money savings run to several hundred thousand forints, and in lack of unfulfilled material needs their utilization often causes problems. With the exception of a few, they belong to the category with high incomes, with a high portion of freely disposable incomes. Occasionally their life-style is characterized by wasteful spending. The number of families in this group is estimated to be approximately 15–20 thousand, that is, about 50–60 thousand people.**

The distribution of wealth in Hungary – as in all other countries – is far more unequal than that of incomes. Of the different forms of wealth the distribution of real estate is relatively the most equal. This is the "most democratic" form of wealth. The majority of the families possess some form of real estate, primarily a family house or a privately owned dwelling which, however – because they live in them – they cannot make money of, or exchange it for another form of wealth. Consequently, this may only be considered wealth to a limited extent. It has been an international experience that as the family wealth grows, the ratio of personal (movable) property also increases, while that of real estates decreases. This probably also holds true for Hungary. The wealth in value object (precious metals, jewelry, etc.) is distributed far more unequally than wealth in real estate, and this is even more so with regard to works of art (paintings, sculptures, antiquities). The collection of these is a form of hoarding for the wealthiest strata. Mainly those purchase jewelry or works of art who already possess the permitted amount of real estate – a dwelling and a holiday home per family. (There are exceptions, of course.)

*The definion of great wealth here is only to be interpreted under Hungarian conditions, it cannot be compared with great wealth in the capitalist countries.

**The number of wealthy families and families with great wealth was estimated on the basis of the number of doctors, artists and private craftsmen in possession of valuable assets, real estate, expensive cars, large savings accounts and outstanding incomes for a presumably longer period of time.

Enrichment and the increase in price level

Family wealth is not merely increased through savings from incomes, but also changes through the modification (increase or decrease) in the value of the individual forms (elements) of wealth. The value (exchange value) of the individual elements of wealth increases or decreases according to how their price is related to the average price level. Intensification of the increase in the price level increases these differences. In Hungary the real value of savings deposits decreased during the 1970s – since the increase in the interest rates did not keep pace with the rise in the price level – on the other hand, the price of real estate increased approximately threefold, the price of precious metals and works of art to an even larger extent, while all in all the consumer price level increased approximately one and a half times. As a result, the value (exchange value, real value) of the individual families' wealth has changed to considerably varying extents – sometimes even in different directions as well. Those who maintained their wealth in the forms of real estate, precious metals or works of art gained as a result of the increase in the price level, while those whose wealth was in the form of savings deposits lost a certain value. (Especially, if we take into consideration the extent to which the price of those their savings were aimed at had increased.)

In its natural form, wealth may be financial (providing the right to a definite value), real estate, or personal (movable) property. In the following the influence of the increase in the price level on the exchange value of the individual forms of wealth will be reviewed on the basis of this classification.

Financial wealth

Under our conditions the main form of financial wealth is the savings deposit. Whether, and to what extent, savings deposits are capable of fulfilling the role of wealth depends on their value-preserving ability, and within that, primarily on the relationship between the interest rates and the increase in the price level. If interest does not cover the increase in prices, if the nominal interest rate is lower than the increase in the consumer price index, the real interest will become negative. And this was the case in Hungary during the past few years. Up to 1968 the nominal and real interest rates were approximately identical. Later on the increase in the consumer price level became faster, while the real interest rate began to decrease, and in 1978 – regarding all savings – it became negative. As of that time the unchanged interest conditions could not maintain the real value of the savings. In 1979 and 1980 the increase in the price level exceeded the average nominal interest rate regarding all savings by 4.5 and 4.6 percent, respectively, while regarding long-term deposits (deposited for 1–3 years) by 3.8 and 4.0 percent. (The nominal interest rate of short-term deposits was 2 percent, that of long-term deposits was 5 and 6 percent in that period.) Simultaneously with the stagnation of the real incomes and the nearly 4 percent decrease in real wages during those two years, this resulted in a

Table 1

The real interest rate of the population's savings deposits in percentage

Year	Change in consumer price index (%)	Average interest rate of all deposits	Real interest rate of all deposits	Average interest rate of long-term deposits	Real interest rate of long-term deposits
1968	−0.3	4.1	4.4		
1969	1.4	4.1	2.7		
1970	1.3	4.1	2.8		
1971	2.0	4.1	2.1	5.0	3.0
1972	2.9	4.2	1.3	5.0	2.1
1973	3.3	4.2	0.9	5.0	1.7
1974	1.8	4.3	2.5	5.0	3.2
1975	3.8	4.3	0.5	5.0	1.2
1976	5.0	4.4	−0.6	5.0	0.0
1977	3.9	4.4	0.5	5.0	1.1
1978	4.6	4.4	−0.2	5.1	0.5
1979	8.9	4.4	−4.5	5.1	−3.8
1980	9.1	4.5	−4.6	5.1	−4.0

Source: Falusi [5] p. 32, and *Dr. Fogaras–Dr. Kalocsay:* [8] p. 29, and individual calculations.

drastic decrease in savings deposits. (In 1981 the increase in the price level and in the nominal interest rate reached a nearly identical level, and there was an increase in new savings deposits.)

All in all, the real interest rates of the population's deposits in the period between 1976 and 1980, that is, during the fifth five-year plan period, made up −2.5 percent with regard to all deposits.

In the vast majority of the cases the opening of savings deposits serves a definite purpose. In the case of nearly 28–30 percent of the deposits the aim is to build or purchase a dwelling. However, the increase in their prices is considerably higher than the average increase in the consumer price level. As a result, in the eyes of those who intend to build or purchase a dwelling, the real value of the savings deposits decreased to a considerably greater extent. "If someone in 1970 deposited 100 thousand forints in long-term savings with an annual 5 percent interest with the intention to save up for the purchase of building materials for building a dwelling or a house (and so far could not have realized the construction) in 1979 he could purchase for the deposit supplemented with the nominal interests only 90 percent of the originally (1970) purchaseable amount of goods, and at the end of 1979 only 84 percent of that." (Falusi [5] p. 38.) Taking into consideration not only the increase in the price of building materials, but also that of all the expenses involved with residential building, this value would have further decreased to 76 percent in 1979, and to even less by the end of 1979 [5]. This rate of decrease

in the real value of savings deposits inspires money-holders to seek other forms of accumulation (real estate, jewelry, works of art, etc.). This process cannot be halted even by the considerably significant special advantages of the savings deposits (absolute liquidity, anonymity, the possibility of transfer without duty). The question arises whether or not it would be reasonable under such conditions to raise the rate of interest so as to inspire deposits that are held back anyway as a result of the stagnation of real incomes and real wages. This issue will be discussed in more detail following a survey of the role played by credits.

Table 2

The real interest rates of long-term credits (1971–1980)

Year	Interests, expenses and commissions in percentage of all credits	Consumer price index (%)	Annual real interest rates (%)
1971	3.1	2.0	1.1
1972	3.2	2.9	0.3
1973	3.2	3.3	−0.1
1974	3.3	1.8	1.5
1975	3.2	3.8	−0.6
1976	3.3	5.0	−1.7
1977	3.2	3.9	−0.7
1978	3.2	4.6	−1.4
1979	3.1	8.9	−5.8
1980	3.1	9.1	−6.0

Source: Dr. Fogaras–Dr. Kalocsay: [7], p. 73.

If the population, as the owner of savings deposits, had to suffer losses during the past few years, as debtors, as recipients of credits – on the contrary – they enjoyed gains. Through the utilization of long-term credits (for building and purchasing dwellings and homes) the wealth of the families increased considerably. As a result of the rise in the price level they had to repay their credits in money of decreasing purchasing power, while at the same time, the value of the real estate purchased with the help of the credits increased at a rapid pace. This is not a specifically Hungarian phenomenon, this is also the case the world over. The specific feature is the extremely advantageous credit conditions, their very long-term character and the extremely low rates of interest, which are far smaller than those paid on deposits, and which did not keep pace with the rise in prices at all. (The interests on the majority of the long-term credits are around 1–3 percent.) The real interest rates (the average of interests, expenses and commissions, minus the price index) of long-term credits between 1971 and 1974 were positive to a smaller extent, however, by 1975 they became negative, and in 1979 and 1980 they already were up to – 5.8 and – 6.0 percent, respectively.

The extremely advantageous conditions make creditors interested in obtaining the possible largest and longest-term credits. The ratio of the credit surplus (the difference between all credit raised and repayments) within the total sum of money available to the population increased at a rapid pace. While in 1970 it only amounted to 2.3 percent, in 1975 it was 3.1 percent, and in 1980 it was already 4 percent. All in all, the citizens obtaining credits for residential building and purchasing received nearly 36.4 thousand million forints of concealed state assistance in the 10 year period between 1971 and 1980 (Dr. Fogaras – Dr. Kalocsay: [7], p. 76). This was the sum with which their wealth increased as a result of obtaining credits. The wealth in possession of the population in the form of immovables was not only increased by credits, but also by the different forms of non-repayable state and company grants. These are not subjects of this survey.

The approach from the side of wealth formation reflects two unwanted consequences of the Hungarian interest policy. Compared to the increase in the price level the low interest on deposits slows down the formation of deposits, thus, the inclination to save, while compared to the increase in the price level the low interest on credits results in an extensive utilization of credits as compared to all the deposits. It is almost a natural suggestion that interest rates on both credits and deposits should be raised. It is all the more evident because the one could cover the other, the increase in the interest on credit could cover the increase in the interests on deposits. No doubt, a number of counter-arguments exist to underline the contrary. The most often raised argument against raising the interests on deposits is that it is completely superfluous since – because of the lack of a choice for investment – money holders in Hungary will deposit their savings in the savings bank despite the low rate of interest. This is becoming untrue to an increasing extent. On the one hand, the field of opportunities for other investments is increasing, while on the other hand, if there is not enough stimulation for savings, waste and the danger of a prodigal spending of incomes will inevitably increase. The main reasoning in the "defense" of the extremely low rate of interest on residential building and purchasing loans is that they serve social policy purposes. However, it is doubtful whether this was the best way to implement this social policy aspect really of basic significance, when in fact everyone – regardless of income and/or need – can obtain this extremely large sum of state assistance. The social policy aspect should be implemented in a differentiated manner, separated from the rate of interest. In addition, one must also realize that the depositors and those receiving credits are not two seperate castes, but are generally the same people or families. The depositors will later on apply for credit. It may also be explained in a way that those granted credits today will partly become richer at the expense of the depositors, and also as a result of this, a considerable portion of the depositors will have increasing difficulty in reaching a financial situation where they would swing to the "other side" and become one of those acquiring their houses with the help of receiving credits. This is also a social problem, and a very serious one. The issue of the increase of interest rates on both credits and deposits requires further thorough analysis. There is a need for the establishment of financial solutions that, in addition to the slowing down of the increase in the price level and other financial, balance aspects,

also take into consideration the financial load-bearing capacity of the home builders and purchasers. (As for instance, instead of equal repayment sums it would seem more expedient to set smaller repayment sums for a start that would gradually be increased. It may also be reasonable to establish special deposits for home builders that would be attached to different facilities.)

Wealth in real estate

The basic and most important form of wealth in Hungary is wealth in real estate, and within that, a dwelling, a family house, a holiday-home, or an auxiliary farm plot. The number of privately owned dwelling and family homes is approaching two and a half million, while that of holiday-cottages well exceeds a hundred thousand. These primarily represent use-value for their owners. The majority of owners of dwellings merely became the owners of immovables in the lack of a more favourable opportunity, of state-owned and rented flats, because of compulsion.* The owners cannot assert the wealth nature, the value-preserving or value-increasing nature of their immovables because they live in them, and their size does not exceed the owners' or their families' needs. This is only possible under special circumstances (if the dwelling becomes vacant, or if it becomes large compared to the number of family members, etc.).

In the majority of cases the reason for the acquisition of immovables is fulfilment of the corresponding natural needs. However, a role is also played by endeavours aimed at hoarding. Whoever has the opportunity, endeavours to invest the largest possible portion of his money saved up in immovables. This is advantageous with regard to the national economy insofar as it increases the overall social fund of dwellings and holiday-homes. It is disadvantageous insofar as the distribution and utilization of the immovables established in this manner are not always satisfactory. As for instance, it would be evidently more advantageous to have dwellings built instead of some of those holiday-homes that had been built to serve boarding alone. (It has already been mentioned that the construction of holiday-homes often merely serves as the financial background to a future dwelling for the children.) In addition – also for reasons of hoarding – quite a number of people build family homes whose size well exceeds their current needs, as well as their requirements for the near future, and they do not utilize the superfluous portions of their immovables through leasing them.

Throughout the country the annual average increase in the price of real estate was 10 percent during the past decade. However, within that the differences were extremely

*According to the experiences gained through different surveys no significant relationship exists between the per capita income and the ownership of a dwelling or a family house. Those living in dwellings or family houses of their own do not have higher incomes than those living in rented flats.

Table 3

The increase in the price of dwellings and housing plots in Budapest in the period between 1970 and 1979

(Based on data obtained from the Municipal Real Estate Mediating Enterprise)

	1970	1973	1979	1979/1970 %
Flat (Ft/m²)	2971	4770	9206	310
Housing plot (Ft/sq. fathom)	335	382	1008	301

Source: Csúcs [3], p. 765.

significant. In the capital, for example, the price per square metre and square-fathom* of flats and housing plots increased approximately three-fold in the period between 1970 and 1979.

In accordance with international trends the price of favourably situated, valuable immovables increased at a faster pace than that of less valuable ones, the specific increase in value was generally the higher the more valuable the real estate was. In the more favourably situated places of Buda** there are plots with prices occasionally up to 7–10 thousand Ft/sq. fathom today. Immovables in unfavourably situated areas, of poor quality, without public utilities, and with a low degree of comfort increased their values to a far smaller extent.

The main reason for the rapid rise in the price of immovables was mainly the shortage of well situated plots supplied with public utilities. However, there is no question about its close relationship with the general increase in prices. A special interrelation exists here. Since the price of real estate is increasing at a faster pace than the average increase in the price level, the immovables possess a value-preserving, and even a value-increasing nature that increases demand for them during a period of lasting increase in the price level, which on the other hand, affects the price of real estate by increasing it to an even greater extent. The price of real estate increases at a faster pace than the general price level, but the rise in the price of immovables – in consequence of the above explanation – depends considerably on the rise in the price level on the whole. With the slowing down of the increase in the price level the rise in the price of real estate also slows down. But the increase in interests on deposits or the establishment of other attractive opportunities for investment may have the same influence. These curb the flight of financial savings into immovables.

In Hungary during the 1970s the rapid increase in the price of real estate and construction costs leds to a point where, following a considerable upswing during the

*In Hungary 1 square-fathom = 3,59 m².

**The hilly, green district in Western Budapest.

initial period, private home building slowed down, as of 1976 its volume decreased, and in 1980 it did not reach the level of 1972. (The construction of holiday-homes also decreased considerably.) The majority of those with an intention to build are incapable of keeping pace with the increase in costs (prices), their financial means did not increase accordingly, and it became increasingly difficult to acquire flats or family houses that correspond to the needs.

Under our conditions the possession of state-owned rented flats is also of a nature of wealth, a "quasi-wealth" that may be exchanged for money, or other assets through different channels. (Generally through an exchange of the flat for a privately owned-apartment. The free market price of state-owned rented flats is today approximately half of that of a privately owned dwelling of an identical level of comfort and situation.) Its value nature results from the extremely low level of housing rents when compared to the actual costs, it depends to a great extent on the size of rents. Depending on the extent to which rents are increased the value nature of rented flats decreases. Under the present conditions the possession of rented flats is also connected to enrichment in a manner that the financial means saved up as a result provide an opportunity for acquiring other value objects (holiday-homes, cars, etc.). It is also related to this fact, that 62 percent of the holiday-homes are in the possession of those who live in rented flats. Another strata in such an advantageous position is that possessing a privately owned dwelling that has already been fully paid for. Every sixth family in possession of a privately owned dwelling without any financial burden in the capital also possesses a holiday home. Surveys have also reflected that the most valuable holiday-homes are owned by those in this strata and by those who possess family homes of their own but are still repaying their credits.

Wealth in personal (movable) property

The most typical form of personal property is that of valuables. The collection of valuables, precious metals, jewelry has always served not only delight, but also the accumulation of wealth, the preservation of value. As a result of the acceleration of the increase in the price level, this function has gained a special significance. Also because of the limitation in Hungary of acquiring immovables, the demand for "valuable things" has increased. The price of valuables has increased considerably faster than the average price level. With a certain time lag, the world market prices of gold an silver were also followed by the prices in Hungary.

All in all, despite the fluctuation of prices in recent years, those who accumulated valuables in Hungary – as in most countries of the world – during the past period, were fortunate, and if they did so in large quantities, they became rich. The collection of valuables, as has already been mentioned, is a form of hoarding for the most well-off strata. Thus, the profit gained from the outstanding increase in the price of valuables primarily made the already wealthy strata even wealthier. Especially those were fortunate who purchased or continued to possess considerable amounts of gold valuables before

Table 4

The purchasing price of gold and silver in Hungary (Ft/gramme)

Year	14-carat broken gold	Broken silver
1970	38	2.60
1973	59	2.60
1974	100	5.00
1975	130	5.00
1978	130	5.00
1979, July	150	8.70
1979, November	200	
1980, February	358	29.00
1981	305.50	12.10
1982, April	306	9.80

Source: Records of the Watch and Jewelry Company, and the Commission Shops Company.

Note: The price of gold jewelry increased to a somewhat smaller extent than that of broken gold, approximately six-fold between 1970 and 1982.

1970 despite the restrictive regulations.* Those who purchased gold later on, especially after 1975, enjoyed a smaller gain in value. The future, expected price of valuables will mainly be influenced by the world market tendencies and the domestic purchasing-power of money, but it will also be affected – just as the price of real estate – by the level of interests on deposits and the possibility for investment. In case the opportunity for other investments will be extended (i.e. that of investment in different enterprises) the demand for valuables, and thus, the increase in their price may be moderated.

Works of art (paintings, sculptures, antiquities, etc.) are also significant valuables. Their price has also increased at a rapid pace – even if not to the extent of precious metals. Because of the extreme diversity, the price of individual pieces is a very uncertain indicator, but since there is no other way of measurement, this will have to be applied for basis. According to the data obtained from the fine arts auctions of the Commission Shops Company, the price of paintings has doubled on the average, that of other works of art, china, antiquities, etc. has trebled in the period between 1970 and 1980. That is, the increase in their price was also considerably higher than the increase in the price level on the whole.

*Up to 1974 a Hungarian citizen was allowed to possess not more than 500 grammes of gold. In the meantime, this limitation has been abolished.

Wealth in the means of production comprises personal (movable) property, but often includes elements of financial nature and immovables as well. Under our conditions the population's wealth in means of production is closely related to occupation. It includes those means of production in individual or family possession with the help of which the owners can practice their occupation in their private plots, workshops, stores, etc. Their significance is increasing. A discussion of the manyfold problems involved exceeds the framework of this article.

Incomes originating from wealth

In all the socialist countries – including Hungary – in the spirit of socialist principles the concept prevails that family wealth should primarily function as the source of fulfilment of personal needs, as use-value, and not as a source of incomes. Accordingly, incomes originating from wealth are being limited, yet they do exist in all the socialist countries to a limited extent and in limited forms. The right to receive interest on savings deposits, as an award for delayed consumption has, for instance, been acknowledged by all the socialist countries. In certain periods and in certain countries it meant positive real interests, actual incomes. In Hungary, for example, during the eight years between 1960 and 1968 price increases made up a total of 5 percent, while during the same period the compound interest on deposits tied down for a year increased by nearly 50 percent. However, incomes gained from many other different forms of wealth are also permitted.

The vast majority of incomes originating from wealth are non-recurring incomes realized in the selling price of the valuable object. In different manners, through duty, tax, etc. the state endeavours to draw away a certain portion of this non-recurring income. The sale of real estate with an intention of profit earning is not banned in Hungary, but in case a real estate is sold within 10 years after its purchase, a considerably progressive tax on the increase in value has to be paid.

The continuous incomes originating from wealth are most often gained by subletting real estates, holiday-homes, dwellings, fully or in part. The number of privately owned dwellings rented out was 263 thousand throughout the country in 1979, which was not insignificant. However, their majority were in old houses with very low, fixed rents. This does not bring any income for the owner, so much so, that it does not even cover his expenses. This is not the case with dwellings built and rented more recently. Since their rents are freely contracted, they provide considerable incomes for the owners. The figures on leased holiday-homes or part of them are not available. No doubt, there are quite a number of families who earn additional incomes in this manner. The net income generally is not more than the interest on the sales value would be, and often it is even less. The real profit of the owner is generally not this, but the increase in the value of his asset, although that is only realized when it is sold. All in all, the number of families earning incomes from subletting their dwellings or holiday-homes is estimated to

be nearly 300 thousand. However, at least half of these only earn less than 1000 forints a month in this manner. There are merely a few tens of thousands of families whose annual earnings gained from subletting of their real estate exceeds 50 000 forints, and who pay progressive tax on this income.

A continuous income originating from wealth is obtained by a part of private craftsmen, tradesmen and small plot owners. Their income originates not only from their work, but also from the ownership of the means of production connected to their occupation, the size of their income also depends – to a considerably varying degree – on their invested capital. The existence of this rent-like income is reflected, among others, by the fact that the shop or workshop may bring income for its owner when he stops his work activity (i.e. when he leases his shop). The size of this rent probably exceeds the official interest rate. "The size of the rent enjoyed by small craftsmen as a result of their investment – because of the risk involved in the returns on the investment in consequence of the instable position of the private sector – is necessarily higher than the official interest rate." (*Gábor – Galasi* [9], p. 193.) Nevertheless, the incomes of the vast majority of small crafstmen, small tradesmen and even more so of small plot owners in Hungary are earned primarily through personal work, physical or intellectual activity, and do not originate from their ownership of the means of production.

Finally, there are also illegal incomes originating from wealth, i.e. the illegal interest received on loans provided by one citizen to another,* the profit gained through the sale of precious metals and jewelry by circumventing the official authorities, etc. Incomes are also often earned from illegally let real estates, when tax payment is evaded.

It is well known that incomes originating from wealth are very differentiated in the capitalist countries, increasing financial differences to a large extent. In France, for example, in the mid-1970s the income originating from wealth of the households of those in leading positions was 23-times larger than that of workers' households (*Villeneuve* [21], p. 113). Naturally, there is no such an extent of dispersion in Hungary in this field. The picture is rather complex. Non-recurring income originating from the increase in value of valuables, works of art – in case they are sold – is dispersed considerably in Hungary, too, generally it is enjoyed by those best off. The situation is different with the incomes originating from subletting real estate. Their dispersion is determined by the principle of "one family, one dwelling, one holiday-home". Under such conditions, the leasers are not necessarily the richest families. On the contrary. The latter rarely bother with the discomfort that goes with it. Although they often possess dwellings or holiday-homes that exceed their needs, it rather plays a role of reserve for them, they are not in need of leasing it. This richest stratum primarily obtains a large profit from the increase in value of their real estate, when it is sold; they count on this as a source of continuous income to a smaller extent. (Of course, there are exceptions, i.e. in the case of long-term foreign

*"For the seasonal-type activities of small craftsmen and even those without production permits . . . capital may be obtained here and there for 25–30 percent interest. The interest rate is so high because of the high risk involved." (G. *Hàvas* [10], p. 23.)

service, etc.) The income earned through the leasing of a part of the dwelling or holiday-home is often a supplement to the modest old-age pensions of the elderly. In these cases, this rather has a decreasing and not an increasing influence on income inequality. Naturally, the incomes earned from the ownership of the means of production are distributed very unequally, but because of the considerably limited extent of this ownership they have very little influence on the overall social distribution of incomes.

Income gained from wealth is a natural consequence of the existence of wealth. Wherever wealth exists, it generally also creates income. This issue, too, requires a prudent approach. One cannot automatically reject in a dogmatic manner all the incomes originating from wealth. (Fortunately, this is not the case in every-day practice.) After all, this would have a very limiting, damaging effect on the system of financial stimulation in general. Incomes connected to work also include many unequal, "easily gained" and great amounts that merely originate from someone else's mercy, while at the same time, a part of the incomes originating from wealth is the result of hard work in the past, of an extremely parsimonious manner of life. Of course, this is often not the case, and even if so, it is not without problems, its consequences are also of a contradictory character. (As for example, the wealth earned with hard work is later generally inherited by the descendents who did nothing to earn it, etc.)

The stimulation and limitation of wealth formation

One tends to merely think of the limitations when the policy of the state concerning wealth is mentioned. This is a mistaken intervention. Basically, wealth formation has to be supported, stimulated. Only its overgrowth, degeneration, negative consequences should be limited, halted. The extension of the circle of families with significant wealth, the enrichment of wide strata of the population is a first-rate economic and social interest. There cannot be financial prosperity, and it is becoming increasingly impossible, without family fortunes. But the possibility for enrichment is also indispensable for stimulation. One must not only rely on the pulling force of direct consumer needs, but also on the "inclination to acquire". Very often this is not based on some sort of hazardous phenomenon, it is not a harmful remnant of the past, but merely aims at financial security and at providing for the descendants. One should not "re-educate" people to eradicate their inclination to acquire – this would be impossible anyway – but rather it should be utilized by keeping it in the desired channel, in harmony with the aims of socialist society. Where there is no possibility for accumulation, enrichment, waste will necessarily take hold among certain strata. This is not only economically dangerous. It has been experienced both in Hungary and abroad that enrichment in a sober form, the not very spectacular financial differences are better tolerated by public opinion than the life styles characterized by outstanding waste and spending. As a result of the fear of the devaluation of money there is a greater danger of such a wasteful life style in a period of intensified price increases.

Wealth formation is primarily stimulated by the attractive possibilities for capital investment. These are limited in Hungary today. It would be a mistake to think that this merely affects a narrow stratum in a special position. The problem of "what to invest in" may emerge for everyone in the case of relatively rapid price rises, or of prices increasing at a faster pace than the interests on deposits, for all who are saving for a dwelling or holiday-home, and who do not want their savings to lose their value, or those who inherit some form of real estate but who already possess one – and this also occurs often – etc. At the same time, there is not only a need for the general stimulation of wealth formation, because its form is also of significance. Although the family wealth, valuables, works of art that have become a treasure, or even an unutilized real estate that only serves accumulation is part of the national wealth, it is barren. It neither improves living conditions, nor does it promote the raising of the national income. It would be desirable to have the largest possible share of the population's savings utilized in a productive manner, to channel it back into the circulation of the economy. After all, this is what happens when the owner deposits his money in savings accounts. However, it seems to be desirable to extend the circle of direct capital investment possibilities. This might inspire saving even in those who otherwise consider savings deposits to be unattractive, who are willing to take risks in the hope of incomes higher than the interest rate, and who are ready to "involve" their enterprising abilities. These possibilities for capital investment have been extended recently with the widening of the private sector and the establishment of small enterprises. However, these forms provide – at least legal – opportunities only for those who also take part in the activity of the enterprise personally. The vast majority of those in possession of the necessary financial means have neither the capacity nor the wish to do so. There are only a minimum of possibilities today for investment without the need to cooperate. In extremely small numbers these are practically limited to the purchase of cooperative target shares and the membership in holiday-home cooperatives. In reality, the financial means of the population would have plenty of place elsewhere, too. For instance, in the financing of small enterprises. This problem is unsolved. It can be observed that small enterprises in Hungary have so far only been established in fields that hardly require financial means, that have been formed to utilize only "intellectual capital". In addition to caution and being unexperienced in taking financial risks, this is evidently also related to the fact that those in possession of the "professional capital" do not, or only to a considerably limited extent possess the financial means; the two do not coincide. Several proposals have already been put forward to overcome the problem. They include the establishment of the so-called investment companies that under the auspices of the state authorities cater for the financing of different companies from the population's means, as well as the renewal of the mortgage institutions for this purpose, etc. These first steps require a thorough analysis, the cautious evaluation of the arguments both pro and con. Also ideological issues arise in this analysis. Primarily the question how far we can go in extending the field of incomes earned from wealth, not directly linked to work.

Providing the possibility for and inspiring enrichment must be coupled with its limitation, a halt to its overgrowth. The Hungarian regulations limit the extent, size of certain value objects. It has already been mentioned, for example, that according to the regulations one family may only possess one dwelling and one holiday-home, and that the newly built dwelling or holiday-home cannot exceed a certain size. In the case of other forms of wealth formation – the accumulation of money, valuables, works of art, etc. – such limitations do not exist. (In practical terms it would be impossible.)

The expediency of the current limitations acquiring ownership in real estate is being debated. *According to one view* it would not be correct to provide a greater field for private home building than existing today. An adequate dwelling is a basic need of every individual and family, its fulfilment should be ensured by society. The easing of the limitations on ownership in real estate would widen the circle of unearned incomes. Another argument is that if those financially well off and who already possess a dwelling would appear on the real estate market as purchasers they would raise prices through increasing the demand, and thus, would make the situation of those without dwellings even more difficult. *According to the other view* the limitation on acquiring real estate should be eased. Currently, the financial means necessary for housing are mainly in the possession of those who already have a statisfactory dwelling of their own, and not in the possession of those who are really in need of a dwelling. This endangers the implementation of the plans for private home building, and thus, the overall housing plans in Hungary. The drawing in of the means of those already in possession of dwellings into housing – which can only be implemented through the easing of the limitations on acquiring possessions – would increase the supply of flats, and after all, this is the most important issue. This would moderate the rents on the free market.*

Another manner of restricting wealth is through taxation of property. Explicit taxation of property in Hungary only concerns real estate (houses, plots) and water-craft. (The taxation of vehicles has been abolished recently.) But in its context the transfer duty on real estate and the duties payable in the case of the sale of valuables and works of art are also a form of taxation of wealth. There have been many debates and much controversy over the taxation of real estate purchased for the purpose of a home in the form of taxation of wealth. The dwelling in which one lives is actually a very limited wealth. Public opinion is more or less justified in disapproving the high transfer duty on real estate. (By the way, this has been moderated recently.) This is the more striking since the transfer of the right to the lease of state-owned flats to other members of the family is duty-free. The Hungarian system of taxation does not take it into consideration to a sufficient extent that wealth is not always identical with ownership.

*There are concepts that, e.g., dwellings should be allowed to be built or purchased for underage children, but without state support, or maybe on condition that the dwelling has to be utilized in the form of lease until the child leaves the family. Or the establishment of home building and leasing enterprises operating in an organized form should be permitted, etc.

Another form of property taxation is the duty on inheritance and gifts. Its basic function is to limit the concentration of wealth, to reduce the influence of differences in wealth on the descendants. This purpose would probably be better fulfilled by a system of duties that would not only take into consideration the size of the inheritance or gift, but also the financial situation of the inheritor, whereby a financially better off, wealthier inheritor would be subject to a larger duty, while the inheritor without wealth should be subject to a smaller duty. Another very important issue is that the majority of the personal (movable) properties evade taxation. (In principle, all inherited personal (movable) property over the value of 100 000 forints is liable to inheritance duty.) As already mentioned, a high ratio of personal (movable) property, valuables, works of art within the whole of wealth is most characteristic in the case of those best off financially. However, there is no realistic possibility for the recording and checking of personal property.

A worth-while endeavour, in addition to the direct limitation of wealth, also emphasizes the limitation of high incomes that provide a basis for speedy enrichment. In contrast to the limitation of wealth, its advantage is that it does not "penalize" saving, but it may slow down the endeavours aimed at greater economic performance. This is a separate subject that cannot be discussed in detail here. The majority of the really high incomes are accumulated outside the state and cooperative sectors, or on their peripheries, and are therefore difficult to control. The outstandingly high incomes in the private sector may be slowed down primarily by the development of competition, in addition to the strengthening of the tax morale. In this respect the sphere of invisible incomes is a "difficult task". It is worth considering whether certain forms of invisible incomes ("thank you" money, tips) should be taxed. The often voiced anxiety that this way these incomes would be legalized is not very reasonable. In Hungary today they are already fully legalized, and there can be no hope for their elimination. A prudent system of taxation – which e.g. with the possibility of inclusion of these incomes in old-age pension, sick-pay, etc. may also provide some advantage for the tax payers – may create an economically and politically more unambiguous situation in this field.

Inequalities in wealth may not only be reduced through restrictions. Social and political tensions may also be decreased by providing an opportunity for as many individuals as possible to become one of those in possession of wealth as a result of diligent work, initiative and enterprising spirit. But in connection with this, the other side of the coin is also of extreme significance: by improving the circumstances of those in unfavourable position with a strong, expedient social policy – in the widest sense of the term – they can be assisted in utilizing their own capabilities to emerge from this situation.

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О РОСТЕ ЛИЧНОГО ИМУЩЕСТВА В ВЕНГРИИ

К. ФАЛУШ—СИКРА

В Венгрии в 1970-е годы возросло количество семей, имеющих значительное имущество, рост личных состояний стал массовым явлением. Материальной основой этого явления послужило относительно быстрое повышение реальных доходов, а его необходимость определяется тем, что система социального обеспечения не в состоянии удовлетворить многие обоснованные потребности. В условиях, когда в решении жилищной прблемы государство в основном опирается на средства населения, накопление семейного достояния представляет собой реальную социальную потребность. Кроме того, личное состояние может оградить от обеднения в старости.

В сегодняшней Венгрии владение имуществом связано не с классами или общественными слоями. В каждом классе и слое общества имеется много семей как обладающих, так и не обладающих состоянием. Количество состоятельных семей составляет около 300 тысяч, а численность населения, входящего в эти семьи, около I миллиона человек. Из различных форм имущества наиболее равномерно распределено недвижимое имущество. Большинство семей имеет какой-либо вид недвижимого имущества. Такое же имущество, как благородные металлы, драгоценности, предметы искусства, распределяется гораздо более неравномерно. Ускорение роста уровня цен в 1970-е годы по-разному повлияло на ценность отдельных видов имущества. Реальная соимость денежных вкладов в сберегательных кассах — поскольку повышение процентных ставок отставало от роста уровня цен — сократилась, в противоположность же этому цены на пользующиеся спросом виды недвижимости возросли примерно в три раза, а на благородные металлы и предметы искусства — в еще большей степени, в то время как уровень розничных цен в целом повысился приблизительно в полтора раза. Вследствие этого ценность имущества отдельных семей изменилась в весьма различной степени и, вероятно, в разном направлении.

В Венгрии возможности получения доходов от имущества весьма ограничены, однако в ограниченной степени и в ограниченных формах такие доходы существуют (проценты на денежные вклады, разовый доход от реализации различных видов имущества, доходы от сдачи недвижимого имущества внаем, доходы мелких ремесленников, мелких торговцев от владения средствами производства и. т. д.). Часть доходов, получаемых от владения имуществом, является результатом упорного труда в прошлом и весьма экономного образа жизни.

Расширение круга семей, обладающих значительным имуществом, рост личного достояния широких народных слоев является первоочередным экономическим и общественным интересом, поэтому этот процесс необходимо поддерживать и стимулировать. Однако следует препятствовать чрезмерному обогащению и различного рода извращениям, смягчать негативные последствия. С этой точки зрения весьма важным является улучшение жизненных условий слоев, находящихся в неблагоприятном положении, проведением широкой и целенаправленной социальной политики.

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PROBLEMS OF MEASURING ECONOMIC GROWTH*

The author analyses first the possibilities of getting closer to the concept of social welfare in the measurement of economic growth, and comes to the conclusion that imputations in this direction have a certain optimum limit and going beyond it would make statistical measurement rather subjective. Then the problem is considered whether the computations with corrected or fictitious prices could provide a better solution than measuring at real prices. Although the author does not reject entirely the previous hypotheses, he comes to a basically negative conclusion. The author considers the computation methods of volume and price indices to be acceptable in general, but in some fields of the statistics (e.g. construction, external trade) important improvements would be needed. The most important changes needed in methods for the measurement of growth are correction of the indices for the terms-of-trade effect, and correction of the indices for the effect of transfer payments from (to) abroad [1].

Measurement of economic growth belongs to the most important tasks of statistics. Since the very beginning of government statistical activities, measurement of the development of the economy has been one of the central tasks of national statistical offices and, practically ever since then, there have been renewed debates on the methodology of measuring growth. These debates continue even at present both in Hungary and abroad, in socialist, and capitalist countries as well as in various international organizations. Some of the methodological controversies, it seems, belong to the evergreen topics of statistics, practically the same debates are going on today as in the fifties, sixties, in some cases, even fifty years ago. Other discussion items, however, are relatively new, they were generated by the new needs of the socio-economic development; today we want to measure a number of phenomena that were not considered as measurable or as to be measured before.

The objective of the present study is to review the conceptual-methodological problems related to the measurement of economic growth. These problems will be considered mostly in the context of the Hungarian statistics and planning; in some contexts, however, international aspects will also be taken into account. In view of the available space the scope of the study had to be limited, thus:

a) in general, only macro-type measurement problems will be considered;

b) no, or practically no attention will be devoted to those problems in respect of which there was a "calm" in the last decade and where, at least it so seems, there are no practical developments needed at present;

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c) some particular measurement problems, that in themselves are important enough, yet, from the point of view of the topic of the present study are only questions of detail, will be considered only shortly. This is the case e.g. for the investment quantity and price indices etc.

Main characteristics of the Hungarian macro-economic statistical system

The last milestone in the development of the Hungarian macro-statistical system was 1968, with the radical extension of the "Balance of the National Economy", the Hungarian national accounting system. There is no space here to present all the historical details of development, it seems, however, worth while to sum up the most important characteristics of the present state of affairs.

1. The most important feature of the present system in comparison with the pre-1968 one is the extension of the production concept. In addition to the material production the output of all economic activities (including non-material services too) is now also continuously measured. In other words: in addition to the MPS*-type national accounting the Hungarian system includes now a number of SNA** type concepts too.

On the basis of the practical experiences of the last, almost one and a half decade this feature can be appreciated very positively. Not only because in this way the international comparability of the Hungarian achievements has became much better, but also because much richer possibilities were thus provided for the development analyses. True, more concepts require more work for the "producers" of statistics and at the same time they make the orientation of the users somewhat more complicated; nevertheless all these drawbacks are largely outweighed by the advantages mentioned. The fact itself that, in addition to the global social product and national income (net material product) indices, now gross domestic product and net domestic product indices are also computed and published does not cause – in my opinion – any inconvenience for the users. Nevertheless, one indirect negative effect is to be mentioned here. The mere fact that the number of macro-economic indicators is relatively large in the Hungarian national accounting system (larger than in countries using only MPS, and larger than in countries using only SNA) explicitly or implicitly limited the introduction of some further indicators into the system, even in cases when the need for new information was relatively strong. I shall come back to this question later.

2. The Hungarian macro-economic indicators are today much more system-like than before (and than in many other countries), i.e. the integratedness, the internal consistency of the statistics increased to a large extent. The indicators on production, on

*MPS – abbreviation for Material Product System, the national accounting system of the CMEA countries.

**SNA – abbreviation for the United Nations "System of National Accounts".

income and on wealth now constitute an organic entity. The relationships between the various concepts are displayed in a conceptual matrix of the accounting system, as described in the book of János *Árvay* [2]. (We do not claim that all objectives in respect of the integration of statistics have already been achieved. Just recently these problems have been considered by the Statistical Commission of the Hungarian Academy of Sciences [7]. There is no sufficient consistency, e.g., between the various quantity and price indices compiled in the particular branches of the economy, between some national accounting concepts and the corresponding branch-statistical concepts. There is no space, however, to consider here these questions in detail.)

3. The Hungarian statistics follows quite closely the methodological recommendations of the various international organizations both in respect of concepts, definitions and classifications applied. It is not intended to say that there are no differences at all between the Hungarian practice and the international (CMEA, UN) guidelines; these differences, however, are relatively small, and it is no exaggeration to say that from this point of view Hungarian statistics are better than the average. All this provides favourable conditions for international comparisons. And it also implies that in Hungary, practically the same growth measurement problems are encountered as those in other countries with developed statistics.

The possibilities of getting closer to the measurement of welfare

In the first half of the seventies a passionate debate broke out about the methods of the national accounting in a number of countries. The main accusation against the Gross Domestic Product (and similar other indicators) was that it does not provide reliable (undistorted, realistic etc.) information about the changes in welfare. In some cases the criticism was extremely sharp: some authors accused the statistical indicators (and *via* them: the statisticians) as main perpetrators for such major troubles like environmental pollution, because – as they pointed out – these indicators do not react properly on these disfunctions, they do not express the reduction in welfare caused by water, air, etc. pollution.

At first sight it may look as if these views were entirely new. However, this is not so. Some fifty years ago there had been already a first wave of the debates on welfare measurement problems *(Kuznets, Hicks),* on some of its aspects also in the Soviet Union *(Strumilin),* and the basic question that time was practically the same as today, in particular: is it possible, would it be worth-while to endeavour in statistics to compile summary indicators that express the impact of economic activities on welfare?

This question is so much at the centre of the growth measurement problems that it is worth-while to dwell on it a little, even though most of what I shall say on this matter is not new. From the point of view of the role of welfare in the measurement of economic growth two extreme views confront each other.

According to the first one, the primary task of statistics is to measure welfare, or the contribution of economic activities to welfare and the quality of the measurement is

to be judged depending on how this aim is achieved. Nowadays the most important representatives of this view are *Juster* [9], *Nordhaus* and *Tobin* [10].

According to the second extreme view the measurement of economic growth has nothing to do with welfare, one has to measure those things that have a price tag, i.e. those goods and services that are marketed. This is what the statisticians have to deal with – is the view e.g. of *Okun* [14] – while the meditations on welfare problems should be left to philosophers.

The confrontation of these views occurs – in most cases – not in their extreme but in a more or less moderated form. In these days, there is practically nobody who would like to measure welfare in its strict sense (since this would imply the application of so many subjective elements in the calculations, that the results would hardly get sufficient credit). On the other hand, those restricting the measurement of growth to goods and services only, do not want – at least in most cases – to limit the measurement to market transactions only, since in this case important items like consumption from own production, owner-occupied dwellings, various government services (education, public administration etc.) would be left out. Already the first SNA (1954) transgressed this barrier and allowed for some imputations in the national accounting aggregates.

Thus, the debates can be reduced in practice to the following formula: how far should the statisticians go in their imputations when measuring economic growth, where is the optimal point of imputations, where the measurement is already sufficiently close to some welfare or economic welfare concept and where the yardstick applied can still be considered objective anough.

Let us now consider what the concrete points of debates are in which these confrontations take place.

1. The treatment of the *household activities* is one major subject of these debates. As it is well known, statistics – and from this point of view there is no difference between SNA and MPS – takes into account in production measurement the results of socially organized activities (i.e. of enterprises, establishments, institutions) only, but not the results of activities carried out within households. This feature of the national accounting system has been criticized for long (an example from the beginning of this century: why does the national income decrease if a bachelor marries his housekeeper?), and in the last decade a new wave in this criticism could be observed. On theoretical grounds the justification of these critiques can hardly be contested. Some activities carried out in households (cooking, washing etc.) contribute in the same way to the satisfaction of needs as the corresponding activities in the socially organized sphere (restaurants, laundries etc.) and – especially in long-run comparisons – there are considerable shifts between the household and socially organized sectors. The measurement of growth is, therefore, distorted – is objected by the critics – and indeed, if we consider this question from the point of view of contribution to welfare – they are right.

Do we have, however, sufficient objective grounds for taking into account the results of the household activities?

In this connexion not only technical difficulties are encountered (households cannot be compelled to continuous data reporting, thus, practically only *ad hoc* time-budget observations can be used as sources) but conceptual difficulties too, since it is not at all clear what kind of household activities should be treated as productive ones. Cooking and washing would presumably be qualified by everybody as productive, sleeping and eating presumably as nonproductive, but what about shaving, is it productive? (This service can also be purchased in the socially organized sphere.) What about taking a bath at home (this service can also be purchased in commercial units), having a wash (wash as service, in general, cannot be purchased, but if having a bath is productive, why having a wash should not be such), driving one's own car, learning, playing with children and so on. Neither is it clear how these activities should be valued – at least views in this respect are also divided among national accounting reformers. Is a meal cooked by a university professor housewife more productive than the same meal cooked by a typist housewife (on some opportunity cost consideration basis)? Or should these activities be valued always at the price at which they could be purchased in the market? This would not go without conceptual difficulties either.

The purpose of raising all these questions here is not to try to answer them now. It is just to make perceptible the nature of these problems. Extension of the imputations in order to get closer to the concept of welfare would have its cost: all the uncertainties caused by the mentioned problems would thus affect our regular growth measurement results.

How large these uncertainties are can be illustrated by the differences in the results computed by various authors. In the beginning of the seventies *Sametz* tried to prove that official statistics, not including the results of household activities, had a considerable upward bias in measuring economic growth. According to his computations the growth in the United States between 1929 and 1966 was 40 percent lower than that indicated by the gross domestic product quantity index. A few years later *Adler* and *Hawrylyshyn* [1] came to the conclusion that (for Canada) the inclusion or exclusion of the household activities did not cause substantial differences in the growth results. More recently *Kendrick* [6] has provided results that show – practically for the same period as with *Sametz* – that the official index has a downward (and not upward) bias. Though it is not possible to determine precisely the reasons of these differences, it can be stated without doubt that one important factor was the difference in the scope of the household activities included; e.g. Kendrick treated learning as productive, Sametz did not.

2. The treatment of the *environmental disfunctions* (air, water, soil pollution, noise etc.) is the second major subject in the methodological debates about the measurement of growth. From a purely theoretical point of view neither in this case can the justification of the critiques be contested. If water cleaning is a positive item in production measurement why should water pollution not be treated as a negative item of production? The present statistical practice that includes improvement as a positive item but does not deduct deterioration as a negative item is not consistent. With the present national accounting rules gross domestic product (national income) will be higher when

harm is caused (e.g. rivers are polluted by a production process) and then the environment is restored, than if, *ceteris paribus,* some preventive action were taken and the disfunction avoided (e.g. by using antipollution devices).

The practical question, however, is again the same as before: to what extent do we have an objective basis to quantify the harm caused by the disfunctions in terms of money. E.g. to what extent should we reduce national income for the mere fact that the air of a town became polluted (its CO or SO_2 content increased). It is doubtful how reliably such estimates can be made, even if we know the extent of the pollution in physical terms and also have a picture on the consequences of the disfunction (e.g. we know that the polluted air is not only a simple nuisance, it also has a negative health effect, increases mortality rates etc.). The problem here is the same as with the household activities: the cost of getting closer to the concept of welfare is relatively high; with the extension of imputations subjective elements get a larger role in measurement, we have to accept a number of uncertainties.

3. The so-called "regrettable necessities" constitute the third group of problems in connexion with imputations. This problem differs to some extent from the previous ones: in this context not a new information is needed but a new treatment of an already available information. As some critics point out, a number of items treated at present as final consumption do not contribute to welfare, they do not satisfy real needs, their increase cannot be interpreted as improvement (nor their decrease as deterioration). These "regrettable necessities", therefore, should be treated as intermediate and not as final consumption, i.e. gross domestic product and similar other indicators should be reduced by the value of these items.

The most frequent examples for regrettable necessities are transport cost to and from work, military expenditures; it can be noted, however, that this concept is also differently interpreted by various authors. Public administration, alcoholic beverage consumption, tobacco, some drugs etc. also belong – according to some authors – to the regrettable necessities.

One can hardly deny that some goods and services satisfy needs that are questionable from the point of view of welfare. If nothing else changes, only the distance between home and the working place decreases (and, therefore, transport cost is less than before) this is an improvement in welfare rather than a deterioration. If the world political situation improved in a way to permit a substantial reduction in military expenditure, no doubt, this would be an advantage and not a disadvantage. Nevertheless, it is not so evident whether omission of the regrettable necessities from the production results is the right solution. This modification would have not only advantages but disadvantages, too. E.g. omission of the transport expenses would improve measurement in respect of short distance–long distance differences between home and the workplace, but it would at the same time deteriorate measurement in respect of workers living at the same distance from the working place but using different means of transportation (trams, buses, bicycles, taxis, own cars etc.). Furthermore, is it possible for statisticians to weigh in

each case, whether a given good or service satisfies a real need or is only a regrettable necessity? This is why there are strong objections against the proposed modifications.

4. Measurement of the results of the *undergound (second, hidden) economy* constitutes the fourth group of critiques in the growth-methodological debates. This subject is somewhat different from the previous ones; it is not so much a conceptual issue; what is proposed here by the critics is rather a question of coverage. It is suggested by various authors that the scope of observation should be extended to cover transactions that are generally not covered by traditional statistical methods.

The need for an extension of the coverage of the national accounting aggregates – although not entirely with the same content – has been raised recently in quite a large number of countries. In countries like Singapore e.g. if only legal transactions were taken into account this would give quite a distorted picture about the structure of the economy, since a substantial portion of the foreign trade (according to some estimates 20 percent) is carried out illegally. Even in developed countries like Italy the recent extension of the observation basis (from declared transactions to a commodity flow basis) substantially increased the size of the macroeconomic indicators. This type of problems was also raised in Hungary in spite of the fact that the traditional observation basis of the statistics is substantially larger than in most market-economy countries. The increasing share of "secondary" and "tertiary" activities of the population as well as the significant role of semilegal and illegal transactions raise the question whether our growth indicators reflect the results of development sufficiently well.

In connexion with the underground economy there is no conceptual debate, since it is generally agreed that it would be desirable to cover also these activities by the national accounting aggregates. (As a matter of fact, at some stage of the development of the SNA there was a reference on the legality requirement of the transactions to be covered, this, however, was later deleted.) Another question is, however, feasibility. Some kind of transactions are not observable just because of their illegal character, not even on a sampling basis. As to some legal transactions, like tips and other types of subsidiary incomes, though they are observable, the downward bias seems to be considerable. Thus, the debates in respect of the underground activities concentrate mainly on the questions to what extent and with what reliability these omitted activities can be estimated, and what their relative size might be.

The debates on the problems of the underground economy unfolded only somewhat later than the controversies on the other methodological questions mentioned. While the latter ones had developed already in the first half ot the seventies, the underground economy problems came to the surface only in the second half of the decade.

The behaviour of the statistical organs, of course, did not remain unaffected by these waves of critiques. Debates went on, on both national and international levels. The latter ones were concentrating in the statistical organs of the United Nations. First Professor *C. Saunders* (United Kingdom) as a consultant of the United Nations Statistical Office prepared a comprehensive study on the problems of welfare oriented measures

[12], that was considered by the UN Statistical Commission, and then the United Nations Statistical Office prepared its directives on the revision and extension of the System of National Accounts. (The present author was one of the experts invited to discuss these directives.)

To characterize concisely the recent behaviour of the statistical organs the term 'flexible conservatism' would be perhaps the most appropriate. The noun "conservatism" is justified because neither the UN statistical organs, nor the statistical offices of the countries with developed statistics want radical changes in the content of the macro-economic indicators. They consider that an extension of the imputations both in respect of household work, environmental disfunctions and regrettable necessities would imply more risk than the advantages of these changes would be. To get closer to the concept of welfare would not compensate for the disadvantages caused by the larger role of the subjective elements in measurement.

On the other hand, the attribute "flexible" is justified because the behaviour of the statistical organs in respect of the extension of imputations is no longer as reluctant as before, when the endeavour to get closer to the concept of welfare was qualified as an error by them, when official statistics was strongly against the use of any other indicator than those adopted in the standard system. At present the international statistical organs seem to be definitely in favour of getting as much information as possible on welfare (the only question, however, to what extent these welfare effects should be included in the summarizing macroeconomic indicators, and to what extent in separate indicators). At the same time, not only that they do not want to forbid but explicitly stimulate national statistical organs to experiment with welfare oriented measures, to get as much experience as possible in this field, in order to allow eventual international generalizations. However, the United Nations statistical organs do not engage – at least at present not – in working out guidelines on the content of the welfare oriented measures.

The seventies did not bring any substantial changes in this field in the international statistical practice. The statistical offices remained with the traditional macro-economic indicators (alone the Japanese Statistical Office experimented with the indicator of "net economic welfare", with questionable success). On the other hand various research institutions (like the National Bureau of Economic Research in the United States) experimented quite a lot with the extension of the imputations and so did a number of researchers. In the last five years in the issues of *The Review of Income and Wealth*, the periodical of the International Association for Research in Income and Wealth (IARIW) a detailed survey can be found on these studies. However, all these experiments were carried out – almost without exception – outside the scope of the official statistics.

The impact of the developments at world level was felt also in Hungary, however, only to a moderate extent. On the one hand, reviews, appraisements were published in various periodicals on the discussions going on abroad. At the same time, here and there, some critiques were expressed in respect of the macro-economic indicators used at present [3], however, this happened only sporadically. To my knowledge, in Hungary nobody worked out comprehensive proposals on the extension of imputations, at least not until now.

What can we say in summing up the results of these debates, what conclusions can we draw for the statistical practice? The most important ones seem to be the following:

- A very important indirect benefit is the fact that through these debates we acquired a better knowledge on the properties of the macro-economic indicators presently applied, we can see now better what we can and what we cannot expect from these indicators.
- The Hungarian official statistics does not need to feel any remorse for not applying at present any welfare oriented macro-economic indicator, since this is the case also in international practice.
- The way selected by the Hungarian practice, i.e. to have information on welfare mostly through specific socio-economic-environmental indicators seems to be the right solution. In other words: some welfare-related information (e.g. on air pollution and on its impact on welfare) should be obtained outside (and not inside) the scope of the macro-economic indicators, in a complementary way.
- In spite of all this, it would be useful if periodically (e.g. at 10-year intervals) the Central Statistical Office undertook some welfare oriented projects, including also specific macro-economic indicators. The interest for this type of indicators already exists and, no doubt, will still grow in the future. These computations would be interesting also from a methodological point of view, since they would provide information on the approximative size of the welfare factors neglected in the regular growth index calculations. It seems unavoidable that sooner or later this type of calculations be carried out in Hungary, and it would be expedient if it were done by the organ that is in the best position from the point of view of the information available and the technical knowledge needed.

The Hungarian price system and the measurement of economic growth

References to the disproportions of the Hungarian price system, to their distortive effect in measurement are quite frequent in the Hungarian economic literature. Not infrequently serious doubts are expressed whether the national income or gross domestic product indices which use the actual prices as measuring scale, reflect well the results of economic development.

I shall use the term "disproportions of the price system" in a vague sense, as it is used by most authors, not explaining on what basis prices are disproportional, what they should be like not to be disproportional. This, however, will not affect the substance of what will be said below, since – at least it seems so – nobody contests that such disproportions exist and that their size is considerable.

The distortive effect of the disproportions of the price system is different in the various types of economic calculations. There are computations where even small disproportions may cause large troubles. If, e.g. we are looking for answers to such questions as which branch promises higher efficiency for the national economy, where investing seems to be more advantageous, the disproportions cause trouble directly: if the output and/or the input is expressed distortedly (e.g. because the domestic price of some import products is much lower than the world market price – owing to the large subsidy) this may lead to erroneous conclusions and decisions. This is why many cost/benefit analyses of important investment projects are made on the basis of some other prices rather than actual prices, e.g. by using world market prices.

Much smaller is, however, the distortive effect of the price disproportions in those type of calculations that are studied in the present article, i.e. in the measurements of economic growth. In measuring the changes in output prices do not constitute a component of the phenomenon studied (like in investment efficiency calculations where higher or lower prices generally imply higher or lower efficiency); they play only the role of weights. Thus, no matter how much prices are distorted, if the quantity indices of the different branches of production do not differ much (i.e. there are no substantial structural changes in production), the final result may remain undistorted or the distortion is negligible. Even in cases when the dispersion of the quantity indices of the different branches is relatively large, the distortion of the final results may remain relatively small, since the distortive effect of the prices may have a random character, or the various effects may offset each other. The final result is distorted by the disproportions of the price system only in those cases when there is a dispersion in the individual quantity indices and, at the same time, there is a correlation between the distortion in prices and the size of the quantity indices (e.g. those branches that develop quicker than the others are valued, in general, at upward distorted prices).

It is not intended to say with all this that in the measurement of economic growth the distortive effect of the price system is unimportant. We have no evidence that this is so, moreover, there are certain signs that this is not always so. Nevertheless, it seems worth while to draw attention to the above distinction, since, quite often, in the public thinking no difference is made between the two types of distortions, the distortive effect of the price system is interpreted in a global sense and, therefore, the impression about the size of this source of error is generally larger than it is in reality.

The question arises, whether it is possible to do something in order to reduce the impact of this source of error. Three different ideas may come into consideration, let us examine them one by one.

1. Output can be measured not only at market prices but also at prices excluding indirect (commodity) taxes less subsidies. This type of measurement is spread over the world: in the SNA it is referred to as valuation at approximate basic values, in the MPS as valuation excluding turnover taxes, in the Hungarian practice the most frequent term for this type of measurement is values excluding commodity taxes. Needless to say that this type of valuation has important function in addition to the measurement at market prices.

Some readers may get the impression that this type of valuation can solve the problem of the price distortions, or at least can mitigate the troubles. This, however, is not entirely so. It is true that prices excluding commodity taxes (let us remain with this terminology) constitute another scale of measurement that, in a number of cases, may be less distorted than the measurement scale of market prices. If, for instance, a given product is strongly subsidized for social considerations, the price including subsidy (this is here the "price excluding commodity taxes") expresses its relative importance really better, than the market price (i.e. the price paid by the buyer). However, if the function of the subsidy is to compensate for losses in production (i.e. the producer, and not the consumer is subsidized, for the consumer would not be willing to purchase the product at higher prices), the inclusion of the subsidy would deteriorate rather than improve the scale of measurement since the market price (excluding subsidy) reflects the relative importance of the given product better than the price excluding commodity taxes (i.e. including subsidies).

There are cases, furthermore, when the main purpose of the taxation (or subsidization) is to compensate for an opposite action in the preceding phase of the production process; e.g. taxes are higher than the average in the machine-building industry, because they were lower than the average in the preceding phase, i.e. in metallurgy. Measuring in such cases at prices excluding commodity taxes would undervalue the machinery products in comparison to other end-products where such correcting taxation did not take place and especially in comparison with those products where correction of taxation of opposite direction took place (i.e. where in the preceding phase a higher tax was levied and, therefore, in the last phase the tax is relatively low, or nil, or even subsidization becomes necessary). Thus, the exclusion of the commodity taxes in some circumstances deteriorates rather than improves the measuring scale.

To put it into general terms, to the extent that differences in the rates of commodity taxes mitigate the impact of differences in efficiency, exclusion of the commodity taxes (passing over to the valuation excluding commodity taxes) deteriorates the method of measurement, since a higher or lower efficiency (productivity) is also a factor of development. This does not exclude, of course, the possibility that in other cases valuation excluding commodity taxes provides a better solution. It would be wrong, however, to think that the shift to the valuation at prices excluding commodity taxes, eliminates, in general, the distortive effect of the price system.

A small detour would be here expedient. In the Hungarian practice – perhaps just because trying to eliminate the distortive effect of the price system – the measurement at market prices is, in my opinion, overshadowed by the valuation at prices excluding commodity taxes. Even in the tables expressing the value of the gross domestic product (or of any other indicator) at market prices the data on the output of particular industries are given at values excluding commodity taxes, while the amount of the commodity taxes (net of subsidies) is added in one item. In my opinion this is not the best solution. Market price is an important economic category, market value is connected with demand, this is what determines the behaviour of the buyer. The market price value of the output of the

particular industries, therefore, should also be there among the most important indicators of the national economy. At the same time, the summary amount of the net commodity taxes is difficult to interpret, it is difficult to evaluate its growth or decrease; this may cause considerable problems since, owing to the changes in the economic management of the country (in the taxation system, price system) this net amount of taxes may abruptly increase or decrease from one year to another.

2. Another method in trying to avoid the distortive effect of the price system were those computations that wanted to determine the quantity indices of output at "cost-proportional prices". The most comprehensive study on this subject was prepared by Zsuzsa *Dániel* [4], similar computations were made, however, by a number of other authors too.

The cost-proportional price is not an unambiguous concept, for the purposes of the present study, however, it seems sufficient to say that these prices have equal net income* content rates. (How large this rate is, whether 50, 20 or 0 percent, is indifferent, since the quantity indices are influenced only by the relative weights and not by their absolute size.) Thus, the cost-proportional prices are computed and not actual prices, where the main source of the computations are the input-output tables.

One can hardly deny that the computations at cost-proportional prices are interesting and useful. It is, however, questionable whether measurement of growth at cost-proportional prices is better than measurement at actual prices. The problem is that the former method disregards the efficiency (productivity) differences. By using the same net income rate for each branch it is tacitly assumed that the efficiency level in machine-building is the same as in mining, agriculture etc. It is well known, however, that this is not so. Thus, measurement at cost-proportional prices does not take into account the impact of that efficiency increase (or decrease) that stems from the changes in the structure of production. Maybe this is still better than to include the impact of structural changes at distorted prices; however, there is no evidence for it. Thus, the shift to the cost-proportional prices may have more disadvantages than advantages, in addition to the technical difficulties connected with this method.

3. The third possibility to be mentioned is the computation of the quantity indices on the basis of world market prices. No doubt, in the case of some economic calculations the use of world market prices provides very valuable services. This is the case in various cost/benefit analyses, where the efficiency of investment is to be determined from the point of view of the national economy (and not from the point of view of the enterprise carrying out the project). It is doubtful, however, to what extent this method is appropriate in the measurement of economic growth. The difficulties are mainly practical ones. The world market price is not an unambiguous concept, some products may have several world market prices. There are, furthermore, a number of commoditites – e.g. some types of machines – the quality of which is substantially different in the world and in the Hungarian market. In such cases it is difficult to estimate the price differences due

*In terms of the SNA: operating surplus plus net indirect taxes.

to the quality differences. Finally, various products do not have world market prices at all because they are not traded in the international markets.

Thus, on one hand the repricing of the output aggregates of the various enterprises, branches into world market prices turns out to be technically difficult. At the same time – owing to the circumstances of getting the necessary information – these repricings can be carried out only relatively late. The quantity index computation at world market prices, therefore, cannot fulfil the basic function in the measurement of economic growth, its role can only be subsidiary. The supporters of this method are aware of this; I never met authors suggesting a basic role to world market prices in the measurement of growth (the maximum they thought was that this method had better properties than that applied at present).

Thus, there is no general remedy that would eliminate the distortive effect of disproportions of the price system. Computation at actual prices has to remain the basic method in measuring economic growth. It should be emphasized, however, that the distortive effect of the price system is substantially smaller in the measurement of growth than in calculations where prices perform not only the role of weights. but constitute one of the components of the phenomenon to be investigated. Another very important aspect of this problem: disproportions of the price system have a decreasing tendency in Hungary. The price reform of 1980 improved to a large extent also the conditions for measuring economic growth, in all probability it reduced the distortive effect of the prices, even if this cannot be demonstrated numerically. It is hoped that a further development of the Hungarian price system will go into the same direction.

Problems in the measurement of price changes

An evergreen problem of the measurement of growth is separation of the quantity components from the price components of the changes in value. As early as in the twenties of this century there had already been passionate debates on this subject. Even if there are new elements in these discussions and it is undeniable that in this field our knowledge widens, some basic questions return again and cannot come to a rest. E.g. each decade has its "perfect index formula" researchers claiming that they have just discovered the true one; however, it turns out quickly that this is not so, the practice remains on its traditional way and, essentially, the same index formulae are applied today as sixty years ago.

In these days there is a relative calm – in Hungary – in respect of the basic questions of index computations. The adjective relative was intentionally used, since even nowadays here and there strong critiques can be encountered on the methods of index numbers, and in some cases also suggestions how the computations should be made. These critiques are, however, rare, the main point in the discussions about the measurement of growth is not in the field of index formulae. The present study, therefore, does not want to enter into the details of these questions, a review of some general questions, however, seems to be expedient.

The index computation, measurement of the price and quantity changes has no perfect solution, satisfying all possible requirements. Now we are also aware – though this is not recognized by everybody – that it is not only today that we have not got the perfect formulae, but we cannot have it at all. The various requirements of index computations are in antagonistic conflict with each other. The fact, however, that there is no perfect formula does not mean that we cannot have good indices.

It is worth-while to refer here to the simile of Pál Köves: we have not perfect maps either (since we cannot stretch out a ball into a plane), nevertheless, we can have good maps that provide us useful services.

The index computation practice in Hungary is fairly good – in my opinion – even by international standards. On the one hand – like in other socialist countries – it makes use of the advantages provided by the much larger data base (the high share of the state and cooperative sectors). At the same time we have a number of internationally known good index scholars. Last but not least, Hungarian statistical practice seems to be sufficiently demanding in respect of the results of the index numbers. This conclusion can be drawn from a few international studies analysing the consistency of the growth results, comparing them with various indicators in physical units [16]. The Hungarian statistics passed these "exams" relatively well.

However, some details behind this favourable general picture are not more so nice and may cause serious problems here and there. Some of these problems will be considered below.

1. Questionable is the quality of the Hungarian investment and construction price and quantity indices. True, in this field the tasks of statistics are much more difficult than in the industry or agriculture, owing to the non-comparable character of the products produced. It seems, however, that some other type of problems are also encountered with the construction indices. The capital formation indices have no such "social" control that plays a very beneficial role in the field of consumption indices. The consumer price index e.g. is continuously in the foreground of the public interest, while investment price and quantity indices attract relatively little attention. For the executors (construction enterprises) it seems more advantageous to have higher quantity and lower price indices; therefore, they are happy if the methodologically controversial components of the changes in value will be included in the former and not in the latter. And at the same time, it seems that on the side of the investors the opposite tendency is not strong enough. This may be a possible explanation for some rather dubious results e.g. in respect of the price index of dwellings.

2. Questionable is the quality of the quantity and price indices of the non market-type (in the SNA language: non-commodity type) services (e.g. public administration, health). In this field, however, the problem is not so much how the computations are made but rather the nature of this task. In respect of these services we cannot expect really good indices. We can formulate some judgements on the work of a ministry or an institution (it is very good, fairly good, medium, bad etc.); however, to the question how much the quantity of the service has changed we can answer only on the basis of some

assumptions. This, of course, is not a Hungarian characteristic, other countries encounter the same problems. Nevertheless, it seems worth-while to keep on the agenda the possibilities of improving the quality of the indices in question.

3. Questionable is the quality also of the Hungarian price and quantity indices of external trade. In Hungary the problem is not quite the same as in most of the Western countries where the basic source of the foreign trade information is customs statistics, and where, therefore, the price indices computed are not real price indices but to some extent unit value indices (based on the prices of product groups rather than of well specified products). From this point of view the Hungarian situation is much better. On the other hand an important feature of the foreign trade statistics of this country is the fact that indices for trade settled in convertible currencies and for that in roubles are computed separately and the overall index is compiled as an average of the group indices. In this way the price changes caused by shifts in the sale (or purchase) of particular commodities between the two markets are not taken into account. This problem is more complicated than to be able to describe it in a few sentences, since some properties of the exchange rates also cause difficulties, there are a number of barter-type transactions ("compensation transactions" as referred to in the CMEA trade) where prices do not necessarily express real yields or costs etc. It is not impossible that the final conclusion will be that there is no better solution than the one applied at present, it seems however that this field of problems is not yet sufficiently explored and that further research here would be desirable.

4. Problems also arise in respect of the quantity and price indices for changes-in-stocks. In this field the lack of some basic information is the main trouble, we do not know sufficiently well the composition of the stocks. This problem is worth-while to mention since the item of stocks is relatively very large in Hungary and, therefore, the errors committed here may have a significant influence on the indices of the total output.

Further developments needed in the measurement of growth

In this section I shall consider only a few major growth measurement problems, those in the field of which relatively important development steps are presently required. In particular I shall deal here with the terms of trade effect problem, with the treatment of interest payments and other transfers from (to) abroad and with some questions of revaluations.

Treatment of the terms of trade effect

The Hungarian quantity indices are computed on the basis of constant prices, thus they do not reflect the effect of any price changes. Is it, however, right to ignore all price changes when measuring economic growth? If we succeed e.g. in increasing our export prices while import prices remain unchanged and thus we are now able to import more

for the same quantity of exports than before, this improves our situation, *ceteris paribus* we shall be able to consume and/or accumulate more. And if import prices grow faster than export prices, i.e. if the terms of trade deteriorate, changes of the opposite direction take place. Thus, the terms of trade, more precisely their effect is not a notion entirely alien to economic growth. The question arises: would it not be appropriate to compute also growth indices including the effect of changes in terms of trade.

This problem has quite a long international prehistory. As soon as at the end of the fifties and the beginning of the sixties lively discussions took place on this subject (mostly within the frames of the IARIW); whether it was possible, whether it was expedient to calculate growth indices corrected for the effect of changes in the terms of trade and if so, how this should be done. These debates, however, remained within the sphere of theory. Though everybody participating in these early discussions considered it important to calculate the corrected indices (some of them were of the opinion that only the corrected indices have their justification), these debates had no effect whatsoever on statistical practices, where constant price series in the strict sense (i.e. excluding the terms of trade effect) continued to be computed. These debates had no effect on international recommendations either; in the meantime (in 1968) a revised edition of the SNA was drafted, new guidelines on the quantity and price indices were formulated, without any reference, however, to the terms of trade effect.

What was the reason for this very negative reaction? In my opinion the most important factor for this was the fact that in these years the changes in the terms of trade were relatively small while the inaccuracies of the export and import price indices relatively large (mostly owing to the unit value bias). It would not make much sense to correct the growth indices for the term of trade effect if this effect is small, maybe much smaller than the normal computation error of the price indices.

After the 1973–74 price explosion, however, the situation has substantially changed. The terms of trade effect became important for a large number of countries, and in the meantime – while not entirely satisfactory even now – the methods of the price index computations also improved to some extent.

Interest for this subject abruptly increased. There is a genuine renaissance of the debates on the terms of trade effect. The statistical offices of some countries (like the United Kingdom, the Netherlands, the Federal Republic of Germany) started to publish regularly terms of trade effects and growth indices corrected for this effect. International organizations (like the OECD) also put the clarification of the methodological problems involved on their agenda.

All this is quite understandable. It is enough to think it over what picture we would get if the growth of the oil producing countries like Saudi Arabia or Kuwait were only measured by indices excluding the terms of trade effect. It is sure that this would not reflect reality. Mention could be made, however, also of countries that were losers and not winners in the price explosion; here again, it would not be possible to get an appropriate picture on economic development without indices including terms of trade effects.

It is important to note that in the recent discussions all those proposing the use of indices corrected for terms of trade effects suggest to have them in addition to, and not instead of the traditional (uncorrected) indices.

There is also a more general lesson emerging from the debates. It seems, our practice is too much used to a dichotomy: we measure either at current prices, thus, including all price changes, or at constant prices, in this case excluding all price changes. There is no intermediate solution between the two. Experiences show, however, that intermediate solutions also make sense. There are differences between price changes and price changes, and from many points of view the importance of changes in the general price level (of inflation) is quite different from that of the relative price changes. While the former, from the point of view of measuring growth constitutes only a change of the measuring scale, the latter has the same economic consequences as quantity changes. Therefore, it seems expedient to calculate indices that reflect the impact of the relative price changes but not that of changes in the general price level. The indices corrected for the terms of trade effect also belong to this category.

In the revival of the topic it also became clear that the debates of the sixties had remained unfinished; there was not anybody (there is not anybody today either) who would co-ordinate the methodological questions of measuring the terms of trade effect. As in all index computations, in terms of trade effect measurement too, there are conventional elements; moreover in this field the number of the possible solutions is much larger than with the traditional quantity and price indices.* This explains why already in the sixties 6–7 different terms of trade effect measurement methods competed with each other and there was nobody to carry out the confrontation of these procedures and to express preferences in respect of this or that solution.

The negative consequences of all this were felt quite strongly around 1975 when a number of countries started the regular calculation of indices corrected for terms of trade effect; they were at a loss which should be the method to be used. Some countries (like the United Kingdom) started to calculate parallel indices according to several formulae; this disturbed clearsight. Also a negative consequence was that the methods used in various countries were different from each other and did not permit sufficient comparability (e.g. between Denmark and the Federal Republic of Germany).

The 1979 IARIW Conference devoted a whole session to the measurement problems connected with changes in the terms of trade. All persons participating in the discussion were in agreement that there is a need for indices corrected for terms of trade effect and they considered it desirable that an international organ – preferably the United Nations – co-ordinates the preparation of methodological guidelines on this subject.

*

*Since here not only the question whether the weights should be taken from the base or from the current period (Laspeyres respectively Paasche formula) should be answered, but also the question whether the changes in terms of trade should be projected to exports, imports or to an average of them.

In Hungary until 1973–1974 the notion of terms of trade was not unknown, yet it played only a peripheric role in economic analyses. The losses caused by the 20 percent deterioration in the terms of trade after the price explosion, however, brought it – practically from one day to the other – into the foreground of interest.

The notion of the losses (gains) caused by changes in the terms of trade got quickly into the public thinking, and the indicator of the terms of trade effect soon became one of the main characters in statistical publications and economic analyses. Not much later the idea of a growth index, corrected for the terms of trade effect also emerged; there were some discussions on this topic but no action was taken, for a number of years the whole problem was confined to methodological-theoretical discussions only.

The question arises, if we already have the terms of trade effect, does it not give enough information on this impact, is it really needed to correct also the growth indices for this effect? In my opinion such corrected indices are definitely needed. On the one hand, the terms of trade effect alone does not provide sufficient information on the impact of these losses (gains) on economic growth. At the same time the publication of the uncorrected indices only may cause a misimpression that everything is all right, that we have a considerable growth in spite of the terms of trade losses. I venture the assumption that if, in Hungary, indices corrected for terms of trade effects had been computed in the middle of the seventies and if these indices had got sufficient attention in the analyses of the economic results of the country, it is very likely that some errors in the economic policy of these years would have been discovered earlier, and steps to moderate the unproportionally quick growth of the domestic expenditures would have been taken a few years earlier.

A special problem for the Hungarian statistical practice is the method to be applied for the computation of these corrected indices. It was already mentioned that this problem is not sufficiently clarified at international level; in Hungary the troubles are even larger, since, at the beginning a formula was applied that – in my opinion – was inferior to any other solution proposed by the various authors in the international literature.

In Hungary the terms of trade effect (T) was determined according to the following formula:

$$T = (X - M) - (x - m)$$

where:

X = exports of the accounting period at current prices

M = imports of the accounting period at current prices

x = exports of the accounting period at prices of the base period

m = imports of the accounting period at prices of the base period

Thus, the method is relatively simple. From net exports at current prices net exports at base period (constant) prices are to be subtracted. A positive value gives gains, a negative value gives losses caused by changes in the terms of trade. The nominator of the growth index is to be corrected with this value.

It is not difficult to discover a substantial weakness of this method. The first element in parentheses is expressed at current prices, the second one at base period prices; at which prices is expressed the T, the difference between the two elements? This question cannot be answered. This indicates clearly how wrong it is to subtract from each other two values expressed at different prices. Let us assume the result is 20 billion forints. What should we answer if somebody asks us what kind of forints are these: forints of todays' purchasing power, or forints of a purchasing power of ten years ago? The question is completely justified, since the present purchasing power differs to a large extent from that of ten years ago.

The contradictions of this method can also be felt in other connections. It may happen (and the likelihood of this is not very small at all) that the method indicates gains when there was a deterioration in the terms of trade or indicates a loss when there was an improvement in the terms of trade. Thus, it can get in conflict with its initial objectives. This will be illustrated by an example. The following data are at our disposal:

X (exports at current prices)	220
x (exports at base year prices)	200
p_x (price index of exports)	1.10
M (imports at current prices)	115
m (imports at base year prices)	100
p_m (price index of imports)	1.15

Thus, the terms of trade deteriorated since import prices rose to a larger extent than export prices. Nevertheless, the result obtained by the above formula indicates gains, since: $T = (220-115) - (200-100) = 5$

To get the right result one has to modify the above formula so that the two elements in parentheses should be brought to the same price level. Since measurement of growth is generally done on the ground of the base period (constant) prices, it seems more expedient to revalue the first parenthesis element, to convert it by a price index into the price level of the base period. Thus, the modified formula:

$$T = \frac{(X - M)}{p} - (x - m)$$

where: p = denotes the price index.

Practically all of the solutions proposed in the IARIW and other discussions, as well as those applied in national practices in various countries can be reduced to the above formula. The only difference between the various methods is that different price indices (p) are used to convert current values into base year prices. (More details are given in [5].) Personally I would prefer two solutions from among the many ones:

1. The Nicholson method [15] where p equals p_m i.e. the price index of imports. It seems that this is the most widespread method in international practices. The Hungarian Statistical Office also preferred this solution in a recent publication.

2. A method proposed a few years ago by me where p is an unweighted harmonic mean of the export and import price indices. It seems to me that the economic content of the results obtained is here better justified than in the case of other methods.

In the case of the Nicholson method the terms of trade index is projected on the exports, tacitly assuming that having a given terms of trade index, the more we export, the larger is the effect (gain or loss). The method proposed by me projects the terms of trade index on the simple average of exports and imports, tacitly assuming that for that part of the turnover where only export or only import took place, only the half of the terms of trade effect is to be accounted.

Using the numerical data of the above example the two methods can be illustrated as follows:

1. Nicholson method:

$$T = \frac{(220 - 115)}{1.15} - (200 - 100) = -8.7$$

or by the projection of the price indices:

$$T = 220\left(\frac{1}{1{,}15} - \frac{1}{1{,}10}\right) = -8.7$$

2. The method projecting on the average of exports and imports:

$$T = \frac{\frac{(220 - 115)}{2}}{\frac{1}{1.10} + \frac{1}{1.15}} - (200 - 100) = -6.6$$

or by the projection of the price indices:

$$T = \left(\frac{220 + 115}{2}\right) \cdot \left(\frac{1}{1.15} - \frac{1}{1.10}\right) = -6.6$$

Thus, in the given example Nicholson's method provides a higher result than that of the method projecting on the average of exports and imports. It is easy to see, that in cases when import is larger than export, the Nicholson method gives the smaller result in absolute terms.

In developing the methodology in this field in Hungary one should take into account, of course, what the practice in other countries is, and what is recommended – if there will be such – in international guidelines.

Correction for the impact of transfers to/from abroad

The final aim of economic activities – with some simplification – is to enable to consume more and to increase our wealth. Greater consumption does not need any explanation, in connection with the increase of wealth (with the accumulation) it should be noted, however, that this contains not only material wealth but also financial wealth (increase of financial assets over liabilities). It seems justified to formulate the question: to what extent did our economic activities contribute to this final aim, what changes did occur in this respect from one year to the other?

The inclusion of the terms of trade effect in the growth indicators constituted already a step in this direction. What we have lost owing to the deterioration in the terms of trade we can neither consume, nor accumulate. It is justified, therefore, to compute indices including the terms of trade effect. There is, however, another important item affecting consumption and accumulation that is not taken into account by the traditional quantity indices. This is the transfers to and from abroad. The most important transfer item – in Hungarian circumstances – is the interest payments; however, a number of other items also belong to this category, like some insurance transaction payments, gifts etc.

A few decades ago – because of their relatively small size – there was no need to pay special attention to transfers to and from abroad. Today, however, this is no longer so; owing to the relatively large size of foreign debts, the interest payments constitute in Hungary a considerable negative item, reducing income available for consumption and accumulation.

In order to get a picture on the possible impact of the interest payments on the income that can be used for consumption and accumulation, the figures in the following illustrative table should be examined.

The size of interest payments to abroad in percentage of the domestic product
(in function of the indebtedness and of the interest rates)

Indebtedness in percentages of the domestic product	5	8	10	12	15
	percent interest rate				
10 ...	0.50	0.80	1.00	1.20	1.50
25 ...	1.25	2.00	2.50	3.00	3.75
50 ...	2.50	4.00	5.00	6.00	7.50
80 ...	4.00	6.40	8.00	9.60	12.00

In the present context we are interested first of all in how the size of the interest payments affects the quantity of the income available for consumption and accumulation. Let us examine this through a fictitious example. Let us assume that in a given country, within the interval of a ten-year period the size of the foreign debts increased from 10 percent to 80 percent of the domestic product. The credit conditions also changed, the interest rate increased from 12 percent to 15 percent. It can be read out from the above table that the relative size of the interest payments to the domestic product increased from 1.2 percent to 12 percent. Let us assume furthermore that within this same interval the quantity of the domestic product increased by 40 percent. By how much did the income available for consumption and accumulation increase? Let us assume that the domestic product of the base period was 100. The computation:

Base period:	
Domestic product	100
Interest payments to abroad (100 · 0.012)	1.2
Available income	98.8
Current period:	
Domestic product	140
Interest payments to abroad (140 · 0.12)	16.8
Available income	123.2

The index of the available income:

$$\frac{123.2}{98.8} \cdot 100 = 124.7 \text{ percent}$$

The difference in comparison with the domestic product index is relatively large. The growth rate according to the available income index is almost 40 percent lower than the growth rate according to the domestic product index

$$24.7 : 40 \cdot 100 = 61.8\%)$$

Although in this example drastic changes were assumed between the two periods, it illustrates quite well that this phenomenon is not of a negligible size. Especially important is this problem for countries where the deterioration in the terms of trade and the growth of the foreign debts occurred simultaneously. Hungary – unfortunately – also belongs to this group. One more reason to explore the possibilities of computing growth indices that include the transfer effect.

It is worth-while to note in this connection that from the point of view of the treatment of interest payments Hungary is at a disadvantage in comparison with countries using the SNA in a stricter sense. The Hungarian statistical practice applies a number of SNA concepts, it did not take over, however, from the United Nations system the distinction between the domestic and national aggregates. Domestic product is essentially the product produced within the boundaries of the country, irrespectively of who is participating in this production. The national product on the other hand constitutes the income from production of resident economic units, irrespectively of where the production takes place. National product is obtained by adding to the domestic product the net factor incomes from abroad. This latter item includes wages and salaries, incomes from property and entrepreneurial incomes from/to abroad. Thus, the effect of interest payments and of a number of other transfers are well reflected in the indices of national product, used in the practices of Western countries.*

In the Hungarian practice only one type of aggregates is used without distinguishing between "domestic" and "national". The Hungarian indicators are closer to the domestic concept of the SNA (though not entirely identical, since e.g. the construction abroad of Hungarian building enterprises is included in the product). What is important, however, in the present context: interest payments from/to abroad as well as other incomes from properties (e.g. copyrights) and entrepreneurial incomes from/to abroad are not covered by the Hungarian macro-economic indicators; thus, – from this point of view – they have a "domestic" character.

In 1968, at the time of the last substantial revision of the Hungarian national accounting system the need for the distinction between domestic and national was not felt, since the difference between the two types of indicators would have been relatively small. Later, with changes in the circumstances the idea of introducing this distinction emerged several times, but no action was taken in the practice. One possible explanation for this is the fact that, anyway, the number of the macro-economic indicators is already relatively large (in Hungary there are both MPS type and SNA type indicators) and it may have been felt that a further distinction would reduce clear sight. Some terminological problems may have also contributed to the reluctance for introducing this distinction. In Hungary the adjective national is already used but with a different meaning (e.g. national income = net material product).

At present, when there are strong arguments for taking into account the transfer effect, we have a choice between essentially two solutions. One way is to compile an indicator similar to the SNA national product. This would have the advantage of promoting comparability with Western countries. Owing to the mentioned difficulties (terminology etc.), however, the second way seems to be more attractive, to explore the possibilities based on the indicator of *disposable income.*

*It should be noted that the non factor-type transfers, like gifts are not covered by the national product. The importance of these items, however, is considerably smaller – at least for Hungary.

Disposable income is included even in the present Hungarian national accounting system; until now, however, little attention was devoted to this indicator. As to its content, it comprises the net domestic product and net transfers from abroad. As to its utilization side it is composed of consumption and saving. Since this latter item expresses the increase in wealth, it may be said that this is just the indicator we are looking for. The reason, why only little attention was devoted to this concept is probably the fact that like in the SNA, in Hungarian practice too, disposable income is determined only at current prices. For the measurement of growth, however, we have to eliminate the effect of the price changes.

Thus, our task seems to reduce to the computation of the disposable income in constant prices. This is not a particularly difficult problem. The net domestic product already has a value in constant prices. What remains is to recalculate also the net transfers at constant prices. At first sight this may seem frightening, since transfers – e.g. interests – do not have their own deflator; in respect of these items one cannot distinguish quantity elements and price elements. Deflators, however, can also be borrowed, and statistics makes often use of this possibility. Nowadays it is quite customary to compute in Hungary indices of real incomes of the population, though personal incomes do not have their own deflator either. Nevertheless, the deflator of the population's consumption can fulfil quite well the function of deflating the population's income. The assumption involved only is that that part of the income which is not consumed is affected by the price changes in the same way as that part which is consumed. On the basis of the same consideration disposable income could be deflated by the implicit price index of the net domestic product.

The quantity index of the disposable income is already a growth indicator including the transfer effect. It would be useful, of course, to have also indices that include both the transfer effect and the terms of trade effect. This could be made by a disposable income quantity index corrected for the terms of trade effect. The construction of this type of indices – on the basis of what has been said above – would not cause substantial additional difficulties.

The problems of "revaluations"

The wealth of the country can change not only by production (minus consumption) and by transfers but also because of other events. This latter category is referred to in the SNA by the term "revaluations". Some examples for this category:

– losses caused by natural calamities;
– writing off of bad claims;
– changes in the values of foreign currencies, securities, bonds etc;
– discovery of new natural resources;
– depletion of the natural resources;
– changes in the value of material goods, natural resources.

The list is by no means complete, however, it is not this what we need now. Revaluations – if recorded at all by statistics – are always separated from production. In the regularly published growth indices revaluations are not covered. They are reflected only in some special national wealth analyses, prepared at relatively rare intervals. This is how it should be since many of the revaluation events are not connected with production. If e.g. major flood damages occur, it is right that the statistics tries to estimate how these events decreased national wealth; it would not be appropriate, however, if we reduced the output of the given year by the amount of the damages. This concept is reflected both in the SNA and in the Hungarian national accounting system.

Although this study, in general, is confined to growth measurement problems only, still I feel there is a need to deal here with some problems of the revaluations. These problems are closely connected with some questions dealt with in this study, and if we did not pay attention to this our survey would remain incomplete.

When in the preceding section I proposed to compute growth indices including the effect of interest payments, I did it on the basis of the consideration that interest payments are also connected with economic activities; interests received *ceteris paribus* increase wealth, interests paid decrease it.

A closer scrutiny, however, reveals that the function of the interest payment is twofold: one part compensates for inflation and only the part exceeding the former is the real interest. If we have a debt in dollars and we pay an annual 15 percent interest on it while the inflation rate of the dollar is 10 percent in a year, then about two thirds of the interest payments compensate for inflation and only about one third of the payments is real interest, decreasing our wealth (in real terms) and increasing the wealth of the creditor. If we had an indicator that reflects the effect of both transfers and revaluations, everything would be all right, since we are losing 15 percent through the transfers, but gaining 10 percent through the revaluation (by the decrease of our debts in real terms), thus, the net outcome is an about 5 percent loss, and this is what would be recorded in this case.

If, however, our indicator reflects the effect of the transfers, but not that of the revaluations, the picture we get on the economic results of interest payment will be distorted. From the point of view of the country it is the real interest rate that expresses the size of the losses in wealth, caused by what occurred in reality; however, our records reflect the losses in a size proportional to the nominal interest rate. This may lead to wrong economic conclusions that can be illustrated by the following simple example. Let us assume that we have a choice to get a credit in Swiss francs where the rate of inflation is 2 percent and the rate of interest we have to pay is 8 percent; or in Italian liras, where the rate of inflation is 15 percent and the rate of interest 20 percent. No doubt, the latter transaction would be more favourable for the country, since the real interest rate in this case would be only 4.3 percent (1.20:1.15 = 1.043); while in the case of the Swiss francs credit the real interest rate is 5.9 percent (1.08:1.02 = 1.059).

Nevertheless, statistics would qualify the latter case as more favourable, since here the domestic product would decrease by only 8 percent of the credit, while in the lira case the reduction would be 20 percent of the credit.

The question arises, therefore, if it were not better to make an exception to the general rule, and to treat this item of the revaluation together with the transfer item connected with it. This could be achieved in two ways: either by recording already the payment on the basis of the real interest rate (in this case it would not be necessary to have an explicit revaluation item), or to record the actual interest payment, but to offset it by an (exceptional) revaluation item reflecting the inflation effect of the debt.

It seems, this problem is not yet sufficiently dealt with by the statistical literature, in spite of the fact that in the case of the quantity indices of national product the same type of problems are encountered. All what has been said in the present article on this subject constitutes only the starting point in solving these problems. Details of the solution are presently worked out in Hungary.

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ПРОБЛЕМЫ ИЗМЕРЕНИЯ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ

Л. ДРЕКСЛЕР

Автор производит обзор методологических проблем измерения развития и в свете дискуссий, ведущихся в научной литературе и международных организациях, останавливается на нынешней венгерской статистичекой и плановой практике.

Вначале он анализирует возможности приближения измерению благосостояния и приходит к выводу, что ведущие в этом направлении вменения значений имеют оптимальный предел, за которым статистическое измерение становилось бы слишком субъективным. В дальнейшем он рассматривает вопрос о том, не обещают ли расчеты в откорректированных или фиктивных ценах лучшего решения, по сравнению с измерением в фактических ценах, и, хотя он не отвергает первые полностью, его вывод является в основном отрицательным. Методы исчисления индексов физическово объема и цен он считает вообще удовлетворительными, но высказывает мнение, что индексы строительства, внешней торговли, услуг и запасов содержат ряд проблем. Он считает актуальным совершенствование традиционного изменения в двух областях, а именно, в расчетах индексов роста, учитывающих 1. эффект изменения условий торговли и 2. эффект трансфертных потоков (например, выплаты процентов).

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S. NAGY

AN ANALYSIS OF ECONOMIC GROWTH WITH TECHNICAL PROGRESS FUNCTION

The article is concerned with *Kaldor*'s technical progress function from three aspects.

First, a new specification of the function is introduced and explained in which embodied technical progress is represented beyond new investments, capacities put into operation by labour that acquired new, advanced qualification.

Second, the specification of the function is verified by computing numerical estimates for its parameters for the periods 1950–1960, 1960–1970 and 1970–1978. As a result of the computations a detailed analysis of Hungary's economic growth is given by the help of technical progress functions, demonstrating differences by branches of industry and the national economy in respect of technical progress. The successful application of the technical progress function for analysis proves also in the case of Hungary that the long-term economic growth rate depends on the rate of adaptation of new technology (in investments and the training of the labour force) i.e. on the appropriate economic policy approach and *not* on the absolute size of the stock of fixed capital.

Third, estimates are obtained for the growth rate of disembodied technical progress in Hungary. According to the computations, at the level of the national economy it is 4.1–5.3 percent per annum for the period 1950–1978 and a slightly accelerating trend could be observed by the end of the period under investigation, 1978.

Controversies around the application of production functions and the amount of criticism voiced against the method have compelled the economic research workers to try new ways and methods for the investigation of the effects of technical progress.

Criticism voiced against the classical production functions can be summed up by saying that, according to this approach, technical progress is an exogeneous factor not connected to any factor of production. In other words this means that technical progress, investment activity, and the qualification of labour are processes taking place independently of one another.

The rigidity of this approach was somewhat relaxed by the introduction of the concept of embodied technical progress. Whereas in the former case disembodied technical progress affected the whole production process, in the case of production functions of vintage type, i.e. embodied technical progress, this effect is limited to the production capacities of the latest vintages only.

In response to the criticism against production functions in N. *Kaldor*'s model and in the technical progress function representing its backbone, technical progress is regarded as an endogeneous factor of the economic system. According to his assumption the infusion of technical progress into the economy takes place by the creation of new equipments, new production capacities and the extent of this process depends on

investments, on the investment activity or, more precisely, on new capacities put into operation [1].

In Kaldor's technical progress function the annual growth rate of output per worker operating on new equipments is expressed as a function of the growth rate of investment per worker (dots above indicators mean increment):

$$p_t/p_t = f[i_t^{\cdot}/i_t]$$

where

p_t – productivity of workers operating on new equipments,
i_t – investment per worker.

Kaldor's approach has brought novelty in two respects. First, from the residual factor of neoclassical models, technical progress has become an endogeneous factor of economic growth depending on the internal processes of the economy. Second, in Kaldor's interpretation technical progress is not simply one of the endogeneous factors of economic growth but its main carrier, so-to-say its engine. In view of our present technological and economic conditions, this can be regarded as a rather realistic approach.*

The central idea of the technical progress function is closely related to that of the classical growth models. The key assumption of the best known growth model, referred to as Harrod-Domar model, is also that the growth of output (measured by the national income) is a function of the accumulation of capital, i. e. of the latest vintages of the capital stock:

$$\Delta Y = f(\Delta K), \Delta Y = c\Delta K,$$

where:

Y – national income,
K – capital stock
c – coefficient of capital efficiency,
Δ – denotes increment.

The equation $\Delta Y = f(\Delta K)$ can also be conceived as the simplest one-factor technical progress function, where new technology flows into the economy through the increment of the capital stock, i. e. the new production capacities. Naturally, also this equation can be extended by incorporating the effect of disembodied technical progress:

$$\Delta Y = f(\int K, t),$$

*According to a survey conducted among American enterprises five out of six enterprises regard technological innovations as the main engine of growth and managers of the electronic industry have always been of this opinion [2].

where t denotes technical progress taking place independently of the growth of the capital stock.

Assuming that the efficiency of the increment of the capital stock, the investments put into operation is constant over time, the technical progress function can be expressed in the following linear form:

$$\Delta Y = c + b\Delta K .$$

This means that the increment of the national income is equal to the sum of the return on investments put into operation ($b\Delta\dot{K}$) and of a constant value attributable to technical progress.

The assumption of the constancy of coefficient b means that the per unit returns on investments put into operation at various points of time are identical. In this case the technical progress function can be integrated into a production function.

In other words this means that the elasticity of output with respect to the capital stock – coefficient b or $\partial(\dot{Y}/Y)/\partial(\dot{K}/K)$ – changes with the capital-output ratio K/Y but it is independent of the rate of capital accumulation ($\dot{K}/K$). However, the technical progress function can be regarded such an extension, further development of the production function where the elasticity of output with respect to the capital stock changes both with the capital-output ratio (K/Y) and with the rate of capital accumulation, i.e. with the growth rate of investment activity ($\dot{K}/K$). According to the assumptions a rising growth rate of capital accumulation at first accelerates technical progress then, beyond a certain point, the favourable effect is getting smaller and smaller. Thus investments, new capacities put into operation at various points of time, cannot be integrated into a stock of capital consequently the identity of the technical progress function and the production function cannot be maintained. (For details see [12].)

It follows from this, firstly that, depending on the volume and concentration of investment activity, the rate of technical progress is sometimes higher or sometimes lower; secondly that, due to the variable growth rate of technical progress the capital stock of some economy cannot be regarded as homogeneous in respect of efficiency although in the computations with production functions this is one of the basic assumptions.

The distribution of investments over a given (plan) period, the rate of capital accumulation have a strong influence also on the optimization of the level of consumption [10]. The results of model computations prove that in the case when investments are concentrated to the first half of the plan period, the level of consumption is higher than it would be with a continuous, steady growth of investments over the whole of the plan period. In our assumption the acceleration of technical progress due to the concentration of investments, or an accelerated infusion into the economy of the achievements of technical progress play an important role in this.

The technical progress function applied in the present analysis relies on Kaldor's function as far as the basic idea is concerned. However, in response to the requirements of concrete econometric computations, several modifications have been carried out.

Specification of the technical progress function

In analysing the development of the Hungarian national economy by the help of a technical progress function we set out from the following assumptions.

The growth rate of the economy depends in the long run on the adaptation (absorption) of new technology and thus on an adequate economic policy approach and not on the absolute size of the capital stock. In accordance with the technical progress function as defined here, the effect of technical progress flows into the economy through three channels, by the help of three factors. They are as follows:

– new capacities put into operation,

– labour, i.e. that part of labour force which acquired new qualification,

– technical progress not connected with the above two factors. (This factor is usually referred to as disembodied technical progress.)

In this interpretation the economic effect of technical progress is measured in a model-like approach. The underlying basic idea is that the adaptation in Hungary of the achievements of technical progress attained at home or abroad (purchasing licences) results in the growing efficiency of the new capacities and of the workers operating on them. As a consequence of the general rise in the level of efficiency, beyond the above phenomena such an increase in efficiency can also be observed which is represented by the variable of disembodied technical progress.

From this exposition it can be seen that in the present approach no distinction is made between a rise in efficiency due to technical progress and to other factors (such as a general improvement in organisation, increased exploitation of the economies of scale, a more intensive participation in the international division of labour, etc.). Apart from well-known problems of measurement, this is justified by the assumption that in the long run it is technical progress that is the main factor in raising efficiency.

It is an important characteristic of the specification of the technical progress function described here that it assigns an important role to the economic policy. For, according to the function, the effect of technical progress on economic performance depends on the attitude of development policy towards the adaptation (absorption) of new technology. It is obvious that new technological solutions only have an economic impact if they are applied.

Statistical measurement of the variables of the technical progress function

The basic assumption that the long-term growth rate of the economy does not depend on the size of the capital stock but on the adaptation of new technology, requires the statistical definition of the variables of technical progress. The adaptation of new technology takes place through two main factors. One of them is the putting into operation of equipments and other means of production in which new technology is

incorporated. An easy way of statistical measurement is offered here by the indicator of investment projects put into operation. Naturally, this is only an approximation since

– it is of a limited scope, covers only new fixed capital and does not include new appliances and other circulating capital of smaller value and shorter lifetime which represent in certain cases significant technical progress;

– it is based on the assumption that every investment project put into operation is of such technical level that its operation can be regarded as technical progress (it is known that this assumption is only realized to a limited extent).

However, under the given conditions the indicator of investment projects put into operation represents an acceptable approximation of embodied technical progress. Its application is facilitated by the fact that for Hungary continuous time series are available in a break-down by national economic branches.

The other factor (and condition) of the application of new technology is such a rise in the general educational and qualification level of the labour force which permits the effective exploitation of means in which new technology is embodied. Ferenc *Jánossy* points out that "In a country with the highest economic development, the technological state of the means of production, and thus also of the workplace structure, is determined in a twofold way by the vocational structure of the total labour force: first by the ability of the workers to master the process and, second, by their ability to create new production materials." [3]

Jánossy does not stand alone with this opinion of his. *Schultz,* T. W. [4] explains the rapid recovery of the developed countries after World War II also with the fact that only the physical capital was destroyed by the war, professional skills, the human capital survived and it is this factor that brought about economic miracles. At the same time, economic progress in the less developed areas is hindered by the lack or scarcity of human capital which has also to be created and this takes place much more slowly than in the case of the physical capital. (The case of oil producing countries rich in capital is a good example for this.)

B. *Horvát* follows a similar line of reasoning when investigating why developing countries are so slow to absorb investments from external sources. The explanation he found is that the rate of economic growth is determined by a so-called critical investment variable and this is the qualification and educational level of the population. Relying on this notion he tries to define the optimal rate of investment.

It seems desirable to incorporate in our model such a variable or variables which are suitable for the description of embodied technical progress. Solution of this task is hindered by a great number of theoretical and practical difficulties.

In connection with the measurability of the human factor of embodied technical progress a possible (the most evident and the most frequently applied) solution is the introduction into the model of the variable of costs associated with the qualification of the labour force.

As far as the scope of qualification costs are concerned there is much debate among the economists of the socialist and the western countries as well as within the two groups.

The basic underlying problem is caused by the fact that costs connected with upbringing cannot be separated from those connected with the creation of the labour force (human capital in Western terminology).

It cannot be considered as clarified even theoretically which costs should be reasonably and desirably used to characterize the size of human investment. This theoretical vagueness looses practical importance if we examine the available statistical data. For the case is that in the regular statistical publications only data on the educational outlays from the state budget are to be found.

In case of Hungary outlays from the state budget for educational purposes constitute a rather great share of the total educational costs, however such items (of far from negligible size) as outlays of enterprises for professional training as well as the educational expenses of the population etc. are missing.

Therefore, we have come to the conclusion that it is reasonable to try to find other solutions for the numerical measurement of "the human investments put into operation". An indicator showing the highest degree of relationship with investments put into operation (characterizing embodied technical progress) is the number of persons with given educational, qualificational level entering employment.

At present the suitable time series are not available on the distribution of persons entering employment by educational level, therefore we have to try to use the output data of educational institutions.

In our opinion from among the output data it would be reasonable to consider in the model – by way of experiment – the number of school-leavers from vocational institutions, specialized secondary schools and the institutions of higher education. Primary schools and non-specialized secondary schools are such educational institutions which do not provide vocational training, thus school-leavers from these institutions obtain qualifications necessary for their work as a rule in some kind of after-school instruction – frequently while already working. At the same time a great part of schod-leavers from primary schools and non-specialized secondary schools continue studies, consequently do not enter employment.

Naturally, this too, is only a rough approximation to what we want to measure. As far as contents and quality of the indicator are concerned the same problems arise here as those mentioned in connection with the variable of investments put into operation:

– it does not cover fully the phenomenon we want to examine, it does not include the number of school-leavers from primary schools and non-specialized secondary schools who do enter employment directly after school but it does include the number of school-leavers from vocational schools and specialized secondary schools who do not enter employment but continue their studies (the situation is somewhat improved by the fact that these distortions are of opposite directions and to a certain extent cancel each other);

– it is based on the assumption that schools provide the most modern education and qualification for the students, though, according to analyses arguing for the reform of the educational system and of the curricula, this not quite so.

Nevertheless, this solution seems to be a feasible way to introduce it directly into the model as a new variable of embodied technical progress. (On the other hand, the fact that a break-down of this indicator by national economic branches is not feasible at all, speaks against its application.)

Numerical estimates of the technical progress function

Parameters of the technical progress function have been estimated on the basis of data for two periods. Thus, we have estimates of these parameters for the periods 1950–1970, and 1970–1978.

For the years 1950–1970 we have carried out computations only at macro-economic level with the primary aim to prove the applicability of the technical progress function.

For these macro-economic computations a simplified version of the technical progress function was applied:

$$GDP_t = f(I_t^*, L_t)$$

where

GDP_t – volume of the gross domestic product,
I_t^* – new investments put into operation,
L_t – total employment.

It can be seen from the specification that the effect of disembodied technical progress was not taken into account here.

For the period 1970–1978 more detailed computations have been carried out for the following areas:

a) experimental computations at macro-economic level with that variant of the technical progress function which explains* the development of GDP in terms of new investments put into operation and of those persons employed who acquired new professional qualification. (The latter includes the number of persons who passed in the given year final examinations in the vocational schools and in the specialized secondary schools as well as of those who received diplomas in the institutions of higher education.) Thus the equation takes the following form:

$$GDP_t = f(I_t^*, L_t^*, t)$$

*This series of computations means the verification of the new, further developed version of the technical progress function.

where t represents the effect of disembodied technical progress (which was not allowed for in the computations for the years 1950–1970);

b) computations have been carried out with the "basic variant" of the technical progress function, the generalized form of which is

$$GDP_t = f(\overset{*}{I}_t, L_t, t)$$

(considering total employment), detailed by national economic branches and individual industries.

Results for the years 1950–1970

As a first experiment we have approached the connection between technical progress and economic growth by trying to compute a regression equation between the growth of average labour productivity and new capacity per worker. (New capacities are represented by the volume of new investments put into operation.)

The following estimates have been obtained for this relationship:

$$\frac{GDP_t}{L_t} = \underset{(0.784)}{22.454 + 2.429\,(I_t^*/L_t)}$$

$$\overline{R^2} = 0.9984, \qquad DW = 0.937$$

where:

$\overline{R^2}$ – correlation coefficient corrected for degrees of freedom,
DW – Durbin–Watson statistics.

There is thus a rather close connection between the two variables, however, the low value of the Durbin-Watson statistics indicates that the growth of national economic productivity is influenced over the period under study by a further systematic factor or factors. Our assumption is that from among them disembodied technical progress is the most significant one.

The experimental computations carried out for the years 1950–1978 with exponential functions (based on the natural logarithm e) gave the following estimates:

$$GDP_t = \underset{(0.0037)}{88.7 \cdot e^{0.0532t}}\,\underset{(0.0569)}{(\overset{*}{I}_{t-1}/L_{t-1})^{0.0218}}$$

$$\overline{R^2} = 0.989, \qquad DW = 1.66.$$

According to this, a 1 percent increase in the volume of investment put into operation per operative in the preceding year increases the volume of GDP by 0.02 percent in the current year. At the same time, the average annual growth rate of disembodied technical progress over the same period was 5.3 percent.

In the following the technical progress function is given in such a form in which the variables of investments put into operation and total employment appear independently. Estimates for the parameters of this type of equation have been computed for three periods (the constant item is omitted here to facilitate interpretation). For the years 1950–1970:

$$GDP_t = \underset{(0.1451)}{2.1573}\ \overset{*}{I}_t + \underset{(0.0122)}{0.0544}\ L_t$$

$$\overline{R^2} = 0.9880 \qquad DW = 1.713$$

For the years 1950–1960:

$$GDP_t = \underset{(0.4908)}{1.2236}\ \overset{*}{I}_t + \underset{(0.0300)}{0.0793}\ L_t$$

$$\overline{R^2} = 0.8809, \qquad DW = 1.904$$

For the years 1960–1970:

$$GDP_t = \underset{(0.1068)}{2.5840}\ \overset{*}{I}_t + \underset{(0.0135)}{0.0494}\ L_t$$

$$\overline{R^2} = 0.9812 \qquad DW = 2.475$$

The results indicate that between the two periods 1950–1960 and 1960–1970 the efficiency of investments put into operation more than doubled. This means that in the development of the economy, in the growth of the GDP, az increasing role is played by new capacities with higher and higher technological level.

Results for the years 1970–1978

In the macro-economic computations we have tried to obtain estimates for the parameters of both variants of the technical progress function. As far as the mathematical form of the equations is concerned we have examined the cases of both linear exponential relationships. (Computations have been carried out relying on GDP data at 1976 prices.)

1. Linear equations. With the linear form of the equation we could not obtain significant parameters for the effect of disembodied technical progress in every individual case. Therefore, we have the following form of the technical progress function:

a) with the new type of employment variable:

$$GDP_t = \underset{(0.58)}{2.34\ \overset{*}{I}_{t-1}} + \underset{(2100.3)}{2042.8\ \overset{*}{L}_t}$$

$$\overline{R^2} = 0.910 \qquad DW = 3.07$$

b) with the total employment variable:

$$GDP_t = \underset{(0.50)}{2.63\ \overset{*}{I}_t} + \underset{(41.3)}{219.5\ L_t}$$

$$\overline{R^2} = 0.905 \qquad DW = 2.35$$

It can be seen from the above equations that in the period between 1970 and 1978 one unit of investment put into operation increased the volume of GDP by 2.34–2.63 units. It is remarkable that it exceeds somewhat the value obtained for the years 1950–1970 (2.157) and coincides roughly with that for the years 1960–1970 (2.584).

A more detailed analysis of the coefficients of investments put into operation testifies to increasing returns to new capacities and at the same time to the rising efficiency of technical progress. The estimates for the coefficients:

1950–1960	1.22
1960–1970	2.58
1970–1978	2.63

These coefficients are not identical with the incremental capital-output ratio ($\Delta K/Y$), nor with its reciprocal. Following from the functional relationship they reflect the *ceteris paribus* returns to investments put into operation. In other words: these values are partial derivatives of investments put into operation with respect to GDP in the technical progress function.

The estimates for the incremental capital-output ratio (for its reciprocal in parentheses are given below in the case of investments put into operation for the same periods:

1950–1960	0.14 (7.1)
1960–1970	0.22 (4.5)
1970–1978	0.28 (3.6)
1978–1980	0.29 (3.4)

It can be seen from the estimates for the parameters in the technical progress function of the investments put into operation by individual *national economic branches,* that the returns to new capacities are the highest in the building industry (3.21), this is followed by industry (2.26). In the rest of the national economic branches the growth of the value added is influenced to a lesser extent by the development of investments put into operation. On the basis of the returns to labour the following ranking was obtained: trade, transport, communication, building industry.

Table 1

Estimates for the parameters of the technical progress function by national economic branches

Branches of the national economy	$\overset{*}{I}_t$	L_t	$\overline{R^2}$
Industry	3.26	61.84	0.674
Building industry	3.21	230.67*	0.960
Agriculture and forestry**	0.79	57.5	0.924
Transport and communications	0.17	286.9*	0.967
Trade	–	343.3*	0.975
Non material branches	0.094	123.4*	0.997
Total	2.63	219.5	0.905

The estimates for the parameters of the technical progress function defined by individual *industrial* branches permit to draw several conclusions *(Table 2).*

According to the parameters of the technical progress functions defined by industrial branches, returns to disembodied technical progress are the highest in the engineering and the chemical industries. Further, they are relatively high in the light and food industries. As far as the efficiency of investments put into operation is concerned, it is the light industry that tops the list, only somewhat preceding engineering. In respect of the efficiency of live labour the following ranking was obtained: electric energy industry, chemical industry, mining and metallurgy.

*With a time lag of one year.

**In the case of agriculture and forestry the coefficient of disembodied technical progress is 4434.6. Consequently, the coefficients of investments put into operation and of total employment are smaller than in other branches.

Table 2

Estimates for the parameters of the technical progress function by industrial branches

Branches of industry	t	$\overset{*}{I}_t$	L_t	$\overline{R^2}$
Mining	791.9	0.043	102.7	0.974
Electric energy	456.5	0.092	130.4	0.979
Metallurgy	584.7	0.018	101.0	0.989
Engineering	4283.0	0.131	62.2	0.993
Building materials	504.0	–	77.8	0.969
Chemical industry	2492.7	0.010	119.1	0.992
Light industry	1607.4	0.133	47.1	0.990
Food industry	863.6	–	75.1	0.985
Industry total	11 891.0	0.071	2.127	0.998

*2. Exponential equations.** With exponential relationships the following estimates have been obtained for the parameters:

a) with the new type of employment variable:

$$GDP_t = e^{0.050t}\, \overset{*}{I}_t^{0.061}\, \overset{*}{L}_t^{0.220}$$
$$(0.003)\ (0.045)\ (0.084)$$

$$\overline{R^2} = 0.999 \qquad DW = 2.93.$$

b) with the total employment variable:

$$GDP_t = e^{0.053}\, \overset{*}{I}_t^{0.020}\, L_t^{1.075}$$
$$(0.003)\ (0.053)\ (0.747)$$

$$\overline{R^2} = 0.997 \qquad DW = 2.67$$

The annual growth rate of disembodied technical progress was 5.0–5.3 percent in 1970–1978 in Hungary. A one percent growth of investments put into operation increased the volume of GDP by 0.061 percent if the new type of employment variable was applied and by 0.020 if total employment was considered in the equation. These results justify the new specification of the technical progress function, the introduction of the new type of employment variable.

*Computations have been carried out with the natural logarithm e.

Variant b) of the exponential type of technical-progress function has been used to characterize the dynamics of technical progress by branches of the national economy.* (The computations have been carried out on the basis of the natural logarithm e again.)

Table 3

Estimates for the parameters of the technical progress function by branches of the national economy

Branches of the national economy	t	$\overset{*}{I}_t$	L_t	$\overline{R^2}$
Industry	0.069	–	0.93	0.999
Building industry	0.061	0.043	0.13	0.994
Agriculture and forestry	0.045	0.201	0.603	0.928
Transport and communication	0.042	0.019	0.260	0.991
Trade	0.067	0.004	0.073	0.990

From the results of the computations it is impossible to see the relative technological level of the individual branches, however, a rather reliable picture can be obtained of the process of technical progress, i.e. of its differring growth rates for the years 1970–1978 in Hungary. Thus, an opportunity is provided to analyze the paths of technical progress in the various individual branches on the basis of these parameters. (See *Table 3*).

It can be seen from the estimates that the highest growth rate of disembodied technical progress was observed in the industry (6.9 percent) and the lowest one of the branches for which computations were carried out, in transport and communications (4.2 percent). The contribution to GDP growth of new capacities put into operation was growing at the highest rate in the agriculture and forestry. The contribution of labour was growing at the highest rate also in this branch as well as in transport and communications.

Computations have been carried out for the individual branches of industry, too. (They were based on value added figures at constant, 1975 prices.)

As indicated by *Table 4* the growth rate of disembodied technical progress shows considerably larger differences among the branches of industry than among those of the national economy. According to the computations its growth rate was the highest in the chemical industry (9.4 percent), in the electric energy industry (7.9 percent) and in engineering (7.9 percent) and it was the lowest one in mining (2.5 percent).

*Variant a) could not be used because statistical data necessary to estimate the parameters of the new type of employment variable are not available in a break-down by branches of industry.

Table 4

Estimates for the parameters of the technical progress function by branches of industry

Branches of industry	t	$\overset{*}{I}_t$	L_t	$\overline{R^2}$
Mining	0.026	0.012	0.032	0.984
Electric energy	0.079	0.025	–0.476	0.994
Metallurgy	0.044	0.023*	0.093	0.986
Engineering	0.073	.	1.668*	0.997
Building materials	0.057	.	0.274*	0.997
Chemical industry	0.094	0.012*	0.084	0.998
Light industry	0.057	0.052	2.098	0.997
Food industry	0.052	.	1.428	0.992

*With a time lag of one year.

At the same time the elasticity of investments put into operation with respect to the growth of value added varies only slightly. Of the significant parameter estimates it is the highest in the light industry (0.052) and the lowest in the chemical industry and in mining. As far as the elasticity of total employment is concerned, the first place is taken by the light industry, followed by engineering and the food industry.

*

On the basis of computations carried out with data for the years 1950–1970 as well as 1970–1978, it can be stated that the technical progress function is suitable for the analysis of economic development both at macro- and micro-economic levels, i.e. in a break-down by branches of the national economy and of the industry. The basic idea is also justified by the fact that technical progress fits well to actual statistical data also if factors representing the highest technical level are considered from the side of both the fixed capital and the labour force, i.e. new capacities put into operation and labour which acquired the latest – presumably the most advanced – qualification.

The successful application of the technical progress function for analysis proves – in our opinion – the basic underlying idea of the function, according to which the *rate* of economic growth depends in the long run on the adaptation (absorption) of new technology (in investments and in the qualification of labour) and not on the absolute size of the capital stock.

According to the computations, the growth rate of disembodied technical progress in Hungary – in which all kinds of improvements in national economic efficiency are reflected – was 4.1–5.3 percent per annum in the period under study and, according to our assumption, it was slightly accelerating by the end of the period, i.e. by 1978.

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АНАЛИЗ ЭКОНОМИЧЕСКОГО РОСТА ПРИ ПОМОЩИ ФУНКЦИИ ТЕХНИЧЕСКОГО ПРОЦЕССА

Ш. НАДЬ

Расчеты, произведенные на основе венгерских данных за 1950—1970 и 1970—1980 годы, позволяют установить, что функция технического прогресса пригодна для подробного анализа экономического развития как на макроуровне, так и на уровне отдельных отраслей народного хозяйства и промышленности. Правильность этого общего соображения подтверждается тем, что

функция технического прогресса хорошо увязывается с фактическими статистическими данными, когда как со стороны основных фондов, так и рабочей силы принимаются во внимание только факторы, представляющие собой наиболее высокий технический уровень, то есть новые введенные в действие производственные мощности и обладающая новейшими техническими знаниями рабочая сила.

Успешное применение для анализа функции технического прогресса — по мнению автора — подтверждает основную идею функции. Согласно этому, в долгосрочной перспективе темп экономического роста зависит от освоения новой техники (в капиталовложениях и подготовке рабочей силы), следовательно, от соответствующего подхода экономической политики, а не от абсолютной величины основного капитала.

Темп неовеществленного технического прогресса — в котором отражается повышение народнохозяйственной эффективности, не связанное прямо с капиталовложениями и рабочей силой — по расчетам составляет в Венгрии 4,1—5,3 процентов, и к концу рассматриваемого периода до 1978 года наблюдается некоторая тенденция к повышению.

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THE FACTORS INFLUENCING THE EXPECTED DEMAND FOR ENERGY IN HUNGARY*

The greatest negative impact of the changes in the world economic order of values on Hungarian economic growth can be identified not so much in the higher costs involved by the higher prices of imported primary energy and in the external imbalance as in the global deterioration of international competitivity developed on the basis of the new relative values in the world economy. Therefore, the way out is not to be sought merely through improving the economic performance of energy management but by raising the global efficiency of the economy.

In recent years, a great many different opinions and appraisals have been published about the reasons and deeper mainsprings of the world economic changes that occurred at the beginning of the seventies, and about the effects and consequences of these changes. Let it be mentioned incidentally that a survey taking account of the "scientific" evaluations, responses concerning the changes which occurred almost a decade ago would provide an interesting and instructive picture about the economic science of the seventies, and the economic thinking of the period. Nevertheless, today the recognition is already becoming universal that the rearrangements which occurred in the world economy were not of a unique, random, or regional nature, and affected fundamentally not only the terms of trade in the narrower sense, the earlier established international relations, but qualitative changes were caused in the power, value and price relations of the world economy, and through them they demand and force changes of a strategic nature in the economic policies of the national economies too.

The growth policy correlations of the demand for energy

The effect of the change which may be considered the most important has been that the until then global overvaluation of the whole of manufacturing activity has ceased or has become strongly differentiated. Products of the manufacturing industry not embodying any special intellectual activity and representing an average technical standard have become considerably devalued, on the one hand, compared

*The study was commisioned by the earlier Ministry of Heavy Industry and has made use of a research report elaborated with the collaboration of numerous researchers.

to the leading products representing a high technical standard, and on the other, to the fuels, and to a smaller extent also to the primary raw materials and semi-finished products. National economies suffering from the negative influences of these world economic changes may break out in several directions: one is to increase the share of extractive activities in their production which qualify as economical, and the second – and perhaps primary – direction is to raise within the structure of manufacturing the share of products which represent a high technical standard and may be produced profitably. The third alternative – and this is perhaps the most likely course – is a combination of the two extreme alternatives; i.e. after consideration of the available development resources – capital, labour, natural endowments – to attempt to reduce in both directions the economic growth handicaps caused by the changes in the relative values on the world market.

The above outlined dilemma of development arises especially sharply in countries which produced a rapid, and in many cases spectacular, economic growth following World War II and the national economies of which had been backward earlier, including Hungary. In the economic development of Hungary over more than three decades industrialization and industrial development played an outstanding role, which were based in the past quarter century on the processing of imported energy and raw materials and the large-scale exporting of the manufactured products. Amidst the value and price ratios which existed between the basic materials and the manufactured products earlier for decades, this way of industrialization *proved to be successful even with an unsatisfactory efficiency lagging regularly behind the international average, at least as far as growth rates were concerned.*

The considerable increase in the prices of the extractive industries and the considerable differentiation in the price formation of the manufactured products put a question mark to the possibility and expediency of continuing the earlier economic strategy. To avoid misunderstandings, it has to be added that the development crisis does not refer primarily to the strategy of industrial development based on imported raw materials, *but to its so far inadequate efficiency.* It follows that the more efficient utilization of imported energy and raw materials will play an outstanding role in the economic policy of the future. In the case of Hungary, the importance of this is underlined by the fact that further raw material resources needed for growth cannot be obtained from the markets which have been the conventional sources, or only on increasingly hard economic, external economic terms, and simultaneously the selling of the manufactured products meets with more rigid barriers on the markets of the CMEA countries than was earlier the case.

In the next two decades no global shortage of the most fundamental raw materials and fuels is to be feared. According to price estimates, the real price of most industrially important raw materials will become stabilized at their present level – disregarding shorter-term fluctuations –, with the exception of fuels in general and oil products in particular, the real price of which is expected to rise by five percent on annual average. Taking all this into consideration from the aspect of the world market accessibility of

fuels and raw materials and the trend of prices, Hungarian economic-policy should take into account a situation in which the accessibility to the basic raw materials is very limited from the traditional CMEA sources even at world market prices. While in other sectors of the world market purchases do not meet with such constraints of scarcity, in respect of these countries the main difficulty is payment through Hungarian exports. The fundamental dilemma of Hungary's energy and raw material policy is that in the countries to which it would be able to export manufactured products, there are hardening barriers to the purchaseability of raw materials, while to countries where the purchase does not meet with such difficulties, the exportability of her products has been weak, and in the future she may count with even more difficult conditions. The ways and means of the solution may be very different, but it may be claimed with certainty that *these questions cannot be solved by the energy and raw material policy alone, they point further beyond, and assume the re-formulation of the whole economic policy.*

The feasibility of planning energy requirements

An established practice and system exists in most countries of the world – including Hungary – for the determination of the energy needs, and this practice can rely on in their majority tested methods of planning and estimation. However, the past functioning of the planning system was motivated strongly by the *abundance of relatively cheap energy, and by the unequivocal and overwhelming priority of economic growth.* It follows from the last mentioned priority that in general the national economies pursued an energy policy one of the fundamental characteristics and requirements of which was the *full* satisfaction of the demands for energy emerging from the side of production and consumption. In this situation the "safe" preparation of the energy industry led in general, but especially in the centrally planned socialist countries, to *over-planning, the building up of capacities that were certain to satisfy the demands.* In addition to what has been mentioned, two further circumstances exerted an influence towards over-insurance:

– in general, great safety margins were left where the consumer demands were estimated 10–15 years before the actual consumption, and further
– additional reserve capacities were calculated for the satisfaction of the so determined consumer requirements – partly motivated by technical-production aspects.

What has been said is not contradicted by the fact that while this endeavour for safety asserted itself unequivocally in most socialist countries, owing to the exaggerated energy requirements of economic growth the appearance of the demand in time often preceded the completion of capacities, and, as a consequence, an *energy shortage, especially a lasting imbalance in electric energy supply were phenomena which continuously accompanied growth,* with perhaps only Hungary being an exception. A further conclusion to be drawn from the planning practice of the socialist countries has been that in the given system of planning and control, usually such large development projects occur in the power industry the investment requirements of which exceed the load-bearing capacity of the national economies in every plan period. It is a logical conse-

quence of this that the national economic plans are usually overfulfilled from the investment side and in general in the sphere of accumulation, every plan period being characterized by an "over-distribution" of investment, while and at the same time the growth rate of the national income and efficiency continue to lag behind the planned and the desirable figures.

The Hungarian energy policy practised since the second half of the sixties undoubtedly mitigated the pressure on the investment sphere – at least in the energy sector – by the large-scale broadening of imports and by the use of more efficiently utilizable hydrocarbons, but this change did not by itself put an end either to over-distribution or to the tensions in respect of investment. It appears obvious, on the one hand, that elimination of some economic activities – be they more capital intensive than the average – from the production structure does not necessarily lead *by itself* to the mitigation of tensions between investment resources and the demands competing for them. On the other hand, in the already almost inevitable persistence of investment tensions the main determinant factor is not the lower or higher ratio of the sectors with different capital intensity, but the *planning, decision-making, incentive and institutional systems controlling the allocation of development resources, as well as the quality of their functioning.* It is at the same time obvious that *the cumulative effect of the energy sector presenting large investment demands and the given system of management may add to the investment tensions.*

Although we dispose of definite methods for the estimation of the energy demand in the future, the calculations of this nature carried out at various dates and at different organizations nevertheless show a strong dispersion and often support and reflect rather the subjective "expectations" of those making the estimates than *the real requirements.* Until recently the expected growth of the demand for energy of the Hungarian economy and the possibilities for their satisfaction have been judged *optimistically* but a great number of forecasts made in the last one or two years are rather conspicuous by overbidding each other in indicating diminishing demand zones. The reality of the slow and ever slower rise of the expected energy demand and that this trend is a lasting one seems to be supported by the moderate change in demand which has occurred in the last one or two years and which incidentally may be called very fortunate. But it must be seen clearly that, on the one hand, mainly the temporary, once only using up of the reserves "accumulated" to a considerable extent in earlier years is concerned, and on the other, that following the energy price explosion of 1973–1976 – quite differently from the rate of energy utilization of the developed countries – that of the Hungarian economy continued to accelerate right until 1979, and finally that the two to three years of the almost stagnating total energy utilization were accompanied by an almost similar stagnation of economic growth and of the standard of living. This means that all results so far attained by the undoubtedly improving energy management in Hungary have not modified fundamentally the earlier correlation between economic growth and the growth of energy demand, according to which one percent of economic growth is accompanied by nearly one per cent growth in the demand for energy in physical units. It must be added

that in the case of slow or essentially stagnating growth, the keeping level of energy consumption in physical terms is a much more difficult task, assumes much more economical management, since a considerable share of energy consumption grows steadily irrespective of production, a further not negligible part appears in an unchanged volume, etc. It seems that the reduction of the coefficient around 1 between economic growth and the growth rate of energy utilization, which came about earlier in Hungary, cannot be solved through the rationalization of energy management alone. Although the moderation of energy consumption by the economy is very important and indispensable, the determinant factor may nevertheless probably be sought in the extent and rate of economic growth which may be achieved through the improved combined efficiency of all factors used in production.

If the energy demand of the future, as well as the correlation between economic growth and the demand for energy is to be determined realistically, the energy intensity experienced in Hungarian economic growth so far must also be taken into consideration. An international comparison we have made – prepared by making use of the GDP data concerning economic development and the World Energy Supplies data, both published by the United Nations – shows convincingly that

- compared to the per capita GDP the Hungarian energy utilization index does not diverge from the "main international current";
- in spite of the fact that the Hungarian energy consumption per capita or per one unit of GDP rose faster between 1973 and 1978 than in the case of most countries under investigation, the fitting into the international tendencies has remained unchanged;
- the socialist countries, with the exception of Hungary, unequivocally move along a higher energy consumption course, and between 1973 and 1978 the difference increased even somewhat.

According to our survey, out of the thirty countries included in the analysis, Hungary is in twenty-fourth place in respect of economic development level – indicated by the corrected per capita GDP –, twenty-fifth in specific energy consumption measured by the coal equivalent of per capita energy consumption, and thirteenth in specific energy consumption per unit of corrected GDP. Some of the countries demonstrating a relatively lower specific energy consumption, for instance Italy, Yugoslavia, Portugal, Spain, France dispose of much more favourable geographic endowments.*

By international comparison, Hungary does not show marks of development which would be very different from the average in respect of economic development level, the economic growth rate, the energy structure and domestic production as well as the ratio of consumption. We may formulate this even more unequivocally: as a result of the strategy of economic development applied in the last two decades, the specific indices of

*The countries included in the survey were: Austria, Belgium, Denmark, United Kingdom, Finland, France, Greece, Holland, Ireland, Federal Republic of Germany, Italy, Portugal, Spain, Switzerland, Sweden, Turkey, United States, Canada, Australia, New-Zealand, Japan, Bulgaria, Czechoslovakia, Poland, Hungary, German Democratic Republic, Romania, Soviet Union, Yugoslavia.

energy consumption in kind have diminished considerably, and we are of the opinion that the Hungarian economy *has developed on a less energy-intensive growth path* than the "international average". It is important to underline this, first, because the macro-structure of the Hungarian economy – owing to the relatively high share of industry which is more energy-intensive than the whole of the economy – somewhat differs from the international "average", and second, because the economic policy pursued in the 1950s led the economy onto an energy-intensive growth path. Since the energy consumption of the productive sphere is determined fundamentally by the structure of the economy and by the specific energy intensity of the individual sectors and sub-sectors, we may claim that the Hungarian strategy of economic development has in essence asserted, from the end of the fifties, the *requirement of less energy-intensive economic growth.* To avoid any misunderstanding, let us emphasize that the comparison we made is only suitable to prove that in respect of energy consumption the growth of the Hungarian economy *followed the path covered by most developed countries.* This comparison does not and cannot give an answer to the question whether the development level reached could have been achieved also by a lower specific energy consumption. Aware of the fact of wastage or not always rational management in the energy economy too, we may assume that – similar to the other factors of production – we did not go along the most rational way in this respect either. But this is another question.

We consider a realistic judgement of the energy intensity important, because it is linked directly to the question to be answered, i.e. by what energy increment economic growth may be accompanied in Hungary in the future. There are ideas afoot – this thought occurring also in drafts of the long-term planning exercise – that in the future our economic growth may be accompanied by a relatively small energy increment. The main explanation for this is that since the existing specific energy consumption is much higher than justified, by choosing the right economic structure and by rational management we may achieve considerable savings in energy. Not denying the existence of such possibilities, international comparisons do not confirm that these reserves should be of an extent to cover *by themselves* the energy increment needed for further economic growth. In our view, with Hungary's present level of economic development and endowments, *economic development cannot be realized without a certain increase of energy consumption.*

It is an important consideration that in the long term we may estimate *some components* of the factors determining the demand for energy with acceptable certainty, but other components cannot be estimated at all or only very uncertainly. For instance, the specific energy requirement of energy-intensive products – iron, steel, cement, etc. – which represent a substantial share in the consumption or energy by industry, we are able to prognosticate with adequate certainty, taking the expected technical progress into consideration. The problem does not lie here in the determination of the specific requirement per unit of product, but rather in forecasting the consumption of, for instance, cement by the economy, and this depends on the structure of economic development, the sectoral distribution of investment, the proportions of the various

construction methods, technical design, the quality of execution, in one word *on economic management.* Through "moderation" of the direct domestic energy demand we may reduce cement production, but if the past nature of cement use does not change, then either imports must be increased or building activity reduced. It is clear in this case too that the extent of energy consumption depends in the last resort on the *quality of economic management,* and the preference for a certain structure does not solve the problem but only transfers it to another area or context.

Estimation of the energy requirements of the manufacturing activities is even more problematic, since it is uncertain not only how much energy will be needed for the given product but also what the product structure of the various sectors and manufacturing branches will be 15–20 years hence. In our given situation we must exactly assume that the engineering industry, the precision instrument industry *must necessarily be different* for us to be able to change in essence the present conditions of efficiency; in other words, the *expected energy requirements must be coordinated with a product and activity structure which does not exist but is hoped for.*

We did not mention the difficulties of forecasting on account of the futility of planning, but because we wanted to indicate the internal uncertainties of the various forecasts referring to the energy requirements of the future and further that a very different energy requirement may belong to the same economic growth rate – depending on the quality of the factors of growth – or the other way round, a very different growth rate and/or activity structure may belong to a quantity of energy which is assumed to be given in some approach – for instance from the aspect of the available investments. According to our investigations, the first mentioned approach dominated in the earlier planning practice, but – in our opinion – in the changed situation the latter approach has an increasing justification.

The expected rate of economic growth and the demand for energy

When determining the quality of the correlation between the rate of economic growth and the expected demand for energy we must analyse carefully the trends of the past and those changes which are expected to occur in this respect in the new period of development. In this connection, we wish to deal here a bit more in detail only with the modified role of energy imports and of the energy structure.

Hungarian economic policy has been criticized frequently for not paying sufficient attention to the comparative advantages inherent in the international division of labour. Looking at it from this aspect, the raising of the share of hydrocarbons and with them of imports may be *qualified a necessary and correct decision of economic policy,* from the aspect of both energy policy and external economic strategy. Comments and objections may be made partly in connection with their belatedness, and partly for the inadequate assertion of the "order of efficiency". Taking all this into consideration, we still are of

the opinion that the *main problem and neglect* was not in the *energy policy concept,* the nucleus of which had been formulated at the end of the fifties and which was implemented from the end of the sixties, but rather in that the *advantages of development policy provided by the change in the energy structure were not exploited for the building up of more competitive export capacities.* It is the neglect of Hungarian economic policy that – expressly or tacitly – *it was satisfied with those growth potentials* which were offered by the cheap oil, and what is perhaps even more important, by the *export capacities – e.g. the engineering industry – which provided for balancing the oil imports,* and which could be increased relatively rapidly.

The accelereated economic growth stimulated also by the new system of economic control concealed the real situation, which consisted in that to a large extent it was the *external and temporary economic forces that contributed,* and not the adequate improvement of efficiency. This appearance was strengthened by the forceful development of East-West relations, the expansion of opportunities for importing technology, and the dynamic economic growth of the industrialized countries. At the turn of the sixties and the seventies, as the resultant of interaction among the various factors of growth a favourable development situation occurred, in which cheap energy occupied a central position. The cheap oil and, in general, the trouble-free supply of raw materials had an influence on the "competitiveness" of the Hungarian manufacturing industries from several aspects.

a) The cheap oil and the rapid transformation of the energy structure resulted in a reduction of costs without any special efforts.

b) Reduction of the ratio of domestic energy production and the gaining ground of hydrocarbons set free a very considerable volume of development resources for the other sectors of the economy, including the manufacturing industries. The relative "abundance of capital", accompanied by improvements in the conditions of importing technology, created a more favourable situation for the manufacturing industries also from the side of the means. However, the manufacturing industries did not respond to the changed situation by accelerating technological development. The then existing investment boom, accompanied by an increase in capital intensity, has in the longer term the unfavourable consequence that the large-scale inflow and gaining ground of techniques and technologies born in the era of cheap energy renders difficult – with the relatively narrowing future conditions for investment – the reduction of energy intensity in the manufacturing industries at a faster rate.

c) The increase of energy imports created a favourable import market which set hardly any conditions in respect of quality. Cheap energy and the "economical" export of manufactured products had effects which mutually strengthened each other. In this situation energy consumption often became an end in itself, and was even provided with a certain ideology, since the specific energy requirements of the Hungarian economy appeared to be more and more "unfavourable" compared to the other CMEA countries.

Reduction of the share in investment of the highly capital intensive energy and raw material sector offered *new opportunities of capital allocation* for the faster building up

of the infrastructure which corresponded less and less to the needs, and to make up for the developments which had been put off for decades. Although a change in this direction undoubtedly occurred, a *qualitative break-through* did not occur in the development of the infrastructure. *In the last resort, the delaying of the development of infrastructure was accompanied by an increase in the capital intensity of the manufacturing industries and the beginning of a highly capital and energy-intensive direction in the development of agriculture.*

In the long-term planning of the correlation between economic growth and the demand for energy it is important to take into consideration that the changes in energy prices have in many respects modified the earlier interrelations between the efficiency of energy consumption and economic efficiency in the technical sense. In the period preceding the seventies, with energy prices that could be considered stable and the then existing relative prices of various fuels, the increase in the share of the more efficiently applicable hydrocarbons reduced on the one hand, the growth rate of global energy demands in terms of volume, and unequivocally improved economic efficiency on the other. The sudden increase of the oil prices changed the earlier parallel movement of technical efficiency and economic efficiency. With the new price ratios, the improvement of efficiency in the technical sense was accompanied in many areas, by a deterioration in economic efficiency. This requirement has two important consequences which must be taken into consideration also in long-term planning. First, in the past the gaining ground of hydrocarbons within the energy structure reduced the increase of demand for energy per unit of growth through the systematic improvement of technical efficiency. This trend will be reversed in the next two decades, and the change in the energy structure will rather increase than reduce the quantity of energy necessary for one unit of economic growth. Second, the global revaluation of the energy sources also means that not even a considerable reduction of the earlier existing ratio (in kind) between economic growth and the demand for energy is sufficient for sustaining the ratio between economic growth and the demand for energy in terms of value. In other words, even if the specific energy consumption diminished in the future in physical terms, higher energy costs will accompany every unit of economic growth.

From all this we may draw the conclusion that in the future the correlation between the rate of economic growth and the change in the energy demand depends primarily on whether we *succeed, and to what extent, in improving the combined efficiency of the factors of production used in the course of economic activities;* in adding a larger value – recognized and paid for by the market – to every unit of energy, material, fixed asset value, etc. used in the phases of processing following on each other.

When starting our investigation we did not have, just as we do not have now a more or less final strategy of economic development which would be consistent with the external and internal conditions of growth, nor a growth rate belonging to this strategy. It is, of course, not possible to deduce the rate of economic growth from the quantity of energy that can be obtained, but we cannot treat the growth rate independently from it

either, with special regard to the increased costs, the limited available resources, and the considerable investment and import costs entailed.

We have investigated the expected rate of growth from several aspects, and have also used the interrelations explored and formulated in the analyses of the long-term planning exercise. In the formulation of the expected rate of economic growth we have taken the following aspects into consideration:

- The medium-developed countries, including Hungary, have a *basic economic policy interest* in the achievement of relatively fast economic growth. The most recent world economic forecasts estimate the global growth rates for the next two decades at three to four percent, so that within this the growth rate of the developed countries should be around two to three and that of the developing countries around five percent. The maintenance of our position occupied at present in the world ranking order by the level of development in itself requires the achievement of a growth rate approximately corresponding to the world average.
- The earlier achieved growth rate is moderated by the circumstance that employment in Hungary, the total of man-hours available to society – as against an increase in the past – is rather likely to diminish than to grow.
- Changes in the structure of accumulation also make the slowing down of the growth rate likely.
- Changes in the world economy and the expectable trends project a situation which is less favourable than in the past.
- The changes in the macro-structure – the ratios between the productive sectors (industry, agriculture) and the infrastructure – which were important factors accelerating growth in the past, have ended in Hungary. It is difficult to estimate the magnitude of the actual additional sources for growth gained from the structural change, since until now price ratios did not correspond to the real value relations in respect of both the productive sectors (industry versus agriculture) and the infrastructure. This means that the actual growth rate in the past may have been lower than what was calculated, and for the future that the role of the macro-structural change in the slow-down of growth will certainly be lower than calculated at the present prices.

On the basis of all this, *without substantial changes in economic policy and management we may* count with a rather moderate growth rate. However, on the basis of the past efficiency of the utilized factors of production, and on the examination of the growth path of several developed and less developed countries, the assumption does not seem to be unrealistic that the *correlation which existed in the past between the growth rate and the basic factors of production may be modified by changing the system of conditions of economic policy and management.* A substantial modification of this determinant system is in fact the *only factor which accelerates growth in the future.* Without increasing efficiency in the use of the already existing factors of production – manpower, capital – and those to be introduced in the future, not even the growth rate

necessary as a minimum for maintaining the international position and for restoring the internal equilibrium can be achieved. To be concrete about the correlation between the growth rate and the demand for energy: we shall not be able to increase the economic performance of the energy sector at a rate and to improve it to an extent to which the inefficiently operating "utilizing" sphere is "able" to increase its consumption and spoil its efficiency. In addition to the question of the conventional planning attitude: *"what shall we develop"*, we must qualify at least just as important the problem of: *"how shall we develop"*.

An appraisal of the rate of economic growth in the future is rendered difficult not only by the uncertainties of the extent of efficiency improvement that may be achieved, but also by the circumstance that, in spite of the expectable narrower manpower and capital resources, the conditions for sales on the domestic and external markets will set *the direct limit to growth.* The main components of the "market challenge" are: in the CMEA countries it is not the absence of demand that presents the immediate problem but payment in (import of) goods of an adequate hardness. And in the western countries – disregarding here the sharpening competition – the middling technical and efficiency parameters of the Hungarian products present the main limits.

In respect of the connection between the growth rate and the demand for energy all the above considerations indicate that while it will not be possible to utilize some part of the Hungarian production capacities owing to the lack of effective demand, at the same time we may have to reckon with a continuing, perhaps even increasing, relative shortage in the factors of production necessary for the faster modernization of the economy: highly qualified manpower that may be mobilized in various areas, high-capacity efficient technical equipment and technologies. It is consequently probable that the demand for energy will fluctuate more strongly in time. The ratio of energy consumption is more or less independent of the volume of production, and it may be expected that the energy demand of the non-productive sphere will increase. Thus, in the case of a lower growth rate, the relationship between economic growth and the increase of the demand for energy changes, beyond a certain point the *inelasticity of energy consumption becomes a hardening constraint.*

In another context, the low growth rate sets a limit to the growth rate of internal utilization, and especially of investment, the process of the replacement and modernization of existing equipment is slowing down. With a more rapid modernization of the economy there are greater opportunities for the introduction of energy-saving technical equipment, and of new technological processes, and this opportunity improves the chances for the successful implementation of an economic and structural policy involving lower energy consumption.

In view of the various factors accelerating and slowing down the growth rate, *we consider a three to four percent annual average growth rate to be realistic in the estimation of the expected magnitude of energy consumption,* and have set out from this assumption. In estimating the demand for energy, the growth rate which may be expected is very important, but – as we shall try to prove – it is not the only and all-decisive

factor. Our calculations show that, for instance, by modifying the present sub-sectoral structure, or changing the sectoral structure respectively, the possible zone of the demand for energy may be moved even by 50–100 percent.

The long-term trend of energy requirements

In estimating the expectable demand for energy the various forecasts set out from different economic situations and different growth rates, and make also different assumptions concerning the internal consumption. Consequently, the energy demands that may be assigned to the different conditions, also show differences, as may be seen from *Table 1.*

In estimating the expectable demand for energy in the future, all alternatives set out from the growth of the various sectors and branches of the national economy and from the estimated changes in the energy intensity of production; *there are, however, considerable differences in the size of the growth rates.*

The development alternatives of different rates in the various sectors all raise different demands to the energy industry, but the limited resources – taking the relatively high investment costs of the energy sector into consideration – do not allow the development of the sector at an "unlimited" rate.

Other common assumptions of the forecasts are: a considerable rise in energy prices, and the continuing high level of fuel prices, the increase of foreign exchange burdens, further the limited possibilities of increasing the imports of fuels from the socialist countries; and, finally, *minimization of purchases of primary energy from the dollar-accounting countries.* It can be assumed that the satisfaction of demand for hydrocarbons from the socialist market through "conventional" foreign trade methods will meet with increasing difficulties and, consequently, the terms of delivery of energy supplies will become harder.

All forecasts consider the saving (conservation) of energy not to be a "campaign" task but a long-term *economic policy requirement* of the first order. The reason is that energy rationalization, the rational and economic use of primary energy play an outstanding role in the moderation of the growth rate of demands for energy.

In spite of the different assumptions from which they set out, the different estimates prognosticate the annual rate of growth of the total energy demand as between 1.5 and 2.7 percent, and in respect of electric energy the dispersion is even lower, changing between 3.4 and 4.6 percent. The long-term preconception for the years 1981–2000 sets the expectable annual growth of the energy demand of the economy at 1.5–2 percent, and counts with a 3.5–4.0 percent increase in electric energy consumption. *Referring to international comparisons, and further to the uncertainties in the growth rate and structural changes in the national economy, on the basis of our analyses we consider an average annual growth of 2 percent in total and around 4 percent in electric energy demand as likely between 1981 and 2000.* We consider it an important

Table 1

Alternatives of the expected total and of the electric energy demand in Hungary

	1980	1990	2000
On the basis of sectoral calculations made by the *Ministry of Heavy Industry*, the *National Planning Office* and the *National Technical Development Board* (1979)			
Upper limit			
Energy demand, Pf	1293	1697	2115
Electric energy, TW h	31.7	52.0	77.0
Lower limit			
Energy demand, Pf	1286	1650	2040
Electric energy, TW h	31.0	48.0	71.0
Based on the calculations of the *National Energy Management Office* (1979)			
Upper limit			
Energy demand, Pf	1293	1676	2116
Electric energy TW h	31.7	50.9	70.0
Lower limit			
Energy demand, Pf	1276	1593	1908
Electric energy, TW h	31.0	40.9	64.0
Own estimation (1980)			
Upper limit			
Energy demand, Pf	1268	1632	2176
Electric energy, TW h	31.0	50.0	77.0
Lower limit			
Energy demand, Pf	1268	1548	1967
Electric energy, TW h	31.0	44.0	67.0
National Planning Office Preconception (1981)			
Upper limit			
Energy demand, Pf	1269	1624	2077
Electric energy, TW h	31.0	48.5	74.0
Basic alternative			
Energy demand, Pf	1269	1549	1884
Electric energy, TW h	31.0	46.5	68.0
Lower limit			
Energy demand, Pf	1264	1474	1708
Electric energy, TW h	30.8	44.0	61.5

aspect of energy planning, that through a low growth rate itself, by holding back economic growth we are not likely to be able to reduce the increase of the energy demand in the longer range under a certain – annual 1.5–2 percent – value. Through the systematic and significant improvement of economic efficiency we may be able to accelerate economic growth annually by 0.5–1 percent even with an unchanged – annual 2 percent – or only by a few tenths of percentages higher rise in energy requirements.

We have made calculations about the changeability of the "determination" between the growth rate and the demand for energy.* Our calculations prove that with a given average growth rate the long-range energy requirements are determined fundamentally by the *applied economic development strategy* and structural policy. In our analysis we have set out from an annual three percent growth rate of the economy. We have assigned to this growth rate *different sectoral structures* – alternatives marked I–IV – as possible trends of development. The characteristics of the imagined alternatives are:

– In the alternative marked I, the growth rate of agriculture, the food industry and the engineering industry is above the average, being between four and five percent, while the growth rate of the other sectors is between one half and two percent.
– In the alternatives II–IV the growth rate of industry is above the average, at a value around four percent, and within this
– alternative II reckons with a faster development of the non-energy intensive sub-sectors; against six percent growth in the engineering and light industries, the growth rate of the other industrial sub-sectors is between 0.5 and 2 percent,
– alternative III projects the sectoral structure existing at present, assumes a uniform four percent growth rate for all industrial areas, while growth in the other sectors is one to two percent,
– variant IV is the energy-intensive development; the growth of the basic material industries (metallurgy, chemical industry, building materials industry) is six to eight percent, the growth rate of the other sectors between 1.5 and 3.0 percent.

The following important conclusions may be drawn from *Table 2* in connection with the perspective development possibilities for energy supply.

– The almost identical variants resulting in an approximately three percent annual average economic growth rate, which may be judged "realistic" in practice, involve very extreme energy development requirements. The range of the ratios of the energy requirement increments of the alternatives is sixfold, that of the growth rates more than fourfold.

*The calculations were made by Pál *Erdősi* in his work entitled *Az energetika múlt és jövő fejlődési tendenciáinak sajátosságai* (Particularities of the past and future evolutionary trends of energetics.) Budapest, 1980. Manuscript.

Table 2

The energy demand belonging to the different possible production structures in 2000

Name	Starting figure in 1979	Alternatives				
		I	II	III	IV	
Electric energy demand	17.5	22.0	23.0	29.0	40.0	TW h/year
Total energy demand	758	971	921	1235	1784	Pf/year
Increment						
Electric energy	–	5	6	12	23	TW h/year
Total energy	–	209	167	461	1005	Pf/year
Average annual growth rate						
Electric energy	–	1.3	1.4	2.6	4.3	%/year
Total energy	–	1.2	1.0	2.5	4.4	%/year
The share of industry out of total energy consumption in 2000	–	63	71	79	86	%
Elasticity of the increments						
Electric energy	–	0.4	0.4	0.8	1.3	%/%
Total energy	–	0.4	0.3	0.8	1.3	%/%
The energy intensity of growth						
Electric energy	–	13	14	32	57	kW h/10³
Total energy	–	528	402	1244	2495	kJ/Ft
The total energy intensity of material production						
Electric energy	40	27	27	36	47	kW h/10³
Total energy	1700	1172	1089	1507	2094	kJ/Ft

Source: Erdősi, Pál: *Az energetika múlt és jövő fejlődési tendenciáinak sajátossága* (Particularities of the past and future evolutionary trends of energetics). Budapest, 1980. Manuscript.

– From the aspect of energetics alternatives I and II may be considered economically almost equivalent and "the most favourable", i. e. development centred on agriculture and on the non-energy-intensive industries. Alternative I must have only rather moderate other comparative advantages in order to compensate for the drawbacks of its somewhat higher energy input.
– A development similar in its structure to the today existing structural ratios (III) already represents requirements for energetics which are two to three times as high as the previously mentioned alternatives.

– Energy-intensive economic development – although it cannot be considered a realistic alternative – assumes a four to sixfold increment of energy requirements compared to variants I and II.
– The indicators in *Table 2* contain already an assumed improvement in specific efficiency of nearly 20 percent. Without this, the value of all incremental indicators would be higher by approximately 25 percent than the data shown in *Table 2*. Consequently, the differences between the variants would increase, the differentiating effect of the energy requirement would be even stronger.
– The practical realization of the energy intensity and elasticity indicators which are prescribed or desired is unimaginable without the strict determination of the conditions of development and management; and the absolute fulfilment of the economic policy endeavours in this direction. In the case of alternative IV the energy demand of the total material production deteriorates by approximately 20 percent in spite of a 20 percent specific improvement.

We have intended the presentation of the quantities belonging to the different imaginable economic structures to prove only that even in the case of a given growth rate the demand for energy of the future may represent very different values depending on the selection of the structure. The calculation does not want to suggest that *energy intensity should have a primacy in the future development of the economic structure,* although, in view of the investments and/or import burdens necessary for securing energy, energy intensity must undoubtedly be taken into consideration in the formation of the structure.

For determining the energy demand of the future realistically, not only the energy requirements of production must be investigated from many sides, but *also consumption by the population,* which grows steadily in the energy consumption structure, and which is taking shape under the influence of motivations different from those in the production sphere. According to our calculations, the consumption by the population and by the communal sphere accounted in 1980 for 31–32 percent of total consumption, and by the turn of the century it will probably reach 35–36 percent. This will partly depend on the extent to which it will be possible to moderate the growth rate of the consumption of the production sphere. The technico-economic factors determining consumption by the population are:

– expected improvement in the housing supply indicator,
– increase in utilities available to the dwellings,
– motorization, and the further mechanization of households, etc.

It may be expected that within consumption by the population the share of petrol, gas, electric energy and thermal energy will continue to increase, while heating oil and solid fuels will show a diminishing trend.

The interpretation of energy rationalization

As we already indicated above, the energy requirements to be expected may move within a rather broad interval depending on changes in the production structure, the ways and quality of consumption by the population, etc. However, from the aspect of the expected increase in demand and the possibility of its satisfaction the *question of energy rationalization takes in a central position,* in the case of any concept. Its central role is given by the fact that whatever solution or combination we find for the satisfaction of the energy requirements, *relatively increasing burdens on the national economy, "sacrifices" will accompany every unit increase of energy.* In the moderation of the burdens on the national economy, the correct choice of the ratio between domestic production and imports, the combination of the various kinds of energy which may be rationally substituted for each other may be very important, *but may prove to be insufficient.* The present and future "energy problem" can only be solved together with the rational utilization of energy. We cannot cover the relevant details in this article, but wish to refer to a few elements which we consider important:

– First, the price increases of the primary energies modified the earlier rates of substitution between several factors of production, the technical-technological solutions; *the revaluation of energy in comparison to other factors of production has increasingly brought the "energy-saving" solutions to the fore.*

– Second – this is important especially in respect of long-term decisions – *energy is but one factor of production,* consequently we can judge the problem of substitution on the basis of the *national economic efficiency of the total* (global) *process.*

It follows from this that we consider energy-saving a very important requirement of development policy, *but the direct and short-term* energy-saving, if forced, may result in energy-saving becoming "an aim in itself", i.e. beyond certain limits may "result" in the deterioration of the total efficiency of the economy. There have been numerous examples for this in our economy: development of a "capital-saving" nature was in fact accompanied by the wasteful, uneconomical utilization of live labour, while on the national economic level *we did not handle the capital goods rationally either.*

From the aspect of economic policy it is necessary to separate the short and medium term one-time reserves which may be mobilized with relatively small additional inputs (caused by an earlier energy management which was less rational from this aspect too), from those rationalizations of energy which *may come from the modified substitution relations of the fundamental factors of production owing to the changed world market conditions.* The latter can only be mobilized through the transformation of the existing technical-technological conditions which can be changed but slowly. At this point, the rate of economic growth and energy rationalization as part of the development strategy mutually assume each other: without energy rationalization a rapid economic growth can only be achieved at the cost of very large investments, sacrifices, and conversely: beyond a certain limit energy rationalization increases the investment

demands by leaps and bounds and thereby narrows down the investment resources that would be necessary for economic development.

One of the important conditions of energy rationalization on the national economic level is, both in the short and the long term, a price system which *reflects more or less reliably the real cost ratios of the various factors of production on the national economic level.* Without this even endeavours recognized by economic policy directed at the "saving" of some factors of production could not be prevented from becoming "aims by themselves", nor the reproduction of contradictions between the short-term everyday economic decisions and the longer-term economic policy interests, i.e. the survival of the macro-micro contradiction mentioned earlier.

Consequently, in our interpretation, energy rationalization is an element of increasing importance in the improvement of national economic efficiency, which can be interpreted and treated in the longer term only in an organic unity with the other factors of production. Energy rationalization necessarily covers: a) the entire system of energy production, purchase and distribution, b) all elements of the economy in the production sphere, and c) the whole of consumption by the population, the way of life, the orders of value, the social and individual needs.

ФАКТОРЫ, ОПРЕДЕЛЯЮЩИЕ ВЕРОЯТНЫЕ ЭНЕРГЕТИЧЕСКИЕ ПОТРЕБНОСТИ ВЕНГРИИ

М. ХЕГЕДЮШ

Исследования автора показывают, что с конца 1950-х годов энергоемкость развития венгерского народного хозяйства была не выше среднего международного уровня: ни темпы роста и структура потребления энергии, ни основные тенденции развития энергетического хозяйства страны — учитывая достигнутый уровень экономического развития и темпы экономического роста — не отклонялись существенным образом от международных закономерностей. Тем не менее, путем целенаправленного изменения экономической структуры и последовательного проведения в жизнь требования рационального использования энергии, а также более существенного повышения экономической эффективности можно еще более понизить энергоемкость роста экономики. Одновременно важно подчеркнуть (и это следует также учитывать и при разработке долгосрочной стратегии народнохозяйственного развития), что при достигнутом в настоящее время Венгрией уровне развития нельзя добиться динамичного развития экономики без роста потребления энергии.

Как сложится в ближайшие два десятилетия взаимосвязь между темпами экономического роста и изменением энергоемкости, а через это — объем и темпы роста вероятной потребности в энергии, будет зависеть прежде всего от того, удастся ли — и в какой степени — достичь более высокого уровня эффективности использования всех факторов производства, повысить учитываемую и вознаграждаемую через рынок вновь созданную стоимость в расчете на единицу энергии, сырья, фондов на всех последовательных стадиях производства. По расчетам автора, основанное на более динамичном повышении стоимости в расчете на использование факторов производства экономическое развитие не должно встретить жестких ограничений со стороны энергии; в противном случае при продолжении прежнего, экстенсивного с точки зрения использования энергии, экономического развития, в обеспечении энергией возникнут такие же трудности, как и в отношении других факторов производства, что приведет к неприемлемым с точки зрения социальной политики темпам экономического роста.

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L. KOMLÓ

INDUSTRIALIZATION OF THE HUNGARIAN AGRICULTURE

The author seeks answer to the questions why the Stalinist model of socialist industrialization proved to be inadequate in Hungary, how it was modified in Hungarian practice after 1956, how the own model of industrializing agriculture developed, what its social and economic characteristics are, what interests conflicted in the course of industrialization and in what manner; and what further development of the model can be expected.

In my article entitled *A mezőgazdaság iparosításának újraértelmezése* (Reassessment of the industrialization of agriculture) [7] I explained why and from what point the term industry is used for the engineering industry, building industry, pharmaceutical industry, catering industry and entertaining industry alike. What is the really common trait that qualifies them as such? The answer was found in *enterprising* or, in a historical outlook, in capitalist enterprising.

This enterprise means *complete commodity production* in the field of material production, i.e., the purchase of all inputs and the sale of all outputs. The technical characteristic, on the other hand, is the use of some *mechanical system,* that is, total (complex) mechanized production with the suitable scientific-industrial technology.

It follows, firstly, that agriculture may also become an industry when it can develop itself into complete commodity producer and mechanized production and, secondly, when – in the capitalist mode of production – the *capitalist relations of production* can become established in it too.

However, the agriculture can become a complete commodity producer provided that other sectors have already been industrialized and have created the necessary market for agricultural sales and for purchasing the means of production of industrial origin. It is also implied that the capitalist relations of production must have developed and become established in other sectors first.

However, in the capitalist mode of production agriculture is involved in the preliminary industrialization of other sectors in a manner that the feudal estate is not turned into large capitalist farms but decisively into holdings with *small-scale commodity production* which, not being capitalist enterprises, will be satisfied with much smaller income together with the purchasing, processing and sales cooperatives it creates, that is, which produce foodstuff at a much lower price than sould be feasible for capitalist large-scale farms together with the capitalist enterprises for supply, processing and sale.

The above is economically important because workers' wages and employees' salaries can be much lower than if the agriculture comprised capitalist large-scale plants and this is due to the exploitation of this very system of small-scale agricultural produc-

tion, that is, the coercion and inclination of the small-scale commodity producer to self-exploitation. This paradoxical self-exploiting conduct of the small-scale commodity producer is preserved when he becomes a small entrepreneur. That is, if agriculture has already become a small enterprise (a mechanized family farm producing only for the market) then the exploitation of this agriculture by the capitalist system dominating it this way will continue.

This industrialization process in the field of relations of production entails that after the elimination of feudalism the agricultural *relations of production* are typically *small-scale commodity relations of production* in contrast with the capitalist relations of production typical of the industrialized sectors at the same time prevailing, and, therefore, in the course of agricultural industrialization these two conditions of production conflict, the capitalist fighting for expansion and the small-scale commodity producer for survival, until the latter is replaced by the capitalist relations of production also in agriculture. That is, the process of agricultural industrialization on the level of society amounts to a confrontation between the relations of capitalist vs. small-scale commodity production, to the detriment of the latter. (See [7] for details.)

Agriculture and industrialization in Hungary

The creation of the socialist regime was accompanied by the nationalization of capitalist enterprises, i.e., capitalist property, also in Hungary. They became socialist state enterprises, namely, socialist state property. So the capitalist relations of production based on capitalist ownership were replaced by the socialist relations of production based on socialist state ownership and the latter became predominant.

The building of socialism demanded the consolidation and extension of these relations of production and that was only possible, economically and societally, through continued industrialization in this country. This is how the building of socialism was connected with industrialization also in Hungary, and it simultaneously served the economic development of the country. Since Hungary was an agrarian country at the time, the industrialization of agriculture had to be preceded by the industrialization and development of other sectors.

At that time Hungarian agricultural production was small-scale and theoretically it could have been involved in the socialist industrialization of the economy the same way as it was by the capitalist way of industrialization. But then industrialization would have required longer time since in an agriculture functioning according to the laws of small-scale commodity production there is no way of achieving the degree of "primitive socialist accumulation" quickly, or in a short period of time, as was then conceived.

Therefore, it was intended to replace small-scale agricultural production by an agriculture suitable on the one hand for accumulation faster and to greater extent and, on the other hand, for the liquidation of small-scale private ownership, i.e., the small-scale relations of production.

The original model

According to what had been learnt till that time, the Stalinist model of industrialization and collectivization was found to be expedient. Namely, for the purpose of the direct and easy-to-control accumulation of the means required for industrialization, an agriculture collectivized that way allowed to set agricultural prices so low that no agriculture under market conditions would work for it. This, on the other hand, lent itself to administratively specified and controlled distribution of sowing area and animal stock, the scheduling of husbandry, moreover, even of the agrotechnical and zootechnical tasks and their timing, and of course also to the allocation of the small amount of income left. Since this model completely eliminated the market from between the collectivized agriculture and the state, compulsory delivery was the way of fulfilling the plan obligations specified in physical terms (thus the agricultural products were stored in state stocks), while the very low compulsory delivery price served to draw away the agricultural receipts needed for industrialization.

Consequently, the income left with the collective farm to be paid out to workers of the agriculture thus collectivized, that is, to cooperative members, was very low. To some degree this was balanced by the household farms plots, that supplied the cooperative family with food (especially with animal products, vegetable and fruit) and with continuous (although very small) money receipts from sales in the so-called free market. Still, even this kind of farming served as a source of industrialization because it was covered by compulsory delivery, with special respect to animal products.* All in all, it can be stated that in the said model the cooperative joint farm basically served central accumulation for the purpose of industrialization and the central food supply to the non-agricultural population, and the household farm served the cooperative family. It may also be added that the first one was managed practically by the state and the second one by the cooperative family.**

This model served industrialization also because owing to the lack of independent farming and very low income the cooperative sector was left by whoever could quit and

*Unfortunately official data are not available about the magnitude of personal incomes originating from the collective and from the household farm in the early 50s. I can still remember that according to my comparison made in 1953 but not published, the national average of the income paid by the collective farm in kind or in other forms was about one-third of the compensation (payment in money and in kind) of prewar farmhands. Further and already official information may be gained from the following data: even in 1955, (that is, after the serious economic and agrarian political shock of the year 1953), one cooperative household (family) got Ft 3170 cash from the collective farm and its total money receipts amounted to Ft 16 900 including the receipts from selling products of the household farm. At the same time its consumption originating from its own (household) production was estimated at Ft 13 100.

**At a prominent model farm of the times, the cooperative farm Great Stalin of Cegléd, this model was described on the basis of a study on the spot with its system of management, inconsistencies and failures. It was only published in 1979. [8]

find work in industry. And these were of course the most agile, dynamic and intelligent ones, the young people. (Not mentioning the "koulaks" who were ousted and practically "expropriated", and who had been the most efficient farmers.) Also the main barrier was removed from the way of this flow: the private ownership of land was practically abolished by collectivization and so these people were no longer attached to agriculture by the land. On the other hand, industrialization profited because good and – owing to the initial lack of training – cheap workforce became available and this was extremely advantageous for extensive industrialization.

By means of this model the income of the collectivized agriculture could be practically entirely centralized and so the investment serving agricultural development could also be tackled as a central function. This in turn allowed us to develop the agriculture only to a degree afforded by the primary interests of high-rate industrialization. This degree did not provide much opportunity and it was topped by the generally reluctant and inefficient participation of the cooperative membership in work done for the collective farm because of low incomes and centralized direct "management" and so the output of collectivized agriculture decreased relative to the previous small-scale production instead of increasing.*

Not only the said objectives were served by compulsory agricultural delivery and by the extremely low delivery and "procurement" prices but it was also made possible to fix much lower wages for workers and salaries for employees than if agricultural prices had been formed in accordance with the laws of the market. So these prices were suitable not only for increasing the "competitivity" of the agricultural and food industrial export items but also for making industrial production "cheaper", that is, for making the Hungarian industrial products also more "competitive" abroad.

However, this model was so intolerable in its methods of both collectivization and functioning that the Hungarian society was unable to accept it in spite of repeated and desperate pressure. Therefore, whether we wanted it or not, we were directed by life to another way.

The modified model

The objective of socialist industrialization and of the socialist reorganization of agriculture was not given up after 1956 either. Both were pursued at the proper time and in the proper way, but in quite different measure and with different methods than before.

First of all, agriculture was collectivized in an absolutely different way, this time definitely. The rate of industrialization of the country was reduced to a sober-minded rate and, consequently, the burden on agriculture of this kind could also be relieved.

*The Stalinist model neglected the very important, historical experience and practice of capitalist industrialization that industrialization is preceded and accompanied by the substantial and steady increase of the productivity of agricultural labour as well as of agricultural output. A valuable portray is given about the latter i.a. by *Rosier* [13].

Compulsory agricultural delivery was abolished already in 1956. Thereafter procurement prices were gradually increased but they still were far from being sufficient either to allow for any major increase in the personal income of the post-1960 cooperative membership or for the independent development of cooperative farms from their own resources.

This could be achieved, even without compulsory delivery, because the system of centrally planned directive farming was carried on. It was still possible to stipulate for the cooperatives set up (let alone for state farms) what and how much they were to produce and, having no other opportunity of marketing but the state procurement organizations, accumulation was still made possible with the state purchase prices kept low.

At the same time it was also continued to draw away from agricultural establishments not only the volume required for moderate industrialization but also the resources required for agricultural development so as to be able to redistribute them and to determine centrally where, when, how much and in what fields the agriculture was to be developed. Farm business management, development, or use of income thus did not belong to the functions of the enterprises (cooperatives). It was nevertheless achieved through more and more humane collectivization, more and more reasonable industrialization and the steady raising of agricultural incomes that the output of cooperative agriculture no longer declined but began to grow at an accelerating rate.

The economic reform gave new impetus also to this, but to this very day agriculture has not been connected in Hungary to industrialization directly through the market. One of the reasons is the price level of foodstuffs which is still kept relatively low and the other one is accumulation from agriculture, although of steadily decreasing volume. The latter serves in part continued industrialization and in part the development of the agriculture which is still done to a certain degree through central redistribution.*

Under such circumstances an economic policy that serves the building of socialism and socialist industrialization, or one could also say: a society building socialism, had to find the ways whereby the aforesaid can be made possible, moreover, favourable social and economic impacts can be produced. One of the questions was how to raise the personal income of cooperative members – in spite of continued central levies – and the second one (of course also subservient to the first) was the new "reserves" that could be used for the purpose of complementing insufficient business incomes originating from agricultural production.

It emerged almost spontaneously from economic and social relationship that the so-called auxiliary activities of agricultural plants could be such a "reserve". The point was by far not that cooperatives should be enabled to employ their membership better, and thus also the income of the latter could be increased, but much rather that, owing to the usually low capital-intensity of the auxiliary activity, the collective farm could draw

*It is typical for example that the amount drawn away from cooperative farms expressly by the state was as much as Ft 16 773 million even in 1980, of which sum Ft 12 022 million was returned to them as state subsidy for business and investment purposes while the estimated value of agricultural and industrial price disparity was about 25 billion forints [11].

away relatively high income from there for the purpose of the development of still loosing agricultural branches. On the other hand these activities mean the manufacturing of products and the offering of services that are not manufactured or offered by the socialist state industry in Hungary or, in other words, the filling of actual gaps. Nor is it negligible that when the "auxiliary activities" of the agricultural units are further promoted and when they are allowed to venture into the most different industrial and other fields, then the industry and other economic activities can even more powerfully be decentralized and society (socialist building) can be relieved from the burdens and disadvantages it suffers because of urbanization related to the traditional capitalistic and Stalinist industrialization (building of industrial cities, concentration of industry and industrial population in towns).

From the point of view of the agriculture this "secondary activity" is certainly not at all of "secondary importance". It will be enough to note that the share of non-agricultural activities in the price receipts of agricultural cooperatives amounted to 35.7 percent in 1975, and to 41.0 percent in 1978. The corresponding figures for state farms are 37.5 and 39.1 percent [4].

The other "reserve" had to be found first of all for further increasing (complementing) agricultural (cooperative) personal incomes. In fact there was no need to search – it was enough to make more courageous and better use of the known thing, the household farming. But then only cooperative members would have been covered. However, it was soon realized that it was sensible to extend and develop small-scale agricultural production also beyond that sphere because the very interests of the socialist economy benefit if non-agricultural workers especially industrial workers who are rural residents and are periodical or permanent commuters are also engaged in this activity.*

The volume of additional agricultural products available from this small-scale production for the socialist national economy is shown from the fact that almost all through the 1970s it amounted to about 36 percent of the value of gross agricultural product and a little more than half of the net value. According to statistical data in 1972–73 2.7 billion man-hours were spent on this production and even if the work done by children, women and retired people is converted to active male man-hours the result will be still 1.9 billion man-hours. This is equal to about 20 percent of the nationally available total man-hours [4]. It must not be forgotten here that a considerable part of this work is done by the workers daily in overtime.

Accordingly, it is one of the ingenious findings of the Hungarian agrarian policy as against the original Stalinist model that for the sake of the development of socialist economy, continued socialist industrialization as well as the continued increase of the production of material goods and the raising of social welfare, it successfully associated

*By the way, this symptom is found also in the capitalist model in the form of the so-called "part-time farming".

the basic activity of large-scale farms with "secondary activities" which are important in every respect, and agricultural large-scale production with small-scale production.

All the above basically serve the interests of the socialist society, i.e. of the prevailing socialist relations of production, but in a manner that agricultural units consider their "auxiliary activities" and agricultural small producers consider this small-scale production to be in their direct interest and do not spare hard overtime work.

The industrialization of the Hungarian agriculture

For the sake of a higher-rate industrialization of the country, i.e. of the quicker introduction and expansion of the socialist relations of production, collectivization as a first step eliminated the class of agricultural small-scale commodity producers and created in its stead the agricultural cooperative class.

Collectivization according to the original model transformed this agricultural society into a cooperative class only nominally since it was deprived by the political and economic power practically of any class basis and opportunity to assert itself. Small-scale producers were in fact expropriated and the "cooperatives" created were treated merely as their workplaces. It is therefore not incidental that these ex-small-scale producers did not consider the cooperatives of the times as their own and tried to restore their original status as small-scale producers whenever they could, e.g. in 1953 and in 1956.

The case of the collectivization of 1960 was different in Hungary. Firstly, small-scale producers then joined the cooperative with the sober awareness that there was no any other way for them, neither any way back. Secondly, collectivization *ab ovo* took it into account that the new cooperative class was to be given the opportunity to develop its own life both in cooperative farming and in the social and economic life of the country. The result did not fail to come about, namely, unlike any other foreign and previous Hungarian collectivization, this collectivization *was not accompanied by any decline in agricultural output.*

It was another achievement that this cooperative class began to be more and more business-like, to take charge of its own affairs and to act for the sake of increasing its social and economic reputation. The socialist state, too, worked in order to "strengthen" and develop this cooperative farming and to allow the interests of cooperative members and the interests of the development of cooperative farming to be in better and better agreement.

It did so on the one hand in order to save itself from having to face such disadvantageous economic and social symptoms as had been entailed by the previous attempts at collectivization and, on the other hand, in order to involve an agriculture successfully developing by virtue of improving cooperative farming in the economic development and further industrialization of the country.

Both ends required the full evolution of the social and economic development of agriculture. The leaders of the economic policy certainly sensed that very well and they

became more and more aware that in a medium-developed country where, unlike the Stalinist model, the role of the agriculture must not be underestimated from the social and economic and especially foreign trading point of view, the quicker development of agriculture was the most solid basis of the safe further development of the national economy. Not only a safe domestic supply could be secured by it but, firstly, a domestic market could be created and increased for the continued higher-rate development of industry and, secondly, through the boosting of its role in foreign trading it could expand one of our most significant and dependable source of foreign currency. This was formulated in brief as follows: "The assumption that the rate, direction and structure of industrial development depend mainly on agricultural development is an *axiom of economic policy in Hungary.*" [3]

The priority of the state farms

The economic political acceptance of the industrialization of agriculture was only strengthened by the industrialization drive that evolved at state farms at that time. Since these were already state property, there was nothing to change in the relations of ownership from the point of view of industrialization. However, once they had "strengthened" on the level of advanced manufacture, the technical installations and equipment (machine systems) which could enable them to satisfy the technical requirements of industrialization were not yet in their possession. Therefore they were more and more keen "to find the methods and ways of developing up-to-date mechanized socialist large-scale establishment showing the traits of industry". [14].

Considering it from inside, this endeavour of theirs is also explained by the fact that the agricultural experts of the highest qualification and the best knowledge of farming sought and found their place chiefly in the state farms. Some of them could easily become downright technocrats here for they did not have to run a personal risk for the use of new technology but it was run in their stead by the "impersonal" state. So it is easy to understand why so many of them tried to instal admirable machines, equipment and installations as advanced technically as possible.

In this endeavour they found cooperation among experts working at higher organizations, and even among agrarian and economic politicians since it was a rather general view at that time that the state farms were the "workshops" of new technology and methods and that they must be provided with the necessary financial means.

The interplay of such factors made it possible that the process of industrialization started and developed first in the state farms and in them the "industrial" technology entered the scene first. At the same time, this sector being already state property, industrialization did not cause any inconsistency in the relations of ownership and, consequently, the technical process of their industrialization could not entail any confrontation between different relations of ownership and production. In cooperative agriculture developments were different.

Evolution of the interests of the cooperative class in industrialization

Inside the agricultural cooperative class the demand for industrialization could develop and become a program first of all in the stratum of cooperative leadership. The number of graduate experts steadily increases in the cooperative leadership and these people feel, moreover, know by instinct, that their leading role will be the greater and the more indispensable the higher degree of expertise is required for the production they pursue, and the more advanced and intricate techniques and technology they use, because that is known by them alone and consequently the real decisions will be necessarily concentrated in their hands. This they automitically become interested in industrialization. This interest is only increased by the external professional and social, moreover, political acknowledgement in proportion with one being the leading expert of an as advanced and up-to-date, that is, industrialized large-scale plant as possible.

This stratum was naturally joined by a younger and already also graduated stratum of medium-level leaders and workers who prefer to work with industrial techniques and in an industrial manner to working "traditionally" as their fathers did.

As far as the fathers are concerned, they are mostly in an age when many of them are hardly able or willing to learn the industrial technology, that is, unlike the said strata, they are not interested in industrialization. Moreover, industrialization nearly made them unnecessary. Similarly the elder – and to some degree also the younger – female workforce was rendered unnecessary by industrialization. However, just these ones can work in the household farm, in small-scale production, and, together with all other workers, in a number of so-called auxiliary activities! And since these are reasonably profitable, people working there do not suffer any disadvantage because of industrialization: on the contrary, this solution is quite advantageous for them.

This is how interest in industrialization could develop within the agricultural cooperative class and here too, the leading professional intelligentsia was its motor.

This is how we arrived at a stage of social and economic development when the basis had been provided for the interests aimed at the industrialization of agriculture to present and assert themselves and even to meet. At that time such interests were formulated mainly in view of technical-economical considerations but in practice it soon turned out that also different interests were involved.

Who should industrialize?

This became clear when the question 'Who should industrialize' had to be faced. Although it was not put in this way but in the form 'Who should integrate'. Namely if this agriculture had been integrated by the food industry transmitting the socialist relations of production that would have meant, firstly, that the industrial techniques and technology would have come to the agriculture through this channel and as required by the state or

the further development of the food industry. That is, agricultural industrialization would have been subordinated to that of its processing industry and thereby to the demands of the external and internal food market as well.

Secondly, however, in that case – and this is the important point in integration as a form carrying the societal-economical essence of industrialization – the cooperative agriculture would have been subordinated to state ownership and agriculture to "industry", a circumstance then formulated by agricultural quarters as "integrator=imperator". This would have actually been the incarnation of the Kautsky model, i.e. that through this subordination the relations of production characteristic of industry are extended over agriculture and render it industrialized [6].

However, this did not take place because not only the cooperative class but also the agricultural intelligentsia in the agricultural supervisory apparatus immediately stood up against it. Understandably, for otherwise control and the involved power would have slipped from them into the hands of the food industrial apparatus.

This intelligentsia, rallying almost the entire agrarian intelligentsia and the agriculture itself behind it, struggled skillfully against vertical integration starting from the food industry and in a way of directly blaming this state food industry for the schedules of procurement, for the low agricultural prices, and for almost every measure of central accumulation doing harm to agriculture.

The actual role of the food industry could have been obviously made clear in a short time. However, the debate that was about to develop in this matter was immediately suppressed and not only the role of integrator was refused to the food industry but the whole food industry was amalgamated in the Ministry of Agriculture of that time, abolishing the Ministry of Food Industry.

As a really significant consequence of this attack and organizational measure, the industrialization of agriculture began not in close adjustment to and integration with its vertical sectoral relations but separately and independently. Its instrument was the horizontal agricultural integration named "production system" and the formal term in usage became "system husband" or "gestor" instead of integrator. Through it the industrial techniques and technology could arrive to and spread in agriculture.

The agro-industrial complex

This agrarian-(raw material)-centered industrialization was served by the theory of agro-industrial complex or, as it was called in Hungary, the theory of "food economy". This theory set the agriculture into the "heart" of the agro-industrial complex and considered it to be the determinative factor so that the supplying, processing and distributing sectors should be equally subservient to its needs and to the demands of the commodities it has produced.

It follows from this theory with respect to the industrialization of agriculture that the agriculture – as a basis of the total food production and the dominating sector of the

agro-industrial complex – may determine its industrialization itself and may state the rate of development not only for itself but also for the sectors preceding and following the agriculture in the complex.

So, the food industrial vertical integration having been discarded, the theory of the agro-industrial complex gave ground not only for attaching the food industry to the Ministry of Agriculture but also for the supplier sectors of agriculture to belong there. Shortly, the agricultural engineering industry, the first one of them, was actually transferred there.

Thus the theory served the interests mainly of the agrarian intelligentsia working in the highest administration for its activities could have been extended on that basis over further sectors. It could not be incidental that the most important workshops and spreaders of the theory happened to be the research institutes of agricultural economics, belonging to the Ministry of Agriculture.

Moreover, this theory was suitable to serve the interests of the agricultural intelligentsia working in lower management and in agricultural production itself, as well as the chances for increasing their power, because not one single kind of a so-called national agro-industrial complex system but within that context also regional (local, county, district) and micro (enterprise) complex systems were recognized by it. This subdivision of the agro-industrial complex could have provided the basis for setting up various agroindustrial unions, and district and even county complexes which could have included the activities suitable for inclusion and insertion on the given level just as in the national agro-industrial complex. Of course, it is also true that the lower the level of the supposed complex system was to be, the less complex the system could have been because of the shrinking possibility to adjust any of the factories of the processing and especially the supplier industries to some agricultural establishment.

Although the obstacles to organizing and practically running the agro-industrial complex drawn up in theory and articulated at different levels are multiple also from the technico-economic point of view, the true obstacles must not be found here but in the relations of production.

Namely, if either the state-owned food industry or the factories of state industries supplying the agriculture and other activities of state sectors belonged to this complex they could hardly keep their dominating role in the relations of production originating from state ownership for they could not help being subordinated to the agricultural cooperative relations of production prevailing in the agro-industrial complex, that is, the latter could actually expand their domination.

At the same time the sponsoring and encourageing of "complexes" could appear to be advantageous in the eyes of those advocating the extension of socialist relations of production resting on state ownership because they could expect that, owing to its governmental nature and "power", the state property transferred there could transform the cooperative property existing there. However, for this purpose the socialist relations of production resting on state ownership would have to accept the appropriate outside intervention of the state. In Hungary this could not be done because of the risk of open

confrontation with the robust agricultural society and the agricultural cooperative class. Therefore in 1974 the theory of the agro-industrial complex was "unmasked", the name "food economy" was deleted from the official terms and no dispute was allowed about it.

Uniting and amalgamation

Simultaneously with the struggle vertical integration in the food industry and for the agro-industrial complex there developed also another process, namely, the uniting of agricultural cooperatives and the amalgamating of state farms.

This relates to the aforesaid mainly as follows: the bigger and economically stronger the agricultural enterprises are the better they can withstand integration coming from the food industry or from anywhere else outside the agriculture, on the one hand, and the more powerfully they may claim to form agro-industrial unions, associations and enterprises on the other hand. Thus from the side of agriculture the motives were partly defence and partly the expansion and consolidation of the power of agriculture, i.e. the agricultural technocrats, over areas beyond agriculture.

In addition, through uniting and amalgamations the power of leading experts in the enterprise as well as their outside social and economic reputation would be increased; for the bigger an enterprise is and the more successfully a manager controls it the more important decisions he may concentrate and this way his reputation will increase not only inside but also outside the enterprise and his opinion will be respected. Through this factor the agricultural enterprise technocrats and especially the most dynamic part may be easily turned into advocates of unitings and amalgamations.*

Still, the process was not started and governed by the said interests but by the interests of the prevailing socialist relations of production. In the case of direct (or pseudo-indirect) central government control of the economy control will be namely the more difficult in any given sector and the economy will be the more and more uncontrollable the smaller the size of business units functioning in it and, consequently, the greater their number. At the same time, in case the central control applies market instruments the number of business units and enterprises and even their magnitudes do not matter as no direct contact whatsoever is maintained with them. However, for the Hungarian central and especially medium-level control it is more advantageous to deal with the fewest possible business units and enterprises, that is, with as big ones as possible, because this way the contacts created and maintained with them will be more efficient from its point of view.

The reasoning openly advanced in favour of unitings and amalgamations was of course quite different. According to one of the arguments unitings and amalgamations

*The validity of this connection is proved by the following official statement: "... after unions the higher leadership of cooperatives made efforts at concentrating the decisions. Many of the number one leaders still reserve themselves the right of operative decision and interference in a relatively broad field" [9].

were necessitated by the use of "big technology", by more "efficient" investment activity, fuller utilization of capacities, enhanced specialization, and smaller administrative and management staff (which was in fact a disguised demand for centralized management and administration).

But let us think it over a little: Is it the "big technology" that is knocking on the door and hard-selling itself or is there someone looking after it and wishing to bring it along? It is not "technology" itself that decides where it will be applied but technology is chosen by enterprises and enterprise managers (moreover, in Hungary, mainly by higher authorities). And whether it is known or not, "technology" is always a carrier of relations of production which in our case means – and this is known by the technocrat only too well – "big technology" = "big farm" = "big power".

It does not hold either that the bigger "technology", the more enormous investment and the more gigantic farm work towards more economical production and enhanced efficiency in the utilization of the means of production and in business management. It is evidenced by the Hungarian state farms themselves, for example, that the efficiency of production does not at all increase in proportion to the growing size of the enterprise [15]. The US agriculture similarly proves, firstly, that the medium-size farms are the most efficient ones and the bigger are the ones coming after them in the sequence the more powerfully their efficiencies decline. Secondly, it convincingly shows that the bigger the magnitude of a farm category some farm is heading to reach, the higher costs it will have to pay for it and the more diminishing will be its additional income (per unit of input) accruing from making the advance [12].Hungarian data about the "reduction" of workers in management and administration are even more worth reflecting. According to these data the number of cooperative farms decreased by about the half between 1970 and 1980 while the number of persons working in the leadership and management decreased by less than one-fifth. At the same time the number of the clerical and administrative staff increased almost four and a half times! [15]

An argument belonging to another group of reasons purported that through unitings the economically weak cooperatives (state farms) may be strengthened, by being joined to a bigger and more successful farm they may cease to be losing and also their workers may earn higher income.

A little reflection about this argument will be enough to realize that when a failing farm is strengthened because the previous leadership is replaced by the leadership of an efficient farm, namely, when the procedure is in fact of a "replacement of leadership", then it is not absolutely necessary to unite the farms because the same replacement can be carried out by the farm itself.

When the deficit of a failing farm ceases and its personal income fund is increased through replenishment from the efficient farm's own original income then the problem is certainly not solved but the burden of the failing farm is shifted on to the better farm or farms. A rather disadvantageous approach from the point of view of the further development of the latter ones and the incentives of their workers.

Experiences support the conclusion that the amalgamations really did not achieve the objective claimed in the argument. In spite of the marked decrease in the number of farms, that is, excessive mergers, the share of losing cooperative farms increased from 2.9 percent in the year 1973 to 14.4 percent till 1979 [10]. The number of the so-called weak cooperative farms continues to be in the range of 350 to 500 yearly and the amount of special subvention granted to them increased from 1.8 billion forints in 1976 to 2.4 billion forints in 1980 [2].

However, the truly important argument maintained that through the mergers of farms the degree of socialization of production would increase, namely, the bigger the sizes of agricultural plants the more socialized the cooperative agriculture will be. Of course it was also meant that it will be the more socialist.

Assuming that the term socialization means that any given business unit produces to satisfy public needs then a bigger size does not imply a higher degree of socialization because in this case a commodity producing farm of 100 acres is socialized to the same degree as a similarly commodity producing one of 10 000 acres.

Or else, assuming that the term socialization means that the means of production, the process of production and the products of production are directly at the disposal of the workers themselves, then enterprise size has again nothing to do with the degree of socialization, that is, a farm of 100 acres may be once again the same way socialized as a farm of 10 000 acres.

Size really has its bearing when (as this was meant in the given case) some central body assumes to estimate the public needs correctly and wishes to take care directly of satisfying them. Then it will obviously find it to be the most consistent and effective solution to deal with the biggest possible, or with the most "socialized" possible, business units since it can have much more direct contact with them. And since in this case this central power regards itself to be the representative of socialist quality it appears to it that the bigger enterprise is intrinsically a higher degree of socialist quality.

The "approximation"

In the above presented struggle of relations of production in the course of industrialization a further one was added to the described processes: the "approximation" between the two forms of ownership, the bringing them "nearer" to each other. The starting point was the following: it is not reasonable to maintain the earlier distinction between the forms of "consistently socialist" or "all-national" ownership and of "group" or cooperative (clearly not "consistently socialist") ownership because thereby the cooperative form is classified disadvantageously, i.e. it is not considered to be a true socialist property. It is therefore more correct today to distinguish – in conformity with reality – two forms of socialist ownership: state and cooperative, both acknowledged as similarly socialist and equal.

The official recognition of coequality was very important for the cooperative class. On this basis it could partly get the "green light" for its class development, i.e. one providing equal footing with state ownership, and, partly, in economic life it could and did demand to be treated as equal in its horizontal and vertical relations with state enterprises.

The recognition of equality was also important from the point of view of the ruling relations of production, because it practically strengthened its own self by it, since the enhancing of the performance of the agricultural cooperative sector in this way simultaneously served its own social and economic interests.

The question naturally arises from the declaration of the equality of the two forms of ownership how the uniform socialist, or communist public ownership would evolve from these two forms. This question could have been given a proper answer by stating what the latter one is at all, what its characteristics and traits are and what should be the direction and way of development of the state ownership on the one hand and of the cooperative form on the other hand to give rise to the evolution of a uniform public ownership from each of them.

The question has not been answered this way, moreover, it has never been raised. In its stead "approximation" was declared. But what this "approximation" is, what it contains, and what it wants from the state and what from the cooperative ownership, this has also been left without any answer. And, I suspect, not without any ulterior motive.

It may be supposed namely about cooperative ownership that if it has anything to change in the course of "approximation" then this is much likely the consistent further extension of the cooperative idea and cooperative democracy and this, once connected with the full assertion of cooperative enterprise autonomy, can reach a really socialized form of public ownership and management functioning under the direct control and administration of the workers. It was summarily stated that the marks of socialized property are more inherent in the cooperative ownership than in state ownership and, therefore, the change through approximation must be carried out rather by the latter.

On the other hand it may be an interpretation of the principle of "approximation" from the point of view of state ownership that the state ownership and, consequently, the state enterprise represent a higher, more "socialist" degree of socialization and socialist business management, it is in fact the cooperative form that must get nearer to it. Logically it follows that the cooperative property, the cooperative enterprise will become more "socialized" and "socialist" when it becomes steadily integrated into "socialized" production and pursues business activity in a similarly controlled way as the state enterprise.

The above provided a good "ideological" ground for the state and other organizations representing the ruling relations of production to urge and insist from the background on just the same concentration and centralization of cooperative ownership and cooperative enterprises as have already been created in the case of the state enterprises, as well as to drive the cooperative enterprises by means of a system of regulators applied instead of direct control to the same narrow forced path as is followed by the state ones.*

If this is carried on then we shall arrive at a point on the way of agricultural industrialization where the cooperative enterprise, too, will be formed after the image of the state enterprise. That is, assuming that in the capitalist economy industrialization is in the last analysis equivalent to the transformation of any business activity into capitalist enterprise and to the prevalence of capitalist relations of production, then in Hungary it is equivalent to becoming a state "enterprise" and to the prevalence of the socialist relations of production resting on state ownership.

Lately, however, there have been signs showing that the industrialization of the whole Hungarian economy and of course of agriculture may take another direction. We begin to become more and more aware that it would be much more advantageous from the point of view of this society and economy if we would not try to make the whole economy including agriculture uniform and stereotyped but let it be structured, diversified and colourful.

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*(To p. 145) For example at a recent session of the Committee for Agricultural Economy and Cooperative Theory of the Hungarian Academy of Sciences in the debate on cooperative democracy an invited president of a cooperative farm burst out passionately asking what he could do with the so desired democracy as long as he daily received heaps of papers from the most diverse official and unofficial outside organizations containing directives, instructions and wishes he had to comply with. He said "Democracy is possible at most at the annual (festive) general assembly, otherwise there is dictatorship" (namely, the same professional and one-man control as at state enterprises).

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ИНДУСТРИАЛИЗАЦИЯ БЕНГЕРСКОГО СЕЛЬСКОГО ХОЗЯЙСТВА

Л. КОМЛО

Автор прежде всего останавливается на вопросе о том, почему индустриализация страны, расширение сферы социалистических производственных отношений потребовали проведения в Венгрии коллективизации мелкотоварного сельского хозяйства в соответствии с классической (сталинской) моделью, каковы были характерные черты этой модели и почему позже необходимо было отказаться от нее и провести коллективизацию венгерского селького хозяйства отличным от нее в своих основных чертах методом, а также как смогло уже это сельское хозяйство эффективно включиться в процесс индустриализации страны и вступить в своем развитом состоянии в этоп собственной индустриализации.

В этой связи автор показывает, почему индустриализация сельского хозяйства встала на повестку дня, какие интересы совпадали, а какие сталкивались при этом; почему вместо организованной государственной пищевой промышленностью вертикальной интеграции возникли организованные сельскохозяйственными предприятиями «производственные системы», которые взяли в свои руки индустриализацию сельского хозяйства; почему такая индустриализация поддержала теорию агропромышленного комплекса, а также кто и почему «разоблачал» эту теорию; какие интересы крылись за стремлением к укрупнению государственных хозяйств и объединению сельскохозяйственных производственных кооперативов, почему была выдвинута теория «сближения» государственной и кооперативной собственности и как во всем этом нашло свое воплощение теоретическое положение о том, что если в условиях капиталистической экономики индустриализация равнозначна распространению и развитию капиталистических предприятий и производственных отношений; то при социализме — предприятий и производственных отношений на основе государственной собственности. Однако целый ряд явлений последних лет говорит о том, что для Венгрии это теоретическое положение теряет свою силу, и здесь развитие идет в направлении разнообразной и многоплановой социалистической экономики и общества.

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CONDITIONS AND POSSIBILITIES OF COOPERATION IN PRODUCTION AND TRADE WITH WESTERN FIRMS IN HUNGARY*

The reason behind the problematic cooperation between Hungarian and Western firms is the lack of adaptation to conditions of international labour division, furthermore the character of domestic market environment and regulators, characterized by the lasting superiority of sellers and contrary to the objective of stable production relations. Namely, Hungarian foreign economic policy tried to achieve a technological catching-up on the "periphery", in the sphere of inter-enterprise relations leading to no capital fusion in the 1960s and 1970s. Due to the lasting excess-demand on the domestic market there is a strong pressure for import in cooperation deals of such type, while the intention to export to Western markets is weaker. This is contrary also to the intentions of economic policy aimed at improving the balance of payments. Advantages of international labour division may be exploited only in case of adaptation to external conditions first of all in the "centre", i.e. in the sphere of foreign economic relations accompanied by the fusion of functioning capital, as well as in that of a radical reform of inner economic conditions.

In the present study we do not discuss occasional or lasting sales connections between Hungarian and Western enterprises. By production and trade cooperation such inter-enterprise relations are meant where, beside or instead of commodity exchange, also other activities are jointly planned and carried out. Here belong: production and sales cooperation, subcontracting work for Western firms, leasing deals, lasting licence relations, agreements on the continuous transfer of development results, Hungarian and foreign joint enterprises, including also ventures to be established with a majority share of capital of the foreign partner.

Objectives of the development of inter-enterprise relations

In the last two decades it has been gradually recognized also in Hungary that maintenance of the dynamism of economic growth (including the raising of the efficiency of production and exports, the further raising of living standards, etc.) depends on the extent to which the country is able to participate in the international division of labour.

*The study is based on the experiences of our previous researches. Also some relevant comments of András *Rába,* Kamilla *Lányi,* András *Köves,* Péter *Margittai* and Márton *Tardos* on the previous version of this study were taken into consideration.

It has become clear as well that, according to world economic experience, the most important driving force of this is the development of inter-enterprise cooperation. In the wake of this recognition foreign economic policy has stimulated for the development of various production and sales cooperation deals with Western firms more and more definitely from the late 1960s on. And, from the mid-1970s on when the process of structural transformation began to accelerate in the world economy and, as a result, the structural limits to increasing Hungarian exports to the West appeared more and more definitely, a *qualitative turn* took place: the founding of joint enterprises with a minority share of foreign operating capital has been allowed. (By the end of the decade some other CMEA-countries – Romania, Poland, Bulgaria – also allowed joint ventures.)

To the development of cooperation with Western firms, then to the operation of joint enterprises several *economic policy objectives* and "expectations" were attached in Hungary. Let us briefly review what possibilities (advantages) are offered by the intensive development of inter-enterprise relations according to the relevant economic literature.

– An *increased participation of foreign capital* is enabled. Foreign investment mitigates the scarcity of capital of the receiving country (usually short in capital), namely in such a way that – contrary to capital imports resulting from bank credits – *it directly promotes the expansion of competitive productive capacities.* Nor is it to be neglected that the demand of the economy for foreign bank credits may be moderated in this way. At the same time bank capital is also more willing to flow into countries (on more favourable terms) where foreign investment is also allowed. It is a world economic experience that those countries which follow a liberal policy with regard to direct investments and simultaneously are members of the International Monetary Fund may more easily obtain long-term credits from the World Bank on favourable terms. In this way the structure of stock of debts of capital importing countries may also be improved; the share of long-term credits with lower rates of interest may be increased.

– *Adaptation of modern technologies is furthered,* and the structural transformation of the economy accelerated. Imported up-to-date technology improves the efficiency of production, furthers the catching up of Hungarian (CMEA) economy with the higher productivity level of Western countries.

– *The volume of convertible export commodities* of the country *is increased.* The expansion of Western exports moderates tensions in the balance of trade. The modernization and improvement of the qualitative indicators of the export structure result in higher export prices, which promote – on the export side – the reversal of unfavourable trends, of the deterioration in the terms of trade.

– Cooperation with Western firms, especially foreign investment may enable the domestic manufacturing of several such semi-finished products, components and parts which were previously imported. This moderates, on the one hand, the lack of equilibrium in the balance of trade on the import side and, on the

other hand, furthers the realization of *efficient import substitution,* that mitigates the pressure even for uneconomical exports. Thus an important foreign economic obstacle to structural changes may be eliminated.

Experiences up to now indicate that *these goals of cooperation with Western firms have not been attained* in Hungary. According to statistical data the increase of Hungarian exports to the West is not satisfactory and their structure has not been modernized, but has become even more rigid. As a result the disquieting increase in the deficit of the balance of trade may be temporarily restrained only at the expense of disequilibria arising in other spheres of the economy. The expected technological development has not taken place, the hoped improvement of productivity has not been realized, what is more, our lagging behind developed Western countries has even increased according to all indications. The sharpening of adjustment problems diverts the economy more and more to a constrained path.

A part of explanations referring to this striking deviation between goals and results argues that the commodity turnover resulting from inter-enterprise cooperation has a rather low share within Hungary's total Western trade, thus it had been unrealistic to reckon with the realization of the above goals from the very beginning. However, the low share of cooperation turnover and even the halt in the development dynamics of cooperation relations in recent years – just as the small number of joint ventures and the insignificant volume of foreign capital – *are not causes, but merely symptoms indicating the insufficiency of mutual interest* in the development of inter-enterprise relations.

However, the real causes may be revealed as well as adequate economic policy tools defined only in the knowledge *of the external and internal conditions* of inter-enterprise cooperation.

External conditions of cooperation

The most important and closely interrelated elements of the system of external conditions of cooperation between Hungarian and Western firms are the following: economic policies of Western countries, the world political and world economic situation, in general, as well as changes (trends) in the international (inter-enterprise) division of labour, in particular.

Though *the economic policies of Western countries* may influence East-West inter-enterprise relations in several respects, it may not be said that Western countries are explicitly interested in the transfer of most advanced technology. But neither are they disinterested in doing so, apart from certain products judged by them as having strategic character and included in the so-called Cocom list. It may be said that *through their overall motivation for increasing exports* they are interested in the sales of all kinds of goods. The interest of the state in the sales of up-to-date equipments, materials, licences and know-how does not differ, in principle, from that in the export of raw materials or consumer goods. The intensity of this interest in exports greatly depends – according to experience obtained up to now – on business conditions; this is well indicated by the fact

that export credits granted to socialist countries were increased to the greatest extent at the time of the 1974–1975 recession and in subsequent years. Namely, in that situation the increase of exports to socialist countries also became one of the not too numerous possibilities to promote an improvement in the balance-of-trade-situation of developed capitalist countries, first of all of West-European countries and Japan.

But immediately three constraints arise at this point. Firstly, interest in exports in this sense (and the resulting interest in the transfer of technology) *is closely connected with the sales possibilities offered to them by plans of CMEA-countries to increase imports.* Immediately after 1973 it seemed there were no special barriers to boosting the exports of developed Western countries to CMEA-countries and the latter seemed willing to finance their rapidly growing imports by raising credits of large volume. But, the situation is different if their imports increase at a slow rate or not at all, especially if in the meantime markets of their rivals offer more rapidly expanding sales possibilities. In such a situation Western countries may not be interested in the same way as before in exports to CMEA-countries, either. That is, it *cannot be determined in general terms,* how interested developed Western countries are in the transfer of technology; this largely depends *on the economic situation* of the entire CMEA and of the individual CMEA-countries as well as on their foreign economic strategies and import policies. The foreign economic policy followed by Hungary, her drive to continue, and even increase technology transfer from the West (or – on the contrary – her attempts to restrict machinery and other imports) also influence the interest of Western countries to a great extent.

The second restricting factor closely connected with the former one is *the existence and expansion of other sales possibilities in the world economy.* In the case of open economies interest in exports has usually no regional orientation – apart from the "gravitation force" of already established relations –, but channels exports to the direction of rapidly expanding markets with good sales prospects. The pull of markets with dynamically growing import demands is unfavourable for CMEA-countries forced to restrict imports. (Here may be ranked not only the so-called newly industrialized developing countries and the OPEC-countries, but also other ASEAN-countries rising with the latest industrialization wave of developing countries, or China, forced to considerable imports even with her reduced "modernization" projects.) At the same time the market of products embodying the most advanced technology still continues to expand most dynamically in developed industrial countries.

The third barrier is *of political nature.* In consequence of tensions in political relations between East and West the endeavour to keep exports to socialist countries within certain limits by taking political goals and viewpoints into consideration is never taken from the agenda in the West, what is more, it sometimes even strengthens, precisely in recent years. This concept is especially strong in the United States and refers first of all to the limitation of exports to the USSR.

However, barriers to technological transfer of such character are *changing in time.* American embargoes, the practice of export licensing or joint Cocom lists are changing depending on the development of the international situation. Previous and recent restric-

tions, so often mentioned nowadays, were concretely attached to the unfavourable development of Soviet-American relations. *There is every reason to assume that embargoes referring to the delivery of equipments not for direct military use would be considerably less severe in an international atmosphere differing from the prevailing one.* But, these restrictions do not diminish at present the importance of technology imports from the West neither in the case of the most concerned socialist country, the USSR.

CMEA-countries are in very different situations as regards commercial policy barriers. The reason for this is, on the one hand, that embargoes are directed first of all against the USSR and, on the other hand, – apart from the practice of the USSR – also because the major part of their effective and *planned* imports of machinery come from Western Europe, thirdly, because bilateral relations between *individual* Western and Eastern countries are very different and, finally, because the *nature* of technology imports is also different; the character of machines and equipments imported by Hungary is different from those imported by the USSR.

The fact itself, that Hungarian technology imports are not concentrated on such large equipments as those of the Soviet Union or that of some other countries, means considerable advantage for us. The larger the volume of a deal, the more it requires decision at political levels, the more credits are needed for it, the more sensitive it is to any kind of restrictions and to the general political atmosphere. However, the more diversified the sources of technology imports are, the more Western firms are involved in this relationship, the more it is aimed at the continuous modernization, rationalization, etc. of production (and not at establishing new big projects), the less sensitive this field will be to politics. *As a consequence, the more profoundly and the more diversely Hungary participates in the international division of labour, the less she shall be afflicted by disadvantages resulting from changing world political fluctuations.*

Among the external conditions of inter-enterprise cooperation the *new trends in the international division of labour* should be regarded as the most important ones. These are – in our opinion – the following: revaluation of foreign capital investments as against other forms of relationships (contractual, market), the spreading of "multinationalization", the strengthening of the element of mutuality in partnership relations. The strengthening of these processes brought about no changes in the sense that external conditions of cooperation between firms are still determined by laws of an oligopolistic market dominated by multinationals, but the rules themselves became modified.

After 1973, in the economic situation having become uncertain, striving after security has come to the fore in Western enterprise policy. One of the most important consequences of this was that lasting business relations involving capital investment and entailing less business risk have been revalued against traditional market and contractual relations as being less certain and more sensitive to cyclical fluctuations and effects of the political sphere.

Already in the mid-1970s about 25–30 percent of total world exports resulted from commodity turnover between parent and affiliated companies*. The drive to internalize commodity turnover – i.e. to realize it within the enterprise – is stronger

than the average in so-called technology-intensive branches and, as a result, may be experienced especially in the trade of developed Western countries. Thus, for example, 46 percent of total imports and more than half of total exports of the USA resulted from commodity turnover within enterprises in 1974. And, trade within the enterprises is dominated first of all by commodity movements between parent and affiliated companies, though turnover between individual affiliated companies is also significant. On the average nearly three quarters of exports of foreign subsidiary companies of American big enterprises to the USA result from exports to the parent company [1].

The revaluation of lasting business relations – based on capital investment – was inseparable from the spreading of "multinationalization" in the world economy. Several enterprises previously producing only for the domestic market established producing capacity abroad. This trend was characteristic for the enterprises of both the developed countries and some so-called newly industrialized countries. Therefore, the spreading of multinationalization was due first of all to the expansion of smaller enterprises, while "big" multinationals, with fully established world-wide production links protected themselves against the increasing risks mainly by the method of sectoral diversification and product differentiation.

Multiplication of the number of multinational enterprises resulted in a drop of the previously high level of concentration on the world market of most products [2] and parallel with the moderation of the degree of monopolization of markets competition is becoming sharper. However, the strengthening of competition was characteristic not only of the supply of foreign investment but also of its demand. Several developing countries recognized the positive correlation between the drawing in of foreign investment into the domestic economy and the acceleration of economic growth, and the increase of exports. A lot of experience obtained in the 1970s allows to draw the conclusion that *countries successful in raising the development level of the economy and in catching up with developed industrial countries could be found exclusively among those following an economic policy characterized by the dual criterion of the increase of exports and the import of foreign capital,** while those countries that lagged behind in the process of world economic adjustment as well as in catching up with the development level, rejected the application of the tool of foreign investment without exception. As a consequence, their economic policy was either aimed at import restriction and substitution already from the very beginning, or they were forced to give up gradually their export-oriented economic policy and change over to the path of forced import restrictions and substitu-

*(To p. 153) Estimation on the basis of data published in various issues of *Fortune* magazine. For the sake of comparison it may be mentioned that the share of CMEA-countries in world trade amounts to 8–9 percent and East-West cooperation turnover to 0.2–0.3 percent. This latter comprises, of course, only production cooperation deals materialized in commodities.

*So-called newly industrialized countries (NIC) may be ranked here as Taiwan, South-Korea, Hong Kong, Brazil, Mexico, Argentina and recently the ASEAN-countries: Malaysia, Philippines, Indonesia, etc.

tion because of the deterioration of their external equilibrium and economic setbacks further narrowing down their export possibilities. In this way it becomes more and more a world economic experience that national regulatory systems strongly restricting international inter-enterprise cooperation – including foreign investments – work with very low efficiency from the viewpoint of the national economy and maximize the disadvantages instead of the advantages of participation in the international industrial division of labour.*

While countries competing for foreign capital have gradually liberalized the regulation of capital imports in the 1970s and "softened" the entry terms, they also obtained advantages from the fact that the sharpening of competition gave ground to liberalization trends also on the supply side of the flow of international capital. Multinational enterprises realizing foreign investments have become more willing to establish enterprises with joint capital holding abroad than previously. However, behind the general trend *considerable differentiation* may be observed by countries and products. American big enterprises disposing of the most capital are less, while West-European and Japanese firms *more willing* to realize their investments abroad in the form of joint ventures. At the same time it is characteristic of all Western enterprises that they prefer so-called take-over investments (buying up of a part or the entirety of functioning enterprises) to founding new enterprises. On the other hand, as regards the manufacturing of products representing the most advanced technological level investors still insist on majority or exclusive ownership. Here only smaller enterprises are exceptions which try to compensate their disadvantageous competitive situation by concessions made in respect of ownership share.

The changes in the practice of the international division of labour outlined in the foregoing have not diminished the role of multinational enterprises, and especially not of their affiliated companies abroad with majority holding, in the international turnover of products with high technological contents. Already in the early 1970s the export/import quotient of products with high technological contents was 4 : 1 in the turnover of American multinationals, and within this nearly 5 : 1 in the turnover of American majority owned affiliates. (It may be mentioned as a comparison that the same quotient amounted "only" to 2 : 1 in the entire foreign trade turnover of the USA [3].

The above provides a convincing proof for the fact *that the restratification, more precisely the division into centre and periphery of the system of the international division of labour continued and strengthened during the last decade.** The former is a "sector" of the international division of labour characterized by lasting transfer relations and interpenetration of capital between enterprises that may be called central with good reason because the trade in products, technologies, know-how as well as connected commercial and non-commercial services representing the most advanced technological level, and stimulating for technical and economic development precisely on this account,

*The failure of the joint capital import policy of Andean countries offers ample experience in this regard.

is realized in its framework. On the other hand, the periphery is characterized by traditional commercial transactions and contractual relations (not leading to any interpenetration of capital), i.e. various types of production cooperation. Both "sectors" have different laws and "rules of the game". Advantages and disadvantages of participation in the international division of labour are unevenly distributed between centre and periphery while advantages are linked mostly with the former and disadvantages mainly with the latter. Namely, Western enterprises are not interested in handing over most advanced technologies to their partners with whom they are in peripheric relations. They are interested in the transfer (sale, cooperation etc.) of technologies already in the descending branch of "life cycles" in order to maximize their receipts per unit costs of research and development [4]. In most cases they are not interested in the repurchase in larger amounts of products made with such technology, either, and if this still takes place somehow then the price level of repurchased products is usually lower than that of products manufactured by them with more advanced technology serving for the same purpose but being "more up-to-date". The majority of capitalist enterprises are capable, in proportion to their role in the "centre" of the international division of labour, of applying the practice of so-called transfer price formation – high sales prices and low purchase prices – also in their "peripheric" relations and thus obtain maximum profits.

As various world economic forecasts unanimously prognosticate a faster growth rate of world trade than that of world production, it may be assumed with good reason that under the conditions of a further sharpening export competition and of capitalist enterprise policy aimed at the elimination of risks, the trend of "multinationalization" will continue in the international division of labour simultaneously with the strengthening of the relationship "centre – periphery" and a further modification of its inner proportions in favour of the "centre".

Inner conditions of cooperation

The intentions and abilities of Hungarian enterprises (productive, servicing and trading enterprises) to cooperate on foreign markets are largely influenced by their domestic economic situation. This environment consists of market and administrative, furthermore of permanent and temporary elements.

The Hungarian market is characterized by *lasting* disequilibrium and *excess demand* – apart from the saturated or saturating market of certain consumer goods and services. On the "seller's market" one has to queue up for basic production factors – effectively or symbolically – just as for consumer goods required for the reproduction of the labour force. Due to the shortage situation existing for more than three decades enterprises are defenceless as buyers while they are in a relatively comfortable situation as sellers. Hungarian productive enterprises can obtain new labour, investment capacity or credit only with difficulties and they have serious problems even in purchasing parts, units, and

auxiliary materials required for current production. Their purchasing situation is made even more difficult by the fact that they often have to bargain with *monopolistic suppliers* whose superiority may not be compensated for or eliminated by the emergence of other CMEA-suppliers (competitors) who are in a similarly comfortable situation or by the insignificant competition raised by limited Western imports.

However, the situation of the monopolistic enterprises – but not that of the national economy – is made easier by the fact that in their quality as sellers they may partly or fully shift their unfavourable production conditions on to buyers by undertaking long terms of delivery and often not fulfilling even these, by partly or completely neglecting buyers' requirements concerning quality, assortment, etc. as well as by "saving" additional services. The lasting superiority of sellers characteristic of the Hungarian and CMEA markets developed particular, defensive methods to increase the security of buyers. In the interest of easing their defenceless position they often arrange for occasional or lasting self-supply, are willing to accumulate material stocks and in their emergency situation they themselves initiate concealed or open price increases.

These tolerated tools, well known and applied in professional circles, do only diminish the defencelessness of buyers even with traditional products in the overwhelming majority of cases. If a new product or technology deviating from those well known in the enterprise is introduced, then the aforementioned forms of eliminating defencelessness are even less efficient. Namely, enterprises are forced to explore new purchasing sources, too, at such times. In other words this means that routine relations become less important, accumulated material stocks may be less mobilized and productive capacities serving for self-supply may not at all or only partly be used for the manufacturing of parts, units, auxiliary materials, etc. required for the new product. Those undertaking the manufacturing of a new product have good reason to assume that their parts and units suppliers are in a monopolistic situation on the given commodity market and they may also reckon that as new participants of the market they will be in a disadvantageous situation in the purchasing competition with other, more experienced buyers. If the change-over to the manufacturing of new products is accompanied by investment, engaging new labour, perhaps by the need of retraining the existing one, then also further difficulties should be reckoned with. Those concerned have to compete for building capacity and new labour as well as to ensure conditions of training, etc.

In the case of a more or less identical profitability (this assumption will be more thoroughly considered later on) a Hungarian enterprise or cooperative compares cooperation with Western firms with other possibilities offered by the enterprise and market environment outlined in the foregoing. For the enterprises the question arises in the form *how much the given cooperation improves their purchasing and sales possibilities and to what extent it enables to eliminate monopolistic situations disadvantageous for them.*

The possibility of purchasing from the world market improves the position of the enterprise against real or potential domestic suppliers anyway. On a market characterized by lasting excess supply the Western partner being in most cases in competition with others will deliver rapidly, in time, in the required quantity and quality all kinds of parts,

units or auxiliary materials thus making self-supply, the accumulation of stocks, etc. at least partly superfluous. In some cases this holds even more for cooperation with Western firms. For example, subcontracting agreements make it possible for Hungarian producing enterprises to become independent of domestic conditions of material supply. Leasing deals enable them to dispense with suppliers of machines and equipments. There is a similar situation also on the market of several services furthering production, sales and marketing (technical descriptions, technologies, licences, know-hows). In case of Western cooperation deals and joint enterprises the situation is by no means unambiguous any more, especially if the deal is aimed at the manufacturing of some product or group of products new for the Hungarian enterprise. Here – mainly if several domestic parts, units, auxiliary materials are used for the new product, furthermore if machines and equipments required for production are bought on the domestic or CMEA-market – when introducing the (new) product enabled by cooperation the aforementioned methods of "bridging" are at least as much inefficient as in the case of a "usual" new product. This is true also vice versa. If the given cooperation makes domestic technological development activity superfluous, the licence and know-how allow fast imports of machines, then the benefit of cooperation will be among others the improvement of domestic market positions.

Cooperation between Western and Hungarian enterprises does not always improve the sales possibilities of the Hungarian enterprise, either. The product or procedure introduced in the course of cooperation is usually new on the Hungarian and CMEA-markets, thus its manufacturer and seller may become a monopolistic supplier even of a product considered up-to-date or demanded for here. However, on the market of Western countries – let us here disregard stipulations of cooperation agreements concerning market division – the same product is usually well known and is in a stage of its life cycle where its qualitative and utility characteristics make it no more competitive. On such markets precisely those seller's performances are efficient which Hungarian enterprises accustomed to circumstances of the domestic and CMEA-markets are rarely capable of. Reliable quality, deliveries in time, supplier's behaviour rapidly accommodating to requirements may hardly be considered as characteristic features of Hungarian enterprises usually shifting the inaccuracies of those delivering to them on to their buyers.

It may be said on the basis of the foregoing that for an average Hungarian enterprise those cooperation agreements are the most pleasant where world market input and domestic or CMEA market output are relatively large and may easily be increased. The more an enterprise is forced to domestic sources of purchasing and sales on the world market, the more problems and inconvenience the cooperation with Western firms will cause to it and the greater its counter-interest will be.

There are several exceptions to this rule. For example, the effect of presence on the world market – and within this especially of cooperation – increasing the prestige and self-esteem of leaders may not be neglected, nor that cooperation means a possibility for learning and collecting experience for Hungarian participants.

It has a similar effect if problems and inconveniences of cooperation are compensated by higher profits than the average and safe in the long run. It is rather difficult

to say how often this occurs. The inaccuracy of cost analysis of Hungarian enterprises as well as the financial regulations distorting it are only partly the reason for this. Clearsight is disturbed also because Western partners make Hungarian enterprises pay for the comfort unusual to them in various forms difficult to document. But, in cases when unchanged or maximized prices determined for the enterprise from outside or prices fixed in CMEA interstate agreements ensure a smaller profit margin because of increasing costs of domestic production, free world market prices make even more inconvenient forms of cooperation advantageous.

However, the increase of leaders' prestige or self-respect as well as lower profits caused by fixed prices do generally diminish, but may not eliminate the attraction of enterprises participating in some of the enumerated forms of cooperation to the largest possible purchases from the West and sales on the Hungarian or CMEA-market (which attraction is regularly reproducing itself in the domestic economic environment). The general picture considerably differs by sectors and enterprises. The aforementioned forms of establishing contacts were characteristic rather of branches and enterprises oriented to Western exports, furthermore of those which had sales difficulties because of the saturation of the domestic market or competition.

However, even the deviations between enterprises and branches as well as factors forcing to undertake inconvenient cooperation cannot make us forget that *what* is *comfortable for Hungarian enterprises on the basis of the foregoing, is contrary to central intentions aiming at the improvement of the balance of payments with Western countries.* In other words: without central state actions (preference system) modifying enterprise intentions an increase in the number of cooperation deals increasing exports to the West and substituting for or decreasing imports from there may hardly be reckoned with.

In principle the behaviour of producing and trading enterprises may be influenced in the desired direction by economic control and management in two ways. On the one hand – and this way has been followed during the last one and a half decades – disequilibria of domestic and CMEA-markets indicated in the foregoing are left untouched just as the market structure. With a sellers' market and monopolistic situations considered as given, efforts were made to stimulate cooperation with Western firms even "against the current", possibly increasing the number of cases having favourable effect on the balance of payments. The other way – untried as yet – would be if oversupply were created on the domestic market by ensuring conditions of a keen competition between enterprises.

The weakening of the sellers' market and reduction of the number of monopolistic situations were served by

– special credits and credit constructions,
– modernization of legal rules relating to the foundation of joint (mixed) ventures,
– support given to the buying of licences and know-hows from central funds,
– foundation of enterprises promoting cooperation, transformation of existing institutions with such purpose, etc.

These central government measures useful and necessary in themselves proved seemingly insufficient for diverting cooperation deals between Western and Hungarian

enterprises into a direction desirable from the viewpoint of the national economy, more precisely, of the aims set concerning the balance of payments. The number of joint ventures with Western participation increased slowly and the development of an organization within the banking system to promote cooperation of such type took place clumsily, too. This – together with the mistrust towards central state activity of such type – had the consequence that in the stimulation of cooperation with Western enterprises concealed instructions, administrative coercive methods were given greater emphasis. The most frequent methods of this were:

– pressure exercised through subordination,
– publication of important viewpoints of the judgement of leaders,
– prescribing the increment of exports to be achieved through cooperation (instruction).

Though the prescription or "expectation" of the increment of exports may bring about certain results, it is not sure at all that the greatest and highly efficient export increment may be obtained precisely by the product of the enterprise that buys licence, technology, equipment or know-how or where there is some foreign capital holding. It is not indifferent, either, that prescribing or forcing the increment of exports by some kind of pressure – just as any other activity imposed by order on the enterprise from outside – will rather increase than decrease disequilibrium on the domestic market and rather strengthen than weaken monopolistic positions on domestic and CMEA-markets.

Conclusions

This analysis of the conditions of inter-enterprise cooperation offers the conclusion that on the one hand the *lack of adjustment* to conditions of the international division of labour and, on the other hand, the character of domestic market environment and of the applied regulators *contrary to* (inconsistent with) *the objectives* of lasting inter-enterprise relations are causing the problems which characterize cooperation between Hungarian and Western enterprises. Namely, Hungarian foreign economic policy, despite having applied "new" forms of participation in the international division of labour in the 1970s through the extension of the practice of inter-enterprise cooperation, yet made attempts to attain the technological catching-up on the "periphery" of the international division of labour, that is, in the sphere of traditional sales relations and of inter-enterprise relations (licence deals, various kinds of cooperation) *not* leading to the amalgamation of capital. Attempts made to draw in foreign investment in the framework of the system of joint ventures meant no relevant exceptions.

The attempts of a break-through on the "periphery" had not only the consequence that Hungary could not obtain several advantages of participation in the international division of labour (increase of exports, modernization of their structure, rise in export prices keeping abreast of those on the world market, improvement of foreign market positions, take-over of up-to-date technologies, improving efficiency, etc.), but also that

concrete *losses* – measurable even at macro-economic level – were suffered. Namely, apart from rare exceptions the applied forms of cooperation did not enable the "take-over" of up-to-date technologies. This had a disadvantageous effect on Western export possibilities and Hungarian export prices. The increasing deficits in the balance of payments and the series of emergency measures including also the application of various deals of compensation character (with the remark "I do not like them, but I am forced to apply them") where problems of efficiency and prices arose even more sharply, could be attributed also to this fact. Forced import restrictions and frequently uneconomic import substitution, the slow-down of economic growth, stagnation of living standards and the danger of their decrease and finally, the *increasing lagging behind* developed industrial countries may be mentioned here.

Thus, the practice of the international division of labour followed by Hungary up to now has not only been unsuitable for the attaining of the objectives set, but even contributed to the sharpening of its foreign and inner economic problems.

In the interest of changing the previous situation and of finding some solution the recognition seems to be an expedient starting point that the efficiency of participation in inter-enterprise division of labour depends first of all on the creation *of inner conditions adequately attached to external ones.* In other words, this depends on such a combination of external and inner production factors by means of which maximization of advantages of cooperation may be attained with minimization of its disadvantages. Potential advantages of participation in main streams of the international division of labour may be exploited only in this way – *through adjustment to external conditions and a radical reform of inner economic conditions.* Therefore, world economic experiences speak in favour of ensuring real possibilities and stimulation for inter-enterprise cooperation concomitant with the drawing in of foreign investment in the future – in legal and economic sense as well. At the same time, forms of cooperation previously applied may become efficient tools for Hungary of joining into the main streams of the international division of labour even if not alone, but *together with* a new type of cooperation relying on an extensive drawing in of foreign investment. Nevertheless, we should beware of thinking that this will solve all of our external and inner economic problems. As it has already been referred to in the foregoing: the state of the domestic market decisively influences the world market behaviour of Hungarian enterprises. Due to the lasting excess demand on domestic markets there is a strong pressure for import in cooperation deals and only a weaker intention to export to the world market which is contray to intentions formulated in economic policy aiming at the improvement of equilibrium.

A comprehensive solution could only be brought about by a radical turn in the state of the domestic markets, namely, by the replacement of excess demand by such a state of equilibrium where the position of the buyer is stronger than that of the seller. For this, however, it is not enough to radically restrict demand, which, if not accompanied by an adequate influence on the supply side, may rather lead to a further slowdown of economic growth and thus to the ruin of domestic market relations.

Attainment of a desirable state of the market may only be expected from the wide-range assertion of market mechanisms and competition.

However, it is more realistic to start from the assumption that the Hungarian market will not get into a lasting state of excess supply in the future, either. In this case existing difficulties of cooperation between Western and Hungarian enterprises will not disappear, nor the aforementioned contradictions of enterprise and national economic interests.

When developing the *inner conditions* of inter-enterprise cooperation the following viewpoints are worthy of consideration:

– *The majority of inner economic conditions* to be taken into consideration from the viewpoint of cooperation with Western firms *is identical* with those becoming necessary anyway in the interest of a change-over to the stage of intensive economic development and, respectively, of a more efficient world market participation of Hungarian enterprises (further development of the mechanism of economic control and management, ensuring the normative character of the elements of this mechanism, decentralization of economic decision-making, further increase of enterprise independence, necessary institutional changes, etc.).

– At the same time relations with foreign firms raise a series of *specific problems,* too, – depending on the framework determined by economic policy for these relations – among others the definition of the *field of activity of foreign capital,* the forms of its participation (majority or minority holding, take-overs, etc.), the development of inner *control mechanisms* as well as that of terms of activity (prices, repatriation of capital and profits etc.)

– The *regulation* of cooperation to be developed with capitalist enterprises *should be extended* to the licensing of joint enterprises with foreign majority capital holding, enabling the foundation of enterprises with exclusive foreign ownership and the regulation of take-over investments. Efforts should be made to ensure *conditions identical* with those of domestic enterprises also for the activity of enterprises with complete or partial foreign holding. (Naturally, this postulates a considerable increase of the independence of Hungarian enterprises, because in the contemporary situation the enforcement of this principle would rather have a frightening than an attracting effect on foreign enterprises.) Of course, it should be avoided that foreign enterprises get into privileged positions against domestic ones as regards regulation.

The regulations should comprise the full or partial protection of key-sectors. Those branches and productive activities, respectively, should be determined where the import of most advanced techniques may be expected only with majority or exclusive foreign capital holding as well as those where this may be ensured also with minority foreign capital holding. In the interest of this financial preferences and dispreferences could be applied within the general system of normative regulators. Similarly, foreign investments.

could be stimulated through taxation and other preferences in new industries and in less developed areas of the country.

The establishing of such "duty-free zones" (ports, storehouses, processing possibilities, etc.) is worthy of consideration, which could draw interested foreign capital into this process. The establishment of such a zone may even precede the elaboration of a more comprehensive regulation and thus so to say offer a possibility for experimentation limited in space to the connection of foreign capital, know-how, management methods, etc. with domestic production factors. The experience obtained here could be utilized later on in the elaboration of a comprehensive regulation.

At the same time *it would not be appropriate to delimit relations concomitant with the drawing in of foreign capital to technology transfer and to joint sales abroad of products manufactured in cooperation.* Home trade (catering industry, hotel industry, tourism, service stations), transport, forwarding, insurance, entertaining industry, publishing and distribution of books, film production, vocational training are almost all such areas where examples of cooperation with foreign firms may be found in Hungary. In case of adequate stimulation these may be attractive fields of cooperation for both foreign and Hungarian enterprises. From the viewpoint of foreign capital they are characterized by the fact that the capital invested into the cooperation is either relatively small, or may be rapidly refunded or easily withdrawn. Nevertheless, the amount of functioning capital may be increased in this way in fields where Hungarian enterprises are unable to invest. The increasing participation of foreign investors may already mean perceptible competition as well as possibility for learning for Hungarian enterprises concerned.

It is worth drawing attention to these relatively modest goals even for two reasons: on the one hand, it is not likely that even with the most favourable legislation and preparatory work fast and spectacular results could be achieved in the fields of industry, agriculture or transport and communication; on the other hand, such – positive and negative – experiences may be gathered in the above mentioned fields which may be made use of also in case of foreign investment drawn or to be drawn into the productive sphere.

It should be emphasized that as regards the *increase of exports* it is by no means sure and not even regular that the most or highly efficient export increment may be achieved precisely by the product of the enterprise that buys licences, technology, machinery or know-how, or where there is foreign capital holding. It is possible that if the up-to-date product (machine, equipment, semi-finished good, part) manufactured in this way were sold on domestic markets, buyers could export more and more economically than the seller, or labour force were released from them which could be employed in other export branches. The practice of socialist countries that imported technology should be paid for by the export of products manufactured with it, which is made unavoidable either by plan directives or – in Hungary – by credit terms, financial regulation and central expectations, causes economic damages in many cases and makes technology imports ineffective just as in most backward countries.

Similarly, *import substitution* may also be regarded economical mainly if it replaces or enables further development. Substitution of a given import alone – either with or without foreign cooperation – may be economical in a country like Hungary only if otherwise a cheap import source would have to be replaced by a more expensive one.

When defining the *character of the regulatory system* and the measure of drawing in capital, respectively, the following foreign economic viewpoints should be necessarily taken into consideration.

As against the majority of developing countries Hungary disposes of a lot of *comparative advantages* (qualification of the labour force, relatively more developed infrastructure, security of investments as regards expropriation). We have comparative advantage over developed industrial countries concerning wage costs. *These advantages are, however, only latent ones for the time being.*

In the 1970s the liberalization of conditions of relations with Western enterprises could be observed also in the European CMEA-countries, though with considerable diversity. This appeared both in the further development of existing regulation on joint ventures (Hungary, Romania) and in passing new laws on joint enterprises (Poland, Bulgaria). But these timid liberalization attempts did not prove efficient enough in the world economic medium of the 1970s: their capital attracting ability lagged far behind investment possibilities offered by developing countries. The further increase of indebtedness and, as a consequence, the strengthening of economic policy priority of increasing exports to the West may result, however, in that in the 1980s the majority of European CMEA-countries will try to make up for their backwardness compared to developing countries in the field of inter-enterprise division of labour. This means that Hungary may be also faced with competition raised by other CMEA-countries not only in her quality as commodity exporter but also as capital importer. However, if Hungary entered the way of a definite and fast liberalization of inter-enterprise relations with Western companies as the first one among CMEA-countries and tried to keep her initial advantage further on, this would ensure such additional advantages that could compensate for Hungary's other comparative disadvantages (lack of raw materials, limited domestic market, etc.) in the future.

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УСЛОВИЯ И ВОЗМОЖНОСТИ ПРОИЗВОДСТВЕННОГО И ТОРГОВОГО СОТРУДНИЧЕСТВА С ЗАПАДНЫМИ ФИРМАМИ В ВЕНГРИИ

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Проблемы, с которыми сталкивается сотрудничество между венгерскими предприятиями и западными фирмами, вызваны недостатками приспособления к условиям международного разделения труда, а также противоречиями между стремлением к налаживанию прочных производственных связей и внутренней рыночной средой, для которой характерно доминирующее положение поставщика. В 60—70-е годы венгерская внешнеэкономическая политика предприняла попытку достичь современного технического уровня «в обход», то есть в сфере налаживания таких связей между предприятиями, которые не ведут к переплетению капитала. Однако вследствие постоянного повышенного спроса на внутреннем рынке такое сотрудничество ведет к высокой доле импорта и не стимулирует экспорт на западные рынки, что противоречит стремлению экономической политики к уличшению платежного баланса. Только при таком приспособлении к внешним условиям, которое в первую очередь идет «в центре», то есть сопровождается переплетением действующих капиталов, а также при проведении радикальной реформы внутренних экономических условий могут быть в полной мере использованы преимущества международного разделения труда.

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REVIEWS

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HUNGARIAN FERROUS METALLURGY IN INTERNATIONAL COMPARISON

Amidst the lasting economic recession the metallurgy of ferrous metals has become nowadays a typical "crisis-afflicted branch" all over the world. The increasing production costs have been afflicting this sector since 1973, resulting primarily from the rise in energy prices and also from the increasing costs of raw materials and transport. The situation was, however, more or less tolerable until the shifting of these costs onto the clients was not restricted essentially by a declining demand. Most recently also the major consuming branches (the automobile industry, shipbuilding and construction) have come to be afflicted by the crisis. Owing to oversupply and depressed prices, metallurgy is struggling at present all over the world with troubles of existence and efficiency, of course, to varying degrees by countries and enterprises. Hungarian metallurgy, as it exports 25–30 percent of its output to Western countries and is obliged to follow the export prices also in the domestic market, has also been sensitively affected by the situation in the world market. All the more, because the world-economic recession brought to the surface even such ailments of the sector which, though being not novel phenomena, were not at all or only very slightly perceptible in periods of favourable sales conditions, owing to the domestic pricing system prevailing up to 1980 and almost entirely insensitive to the changing world-market prices. This is why ferrous metallurgy became one of the industrial branches in the spotlight of the Hungarian economic policy. Experts of metallurgy, technicians and economists as well, are striving to detect the causes of difficulties and to find the way out. In this paper we shall deal with the problems of material supply, production program, product-mix, the possibilities of Western exports and state subsidization. We try to collate the tendencies of world economy and world market with the position of the Hungarian ferrous metallurgy.

Problems of energy and ore supply

Ferrous metallurgy is the second largest energy consumer after the aluminium industry. Even in countries with advanced ferrous metallurgy, the energy consumed per person employed is fivefold of the industrial average in this sector. The energy consumption of producing pig iron amounts to about 60 percent of the total demand of the sector. The specific heat requirement of producing 1 ton of pig iron is about 23 GJ.

Further 20 percent of the total energy demand is used up by the production of crude steel. The energy needed for making 1 ton of crude steel is about 3 GJ. Thus, the heat content of 1 ton of unwrought steel is about 25–26 GJ. The energy demand of all the following phases of technology in steel processing (hot and cold rolling, forging, drawing) is comparatively low, amounting altogether to no more than 20 percent of the total consumption of the sector. Approximately 70–80 percent of the energy requirement of ferrous metallurgy is satisfied by using coke. In the 1970s the world market of coke was characterized by a narrowing supply, its price within the group of primary energy sources increased at the highest rate – except that of crude oil.

Table 1

Development of the world-market prices of some raw materials
(between 1970–1980; dollar/tonne)

Year	Crude oil[1]	Coke[2]	Coke[3]	Iron ore[4]	Iron ore[5]
1970	13.27	35	–	9.30	10.87
1971	16.21	39	–	10.50	11.24
1972	18.20	45	58	10.80	11.24
1973	24.10	56	62	10.10	11.87
1974	85.86	75	93	12.80	14.06
1975	84.98	100	125	19.30	17.47
1976	91.21	100	129	16.10	19.45
1977	95.74	85	141	13.40	21.08
1978	95.74	90	153	11.23	21.42
1979	172.21	140	160	12.54	23.57
1980	211.00	170	–	17.88	–

[1] Light oil from Saudi Arabia – FOB Persian Gulf.
[2] FRG – Free FRG border.
[3] USA producers' price.
[4] Swedish Crown, CIF Rotterdam.
[5] USA (51.5 percent Fe-content) producers' price.
Source: Compiled on the basis of world-market prices quoted by various periodicals.

We thought it was necessary to give this dull list of data because it unequivocally explains why energy conservation is the keystone of developing ferrous metallurgy. In the sphere of pig iron production the change-over from small-capacity ovens to huge blast furnaces, substituting other energy sources for coke (injection of natural gas or heating-oil), the better preparation of ores (enrichment, sintering, dedusting), all served for this purpose. In steel production the development of technology was hallmarked by the fact that the spread of the converter process and electric steel production supplanted the

open-hearth processes. In addition, since 1973 the countries poor in primary energy sources resorted to such "extensive" methods as, e.g., increasing the imports of pig iron (Switzerland, Japan, Finland, England).

Up to now the Hungarian ferrous metallurgy has remained almost unaffected by the wind of energy conservation. This refers especially to the production of pig iron. The capacity of the Hungarian blast furnaces is by far lagging behind the international average. From among the nine Hungarian blast furnances six have capacities of 300–600 m^3 and the average volume coefficient of the furnaces is 0.81.* Today it is the furnaces of 1200–2000 m^3 which are considered normal where the volume coefficient decreases to 0.5. These numbers clearly reflect that the decentralization of metallurgical investments in earlier years was a mistake. We did not keep abreast with the worldwide technological development in the field of ore preparation either. On the average the Hungarian blast furnaces process lumpy ore containing 46 percent Fe, 20 to 25 percent of which is dust. Internarionally 50 to 60 percent of Fe content and maximum 5 percent of dust is considered acceptable. So it is not surprising that in Hungary 700 kg of coke is needed for the production of 1 t of pig iron, whereas in the case of modern production equipment the coke consumption decreases to less than 500 kg.

Under Hungarian conditions the creation of optimum-size pig-iron producing facilities, i.e. exchanging the existing furnaces for new ones with volumes of 1000–1200 m^3, cannot be solved from one year to another with the prevailing economic potential, but must be considered as a long-term project. Improvement of the quality of iron ore to be processed seems, however, to be a task that may be solved also in the medium run, so it is not justified to postpone it. Of course, also here it is worth while to take into account the practice applied worldwide. Since World War II it is not rare that the metallurgical works are not settled in the neighbourhood of ore and coal deposits. Huge blast furnaces working with imported iron ore and coke were built up first of all in countries with seashores, but also countries with traditional metallurgy have developed their steel production so as to rely on imports in the case if their domestic resources became exhausted, insufficient, or unfavourable. With imported ore, however, transport costs gain an outstanding significance. In the sixties, owing to the rapid development of ship-building and to the low energy prices, this factor did not play such a role as it does today, owing to the present freight charges. Notwithstanding, already 20 years earlier one could hardly find iron ore in world trade with a Fe-content below 60–70 percent. Under the increasingly expensive transport conditions – within the limits of technology – it becomes increasingly paying to purchase shipments with least possible useless material. To transport ores of low Fe-content through long routes is out of question. The enriching, pelletizing plants are in general settled close to the mines, the importers usually buy dressed ores.

*The coefficient indicates the m^3 per day of furnace volume needed for the production of 1 ton of pig iron.

Also in the case of Hungary only such a solution can be imagined. It does not seem reasonable to build concentrating mills by the side of the iron works and to move volumes twice or three times larger than the useful material. Such an alternative is not acceptable not only because of the directly incurred excess costs (transport, loading, concentration, removing the huge quantities of waste-rock) but also from the viewpoint of environmental protection. The suggestion of experts to process in the Hungarian furnaces ores concentrated in the Soviet Union seems the most viable. If this plan cannot be carried out, it will be necessary to switch over to other import sources of iron ore. Considering the distances, purchases from Yugoslavia, Sweden, or from African ports may come into question.

With respect to the coefficients of material and energy consumption the position of steel production and steel processing may be deemed more favourable than the production of pig iron. Here the furnace size determines profitability to a lesser degree; at the same time the modernization carried into effect in the seventies, i.e. the shifting of open-hearth furnaces to oxygen blasting, the introduction of the oxygen converter process brought the Hungarian steel production technology somewhat nearer to the international forefront. (Although even after putting the new converters into service the share of the output produced by oxygen converter process remains below the international average.)

The production program

All over the world ferrous metallurgy belongs to the strongly monopolistic branches. Often one or another powerful concern holds in its hands all the vertical stages starting with iron ore and coal mining up to the manufacture of machinery and construction. Pig iron and crude steel constitute only a very small part of trade. The turnover of steel castings and semi-finished goods is more significant, amounting to 10–20 percent of the steel production. A deeper specialization is present in the sphere of secondary and finished goods *(Table 2)*.

This is the sphere where the concerns "open" towards one another and other connected consuming branches. At the same time, also the metallurgical enterprises run their own plants producing finished articles as structural elements for construction, chemical reservoirs, road transport equipment, water crafts, or component parts thereof, iron rails or fittings. Not rarely their organizations include also factories of heavy engineering, fitting and building enterprises, what is more, even chemical plants for processing the by-products of metallurgy. *Table 3,* in which we present the sphere of activities of some large metallurgical concerns, bears witness to what we are saying. Thus, they themselves are the users of some of their metallurgical products. Another part of the products is sold also to metallurgical plants of enterprises which are specialized in manufacturing secondary or tertiary products of other kinds but for their finished commodities they also need metallurgical materials. Between the enterprises engaged basically in metallurgy, close direct connections have developed, they

Table 2

The structure of steel production (T) and exports (E) of a few countries in 1979
(1000 tons)

		Austria	Belgium–Luxemburg	France	FRG	Italy	Japan	Netherlands	Great Britain	USA
Steel ingots and semi-finished goods	T	4,917	18,392	23,360	46,090	24,250	111,748	5,806	21,464	123,277
	E	511	3,218	2,523	3,554	675	4,564	1,979	483	325
Iron rails and accessories	T	162	127	383	531	221	548	–	257	1,477
	E	118	84	171	237	20	139	–	105	98
Heavy and light sections	T	564	4,095	4,040	6,856	8,331	29,643	316	4,937	14,964
	E	204	3,596	1,530	2,854	3,190	5,330	329	1,517	368
Hot-rolled wire	T	462	1,129	2,630	4,016	1,758	7,743	337	1,760	4,827
	E	137	575	1,251	1,099	92	2,053	230	452	24
Steel band	T	179	896	1,467	4,613	872	2,456	288	1,560	61,904
	E	105	647	241	303	131	704	137	135	56
Steel plate	T	2,237	7,665	10,696	16,612	5,457	57,542	2,776	7,383	51,382
	E	1,170	5,071	2,913	6,178	1,171	10,330	1,448	1,012	663
Pipes	T	249	416	1,814	5,030	3,084	10,906	...	1,374	7,478
	E	188	366	1,176	3,389	1,498	6,186	437	449	712
Drawn wire	T	201	*	*	*	*	3,597	287	*	2,221
	E	66	475	205	334	84	302	65	117	29
Coated plate	T	132	3,972	1,807	2,649	973	8,784	498	1,896	6,521
	E	1.5	257	484	402	35	834	359	244	382
Railway wheels	T	–	n.d.	11	64	39	96	n.d.	57	360
	E	–	4	0	22	18	80	1	13	2

*Included in the hot-rolled wire.

Source: On the basis of data in *Változások a világ acéltermelésében és felhasználásában 1960–1980* (Changes in the steel production and consumption of the world 1960–1980) Budapest, 1981. Központi Statisztikai Hivatal. (Central Statistical Office.)

Table 3

The spheres of activity of some multinational steel corporations

Firm	Steel products	Other
British Steel Corp.	Crude steel, steel billets, bars, sheets, sections, bands, stainless products, pipes, tinplate, iron wares	Erection of steel structures, bridge building, private construction, processing of by-products (e.g. coal-tar)
Bethlehem Steel Corp.	Crude steel, sheets, alloys, pipes, structural elements, tanks	Processing of by-products (aromatics, sulphur, ammoniumsulphate), shipbuilding, manufacture of railway rolling stock, water vessels, plastics, processing of mineral products
Friedrich Krupp GmbH	Crude steel, special steels, rolled and forged articles	Processing of by-products, designing and advisory services; in engineering: Diesel motors, sea-navigation equipment and instruments, tools, magnetic materials, titanium products, dental apparatuses, assembly units for motor cars and agricultural machines, designing and construction, shipbuilding
Mannesmann AG	Crude steel, welded and seamless pipes, large-diameter pipelines	Manufacture of machinery and equipment; metalworking and processing machines, loaders, compressors, pneumatic equipment, construction facilities, machines for the plastics industry, oil-hydraulic systems, erection of factories.
Salzgitter AG	Crude steel, castings	Engineering industry: cranes, mining equipment, radiators, air-conditioning equipment, railway rolling stock, ships, designing of building structures, equipment for the steel industry, extraction of oil, transport of gas
Thyssen AG	Crude steel, products of metallurgy, rolled stock, special steels, magnets, titanium products	Factory equipment: foundries, forges, machines for the plastics industry, elevators, railway engines, rolling stock, ships, bridges, port facilities, equipment for environmental protection, steel wires for tyres, bridge-holding cables, processing of non-metallic minerals

are significant purchasers of each others' products. This intertwining within and between concerns, means a certain protection, on the one hand, against the declining demand for metallurgical products and, on the other, also against the fluctuating prices of basic materials on the world market.

In Hungary – in accordance with the sectoral scheme of industrial organization – the metallurgical plants were specialized from the outset in the production of basic materials and semi-finished products. Though the manufacture of secondary and tertiary products may find a place in the program, the finished commodities are, however, essentially not belonging to the range of products to be produced by the metallurgical enterprises. Recently a certain progress in this field has taken place (the manufacture of light structures for the building industry, heating radiators,etc.), but so far the idea of such extension of the range of products as it is spreading in the international practice, did not emerge. However, the new price system and the present world situation made it clear that some manufacturing plants have an advantageous position as against the troubled metallurgical works. But this seemingly prompts several representatives of the sector merely to criticize the price system, while the idea to take steps in order to expand the vertical stages of production does almost not at all come into question, even though the present system of economic control in Hungary allows for the expansion of the range of products. Our opinion is that also in this way a lot could be done for the lasting improvement of the efficiency of the metallurgical works. This might be useful also in view of increasing exports to Western countries, namely, it would enable the learning of the "alphabet", i. e., the rudiments of direct exchange of goods between the plants under domestic conditions. Besides, the widening of the range of products would open up wider spheres also for cooperation in production with Western firms.

The problem of the product-mix

In the consumption of metallurgical materials we are witnessing the fact that high-quality products increasingly gain ground. It is a worldwide tendency that demand is growing both in engineering as well as in construction for relatively light weight (lightened) products (e.g. cold-bent sheet steel sections) and finished steel precision products which enable solutions saving both material and energy as well as economies in working them. From among the hot-rolled steel products the demand for flat articles (steel band, steel plates) is growing increasingly. On the contrary, within the total consumption of steel products the share of steel castings, forged steel and cold-drawn steel wires is gradually decreasing. The demand for steel pipes is rapidly growing. In the past years a significant increase occurred in the demand for phosphorus- and sulphur-free and low-alloy steel products using cheaper alloy-materials and characterized by accuracy as to form and dimension. The great majority of developments in the steel industry is at present directed to this sphere. The new qualities of steel coming out highly influence the profitability of engineering commodities as well as their competitiveness in the market.

The production of Hungarian metallurgy does not at all or only to a very small extent fit into this international trend. In respect of accuracy as to form, dimensional

tolerances and surface finish, the steel products do not meet the international standards. Neither the sheet products of the rolling mills achieve the international quality level. The equipments for manufacturing seamless pipe are only appropriate for producing goods of commercial quality, and longitudinal-seam tubes can be produced only within a narrow range of dimensions. The quality of the cold-rolled sheets is not in harmony with higher requirements either. Beside the modern rolling mills the heat treating and surface-dressing equipments are missing, without which the production of quality steels is not imaginable. In comparison to the verticalities for manufacturing secondary and further processed products* the Hungarian rolling capacities prove to be over-developed. In connection with this discovery the majority of the plants is planning investment projects by the aid of which these deficiencies could be eliminated. The great question of the investment dicisions is, however, whether these quality goods with a higher degree of processing, can be sold in domestic and foreign markets. This paper is not aimed at dealing with the domestic demands in more detail. We are sure that it is possible to find buyers for better quality and more expedient solutions in the Hungarian engineering or building industries even if prices grow higher. The introduction of new articles having more reliable parameters and promising economical use cannot be a hopeless undertaking even in the domestic economic environment. The introduction of these would favourably influence the exportability also of the engineering products. It is more difficult to give a definite answer to the question about the possibility of sales in foreign, and especially in Western markets.

The prospects of Western exports

By now the majority of the advanced countries is, to a high degree (to 80 percent) self-supporting in steel products even if this can only be assured with imported raw materials. There are only few exceptions to this (Yugoslavia, the GDR, Denmark, Norway, Portugal and Switzerland).

Disregarding a few great exporters (Japan, the FRG, Belgium, Luxemburg, Australia), the import activities of most countries can only be considered an exchange of goods, the result of specialization.

The major part of world trade in steel is represented by transactions between the advanced countries. In the late 1970s, 30 percent of world exports had their origin in Japan and the provenance of 40 percent was the Common Market; at the same time half of the imports went to EEC and the United States. The share of the developing countries in exports is negligible, that in imports amounts to about 30 percent. In the geographic distribution of world trade no significant change may be expected within the following 8–10 years. The advanced Western countries will keep their dominant

*Primary products are the hot-worked (cast, rolled, forged) products. Secondary are the cold-worked ones (drawn, rolled, bent, pipe-welded, perforated, expanded, coated).

Table 4

Indicators of steel production, consumption and foreign trade in 1979
(in million tons)

	Production[1]	Consumption[2]	Exports[3]	Imports[3]	Balance[3]
World, total	718.0	723.0	125.9	125.9	–
Sovjet Union	149.1	151.5	n.d.	n.d.	n.d.
USA	123.1	140.9	2.8	15.7	−12.9
Japan	111.7	73.2	30.5	1.4	+29.1
FRG	46.0	36.9	19.3	12.5	+6.8
China	34.3	42.7	n.d.	n.d.	n.d.
Italy	24.0	22.7	8.3	4.4	+3.8
France	23.4	20.3	9.1	8.3	+0.8
United Kingdom	21.4	20.5	4.6	3.9	+0.7
Poland	19.2	19.3	2.0	2.0	–
Belgium–Luxemburg	18.3	3.8	14.3	3.1	11.2
Canada	16.1	13.5	1.7	1.3	+0.4
Czechoslovakia	14.8	11.0	3.5	0.6	+2.9
Brazil	13.8	12.9	n.d.	n.d.	n.d.
Romania	12.9	12.4	1.9	1.7	+0.3
Spain	12.1	8.9	4.1	0.8	+3.4
India	10.0	10.1	n.d.	n.d.	n.d.
South African Rep.	8.8	5.1	n.d.	n.d.	n.d.
Australia	8.1	5.1	n.d.	n.d.	n.d.
GDR	7.0	9.9	1.8	4.2	−2.4
Mexico	6.9	9.3	n.d.	n.d.	n.d.
Netherlands	5.8	4.3	5.0	3.6	+1.4
Austria	5.4	2.7	2.5	0.8	+1.7
Korea	5.3	6.8	n.d.	n.d.	n.d.
Sweden	4.7	4.3	2.4	2.0	+0.3
Hungary	3.9	3.6	1.4	1.2	+0.2
Bulgaria	2.5	2.8	0.9	1.1	−0.2
Yugoslavia	2.3	5.4	0.3	1.9	−1.6
Switzerland	0.8	2.4	0.6	1.7	−1.1

[1] Crude steel production.

[2] Total steel consumption.

[3] Turnover of crude steel, steel products and finished steel products.

Remark: The data of production, consumption and foreign trade do not include exactly the same range of products, therefore they are not completely in accordance.

Source: Compiled on the basis of the data in: *Változások a világ acéltermelésében és felhasználásában 1960–1980.* (Changes in the steel production and consumption of the world 1960–1980) Budapest, 1981. Központi Statisztikai Hivatal.

role both in exports and imports, the share of the developing countries in imports may grow at most in accordance with the pace of their industrial development.

The world market for steel is typically cyclical. Investments, construction and the living standards (purchases of motor cars and dwellings) strongly influence the demand for steel products. On the contrary, the productive capacities are non-elastic because of the long gestation periods of investment and amortization. So, not infrequently, steep price falls take place, owing to oversupply. In such cases producers try to protect themselves by restricting their capacity, price agreements and by the protection of the internal market. The steel crisis of our days demonstrates this phenomenon in an illustrative way. When the position of the branch turned critical, the most significant producers (EEC, US, Japan) took protectionistic measures the scale of which ranged from the conventional means *via* administrative restrictions to open or indirect subsidies to the domestic industry. The primary aim of these is to maintain the high domestic prices and to assure the enterprises' profitability. Neither can we exclude fluctuations in the world market for steel in the future. Economic forecasts reckon with a slowdown in the growth rate of the capitalist economies, consequently the demand for steel of the consuming branches will grow at a very low rate. According to experts, the annual growth rate in the demand for steel will fall to 2–3 percent and the lag between capacity and demand will disappear only by the end of the 1980s. The growth rate of world market prices will very likely remain below the rate of inflation even in the long run.

The particularities and the outlook of the world market of steel suggest that it does not seem expedient for Hungary to develop an export-oriented ferrous metallurgy. It would be more advantageous to adjust the production capacities to the demand of the Hungarian engineering and building industries. A smaller basis for raw material production could in itself mitigate the troubles related to purchasing raw materials.

If we moderate the quantity of steel production also the assortment of the products has to be narrowed down. When narrowing the product-mix efforts must be made that the overwhelming majority of the output should be composed of valuable, labour-intensive products. Out of these some could be produced also for exports, in order to maintain economies of scale. It would be especially important to increase the production of valuable hot-rolled quality goods, as well as of secondary and further processed articles. The introduction of these products would be favourable in respect of both selling goods requiring much of live labour and efficiency. The introduction of these products does not need excessive capital investment, it could be done in subsequent small steps and capacity can be increased without developing the preceding phases.

Export activities of the sector ought to be treated with a new attitude. It would be expedient to replace the categories of "self-support" and the "residue principle" by views of joining properly into the international division of labour. At home only profitably producible goods should be produced but, if required by profitability, they

have to be made in quantities exceeding the domestic demand, also for exports. The rest of the products has to be provided by importing them. This train of thoughts leads to the conclusion that in the long run it is worth while to make arragements only for the exportation of valuable products in order that Hungary may take part in the international division of labour as an equal partner in the exchange. Our natural endowments do not enable us to make transactions without losses to the national economy if we pay with primary products of this branch.

Selling quality goods is a task more difficult than that of mass products. It presupposes direct contacts between users and the metallurgical enterprises. It seems indispensable to build up such connections in the future. The first stage of building up them may be realized by transfers of know-how, commission works, productive cooperation, or by common contracting in building jobs. Strong and reliable connections between suppliers and customers can only be established by pertinacious work, through a longer period of time. The increase of engineering exports would also mean the expansion of exports in products of higher grades of processing. In order to create the joint interests of metallurgical and engineering enterprises it would be necessary to think over a number of possible solutions, from instruments of the economic regulatory system up to bringing into existence joint ventures.

The subsidies to ferrous metallurgy

As we have already mentioned, in respect of steel products most countries are self-supporting, either entirely, or to a large extent; in most cases production satisfies their own needs. The weight of the steel industry within the economies is great, it employs a huge manpower. Self-sufficiency and avoiding strong dependence on the world market is an important strategic issue. Also a lot of other branches depend in their position on the fate of steel industry. The reason for this is that protection of the steel industry is an important viewpoint of industrial policy especially in such critical times we are witnessing at present.

We have already mentioned the measures taken for securing the high internal prices and restricting imports. These may be considered as medium- or long-term steps aimed at helping the sector in its temporary situation, i.e. to secure its survival in the crisis. In the advanced industrial countries most governments provide strategic help to the steel industry, assuring technological development, accumulation of the necessary profits, and thereby, equilibrium in the future operation of the enterprises.

Also in the Hungarian ferrous metallurgy the profitability problems cannot be expected to be solved by its own efforts, as it is lagging behind also in view of technological and technical development level. It is unequivocal that presently it is unavoidable to keep the domestic prices of steel products higher than those in the world market, i.e. to cover the losses from central funds. This is necessitated by principles of social policy and economics; still we must consider it temporary, a

"necessary evil". Additionally, it seems to be absolutely necessary to elaborate medium- and long-term reconstruction programs in Hungary on the basis of which economical development and, in some spheres, a reduction of the sector can be carried out in the following years. Two comprehensive ordering principles are desirable to be asserted in the conception, namely: (1) On the input side to decrease specific consumption of energy and raw materials, transport costs, and specific wage-costs. (2) On the side of outputs the development of such a product-mix which makes it possible – through direct exports and/or through exports of the connected branches and by import substitution – to increase the share of value added within the gross value of output.

To work out in detail the alternatives of development is the task of experts of the sector. In the course of elaborating it, if would be necessary to take into account increasingly the practice followed by other countries as well as international experience.

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BOOK REVIEWS

KOVÁCS, J.: *A munkaerő társadalmi újratermelése és tervezése* (The social reproduction and planning of manpower.) Budapest, 1980. Akadémiai Kiadó, 250 p.

János *Kovács* sums up the most important results of his scientific and practice-oriented research work in the field of planning the social reproduction process of manpower.

The first part of the book focuses on the planning models of education and research, as the "reproduction of knowledge", the second part models the processes of manpower, wage proportions, incomes and consumption, the third part describes the model suitable for checking the consistency of the planning of living standard. This listing of the contents also shows that the author conceives the social reproduction process of manpower in a comprehensive way, in its totality; his planning models try to suit this interpretation.

It is an outstanding merit of Kovács' activity – and of the present work too – that it serves practice directly, i.e. national economic planning, and within this long-term, strategic planning in the first place. As he writes in the introduction to his book his researches "are closely linked to the planning of manpower and the living standard in Hungary, i.e. to problems raised by planning".

The planning of the "reproduction of knowledge" is presented in Chapter I by two models independent of each other. The model for educational planning is suitable for planning the number of students in the educational institutions, of those to be admitted and of those leaving (graduates), as well as all the material and personal conditions of education and, in addition, depending on the planning parameters and the capacity of the computer, in the desired number of variants. The so-called consistency model of Kovács permits coordination of the requirements of the social division of labour with the functioning of the school system. The model assumes that the demand for labour in the plan period – as an expression of the requirements of the social division of labour – is "given from outside". Although he constructs also the "educational" model which deducts the necessary volume and composition of manpower directly from the total social reproduction process, he does not link it to the narrowly defined "consistency model" for educational planning which serves the planning of the development and functioning of the whole school system.

As for the reasons for this, the reader may infer from those hints which J. Kovács makes in connection with Tinbergen's model, i.e. that the "complex" models which lead from total social activity through scientific-technological development up to education are forced to introduce simplifications of such a degree that in practice these models have not stood the test. The same conclusion can be drawn from the fact that later on the book describes the analytical methods of planning the structure of manpower in a separate chapter indicating by this that in practice not the preceding "complex" models are applied but – relying on the results of empirical studies by branches – various statistical, forecasting methods better suited to the characteristics of the individual branches and the labour force working in them.

The description of the educational model itself is clear, easy to follow and it shows very well the conditions and possibilities of the practical application of modelling. This planning model has not only the advantage that every well built model has, i.e. that it clearly defines the factors

and relationships of the planned processes, but it also can be applied in practice without difficulty since the elaboration of the necessary parameters can be carried out even at the level of our present knowledge. Therefore it makes one wonder why the present model, elaborated by J. Kovács at the request of the National Planning Office in the mid- 1960s, has not been introduced in the practice of educational planning in Hungary.

Another main subject of the book is, as it has already been mentioned, the construction of a "possible planning model of research". This model sets out from the division of research into basic, applied and development research. It is possible to determine the probability of research works with positive results and of failures, i.e. of those with negative lessons. It is also possible to determine – at least in principle – which part of new knowledge originates – under the given conditions – from "alien" research activities, the results of which come to the users through education, self-instruction or purchase of licences. J. Kovács sets out from the fact that the final motive of every research work is "production", i.e. the supply of social practice, therefore, tracing back from this demand on the basis of the transitional probabilities of the success and application of the various research activities, the size and composition of the research network that is reasonable to develop in a given country can be determined numerically.

As distinct from the preceding model this one is still a "theoretical" model at the present stage of elaboration, as indicated by the author himself. It describes the relationships and interactions between "production" and research in a logically convincing way. However, in order to plan scientific research on the basis of this model a great many empirical studies, "researches into research" are required, which should solve the reliable interpretation and comparability of the Hungarian and the international research statistics on the one hand, and to discover all the socio-economic factors of the scientific and technological progress which determine the success of the scientific research works or their realization in the practice of "production" on the other.

Those chapters of *Part I* which discuss the economic efficiency of education and research as specific "scientific investment" are connected quite loosely to the above discussed two planning models. In the specific formalized language of econometric models these chapters refute the misbelief according to which the development of education and research themselves accelerate the growth of the national income or of the net social income. He writes: "Investment in education can be an efficient instrument accelerating the growth of the national income only together with 'common' investments, in an adequate proportion with them." It is in accordance with this line of reasoning that he presents the methods and results of calculating the efficiency of financial means allotted to research. It may be added that the term "efficiency" is reasonable to use with quotation mark even with this qualification, since computations based on aggregate statistical data of the national economy as a whole could only give information of somewhat realistic value on the level of or changes in the efficiency of educational or research activities in some given periods, if data of the given country or period could be compared with those of preceding periods or other similar countries. Even this would not be sufficient to answer the question whether financial means allotted to education are utilized properly, whether output is proportional to inputs.

Part II of the book discusses as an integrated system the circular flow of production – utilization of the labour force – earnings – family incomes – consumption – production. More and partly different subjects are discussed here than what is referred to by the modest title of *Part II.* (The physical reproduction of manpower.) One could rather say that *Part II* presents a specific model or model system of the social reproduction process. It is another question that in the four chapters describing the planning of manpower, earnings, incomes, then consumption, the author is guided by partly divergent aspects and ideas which disturbs somewhat the consistency of *Part II.*

The manpower planning model and the planning methods of the first chapter define first the system of manpower balances – applied in Hungary and in other socialist countries – enriching and correcting the traditional balance method and laying the foundation for the application of computers in planning. This is followed by the

description of planning the demand for skilled labour which is the basis of the educational model. Models mean a great help for the specialists in national economic planning and for those interested in learning and understanding the core of planning work and to set out for a deeper understanding of the problems of this work.

The chapter "Wage proportions" in *Part II* describes, as distinct from the coming chapters not the planning model of incomes from work, but it is designed to prove that the principle of distribution according work done can be described also in a "formalized mathematical interpretation" if the starting axiom is accepted that "wage proportions can be traced back basically to differences in training costs" and that at the same time they serve for the "determination of values created by labour".

The author supports the validity of his conclusions deducted from the logical models by a statistical analysis of the relative earnings of the four labour groups formed by the type of professional qualification (unskilled labour, skilled labour, labour with secondary, and higher school qualification.) It seems, however, that the wage data do not support the validity of his theorem convincingly enough, although they do not refute it either that in the wage differentials the differences in the social reproduction of manpower are reflected. Several concrete counter-arguments can be raised against the other basic theorem according to which "the starting point of the socialist wage policy is the principle of distribution according to work done" and this is reflected in the condition that " . . . everybody should get a share of the consumption fund to the extent he contributes to the creation of this fund". This normative theorem is not supported either by the expositions of the chapter or by the practice of our wage policy.

In the following chapters of *Part II* J. Kovács returns to the modelling of the social reproduction processes of manpower, and leads the readers by the help of clear algorithms from relative earnings through incomes from work, up to the family incomes, later to the consumption of the population and of the society as a whole. His models also present how the dispersion of family incomes and the structure of consumption are connected with the way men and women of various socio-occupational strata choose one another as well, with the intergenerational mobility. With this the author provides a solid basis and good method for strengthening the social character of national economic planning and for an integrated application of the findings of economic, family-sociological and consumption-sociological investigations.

In *Part III* of the book J. Kovács presents his model which he elaborated for the Long-Term Planning Commission of Labour and Living Standards (MÉB) of the National Planning Office in the early 1970s. The success of this work is proved by the fact that the model was excellently used in the practice of national economic planning by the long-term planners of living standards. It was by the help of this model that such a consistent living standard-policy plan was drawn up in Hungary – to my knowledge the first one in the CMEA countries – which, if the assumed economic conditions had been realized, would have permitted to carry out a consistent living standard policy of a strategic kind. Though, the fundamental changes in the world economy and in the economic conditions of the country invalidated a part of the concrete computations for 1970s, the planning methods applied then and among them the model elaborated by J. Kovács, can invariably promote a strategic planning adjusted to the new conditions.

J. Kovács is right in calling attention to the fact that the MÉB-ALFA model elaborated by him is suitable for checking the consistency of the strategic plan of living standards, provided that the plan parameters of the model had been elaborated in a well founded manner. In this respect, the illustrative data comprised in the chapter "Computations with the model" should also be regarded as results of the detailed planning work concerning housing, education, public health, etc. which were later fed in the MÉB-ALFA model for consistency checking. The main idea and the practical applicability of the model is presented extremely well by the closing chapter of the model which describes the computation system of the strategic variants of living standards policy.

Even a sketchy survey of the book shows very well that J. Kovács has done an especially valuable pioneering work for economists and the

representatives of other disciplines concerned with or interested in planning the social reproduction processes of manpower. The present work rich in ideas and methods may provide great help to research workers in the field of the social reproduction of manpower in investigating unsolved problems and to planners in applying and further developing advanced methods. For the planners of manpower and living standards one could hardly suggest a better "manual" at present.

J. TÍMÁR

NYERGES, J.: *Vámpolitika* (Customs policy.) Budapest, 1981. Közgazdasági és Jogi Könyvkiadó. 408 p.

"This book is ... unfinished. Life, international political and economic developments continue to write it and their observation and utilization is my job." Those were the concluding words of the 1973 first edition. Since then Hungary has joined the General Agreement of Tariffs and Trade (GATT), the negotiations of the Tokyo round have been finished and protectionism has advanced along a broad front in the world economy.

A survey of the *history of tariffs* is interesting even today since present international trade policies are easier to understand by placing tariffs policy in a temporal context and by clarifying basic principles. Tariffs are no more than a particular kind of general debt due to the sovereignty of the state, the special feature of which is that it is levied only on commodities which cross a customs frontier. This is then an act of state power which is closely connected to the emergence of national states. The first signs of customs duties in Hungary can be traced back to the 12th century; duty was collected as one eightieth of the value of the commodity.

In the Middle Ages the primary aim of tariff policy was to increase treasury incomes; *mercantilism* however also used customs for economic and trade policy purposes. Mercantilism differed in the Hapsburg Empire and in France. It promoted – although with methods varying country by country – the development of an economy of the capitalist type.

Tariff theories are closely connected with theories of foreign trade. The author discusses the problem of mutual demand, pure tariff theory and the objectives of customs policy. In most cases these objectives are connected with maintaining the balance of payments, the improvement of the terms of trade, the abolition of unemployment, the security of the nation, as well as with actual trade policy.

International customs policy can only be studied in the context of GATT regulations. It is GATT that covers all those principles on which international tariff policy is based. Of these the most important is *the most favoured nation* (MFN) principle. This is a multilateral duty – as apart from the bilateral agreements – undertaken within GATT and it can be withdrawn only if the country concerned leaves GATT since it was undertaken in respect to all the contracting parties.

Negotiations aimed at the reduction of customs duties took place within GATT. The book discusses the methods and mechanisms of these negotiations, as well as the specific problems of customs unions, preferences, and free trade areas.

The 1968 reform of economic control and management and the extensive analyses that preceded it showed that Hungary needed a new tariff policy. The principles of the reform lay down: "A new customs policy has to be created which will be used for trade and industry policy purposes to regulate imports." The author underlines that it is characteristic of the new Hungarian policy that while preserving the fundamental function of serving as a trade policy weapon it is also used as an instrument of internal regulation. The tariff level of the individual import commodity groups was determined jointly bearing in mind consideration of the aspects of industry policy, industry protection, technological development, price policy and balance of payment considerations. The new system facilitated Hungary joining GATT. It was characteristic that Hungary succeeded in having member countries accept that the the planned economy and state monopolies be integral parts of control; and that trading with socialist countries should be governed by special principles. It was also accepted that the Common Market and some other Western countries should

abolish quantitative restrictions maintained so far in respect of the Hungarian goods. Unfortunately, this obligation was carried out only to a minor extent over the past eight years.

Hungary took part in the multilateral trade negotiations of the Tokyo round already as a member of the GATT. The aim of these negotiations was at first world-wide liberalization of trade. However, the world economic events in the early 1970s modified the objectives of the negotiations. Under the changed conditions the fight had to be fought not for liberalization of trade but against *protectionism* which had become extensive by then. "Nobody is a free trader because he feels like it, nor does he change to protectionism to follow a fashion. Both attitudes are the consequence of conditions that force one's hand" – writes Nyerges. Protectionist measures limit imports in the first place. There are various methods: forcing trading partners to introduce voluntary export limitation, making accusations of subsidising exports, dumping goods or otherwise upsetting the market. The aim is a livening up of home demand which would to resist the pressures of inflation. Consequently, protectionism is such an integral system of measures which rejects the advantages originating from the international division of labour. Hungarian commodities are seriously hit by the rising tide of protectionism. Exporters have to be induced to maintain a more careful price policy to keep their markets secure. Importers can fight against protectionist measures by promoting industrial cooperation, and more economical imports.

The delays of the Tokyo round and its results reflect the changes taking place in the world economy. One symptom was that, even before tariffs, other kinds of trade barriers were on the agenda. Since there are hundreds of such barriers agreement cannot be expected in every field. However, agreement was reached in respect of the most urgent trade barriers. A code of behaviour was signed concerning subsidies and countervailing duties, import licensing and government purchases. Although these agreements are modest, they should not be neglected, especially when it comes to small countries. This is so first of all because they ensure an international supervision of the observation of the provisions made as well as specifying the applicability of limitations. Regrettably even this round of GATT negotiations has not produced satisfactory change in the trade in agricultural commodities. For example the skimming off procedures of the EEC were not discussed, therefore its protectionist elements will remain in force unchanged.

The Tokyo round and the events following it appear to prove that the institutional system of GATT has to be modified as well. So far member countries formally observed regulations, in practice finding pretexts to break them. There is a hope however that an institutional system might evolve which has genuine discussion and a solution of the problems as its aim.

J. SZABOLCSI

INOTAI, A.: *A regionális integrációk az új világgazdasági környezetben* (Regional integration in the new world economic environment.) Budapest, 1980. Közgazdasági és Jogi Könyvkiadó. 257 p.

András *Inotai* has written an important book and – as a departure from many negative examples – the publisher has placed this topical analytical work on world economy at the disposal of the users – the readers – after an unusually short gestation period at a rather good, i.e. the necessary, time. For there are hardly any questions of the international economy more important and more topical at the same time for the Hungarian economic policy and the interested public than the position of economic communities of countries geographically-politically near to one another, amidst the change of epoch in the world economy that may be characterized by the two oil shocks as well as by a number of other factors.

Nowadays, as the "shorter" deadline of the Comprehensive Program of the CMEA countries is about to expire it is worth looking around in the world which developed rather differently from the one imagined between 1968 and 1971. How have the CMEA and the other regional economic integrations developed? – Inotai puts the question and he looks for an answer in a novel way. On the one hand, he does not qualify on the

basis of abstract theorems and models but objectively analyses empirical developments with a large statistical apparatus. On the other hand, as a departure from the usual approach, he proceeds with the analysis not by integrations but in a functional manner, subject by subject and selects for international cross-section analysis individual topics, such as for example collective self-reliance, the possibility of regionalizing factors of production, the different susceptibility of various internationally traded commodity groups to integration. He tries also to avoid in this manner the dangers of rash or excessive generalizations concerning the experiences of individual regional integration groupings. It is also interesting in the book that the author keeps in mind the internal proportions of Hungarian publications on world economics and, therefore, he pays greater attention to the discussion of the integrational groupings of developing countries which – for their industrial development orientation – show in fact many features parallel with the CMEA, while he devotes here regrettably much less space to the discussion of his own views concerning socialist integration.

In the first chapter the theory of regional economic integration is confronted with factual developments. The second large chapter investigates how regional integrational processes were influenced by changes in the world economy after 1973. On the basis of empirical evidence it is investigated what role may be played by regional cooperation in such a way of development of various fields of the economy which aim at international competitiveness. What are the horizons for regional-level industrial and financial policies? Can regional cooperation ensure an efficient way of stable raw material supply and rational regulation of capital flows? What are the possibilities of and limitations to concerted external actions at the level of integration?

Chapter 3 investigates the question to what extent can production factor flows be kept within regional limits; whether the regional-level realization of the protectionist idea, i.e. industrial development carried on the basis of the "training-ground theory" and its defensive variant, collective self-reliance, can be successful in the 1980s? The fourth chapter outlines the practical alternatives of the future. How do the relative shares of regional and global integration processes develop and how can integration become an instrument promoting export orientation and export competitiveness in general and in particular in the CMEA? An easily readable and expert discussion of these questions widely and hotly debated in the international economic literature make Inotai's book exciting and relevant in respect of economic policy, too, for the professional public.

It is in the second main part that Inotai raises the central problem extending over the whole book: the interdependence of the regional and global integration processes. "Regional and world economic integrations *should be* mutually interlinked processes because in places where it did not happen so, the rising share of intra-regional trade was accompanied by loosing ground to varying degrees by the respective community in the world economy. Apart from trade it can also be stated that the factors of production, capital and technology in the first place, have always flown in world-wide dimensions. Moreover, not only in the developing integrations but also in the EC this world economic 'navel-cord' was a necessary precondition for the fast growth of intraregional trade. The author investigates this relationship in detail for areas most suitable for regionalization such as extractive industries and food supply. He comes to the conclusion that giant projects though often enjoying great publicity have not been *practically* implemented in any of the areas and in any of the integrations – especially not as the "main line" of integrations. These giant projects were to strengthen the self-sufficiency of the respective region without considering efficiency and opportunity costs and their alternatives referring simply to the narrowly defined, non-economic concept of "security". The maintenance of the common agricultural policy of EEC despite the implications of the new world economic situation and even contrary to the interests of the member countries, mainly for domestic and social policy reasons, is more and more costly, moreover, it has become an obstacle for the Western-European countries themselves to realize the advantages of the global international division of labour and to adjust their economics to the changing external conditions. The long-term target programs of the CMEA have *not* set

objectives aiming at regional autarky either in energy supply or in the engineering industry instead of adjustment to the world economy.

Inotai investigates both the international relocation of industries and the process of industrialization in the developing countries with respect to both the integrations of the developing countries and the EEC. He surveys the objectives and results of both of "offensive" integrational industrial policy which aims primarily at industrialization, and of the "defensive", protectionist one, which is primarily concerned with protecting jobs. He shows in a clear and manysided manner that the permanent i.e. structural oversupply of products of certain industries (steel, textiles, car and shipbuilding, petrochemistry etc.) are not of regional character, therefore they cannot be cured within the integration. This applied especially to the defensive (import restrictive) integrational industry policy of Western Europe which does not strengthen the role of EEC in the world economy either.

Offensive integrational industrial policy of developing countries has been formulated in most cases as an attempt to extend to regional level the economic policy of import substitution which had already failed within national frameworks. However, the market of industrial goods does not expand as a function of territory or of the number of the population, but as that of the effective demand, thus the market of some individual developing integrations could prove to be smaller than that of Belgium or Sweden. At the same time, the above mentioned small European countries are forced to recourse to the international division of labour just because of their market constraints. Following from structural and country-size limitations, the "regional (collective) self-sufficiency" aiming at separating developing countries from the rest of the world economy, which is just a reformulation of the "dependency-theory" of the 1960s, and which is still a popular aspiration in Latin America, is a rather anachronistic idea under the real conditions of the world economy of the 1980s.

Contesting the views of supporters of the theory of "regional training ground" who claim that the infant industries of the late-comer countries can enter the fighting ground of the world market with success only after they have gained strength in the hothouse of the integrational market, provided for one another, Inotai proves convincingly and also statistically the less known relationship that the newly industrialized countries of the 1970s, entered the global world market *from the outset and directly* with a high share of extra-regional export of machinery and parts, and then later benefited from this competitive position at the regional market. For the rest of countries regional market was in the 1970s a hothouse not for the dynamic industries, but rather for those lagging behind in the world market (although for reasons of market-size and the need for foreign exchange it could not become a full substitute for the world market for these activities either.)

In the concluding part of the book, rethinking certain theorems of regional integration and elaborating some practical suggestions, the author tries to outline the role and prospects of regional economic integration in the new world economic situation which can be characterized by the strengthening of the *national* frameworks of action, the more and more apparent *global* character of economic and political processes furthermore also by the dialectics of these processes. The coincidence of unfavourable changes in the external environment with of the crystalization of the limits to intraregional processes has raised a number of problems: nevertheless, contrary to certain views it has not proved the crisis of regional economic integration – points out the author. A more selective and less all-embracing then earlier regional integration, setting national and also community level export orientation priorities as a target, instead of the extension of collective import substitution, might contribute to the strengthening of the position of the member countries in the world economy. A precondition for this is to sacrifice the all-embracing, frequently megalomaniac aspirations for the sake of pluralistic forms of solutions which consider the divergent position of the member countries since only this can ensure the success of the common objective: a successful adjustment to the world economy.

L. CSABA

BÁNFI, T.: *Valutaárfolyamelmélet és -politika* (Exchange rate theory and policy) Budapest, 1981. Közgazdasági és Jogi Könyvkiadó. 270 p.

From the mid-1960s exchange rate policy has often been discussed in Hungary. This is not mere chance since the desire and the need to replace the system of plan instructions expressed in physical terms by a more flexible mechanism requires also a reexamination of the whole set of objectives and instruments of foreign trade policy. In this an important and ever increasing role devolves on the prevailing exchange rate policy.

A fixed exchange rate of the forint has existed in Hungary practically since the stabilization of the currency after the second World War, in 1946. A functioning and not totally fictitious exchange rate system however only took shape after the introduction of the reform of economic management and control in 1968. Therefore, it is not surprising that after so many decades Tamás Bánfi was the first who ventured to elaborate an independent and comprehensive exchange rate theory and policy. Although the book is based on research done between 1969 and 1975 – and one cannot therefore speak of hurried publication – the highly theoretical approach means that it has not lost any of its timeliness.

The book consists of two main parts. The first is historical and analyses the role and the forms of appearance of the exchange rate beginning with the gold standard through the gold currency system up to our days. The first part also surveys the formulation and development of exchange rates in the CMEA. The second part of the book can be divided into two easily distinguished chapters. The first analyses general exchange rate theory, the second discusses the theoretical and practical questions of the exchange rate-like forms that have come about in socialist economies. Space does not permit even mentioning all the important questions discussed by the author. I shall therefore merely single out a few ideas, important both from a theoretical and a practical aspect.

In the decade following the collapse of the Bretton-Woods system a growing number of economist emotionally recall the ideal levelling mechanism of the gold standard. Tamás Bánfi proves convincingly, first that the gold standard system did not function in as sterile a manner as many believe nowadays, secondly that only an exceptional coincidence of special conditions – i.e. that "the four major trading countries of the world found themselves at the same stage of the business cycle" – ensured its relatively smooth functioning.

A comparison of gold currency and the gold standard system shows the similarity between the principles of the gold currency system and the gold standard practices. The similarity of the two systems, the determination of the fixed points – fixed exchange rate and fixed gold price – is a burden which a modern economy finds difficult to bear. The author makes the point that – in contrast to general belief – the basic contradiction of the monetary system created by Bretton-Woods lies in the difference between the fixed exchange rate form and the rate of inflation which varies from country to country. In Bánfi's opinion the contradiction behind this can be conceived as the difference in the export competitiveness of the individual countries, and it is no more than the law of unequal development made visible. Therefore, as long as the economic policy of the individual countries cannot be perfectly coordinated – and because of differing interests that is hardly possible – any attempt aimed at fixing exchange rates is illusionary.

The analysis and critique of exchange rate theories leads the author to discover factors determining the centre of fluctuations of exchange rates. This is the chapter which perhaps contains the most original ideas and which is of decisive importance also in respect of exchange rate policy. Being familiar with forces determining the centre of fluctuations of the exchange rate it is possible to refute mistaken proposals that take economic policy off course and suggest that exchange rates should be determined by a comparison of price levels (purchasing power parity).

In the course of analysing the currency system of the CMEA the author outlines a suggested new accounting and currency system. However, he states that "at present unfortunately any suggestion for changes in the accounting system has but a small chance of success." At the same time the absence of the appropriate tech-

nical instruments also hinders progress. The suggestion which is very witty, and surprising at first sight, is the following:

First, the rate of exchange among the currencies of the small CMEA countries and the common currency should be fixed. Thus those small countries the internal price systems of which can reasonably be taken closer to the world market, would find themselves doubly held in the vice of the world market: by the common currency which feeds the movement of world market prices into CMEA accounting, and by the compelling force of the external economic relations with non-socialist countries. Furthermore the possibility should be maintained for the unilateral and varying definition of the exchange rate of the Soviet rouble and the common currency. Determining with varying flexibility the two exchange rates (currency of the small countries – common currency and common currency – Soviet rouble) would reflect the real divergence in interests which originates from differences in the openness of the economies of the given individual countries.

The last chapter is an interesting attempt for the theoretical foundation of computing an exchange rate of a price multiplier character. On principle the price multiplier should be determined relying on the index of the costs of obtaining or saving foreign exchange. Whether the costs of obtaining or the saving index proves decisive depends on the openness of the economy of the given country. In the case of an open economy, where imports are an independent and exports a dependent variable, the cost of saving foreign exchange is decisive in calculating the price multiplier, vice versa in the case of a closed economy.

The discussion of the connection between the price multiplier and the non commercial exchange rate is especially timely. The author emphasises already in the introduction that "if the aim is the introduction of a uniform exchange rate, then its condition will be – with due regard to the price systems of the trading partner countries – the separation of the levels of producer and consumer prices." Consequently, if the normal separation of the two levels is not ensured, if the movement of the consumer prices is checked by artificially erected limits, then the uniform exchange rate created not long ago in Hungary could be a source of undesired tensions and, in the long run, may impede the functioning of the uniform exchange rate.

I have not dealt with many questions important in both theoretical and practical respects which are discussed in the book. The aim was only to touch upon problems debated by a wide circle of economists, thus drawing attention to Bánfi's work. It presents new results and is highly interesting both for practice and theory.

GY. SURÁNYI

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F. HAVASI

THE HUNGARIAN ECONOMY ON A NEW COURSE OF GROWTH*

In the present study the author surveys the experiences made hitherto with the transition to the intensive way of economic development in Hungary.

In 1973 the first world market price explosion created a new situation all over the world. For some time the Hungarian reaction had been characterized by an underestimation of the external economic changes and an exaggeratedly optimistic judgement of her situation. Problems in the years 1972–1974 made it also difficult to take the necessary measures. Although the five-year plan for 1976–1980 set good objectives: to increase competitivity, to improve the product pattern, to restore equilibrium, its concept to bring about equilibrium by following a high rate of growth, simultaneously raising living standards proved to be irrealistic. The session of the Central Committee of the HSWP in Dec. 1978 and the 12th Party Congress already considered external equilibrium as the first priority, with the qualification that the living standards attained have to be maintained and living circumstances improved. The main task of economic work is the simultaneous implementation of these two targets, bringing thus about the conditions for a dynamic growth in the future.

In this paper I wish to consider both issues which have been clarified in Hungary, and such as require further consideration. When making decisions on these latter practice will surely help in the coming years as much as discussion. Therefore, theory and practice may both contribute to answering questions that have been raised and are not clear yet.

In Hungary economists, historians and politicians often evaluate the past 25 years and in this context also the political or economic policy decisions which determined new guidelines for the development of the economy and management.

Some argue that the new elements which – with some further development – have become lasting factors of economic policy had appeared already in 1957 – mainly in agriculture, but later on also in industry. Others consider the 1968 economic reform as a turning point. There are others again who maintain that a new, better marked trend of Hungarian economic development began only following the Party decision taken in December 1978 or rather in 1980 – with the introduction of the new system of producer prices.

In my opinion all three approaches are sound since they refer to various stations of the same process – the switch from extensive to intensive economic development. We have to keep on working at making our political and economic policy practice more perfect. We trust that our work in this direction will largely contribute to social and economic progress also in the years to come.

It is not clear as yet whether current management practices will fully meet the requirements of the intensive stage, or will this be the case only after a certain time, as a result of further development. The need to switch to intensive economic development is not new. Certain elements had already been formulated by the economic policy following

* Based on a paper read at the 21st Meeting of the Hungarian Economic Association held in Balatonfüred, on May 10th 1982.

1956. However, developing a practice corresponding to this need was much more difficult. The recognition, in fact, occurred in time. Several factors drew attention, already at that time, to extensive sources of economic growth and development possibilities feeding on them being about to be exhausted. Intensive sources of Hungarian economic development had to be charted and exploited sooner or later. However, economic conditions at home and abroad did not really force us at the time to face the economy with qualitative requirements relatively quickly.

The 1968 economic reform already reckoned with the recognition that further development could only be based on a more intensive exploration of the inner reserves of the economy. The success of the reform was helped by the fact, in the period following its introduction, the world economy went through a boom. These years were years of fast growth all over the world. Under such circumstances it seemed that balanced economic development could be achieved also given a fast growth rate and economic growth of an intensive character could gradually develop without severe coercive measures.

In a new situation

The world market price explosion of 1973 created a new situation all over the world, thus also in Hungary. Under new, stringent circumstances of economic development those in charge of national economies everywhere began to think over how to respond to these radical changes.

The Hungarian reaction – as that of other countries – first underestimated the importance, measure and effect of outside economic changes. The consequences were considered temporary and not lasting and prices, oil prices in the first place, artificial and cyclical. At the same time the adaptability of the Hungarian economy was overestimated and the financial situation judged more optimistically than it really was.

There were serious discussions also on problems such as at which rate and to which extent losses suffered by the country should be passed on to businesses and individuals. We decided in favour of graduality. I think this position could be approved even *ex post facto,* especially as regards decisions on living standards policy. However, increases in world market prices and the resulting burdens should certainly have been shifted onto production and enterprises more rapidly and at a more even rate.

Of course, all this is being wise after the event, at the time, 8–9 years ago, it was very difficult to take the right decisions on such issues.

Taking the necessary measures was made more difficult in Hungary by hesitation of a political nature in 1972–1974. Some argued that the socialist features of society had weakened in the years following the introduction of the new system of economic control and management, therefore, their strengthening, including the protection at any price of the stability of large enterprises was required. In such an atmosphere and situation it was understandable that the search for and working out of more radical measures that accorded with tne spirit of the Hungarian system of economic control and management, and even more so their implementation, were fairly difficult. Looking for a way out was as typical of those who aimed to continue the reform, as of others who looked on the new economic mechanism introduced in 1968 as one of the causes of the problems. The latter

therefore sought for a solution in the revival of methods and ideas that had already been employed earlier.

The Fifth Five-Year Plan (1976–1980) worked out in these conditions charted a sound course and set the right goals, formulating the appropriate requirements, especially as regards the improvement of competitiveness, the product pattern and the reestablishment of economic equilibrium. However, the assumption of the plan that external equilibrium could be achieved with a simultaneous maintenance of a fast rate of growth and rises in living standards did not prove realistic. It should be mentioned that this was not peculiar to Hungary at that time. Similar ways of thinking were current also in the medium-term plans of other socialist countries. After the first oil price explosion even some of the Western countries took this line and set their economic objectives on the basis of what were tried and proven principles concerning growth.

Unfortunately the aforementioned wrong ideas appeared not only in the plan, but were characteristic also of the implementation of the already approved plan. The growth rates of 1976 and 1977, which were smaller than planned did not spur those in charge of the economy to face up to the facts, but to try and make up for the shortfall of those years in the hope that the original medium-term objectives could be realized. In consequence of the acceleration of the growth rate the import needs of the economy grew apace, but such imports required for a growth in production could be compensated for by exports, within the given structure, only to an ever diminishing degree. Import surpluses were paid for increasingly by credits, i. e. the country's indebtedness grew.

This led up to December, 1978 when the Central Comittee of the HSWP discussed the situation and, in its resolution, set the establishment of foreign economic equilibrium as a major goal, to which any other was to be subordinated. The Party Resolution adopted at the 12th Congress (1980) supplemented this priority by declaring that living standards already achieved should be maintained and that living conditions should be improved.

In the Sixth Five-Year-Plan-Period (1981–1985) both those formulating economic policy and those implementing it have to concentrate their minds on the simultaneous realization of these two major goals. However, all this must be done in a way – as was also pointed out in the resolution of the Congress – which would create the right conditions for later more dynamic development.

In recent years the two major imperatives mentioned in the foregoing – the re-establishment of equilibrium and the maintenance of living standards – have become accepted internationally. They have become general features of economic policies in both the socialist and most developed capitalist countries. In a number of countries measures similar to those in Hungary were taken designed to restrict imports, stimulate export and limit domestic consumption. In the Western countries the yearly growth rate of GNP decreased from 4.8 percent between 1968 and 1973 to 1–2 percent in recent years. Consumption stagnated at the time of the first oil price explosion while it radically declined following the second oil price explosion of 1979–1980. Thus per capita consumption decreased by 6 percent in the Netherlands, and 3 percent in the United States and Sweden in 1980–81. The share of investments in the use of GNP decreased from 26 to 21 percent in the Federal Republic of Germany; from 30 to 25 percent in Austria, from 25 to 18 percent in Denmark, from 28 to 21 percent in Greece and from 36 to 27 percent in Hungary.

Economic growth slowed down also in the CMEA-countries. Goals determined in medium-term plans for 1976–1980 were not completely achieved neither in Hungary, nor in other CMEA-countries. Plans for 1981–1985 already contain even more modest growth estimates than previously. In 1981, for example, national income remained at the level of the previous year in Czechoslovakia, while it increased by 2 percent in Romania, 3 percent in Bulgaria and the Soviet Union, and by 5 percent in the GDR as against yearly growth rates of 6–7 percent characteristic of earlier periods.

Three years later . . .

More than three years have passed since the December 1978 resolution of the Central Committee of the Party. One may therefore justifiably summarize the experiences and results of this new course of growth from the aspect of these two major goals in the first place.

The development of the Hungarian economy suggests that it is moving in the direction of goals and priorities designated in the resolution, though the rate of growth slowed down somewhat more than planned. Between 1979 and 1981 national income increased by 1 percent a year on average and – in harmony with the need to improve equilibrium – the domestic use of national income declined by a yearly 2.4 percent.

Domestic use diminished in a differentiated way corresponding to the desire to maintain living standards. First of all the share of investments declined. Within this infrastuctural investments influencing living conditions were restricted to a lesser degree than productive investments in production. Consumption even increased though only to a modest degree.

When it comes to living standards it can be said that the fundamental goal has been essentially realized. Per capita real income in 1981 exceeded by about 3 percent the level of 1978, while real wages declined by 2 percent. The practice proved to be sound and successful that conditions for obtaining income should be made more rigorous – that is an improved performance was required for the same reward -- but at the same time the conditions for the rational use of incomes were ensured, i. e. it was possible to spend one's money on what one needed and wanted.

It is an unchanged objective of Hungarian social policy, within the limits set by available resources, to improve the situation of pensioners with the lowest incomes, as well as the living conditions of young couples and those starting to work, caring for those most in need of social support.

Measures were also taken which may not be directly shown in incomes, but which nevertheless improve public morale. Such are, for example, the switch to a five-day week, the modernization of the system of holidays, and the reduction of the duration of compulsory military service. It also favourably affects morale that, when transforming the organizational and institutional system, cheaper solutions that reduce staffing needs are sought.

It can be said on the basis of experiences so far that the socialist small ventures that have been founded contribute – beside increasing income derived from work – more and more to the enlargement of the supply of commodities and services and to the raising of their standards.

In the three years mentioned the volume of exports increased by 16.5 percent, within this exports paid for in currencies other than roubles by 20 percent. This is no small achievement, particularly if we take into consideration that there is a long-lasting recession on the world market and export sales have become more difficult not only for economic, but also for political reasons. The fact that we succeeded in raising our export prices may be also regarded as a sound result. Non-rouble export prices increased by 16 percent, thus the value of Hungarian exports at current prices was by 40 percent more in 1981 than in 1978.

It is an important achievement that the import intensity of the Hungarian economy diminished. In three years, given a 5.5 percent increase of the value added, imports decreased by 4.3 percent, within this those not paid for in roubles by 8.8 percent. (Between1976 and 1978 the 16 percent increase of GNP was accompanied by a 27 percent growth in imports.)

It is a relevant change as well that the material intensity of industry decreased by 1.4 percent; this means the saving of nearly 10 thousand million forints. Perhaps an even more important result is that while energy consumption increased yearly by 3.5 percent between 1973 and 1979, it decreased by 1 percent in 1980–81. As a result of energy management and rationalization Hungary's oil imports decreased from 10 million tons in 1978 to 7.8 million tons by 1981 and it is expected that this figure will decline further in 1982.

The considerable improvement in productivity in industry is indicated by the industrial labour force declining by about 100,000 over three years. On the other hand, however, the efficiency of assets deteriorated because of the under-utilization of some of them due to market and other reasons, especially in the oil industry and metallurgy.

In foreign trade turnover we succeeded in practice in achieving a state of equilibrium. Within this, however, there is still a considerable import surplus in trade with most developed industrial countries. This shows that competitiveness on the most demanding markets is not satisfactory yet.

In 1982 non-rouble foreign trade should show a much greater export surplus. This is necessary all the more since certain unexpected events made our financial situation more difficult. Huge earlier loans are becoming due, and this under conditions which could not be predicted, such as the extraordinarily high interest rates and the credit blockade provoked by the United States which has been going on for months now.

The results of the last three years were achieved under outside circumstances that were more difficult than previously. Due to tha lasting crisis protectionism has strengthened on the world market. Various politically motivated economic sanctions have impaired East-West relations. During the last three years problems of equilibrium and supply have become more serious also in the socialist countries. Neither the punctuality, nor the discipline of the mutual supply of goods really improved and resulting problems often had to be solved by Western imports. All this also means that helping each other in solving various problems is much more difficult than it used to be. Under such circumstances the results achieved, which are appreciated abroad as well, should be valued even more highly.

Rhythm and equilibrium

The Hungarian economy has been developing increasingly on a new growth course since 1978, but causes for the lack of equilibrium could not be fully eliminated as yet. Assets, labour and import inputs needed for a unit of national income are still too high. Under such circumstances an undifferentiated acceleration of growth would spoil the external equilibrium of the economy and would not permit the maintenance of living standards.

Hungarian economic policy has never looked on slow growth as a goal, but always as a consequence. In the old structure it would not have been difficult to achieve higher growth rates, but this would only lead to growing problems of equilibrium. The objective is to become more dynamic with a new commodity pattern which is competitive also on the world market.

The demand for a faster rate of growth is often expressed in economic discussions and in the specialist press in Hungary. The reasonableness of the demand or the *bona fides* of those who make it cannot be gainsaid. It must be recognised, however, that the rate of growth is not simply something that can be decided. This is especially so since in the economy competitive export capacities by whose better utilization growth could be accelerated are, for various reasons, available only within limits. At present, however, almost one third of Hungarian industrial enterprises are not competitive yet by international standards and there are also capacities (for example, oil refineries) which cannot be fully utilized because of marketing problems. The growth rate of Hungarian industry therefore depends equally on efficiency, competitiveness, obtaining supplies, and marketing as well.

The problems of agriculture are of a different nature. Here it is not the growth rate of production that causes trouble. Hungarian agricultural yields are high by world standards. Inputs, however, are much higher than those of other countries of the same standard. Agriculture, therefore, either has to achieve considerably higher yields with current inputs, or else more profits and higher profitability must be obtained by reducing production costs.

It can be said with good reason that there are no barriers to the improvement of competitive production for export. The acceleration of economic growth depends basically precisely on more profitable exports. Growth can be accelerated to the extent that we can enlarge export markets.

No doubt, diminishing investment possibilities and lower rates of accumulation than earlier are considerable problems of the current situation. Future faster development undoubtedly requires a higher rate of accumulation than the present one, there are, however, no possibilities for that at present. It is very important therefore to exploit investment assets in those places and such a way, where the entire production process could be stimulated with relatively small inputs.

To progress along the new course of growth it is also necessary that all those stabilizing elements of the economy be strengthened on which we rely to gradually eliminate relative backwardness in certain industries.

An open economy

The question often arises in connection with the present course of growth whether Hungary does not depend too much on the world economy. The answer is simple: we are forced to develop relations with the world economy. The openness of our economy, primarily close connections with CMEA-countries, but also with other spheres of the world economy, result from the situation and characteristics of our country. We do not wish to change this, but we could not do so if we did.

It is an important goal of Hungarian economic policy to obtain an improved position for the country in the world economic division of labour. Such an economic policy goes with certain dangers for sure. These have to be reckoned with. Foreign economic factors are not likely to improve in any direction within the foreseeable future. Our progress is influenced by the way Western markets shape, the situation in the developing countries and also by the way CMEA-countries cope with their problems. Unforeseeable economic circumstances or political conflicts may cause serious difficulties in the future as well. In the knowledge of this we have to strive to reduce our vulnerability. The only answer to the world economic challenge is to try and satisfy the requirements, and cope with the circumstances under which all countries live and work these days.

Greater security should be striven for also from the financial aspect. This may be furthered by Hungary recently becoming a member of the International Monetary Fund. When we submitted our application we clearly stated that the condition of our joining the IMF was that this international monetary institution should not influence the sovereign nature of Hungarian economic policy. It was emphasized as well that Hungary is a member of the Warsaw Pact and the CMEA and wishes to strengthen her contacts with the member countries of these organizations in the future as well. The International Monetary Fund decided in favour of our admission in full knowledge of these facts, recognizing that our standpoint was justified.

Our membership will presumably improve our credit rating with the banks of member countries.

If we also joined the World Bank* then we could also tender for jobs which are financed by this institution in various parts of the world. There may also be a chance that this monetary institution should grant credits to Hungary for the realization of certain development objectives.

We should, however, be aware that these two international monetary institutions can only help. The overwhelming majority of the tasks ahead must be coped with by ourselves using our own resources.

Development of economic management

The intensive development of the economy can only be achieved by the improvement and the growth of its foreign economic activity. An indispensable condition is the continued further development of the system of economic control and management, with all of its relevant elements.

* This has happened in the meantime (Ed.).

Planning must be developed. Our plans must be open and elastic enough to adopt to changes in the external world and development at home. It is indispensable as well that the consistency of inner relationships and proportions of the plan be improved.

We wish to further develop the relationship between the plan and the regulatory system in such a way that the development and realization of strategical concepts on main processes be strengthened. From this aspect a more efficient utilization of resources than at present, promoting a regrouping of assets serving for the development of a more favourable economic structure and the stimulation of responsible entrepreneurial behaviour are of decisive importance.

The better foundation of economic decisions cannot be imagined without an awareness of the actual conditions of efficiency and profitability. This, however, depends basically on the degree to which the price system can fulfil its value-measuring and controlling role. The price system should therefore be developed in such a direction that the income of economic units should increasingly reflect real differences in efficiency.

A modernization of the system of wage and earnings regulation is required for similar reasons. The system of regulation of earnings must further greater profitability, mobilising reserves as well as controlling the later flow of wages.

The modernization of the organizational and enterprise management system is in process. This work is based on the recognition that both economic units of bigger size and more complex organization as well as medium and small enterprises have a place and role in the industrial structure.

The relationship between control agencies and enterprises should be improved. The development of the inner mechanism of enterprises is also a timely task. The current system of internal enterprise organization, management and interestedness ought to be modified in such a way that productive units be more directly subject to market effects than at present. This should prompt them to more flexible methods of management.

The importance of the human factors

In the realization of economic policy objectives and in the solution of management and organization objectives social and human factors, initiative, creative action, assuming of responsibility, organization and discipline have an ever growing part. When speaking about human factors I should like to lay special stress on the role of training and extension training in the shaping of attitudes and behaviour.

Personnel work should also meet new requirements. For the realization of our economic policy talented people of an entrepreneurial spirit are needed. Political soundness, technical knowledge, leadership qualities and honesty are also indispensable. We wish to promote the further development of personnel work, the better utilization of job-selection, the better coordination and joint enforcement of one-man responsibility and the needs of collective work.

It is our fundamental interest that workers and managers capable of meeting these new requirements enjoy more appreciation on the part of society as a whole.

The question of the tolerance of society is often raised: more precisely, how does society react to changes which may occasionally be unfavourable. In this regard I am

convinced that the high public morale in Hungary which came into being over the past 25 years is a valuable political asset which has not deteriorated, but rather strengthened during the past three years. It is due to this circumstance that the political tolerance of Hungarian public opinion is good, our economic policy is understood, accepted and supported.

The maintenance, what is more, improvement of the understanding and tolerance of our society is an ongoing task for the future as well. Not only economic policy – with a determinant part in living standards and living conditions – but also other political processes have their duties in this. The development of socialist democracy is going on in the knowledge of all this and the practice is that all more important economic policy measures are subject to prior public debates.

Our political system and economic policy management have made Hungarian society more responsible and able to realistically reckon with and make use of possibilities. Our politics since 1957 have ever encouraged and furthered sound initiatives. If we are going on working in this spirit, if we preserve and further strengthen an atmosphere where the creativeness and energy of working people will increasingly get off the ground, then much will be done which will help in the solution of problems.

ВЕНГЕРСКАЯ ЭКОНОМИКА НА НОВОЙ ТРАЕКТОРИИ РОСТА

Ф. ХАВАШИ

Настоящая статья является отредактированным вариантом доклада автора на конференции Венгерской ассоциации экономистов 10 мая 1982 г. В ней автор рассматривает опыт, накопленный до сих пор в связи с переходом на интенсивный путь экономического развития в Венгрии.

Предшествующие события уходят к 1973 г., когда первый «взрыв» мировой цены на нефть создал новое положение во всем мире. Реакция Венгрии характеризовалась в течение определенного времени недооценкой изменений во внешнеэкономическом положении и чрезмерно оптимистической оценкой собственного положения. Принятие необходимых мер затруднялось также политической неуверенностью, появившейся в 1972—74 гг. В таких условиях, хотя пятилетним планом на 1976—80 гг. и были поставлены правильные цели (повышение конкурентоспособности, улучшение производственной структуры, восстановление народнохозяйственного равновесия), но оказалась нереальной его основная концепция — достижение равновесия при высоких темпах роста и одновременном повышении жизненного уровня. Декабрьский пленум ЦК ВСРП 1978 г. и XII съезд партии уже указали на восстановление внешнеэкономического равновесия как на задачу первостепенной важности, с тем что необходимо сохранить достигнутый уровень жизни и улучшать условия жизни. Центральной задачей хозяйственной работы является одновременная реализация этих двух целей и создание условий для динамического развития в будущем.

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L. ANTAL

THOUGHTS ON THE FURTHER DEVELOPMENT OF THE HUNGARIAN MECHANISM

The impact of economic problems has resulted in considerable changes in the Hungarian economic administration during the past years. In the authors's opinion the carrying on of the reform process which had started in 1968 but was halted later on is not only justified but is also made possible by coercive circumstances. The changes he deems necessary are essentially the following: ending the direct dependence of enterprises on administrative authorities. Proprietary functions should not be vested, even partly, in the administrative apparatus. It is necessary to set up heterogeneous forms of organization (entrepreneurial office, public company, self-administering cooperative, holding, individual and family private entrepreneur) as well as to allow the self-development, organization and combinations of these versatile forms by legal and economic conditions.

In Hungary we are going through a, sometimes painful, period of radical reappraisal of the economic situation and of the possibilities. In the mid-seventies we had to recognize that we could not make ourselves independent of the world market. The resolution of the December 1978 session of the CC HSWP reflected the recognition that the gap that had opened between the production and consumption of the national income in the wake of the price explosion could not be reduced gradually nor painlessly. It was also discovered then by and large that relying on the selective activity of the control apparatus it was not possible to separate the competitive product groups and manufacturing sectors and the potentially competitive ones (i. e. those to be developed) from those which had to be maintained temporarily and those which had to be discontinued immediately. (The reason being that this type of "selection" leads inevitably to development along a broad spectrum, a demand for development which bursts apart the potentials of the economy.) By the end of the decade we accepted, even if with difficulty, the reality of substantially slower growth over a longer period and the stabilization of the standard of living which had been achieved.*

Consequently, the number of those families and households whose standard of living will lastingly be lower than what was already achieved will not be small. Although this does not affect uniformly the situation of some strata or homogeneous groups, after the "golden age" of the continuous and spectacular growth of consumption over nearly two decades this is not easy to acknowledge. Differing from the earlier period, there will be many enterprises which will have substantially less investment resources available in the next five years than in the preceding five-year period. The stagnation and even drop

*The changes in the conditions for growth, their reasons were demonstrated by János *Hoós* in [1]. It is important to emphasize that the slow-down of growth does not lead automatically to the realization of the requirements which have been correctly formulated in the article. This refers also to the claim, which in my opinion is of fundamental importance, viz. "Unlike the way of the past three decades, economic growth in Hungary is more and more pronouncedly transforming into *demand controlled* growth."

of production, the partial under-utilization of capacities is no longer an unknown phenomenon in Hungary. However, our mechanisms of distribution "have become accustomed" to the redistribution of increments. On the other hand, redistribution of the smaller resources involves lesser or greater conflicts, because it clashes against the unwritten rules of the established bargaining mechanism that was mutually accepted by those who participated in decision-making.

At the turn of the seventies and the eighties – sort of summing up the discoveries and recognitions following on each other – an important process of changes began which affects all essential elements of economic control and economic policy and which has not yet been closed. Their importance far exceeds the "perfecting" of the price and regulatory system which occurred earlier, by and large, every five years. These changes break with the practice of partial measures reacting directly to concrete phenomena of economic tensions, which did not solve the problems but spread them out or possibly shifted them to some other area. It is important that a political atmosphere has come about which concentrates on the solution of our economic tasks, supports risk-taking and also encourages small enterprise. The conditions for getting subsidies and preferences have become somewhat harder, and the enterprise size is no longer so decisive an aspect in the distribution of resources.

The reappraisal of the situation is no easy task. This is also evidenced by the gradualness by which we acknowledge the real weight of our difficulties. Any stabilized decision-making mechanism – including the Hungarian practice of economic control – tries to avoid or at least to postpone decisions which involve the sharpening of conflicts, the rearrangement of power positions and power relations. But decisions must not be taken when certain processes (to be avoided) can no longer be averted, as their inevitable occurrence can already be proved in an exact way – this being already a forced path –, but at a time when we still have genuine room for movement.

I believe the present situation in Hungary is characterized by this kind of dilemma. The changes which began at the end of the last decade and which cover several essential elements of economic control, and the trend of economic policy appear to be successful from the aspect of the improvement of external equilibrium. Unfortunately, it is also becoming increasingly clear that not only a "tightening of the belt" for a year or two is needed, which then creates the foundation for growth which may be slower but of a healthy structure. It is a fact that we are able to ensure the external equilibrium (balanced trade) for the time being not with the assumed annual 3 percent growth rate, but with an approximately 1 percent growth rate, and, consequently, with a diminishing domestic utilization.* It is a further fact that the basis for the improvement of the external equilibrium has not yet been so much the improvement of export capacity but rather the moderation of imports. We have no reason to assume that this situation will change from itself in the short term. But nobody must imagine that the deliberately accepted stagnation – which is in the present situation the price for the stabilization of the balance of trade – represents a solution in the longer perspective.

The present situation can also be interpreted in a way that the regulators (especially the rules of the price mechanism) are exaggeratedly "opposed to increase in volume",

* The rate of economic growth was 1.9 percent in 1979, –0.8 percent in 1980, 1 percent in 1981, and the plan for 1982 counts with a growth of 1–1.5 percent.

and this somewhat lengthens the period of consolidation. There is probably some truth in this – thus through the smaller rationalization of some elements of control, by measures directed at partial areas *temporary* successes can be achieved –, but in the longer term these do not bring essential change.*

It is not by chance that for some years the arguments concerning the perspectives of our economy have been resumed: "Shall we open or close?" "Shall we develop the pulling sectors, or shall we make those catch up which pull back?" "Must the adaptivity of the economy be increased *generally*, or should the concentrated utilization of resources be put on the agenda?" "Can stagnation be maintained over several years, or must in the near future a more moderate but continuous growth of domestic utilization be ensured?" [2, 3, 4, 5, 6, 7]

One pole in this debate is characterized by deducing the difficulties of the Hungarian economy from the changed external economic conditions (sometimes even from the international political conditions), considering these conditions as determinant for the Hungarian economy.** Consequently, the pivotal questions are formulated as a conscious choice among alternatives of long-term economic policy (as recommendations concerning these choices of alternatives in structural policy or external economic orientation), suggesting that the central decision would also contain the conditions for its realization.

The other view finds the main obstacle to our competitiveness in the weaknesses of our economic mechanism. Consequently, it does not stress the external but rather the internal barriers and determination, and seeks the solution proceeding from this: ". . . in our connections to the world economy we must develop in our economy abilities and qualities of which so far only the 'competitive economies' disposed in the course of economic history – József *Bognár* finds. [9]

Experience of the past is rather likely to support the last assumption. It has more or less been confirmed in practice that the choices of economic policy are rather limited within a *given* economic mechanism. The essential changes – such as for instance the increase of the ability to export, but also the transformation of the micro-structure, the overcoming of the stage of quasi-development,*** or also the withdrawal of capital from the less competitive areas – are determined primarily by the general economic environment, i. e. the conditions of the economic mechanism. Temporary successes may be achieved by central measures restricted to one area or objective, but the qualitative characteristics of economics management cannot be changed in this way, the reason

* This does not mean a summary rejection of the justification of partial measures, only the stressing of the fact that the value and efficiency of the partial measures are decided by whether they are able to promote further changes of greater importance.

**Perhaps the clearest formulation of this view can be found in an article by Lajos *Osváth* [8]. According to this author, isolation is made inevitable by the increasing protectionism in the western countries. "In the case when the symmetry of openness cannot be brought about in a *natural* way, i. e. through the efficient development of exports limited to areas which are free from discrimination, the question of the regulation of openness arises. But this regulation can only mean already an artificial restriction of imports to a level which is lower than the natural requirements of the national economy."

***Quasi-development is the contradiction between the framework (a macro-structure appearing to be modern) and the content (the real modernity and marketability of the product). This is perhaps the most pregnant among the contradictions brought about by the system of centralized economic control. [10]

being that the factors motivating the attitudes and ambitions of the enterprises and control organs, the unwritten rules shaping the relations among them remain unchanged. If we wish to overcome this situation, then the formulation of our aims must be preceded by the exploration of – to use a rather misleading but unfortunately accustomed expression – the available instruments (forms of movements, social energies). Such a thorough change of the economic mechanism is needed which is harmonized and extends simultaneously to several substantial elements of control, to the entire economy. Such changes cause a lasting transformation of the ambitions and attitude, firstly, of the control organs and enterprises, secondly, of the relationship of the control organs between each other, thirdly, within the internal enterprise structures, and thereby of all those who participate in economic decision-making.*

I should now like to argue for two statements. The first is that conditions are now favourable for the continuation of the reform process. The conditions are compelling and the recognition is not lacking either. The second is that the *punctum saliens* of a development in this direction is to abolish the direct dependence of the economic units on the control organs, to unequivocally separate control and administration from the representation of interests, and from economic management, to ensure the conditions for the operation of a genuine market.**

In my opinion these requirements have not yet been satisfied by the changes in economic control which were started in 1979–80, although the changes point in this direction.

Self-regulatory mechanisms operate in every system of economic control. Without this no functioning economy can be imagined. Even in the conventional system of directive planning the unwritten rules take shape, which are known well (and kept) by all participants, and which in the case of the often occurring upsetting of the balance between production and needs (in the case of the operation of a market mechanism, supply and demand) start even without conscious intervention from the macro-level those processes which with more or less delay restore an equilibrium which usually differs from the original one. (The logical model of this process which is not coordinated by prices but is not centrally controlled either, is described by János Kornai in his "Economics of shortage" and other works). As may be seen, the important role of self-regulation is inevitable in the harmonization of the partial processes, irrespective of whether the higher level control strengthens and makes open these self-regulatory mechanisms or simply takes notice of them, or perhaps wents to suppress them.

It is, however, a fact that in the history of the planned economy in Hungary – including also the post-1968 reform period – the market has not fulfilled a self-regulatory function. This is reflected in the requirement that the Hungarian economy should be transformed into a "demand controlled" economy.

*In other words – to use János *Kornai*'s definition – the norms change which influence the economic actions, the endeavours of those interested in the decision-making processes. [11]

**Márton *Tardos* [12] distinguishes three mechanisms of coordination. These are the traditions, the habits, the (not necessarily free-competition) market, where the adjustment of supply and demand are controlled primarily by price movements, and finally "planning relying on human decisions which are conscious on the social level". Spontaneity dominates in the first two coordination mechanisms (traditions and the market, respectively), and these Tardos calls self-regulatory, stressing thereby their difference from planning.

Some characteristics of the post-1968 Hungarian economic mechanism

The relationship between enterprises and control organs

The economic reform introduced in 1968 abolished the obligatory plan instructions but did not put an end to the comprehensive system of hierarchic relations, and thus we cannot speak of the coming about of a self-regulatory market.* This ambiguity has put its imprint on the processes after the introduction of the reform. The new system, which has come about, has governed – instead of instructions – by looser, more tolerant, but more uncertain "expectations". ("Expectation" is less than a command, but substantially more than the "I would like".) Accordingly, instead of plan targets it "broke down" financial regulators. The single-channel dependence (linked to the sectoral control organs) was replaced by simultaneous dependence on several control organs. This made the control of the processes more complicated, increased the clumsiness of the system but also the opportunities of the enterprises for manoeuvering. The successful enterprise did not simply endeavour to meet the "expectations", but also wanted to influence them, to find its way in the involved circumstances which are sometimes much less transparent and foreseeable than the market.

The system of expectations was complemented, as subsidiary conditions, by market- and income restrictions. In order to fulfil the obligations towards the state and the bank, to avoid the flowing away of the labour force, the possible losses or the need for profit had to be calculated well in advance and made to be recognized not so much by the partner enterprises than by the control organs. Although the lack of this did not endanger the existence of the enterprise, yet it could lead to continuous checks interfering with the everyday life of the enterprise, to uncomfortable, minute interventions making the enterprise management uncertain. In some partial areas of the economy competition could already assert itself, but depending to a considerable extent on how much room the central control allowed and where. [14]

Regulations as a substitute for the self-regulatory mechanisms

Although overestimation of the role of competition can indeed be detected in the writings of around 1968, sometimes even some kind of nostalgy for the free market, the practice which came about and then became stabilized reflected much more some kind of regulatory illusion (reminiscent of the Lange-Lerner concept). The regulation tried to "feed" the still rather detailed and uncertainly formulated (although less rigid) expectations into the enterprise price and profit conditions, the subsidy and credit terms, wage regulations, assuming that these goals can be achieved more efficiently if, instead of prescribing them, they are made into the interest of the enterprises. This intention determined the practical functioning of the regulators, especially the periodical modi-

* „The limitation to the autonomy of the Hungarian enterprises is first that they are situated at the lowest level of a hierarchically organized system of economic control" – writes Márton Tardos. [13]

fications of prices and regulators. On such occasions some priority tasks came to the fore – e. g. the saving of manpower, increase of exports, exploitation of fixed assets, etc. – using partial incentives, which mostly exercised an influence through the profit, were linked to the latter, but tried to make the enterprise interested not in profitable operation in general, but in the priority task. However, this endeavour could not be successful. The almost unlimited central controllability of the processes and an enterprise attitude reacting primarily to profitability and price – which are assumed by this logic simultaneously – mutually exclude each other.

Still, the apparently small changes were not insignificant from the aspect of the functioning of the system. The expectations which were more flexible than the instructions had been, the possibility of manoeuvering between several control organs, the generally more elbow room left to the enterprises, the appearance of activities, subsidiary plants outside the basic activity, etc. enabled the economic units (state enterprises, cooperatives, small private enterprises) to adjust, even if clumsily, to the slow changes occurring in the environment. The enterprise initiatives – which could be called ventures only by strong exaggeration, since they had to be reconciled in many directions with the control organs – became important, perhaps even indispensable elements of the system. Thus it was possible to mobilize some reserves in the period when the slow changes in the world economic environment and the boom lasting over several years assisted the exploitation of the potential inherent in the reform. The imbalance between supply and demand was mitigated at important points. All this contributed to a large extent to the balanced and rapid growth, the spectacular – and not only quantitatively perceivable – increase of consumption, which characterized the years that followed the introduction of the reform.

The practice of decision-making became strongly *status quo*-oriented. The extremely broadly interpreted stability became a fundamental value, an element regulating the a system even if not exclusively, yet primarily. The mechanism of decision-making relying increasingly on mutual determination, on a system of many-sided dependence, necessarily oriented towards stability. This functioned as a safety net, lest some initiative upsetting the unwritten rules and disturbing the established system of the organizational and power positions should lead to the sharpening of conflicts with an uncertain outcome. The mechanism of decision-making set limits to enterprise initiatives too. Any new attempt of the enterprises – involving important investment, a change in the product pattern, the rearrangement of relations among enterprises, imports, etc. – suddenly increased their dependence on the control organs, which then took care to sustain the established balance. The endeavour of the control organs for stability led to the dulling of the proposals, the radical ideas were tamed into minute corrections, while on other occasions they became ideas postponed into the distant future. The initiatives of the enterprises requiring central approval or support (and in practice all important decisions fall into this category) turned into protracted decision-making processes with many participants, taking on a collective and bureaucratic nature, where enterprising was relegated into the background and responsibility became allusive.

Further lessons from the post-1968 processes

Perhaps the most important experience is that if we try to expand entrepreneurial management (through subsidiary plants, etc.) gradually, in an unchanged institutional--organizational system, maintaining the formal and informal dependence of the medium and large enterprises on the control organs, with minute rules limiting their management decisions, this does not lead anywhere. The reason is that in such circumstances the most important characteristics of the behaviour of the organizations cannot change essentially either. Consequently, the increase of the freedom of movement, the easing of the various restrictions do not necessarily lead to the natural selection of the more rational variants, involving a more rational functioning of the system.

The opposite might also happen, i. e. the construction of protective mechanisms barring the new paths, increasing the rigidity of the system. To explain this more simply: if in the course of the further development of the reform we do not succeed in making the large enterprise sector, which is decisive from the aspect of the whole of the economy, more entrepreneurial, then the competitive mechanism can also operate only restricted to some partial areas. The spreading of the various forms of small enterprise does not help much in itself. On the contrary, it might bring about – and in the early seventies it did bring about – counteraction directed at the suppression of small enterprise.

The other such universal lesson is linked to the unfavourable changes in the world economy. It is perhaps even more important than the considerable losses suffered that when the environmental changes gathered speed, the machanisms of adjustment which had been built up in the wake of the reforms of 1968 did no longer prove to be adequate. The reason is that in such a situation it is necessary to change the "expectations", the unwritten rules frequently, while the accustomed enterprise stability ties the hands of economic control. The enterprises become uncertain, the governmental decisions to which they must primarily adjust become difficult to foretell. The tangible consequence of this is a characteristically tactical enterprise behaviour which adjusts to the changes to be expected and not to the perspective orientation which the regulations wish to express. This is why semi-administrative solutions and campaigns characteristic of the earlier practice of control can gain ground, as reflex-like reactions. The losses of adjustment increase, and the functional disturbances of the system grow considerably.

In appraising the experience of the past we must also revise the apparently logical assumption, whether we do not expect too much from the price system, the price mechanism, and the rational development of the general system of taxation, in circumstances where prices and profit are far from being the primary motives of enterprise activity. The five-yearly "perfections" concentrating on prices that will correctly reflect efficiency and on the narrowing down of individual solutions, as well as on the modernization of the tax structure, usually set out from the assumption that the reason for the unsatisfactory interestedness should be sought in the large number of individual (financial or administrative) interventions. But what is to be found in the background of the extensive individual interventions is the inadequate tax structure and that, due to the latter, the profit "does not reflect efficiency". Consequently, if we succeeded to change this, then the reasons for intervention would also cease, and the profit motive could function.

However, this train of thought is only apparently true. It is not the "wrong price system", the taxation system that cause the proliferation of interventions – although

we may be justified to feel so in every concrete situation – but primarily the fact of hierarchic dependence.* This proves to be a tenacious self-perpetuating system, which does not only make interventions possible, but reproduces the causes, the common interests of the enterprise and the control organs leading to the survival of direct dependence. For this reason, the frequent changes in the price mechanism and in taxation – while they mostly successfully solve the concrete problem itself but at considerable social cost – are unable to eliminate the general causes of central intervention. They are especially unable to do so, because the enterprises themselves ponder in their decisions primarily the chances for obtaining central resources, of attaining a favourable bargaining position towards the control organs, and consider the profit and the market situation only subordinate to the former.** In this context, for instance, it is expressedly not in the interest of an enterprise to attain a "conspicuonsly" high profit, as a buyer it is not sufficiently interested to take a stand against price hiking endeavours ("soft budget constraint"), but often the producer is not interested in raising his price either (for instance, because it is exactly by referring to the low prices that he demands and receives support to development).

Why is a thorough change of the economic mechanism necessary?

Almost simultaneously with the 'restoration' of the economic mechanism, an unfavourable and lasting turn occurred in Hungary's external economic conditions, first in respect of western trade and somewhat later within the CMEA.*** Recognizing that the difficulties were lasting and seeing their intensification, the Hungarian economic leadership decided in 1979–80 on changes that were more important and broader than the earlier ones. The most important elements of these changes were: merger of the industrial sectoral ministries, revision of the enterprise organizational structure with the intention of decentralization – for the time being with rather modest results – stimulation of small ventures, enrichment of the forms of the latter, mitigation of restrictions on enterprises (the easing of restrictions on the scope of activities, establishment of subsidiaries, the making possible of economic associations among enterprises). The introduction of the "competitive price"-mechanism mediating the world market conditions, the increase of the risk-bearing capacity of the enterprises, the tightening of subsidies (mainly of investment subsidies) also form part of these measures. The aim of the series of changes, which has not yet ended, is undoubtedly the broadening of *the scope of the competitive mechanisms:* and where this is not possible directly in the short run, there at least the simulation of the market constraints and, at the same time, the weakening of the "expectations", of individual regulation, of the adjudication of plans, i. e. of the interventions by the control organs. The aim is to reduce the interest in one-sided quantitative growth, and finally – although not entirely out of our own free will – the assertion of the prin-

* This emphatic claim was first formulated in the works of Márton Tardos.

** See on this question *Laky*, T. [15].

*** Out of the rich specialized literature discussing this question, the articles by András *Köves* [16] and Márton Tardos [17] point out most clearly the background to these losses.

ciple which has been voiced for a long time, i. e. that the (changing) social costs must influence the value judgement of the consumers.

Nevertheless, if we try to sum up in one sentence the experience of the period that has passed since 1979, we may approximately come to the conclusion that although there has been success in stopping some negative trends (first of all the deterioration in the external equilibrium positions, the expansion of production independently of profitability), there is still little justification to speak of the unfolding of favourable processes.

Let us first have a look at the real processes (Table 1).The external equilibrium can be ensured, with a considerably lower growth rate than was planned, at the expense of the reduction of domestic utilization – for the time being primarily of the rate of accumulation.

Table 1
Growth rates and the rates of accumulation 1978–1982

	Growth rate (net national product) percent	Rate of accumulation (in domestic utilization) percent	
1978	4.2	30.3	
1979	1.9	24.1	
1980	0.8	20.3+	21.7+
1981	1.0		18.2
1982 (expected)	0.8		16.0

+ At comparative prices. The two different data figure on account of a change in price in that year.

The background to the phenomenon is provided by the unsatisfactory strengthening of exports for convertible currency. Consequently, the improvement of the external balance is manifest primarily on the import side (partly owing to the stagnation of production, and partly under the influence of import-saving measures). The growth of exports has always lagged behind the plan target – with the exception of 1979 which had a good "basis for comparison". Thus imports for convertible currency are also forced to diminish, and there are supply constraints to increasing imports from the socialist countries.* In such circumstances minimum growth and (taking also into consideration the intention of sustaining the standard of living) the rapid sinking of the rate of accumulation is, even if not inevitable, yet certainly a logical development.

In the given situation we react to the environmental influences in a particular, defensive way. This means on the enterprise side a reduction of the less economical activities, sometimes the partial non-utilization of capacities (which is not necessarily bad), but leads only exceptionally to the introduction of new economical activities. And decisions on the macro-level concentrate on the bearable spreading of the burdens accompany-

* On the effect of the growth of trade with the socialist and with the western countries on each other and on growth see the article by András Köves and Gábor *Oblath.* [18].

ing the restriction of domestic utilization, through the strict regulation of consumer prices and wages, by "siphoning back" the enterprise incomes which had outflown, by slowing down large investment projects, sometimes their postponement, and through community saving programmes. The domestic financial equilibrium does not improve. The stagnation of the economy is reflected in the formation of income, while the demands influencing the budgetary expenditure increase, even if to a modest extent, in spite of the restrictive measures. Consequently, interventions of a universal nature or those reducing the individual enterprise income, are repeated inevitably* . But these – irrespectively of their necessity – do not favour the development of the entrepreneurial spirit. The control apparatus acts under the pressure of compelling circumstances, and the enterprises count with the repeated tightenings. The extent of taxes and other withdrawals from the enterprises already approaches or has perhaps already reached the limit which by itself puts a question mark to the positive restructuring which must accompany dynamic growth, or almost excludes it without state support. Thus the gap between the intention expressed in the changes carried out in economic control and the practice of the operative economic organization using differentiating instruments in an unchanged depth willy-nilly grows.**

The experience with the price mechanism introduced in 1980 is not unequivocal. It is a fact that the importance of prices has increased by leaps and bounds in the life of the enterprises. The new price mechanism induces harder bargaining about prices on the world market. But it is even more important that access to credit, investment resources and subsidies depends much more on the prices which can be achieved either on the market or through help from the authorities. Price tries to fulfil some kind of coordinating function among the various mechanisms of redistribution. It seems further that the new price regulations constitute the main obstacle to the endeavours of the enterprises for expansion. Arguments about price have become sharper between the enterprises, too. All this shows that the price represents today a much stricter (though not market) constraint for the enterprises than earlier. It is, therefore, not an illusion to assume that in an adequate economic atmosphere (ensuring for the large enterprise "sector" the possibility for entrepreneurial activity) price can be suitable for fulfilling the role of a hard constraint. (On the other hand, I do not consider it a positive feature of the new price mechanism that it abolishes the recognition of prime cost, in view of the modest number of enterprises recording a loss, which means that in the case of the overwhelming majority of the enterprises – often through concessions given from the price principle or some auxiliary rule – the prices nevertheless recognize the prime cost. It may be assumed that what is concerned here is not that the enterprises adjust through a radical transformation of the product structure to the price conditions which they must consider as given.)

As against this, the contradictions caused by the simulative nature of the price system come increasingly to the surface. On a real market, no mechanical rule exists in the case

* The most important are the raising of the profit tax, of the pay-roll tax, repeatedly of bank interest rates, of the construction tax, revision of the coefficients for wages increases, the narrowing down of developmental supports and depreciation benefits, sometimes the shortening of credit terms.

** This problem has been discussed in an article by Róbert *Hoch* [19] and since then in a number of further publications.

of a concrete product as to the time within which price movements on the world market must be followed, if at all, in domestic sales. But competition from imports and other entrepreneurs may induce, sometimes compel producers to follow the price trends of the external markets. The simulated Hungarian market is not at all, or hardly influenced by such real economic forces, and it is exactly this that the rules which are schematic for the sake of controllability, but exactly for this reason contrary to the nature of the market, try to counteract. This again demands the central operation of the system. It is thus certain that the new price mechanism demands administrative interventions into the price processes. In certain cases some price movements must be implemented expressedly against the domestic market conditions. It is especially difficult to demonstrate some living relationship between the price movements and the economic environmental effects in the case of the so-called "following" enterprises. Consequently, corrections which change, lift, partly modify, and sometimes tighten the rules are inevitable.

It is impossible to distinguish the objectively rational corrections which are called upon to mitigate the schematism of the system from interventions which merely give relief for some enterprise difficulties.

The latest changes in price regulation – by introducing further sub-rules concerning prices – have undoubtedly succeeded in mitigating numerous problems of the system. However, the lack of unambiguity (which was made characteristic of the regulation already by the introduction of the notion of unfair profit) becomes stronger in the regulation. The importance of interpreting the rules and of ties to the control organs is on the increase. There are numerous methods accepted by the partner enterprises and the control organs for the avoidance of considerable losses (losses of profit). These must exist to avert serious economic disturbances.

It would still be early to try to draw a balance between the positive and negative effects of the present Hungarian price mechanism, but it is certain that it would be an illusion to assume that the centrally commanded competitive price system – with the Damoclean sword of unfair profit, which is difficult to interpret, over it – would develop into a price system controlled by the market. The control authorities have played a great and inevitable role both in the price movements which have occurred and in the price changes which have been omitted. Price is becoming a new 'formation' in the comprehensive system of bargaining between the enterprise and the control organ.

Changes in the economic conditions also have an influence on society. In Hungary, until the mid-seventies, it had been possible to sustain a secure and continually growing assortment of supply with a hardly changing retail price level and increasing real income for all strata. "Right" not only to work, but to the given place of employment, and more or less even to the given job has also been asserted. The benefits and price preferences were maintained even if their topicality had already ceased. With the exception of some trades, there were no difficulties in finding employment, but disregarding demographic factors (growth in the number of children, retirement) maintenance of real income achieved was almost guaranteed even at the level of the individuals. The chance of obtaining a dwelling improved continuously until the mid-seventies. This resulted in a feeling of existential security, irrespective of whether this can be qualified rational from the aspects of social policy or of the economy, or not. The developments of the late seventies and the early eighties have eliminated the background to this feeling of security, whether we like it or not.

The continuation of the present processes may cause a further reduction of the domestic utilization (of the national income) endangering perhaps already the achieved standard of living. Independently of the intentions of economic policy (perhaps even opposed to them) the autarky of investment policy may become stronger. In this question we may easily fall victims to optical illusions. The principle is rational that if domestic production is cheaper than imports, then the latter must be substituted by domestic production. But the more imports become a bottleneck, the more economical a development of substituting nature may appear.* Where no real imports exist, import price documentation has no force of evidence, since especially parts, components, and finished products of an individual nature have no uniform import price. Further, there is no opportunity for real comparison between the quality parameters, terms of delivery, reliability of imported and domestic products, since the import substituting development mostly eliminates the real competition from imports. If an enterprise has a choice, it is much more interested in increasing import substituting production than in the penetration of an export market where it must immediately compete with real competitors. Consequently, import substitution becomes preferred not only because it is more economical, but because the import restriction makes it appear to be so.

We may assume on the basis of some – casually, but certainly not tendentiously – selected characteristics of the real economic, regulatory and social processes that Hungary has arrived at a critical crossroads. Today the end to certain driving forces of economic growth, the lasting less favourable external economic situation and the (let us hope, transitory) international political atmosphere, – as they have done on other occasions, too, in Hungarian history – raise the alternative of being driven to the peripheries, into isolation – which incidentally is not being desired by anybody –, as against the renewal fostering further progress **

The realistic road of fitting into the world economy: market or innovation foci?

On the basis of arguments and analyses in Hungarian economic literature I consider the following as being proven:

1. The import substituting, autarkic economic policy has no perspective, but can – unfortunately – be chosen. It is possible that the import substituting structural policy does not reduce the import demand substantially, but Hungarian experience (and the experience of other socialist countries) shows that such a system is viable in practice and can be fitted properly into the logic of central planning which is able to move large structures. Finally, in the circumstances of the shortage economy it may be even more advantageous in the short run than the export-oriented development which clashes

* An empirical description of the process by which the central restrictions develop into self-restriction by the enterprises can be found in a study by János *Gács* [20].

** „The main characteristics of the present situation is that Hungary has arrived at a crossroads where the possibilities of catching up with the world economy and of being driven to the peripheries both exist" – Zoltán *Krasznai* and Gábor *Oblath* draw the conclusions in their article [21].

against market barriers. Its dangers appear usually only in the perspective of several years, but then they are already almost impossible to overcome. Thus the danger of such a structural policy is not that it cannot be realized, but that it entails consequences which differ from the intentions, and mainly that it may come about "imperceptibly" too, without great resolutions of economic policy. The decisive argument for the reduction of openness – the deterioration in the terms of trade as depreciation of our national labour – although widespread in Hungary, has no strength of evidence.*

2. The past and present experience of the western countries shows that successful adjustment to changes in the world economic conditions is of a national economic and offensive nature [23, 24, 25.]. Those countries which wanted to use the framework of regional cooperation for excluding the influence of the world economic processes, built up an unfavourable economic structure, and their growth energies soon became short-winded.

3. Severe restrictions of domestic sales opportunities, if not effected by regulation through demand, do not result in an export expansion, nor in an automatic end to shortages in domestic inter-enterprise relations, and even less in a dynamic expansion of exports. [26.]

4. We have approximately arrived at the limit beyond which economical exports to the developed industrial countries can only be increased through the development and extension of forms of international cooperation which go beyond traditional trade (industrial cooperation, the movement of equity capital, etc.).

Accepting that "opting out" of the world economy is not a viable concept and has no perspective, the old idea recurs as a possible solution according to which the Hungarian economy, especially the manufacturing industry, is able to achieve a technical-scientific and marketing break-through in some areas which can be predetermined for the long term, and which ensure a lasting and safe position in the international front-line. According to this concept, some key enterprises should be developed – as sort of a second wave of industrialization – far above the average level of technological development of the economy so that they should become the basic carriers of economic growth, technical progress, and structural fitting into the world economy.**In the selection of the priority areas an important role is played by innovative capacity, adaptation, a research base suitable for later independent development, and behind this lies the idea that the main comparative advantage of Hungary is the skill, knowledge, and intellectual capital accumulated in relatively cheap labour.

* Applying these criteria . . . to the smaller CMEA countries the surprising conclusion should be drawn that they are ‚over-open' also in their trade within the CMEA (first of all in that with the USSR), since deterioration in the terms of trade is most general and of the greatest extent precisely here for an obvious reason, resulting namely from the commodity pattern of trade. Hungarian terms of trade with developed capitalist countries were by about 6 percent and those with socialist countries by 20 percent worse in 1979 than in 1980 . . . The reality is – and this may be the most important starting point in the analysis of conditions, requirements and tasks of opening towards world economy – that this opening was largely promoted precisely by the inadequate development of trade within the CMEA, which became 'closed' and thus ‚opening' elsewhere became unavoidable, quite independently of intentions and resolutions" – as András Köves pointed out in [21].

**This concept has been formulated in Hungarian economic literature most clearly by Ferenc *Kozma.* [27]

However, the gravest contradiction – unfortunately also the greatest attraction – of a development policy relying on innovation foci, "modern large enterprise organizations", meaning in essence the continuation of forced industrialization, is that it would attempt again through artificial formations, radical central redistribution and restructuring – "by a great leap forward" – to reduce the distance between the developed countries and the Hungarian economy. This is seductive, because it provides a clear and attractive perspective and because the present practice of control can be made more easily suitable to concentrated development in certain areas than to export-oriented development on the foundation of market relations.

The fundamental problem of this type of development policy is well-known: ". . . through its developed sector it can link up fortuitously with the world economy, but the developed sectors stand as foreign islands in the sea of general backwardness, and consequently the productivity produced by them cannot spread at all, or only very slowly."*

However, the risk has a completely different dimension as well. It can be assumed that the rapid development and modernization of the "foci" – the bridging over of the not at all short period when the investments are not yet returned in export increments – will produce temporary imbalances. In the beginning the catching up involves huge import requirements, the learning money for penetrating the world economy must obviously be paid. Since this process does not occur through small partial decisions but with the aid of large capacities, in fits and starts, the provisional loss would probaby not be small. Consequently, considerable sacrifices by society would be needed to cover the costs of rapid industrialization.

The establishment of innovative foci demands a decision-making system which puts the emphasis on the setting of autonomous targets by the centre, the regrouping of income, a more efficient centralization of decision-making (which is less disturbed by the autonomous movement of particular interests), in order to bring about the super-large enterprises which can stand fast in the front-line of the world market, which can not only adjust to the technical standards but are even able to "dictate" them, to concentrate production, marketing, research, and general contracting. The small number of such enterprises would be regulated by direct agreements with the state, in the last resort by some large-scale, individual decisions which integrate economic and political aspects. Throughout the long period of development it would be necessary to protect them from external competition, i. e. the internal economic conditions would to be isolated until the "focus seedlings" gather strength. However, such super-large enterprises which unite in themselves every function similar to the living organisms, arose in the world economy on the basis of natural selection, proving their viability in practice. When they reached the top, they already had their trained management and research staff. They had trained a large number of skilled workers with adequate traditions, and a management which was capable of great flexibility but also of avoiding great errors, and which stood under the control of the market.

In Hungary, on the other hand, where management of the entrepreneurial type is not characteristic for the time being, the acceleration of such a process by central means

* The author then came to the conclusion that the dual economy could only be recommended as a path to be taken if one third or one quarter of the economies of all socialist countries were able to develop into an innovative sector [28].

involves tremendous risks. It must be feared that these "foci" would remain artificial formations lacking substance, i. e. a modern product structure and entrepreneurial ability. The state would support these key enterprises first for the sake of rapid development but later out of necessity against competition from foreign firms. In the last resort, the "modern" giant enterprise thus created would not acquire the capabilities of continuous renewal and technical development based on adjustment to the market.

Thus the only possibility left is the creation of conditions for enterprise adjustment to the world market environment. This does not promise spectacular results, but perhaps does promise slow progress. Consequently, the development of an economic mechanism is needed which removes the obstacles from the path of the development of a structure organically adjusting itself to the world market, taking notice of what is a reality independent of our recognizing it or not, i. e. that the organic link-up with the world economy is only possible on our own development level and not in peak industrial sectors carrying technical progress.

The sketch of a proposal

I am not even trying to explain my ideas with the claim, thoroughness and concreteness that they should give an answer to the numerous problems of practical operation, especially in the sphere of compromise solutions which must characterize the period of transition. By calling it a "sketch" I wish to refer exactly to its broad outlines. The proposals for economic control which are suitable for practical implementation must rely on the reconciliation of conditions, endowments, constraints and manifold interests of the most diverse dimensions, and can consequently only be the products of collective work. One must also be aware that while the analysis of experience can provide more or less forceful evidence, the expected effect of the proposals can only be qualified through assumptions which are the less apt to be proved the thorougher the imagined changes are.

Points to proceed from

We may set out from the circumstance that so far the Hungarian economic mechanism has not proved to be suitable for looking after three functions which otherwise are closely interconnected:

1. Creation of operational conditions for a self-regulating market within the framework of planned economy.

2. The efficient utilization of individual abilities and talents – as for instance entrepreneurial spirit, innovative ability, inventiveness, ownership motivation – (both in the business and the technical sense inventiveness has always clashed againts the bureaucratic nature of control on the macro-level and that within the enterprises and against the instinctive respect for tradition).

3. The forceful assertion of the role of social control in the harmonization of interests (this is a more demanding task than to have the goals formulated by the control apparatus accepted by the outsiders).

We may assume that a successful solution of these tasks may bring to life – not within a short time but with a lasting effect – new growth energies. We may assume further that the problem of the transformation of the economic mechanism must be approached primarily from the organizational, institutional side. We should set out from the circumstance that it is first the organizational conditions, second, social publicity, third, the legal guarantees (mainly clear, transparent regulatory systems limiting the possibilities of economic control for intervention) and only in the fourth place the rational macro--regulation that can offer adequate warranties for the development and survival of a viable mechanism.

The imagined model is in harmony with the basic principles of the 1968 reform, but – exactly learning from the experience of the past twelve years – it does not demand simply the consistent realization of the principles laid down on the introduction of the economic mechanism, but in respect of some points goes considerably beyond them. The most important differences are the following:

– Termination of the direct dependence of the enterprise (cooperative) sphere on the control organs; the ownership functions are not to be practised, even in part, by the control organs. The monopolies restricting the activity of the narrower economic sphere are to lose ground.

– I imagine the assertion of the regulative function of the market in a much wider circle. This would cover, in addition to the distribution of products, the redistribution of a large part of social capital, would play a role in the regulation of wages and also in husbandry with the infrastructural goods (of course, not with an exclusive character in any area).

– The economic control function of the state changes, inasmuch as the regulation ensuring the general framework for the operation of the economy (the so-called normative regulation) is separated sharply from the – in the future non-institutional – intervention in market relations. The character of partnership comes to the fore in the relationship with the economic organs and their interest communities. The function and practice of planning also change accordingly.

– The importance of the organs representing interests increases in both the preparation of macro-level decisions and within the enterprises; some elements of self-management obtain a role also in the control of large enterprises.

Forms of enterprise organization, ownership relations

It would be desirable that heterogeneous organizational forms should grow out of the present enterprise organizational structure in which there is no dominant type of organization. The transformation, merger, separation, establishment, possibly combination of the various organizational forms should occur in essence without central intervention, in the form of organic evolution. [29.]

The possible organizational forms are the following:

1. *Ownership-entrepreneurial bureau.* It can be imagined most simply at the present trusts or large enterprises (but is of course not restricted to these). Every function of the centre connected with management (and the apparatus built for these functions) are to

be abolished, and transformed into an entrepreneurial office. At the same time, the member enterprises (factory units) become independent in every respect, and are obliged to pay to the bureau only a certain percentage of their after-tax profit.* The office is a collective body. Its members are the managers of the – now already independent – enterprises and possibly some functional (financial, investment) experts; the managers of the enterprises obviously represent also the interests of their own enterprise in the body. The entrepreneurial bureau, once established, itself appoints and dismisses – on the basis of a corporate decision – its members, appoints through tenders also the managers of the enterprises. (On their formation, the members of the bureau are appointed by the Council of Ministers, with a low basic salary and a very high dividend.) Beyond the selection of the managers, the entrepreneurial bureau decides only on general strategic questions, the redistribution of the investment sources received, on the basis of profitability and returns. The guarantee that it will indeed decide in this way is that its direct dependence on the control organs ceases, its financial interestedness is bound to the increase of enterprise assets and finally that the decisions concerning the distribution of the investment sources, the selection of the directions of development are collective. The body is entitled to place the sources not with its own enterprises (for instance through financial funds financing enterprises), and further to establish subsidiaries with a different activity, possibly by drawing on external capital. The bureau has no apparatus for controlling the operative activity of the independent enterprises (and is not entitled to bring about such an apparatus). As may be seen, the entrepreneurial bureau operates as a "quasi-capital market", and can be established out of the existing organizational forms. On the other hand, the danger exists that if the economic environment does not change in accordance with our ideas, it may become a peculiar intermediate organ of control.

The managers of the member enterprises receive a personal salary depending on the contract concluded with the ownership organization. Consequently they are interested in longer-term profit. They are appointed for a limited time only. Consequently the interestedness of the managers also includes – and now not only as an abstract possibility – the risk of failure. They decide with full responsibility in questions of production and marketing, as well as about the operation of the means put at their disposal by the capital ownership organization.

The annual report of the enterprise is submitted by the management to the ownership organization, which evaluates the work of the enterprise management. The tasks of the enterprise management include the elaboration of the perspective strategic ideas (market strategy, research, development), but in these it has no independent power of decision, or at least only to a limited extent. The enterprises are also managed by a board of managers, the members of which are appointed on the recommendation of the enterprise manager by the bureau. It is also imaginable that a certain number of members of the board should be elected directly. In the enterprises which cannot be included in the competitive sphere – e. g. public utilities – the representatives of the state organs of economic control must also be represented on the board of managers.**

* This form is close to the type proposed by Márton Tardos in [30].

**I can imagine that some of the foreign trade wholesale enterprises – which handle stocks of materials – should carry out tasks of direct state intervention, and in this case their status would be

The position of the non-managers would be characterized in this situation fundamentally by their being *employees.* A conflict of interests may come about between the management and the working collective, inasmuch as the management – as opposed to the present situation – would not be interested in the largest possible increase of the wages of the working collective and in the unconditional retention of the employees. (This conflict of interest can be the foundation for agreement on wages between the management and the working collective.) In this new situation the strengthening of the positions of the trade union and the establishment of efficient forms of worker control within the enterprise are justified.

2. The second possible form is the *self-managing cooperative,* where the ownership functions are practised by the entire working collective, or by the council directly elected by them. They are also entitled to select the managers. They have the right of decision in the most essential questions of the cooperative, or at least veto power. So for instance, the council approves the plan of the cooperative, determines its organizational structure, controls financial management, makes decisions concerning the level of employment and working conditions. It decides about the share of gross income that is devoted to personal income and to accumulation, respectively (the general taxation system influences this decision, but far from the determinant force as it is being done by the existing Hungarian taxation system). In short, the ownership functions are practised by the council, which practises also some of the operative competences concerning working conditions and the control of wages. The manager is selected by tender and elected by the general assembly. This organization, its system of interestedness must be more sensitive to changes in income in the short term. Here the elements of identity of interests with the workers are much more numerous. The working collective must first be convinced of the usefulness of decisions which are promising in the perspective but may reduce personal income momentarily.

3. The *entrepreneur* (or group of entrepreneurs) *renting the social property* is the third organizational type.* The potential entrepreneurs acquire the property for rent at auctions, in the form of bidding, and they operate the partial units capable of independent commodity production in the same form. The tenants and the "sub-tenants" are fully interested in the surplus returns above the bidding (they increase their own assets by it, but are in the last resort responsible also with their personal assets for the payment of the promised return, and this is the most direct and hardest form of personal incentive). As may be seen, here the managers (and also the managers of the sub-units) operate at the same time also as the owners of capital, or to be more exact, as tenants commissioned for a certain period. In the case of a large enterprise, the enterprise consists of a system of entrepreneurships built on each other hierarchically. The relationship between the tenant and the workers is regulated by contract. The position of the worker approaches here most that of a wage worker, his possible dismissal is only limited by the universal guarantees of labour law, but on the other hand, in this case the level of wages he may earn and the intensity of the work done are probably higher than in the entrepreneurial

close to that of the enterprises included in the non-competitive sphere, and the representatives of the control organs would also be present on their board of managers.

*This is close to the concept explained in Tibor *Liska*'s study [31], but is not entirely identical with it.

bureau form. (This assumption is supported by the experience with the letting-out system which operates at present).

4. In addition to the three above-mentioned organizational forms, of course the numerous forms of *small ventures* which are being developed in Hungary at present, would continue to exist.

The three organizational forms differ from each other in respect of the capital ownership function, the enterprise interestedness, the position of the managers and the relation between managers and employees as well.

Table 2
Comparison of the three organizational forms

Form	Owner	Method of control	Selection of manager	Enterprise motivation	Position of worker
Entrepreneurial bureau	Autonomous organization	Collective	Appointment	Long-term profit	Employee
Self regulating cooperative	Working collective	Collective	Election	Gross income	Owner
Tenancy system	Manager	Individual	Self-selection	Short-term profit	Wage worker

All three variants have advocates and opponents. The tenancy system can hardly be operated in large enterprises including phases of production which are built on each other in strict vertical order, but it is hardly correct either, that it is viable only in retail trade and catering. The vulnerable points of self-management are the probably much more forceful differentiation of incomes and that it would be difficult to make the working collectives accept decisions which involve temporary reductions of personal income, uncertainty, and substantial changes in working conditions (although the examples of some very flexible cooperatives appear to contest this claim which seems to be logical). At the same time, the genuine – and not only formal – self-management may result in vigorous interestedness and democratization. The ownership-entrepreneurial bureau may also result in trends of mergers and centralization. At the same time, it is probably more capable than the other entrepreneurial forms to better ensure the safeguarding of the organizational stability necessary for the operation of large enterprises and, at the same time, to implement sudden technological changes from time to time. It also provides more favourable conditions for the flow of capital.

A mixture of the three basic models can also be imagined, and not only in the form of unprincipled compromises which would make the efficient operation of the system impossible. For instance, the servicing section of a large enterprise may operate properly in the tenancy system. It would hardly be possible and mainly hardly be worthwhile to decide now the debate as to which organizational form should be dominant. If we succeed

in bringing about a system which makes the coexistence of the different forms possible, and where legal barriers do not obstruct the self-evolution of the organizational forms and their transition into each other, then sooner or later a system of viable forms will develop.

Control and the market

As we have pointed out, the market would operate in a much wider scope, as a fundamental but not exclusive regulator. First of all, an income regulating system is needed which allows more room to the effects to the labour market. In addition to thee dependence of the enterprises, it is at present probably the regulation of wages which impedes most entrepreneurial management in Hungary. The present system of wage regulation may be replaced by a system of collective wage agreements. Annual agreements should be made by the state, the trade union, the organ representing the interest of the entrepreneurs, in respect of the raising of the wages in the trade in question.* These agreements may be complemented by hierarchically subordinated partial agreements, down to the collective contracts in the enterprises. The agreement concluded on the macro-level would allow a wide elbow room for the partial agreements (it may possibly lay down in guidelines the shifts in wage ratios expected or considered desirable by the partners). The wages agreements would be public. It already follows from this that the central determination of the extent of wage increases in the enterprise, which is called wage regulation (control) would be abolished. Possible rises in personal income might be burdened with a mildly progressive tax.** (Later this tax would be developed into a progressive income tax).

With those forms of small enterprise and self-management where wages may also move downwards, no sort of central regulation is needed. The public agreements indirectly influence, in any case, also this segment of the labour market. The agreements would be complemented by some progressive – but not prohibitive – income tax.

In the regulation of prices, a way may be imagined which moves away from the present system, and which would consist in the organization of negotiating circles within the framework of the Hungarian Chamber of Commerce. The participants would include in addition to the largest producers, users, importers, distributors, also the representatives of the small ones and of the Price Office. In these negotiations, to be repeated annually, the interested parties would not agree on the concrete prices but on the price policy attitude to be followed, and this would be published. In such circumstances the concrete agreements on price would already refer to free prices, devoid of any kind of price level or profitability constraints. Within the range of primary energies and raw materials the price simulation should be maintained. Market stability may be ensured if some "directly state-owned" enterprises conducted a market intervention policy, in some cases by conscious competition from imports (this does not require large quantities of foreign exchange).

* A similar idea is expounded by László *Herczeg* [32].
** A similar proposal was formulated earlier by Sándor *Balázsy* [32].

State interventions cannot be eliminated even in the longer perspective. But – with the exception of agriculture – all forms of subsidies to refund costs may be abolished. In the case of production, exports, etc. of unsatisfactory profitability, it is not the costs that should be subsidized, but it may be justified to support the development necessary for the liquidation of the loss in the form of a business-like agreement between the enterprise and the state. Owing to the individual nature of the business agreements and market actions. No form of intervention in the market relations (whether prices, objectives of production policy, lagging or dynamic sectors are concerned) can be normative. On the other hand, there would be room for any open and public form of competition and bidding. The possibility of intervention by the control organs must be stopped by legal means, by their having to follow difficult procedures.

The medium-term plan would be reconciled in the form of negotiations, by letting the macro-concept of the National Planning Office clash with the ideas of financial policy, the proposals of the trade unions, the regional concepts, and – what is most important – with the independently elaborated ideas of the enterprise sphere. (The medium-term ideas of the enterprises and groups of enterprises would be formulated in the framework ot the Chamber of Commerce). The concept taking shape as the result of the series of negotiations would be the plan proposal, which – according to the present practice – would have to be approved by the higher level political bodies and finally by Parliament. There would be need, beside the State Planning Commission, for the employment of a body of experts who are more or less independent of institutions.

Fewer direct means would be left in the hands of the planning centre to ensure the realization of the plan. In addition to the productive and non-productive infrastructural investment projects of national importance, the fundamental elements of the standard of living policy, the amounts available for development directions preferred by the state – but not broken down into projects – as well as the general framework of financial regulation, but which would be more difficult to change in the future even from plan period to plan period (because bound to parliamentary approval), the socialist interstate agreements may be formulated in a concrete form in the plan. (As may be seen, even the category of single large productive investment projects would cease, which of course, does not mean that the state could not assert its influence in investment policy.) The plan has to outline the logically arranged system of economic policy objectives and preferences, but the extent and time requirement of the realization of these is strongly dependent on the external economic conditions and on the internal processes which can only be influenced in part. Planning must rely on the recognition of this interdependence.

The guarantees for the implementation of the plan would be divided among the Ministry of Finance, the bank – independent of the Ministry of Finance – responsible for the issue of money and monetary policy, and the Price Office responsible for price control and market regulation. And the Planning Office, if it were of the opinion that processes occur which endanger the realization of the plan, would have to initiate a corresponding change in economic control with the government (though such changes would be rendered more difficult by the expanding competency of Parliament, the autonomy of the bank, etc.).

No annual national economic plan would function in its present form. The annual wage agreements, price policy agreements, the investment preferences proclaimed by the state may together provide a reliable foundation for appraising the short-term pro-

cesses. Annual monetary (exceptionally administrative) interventions, as well as the annual targets of (common) social consumption would belong to the competency of financial control and the price authority, respectively. Much more limited means than at present would be available for this purpose, for instance for solving the situation of enterprises incurring losses. Some allocations for this purpose should be developed in the course of planning, but the financial leadership would decide about the utilization and annual distribution of such allocations, taking the balance position into consideration. A "business cycle tax" would be suitable for the global regulation of the investment purchasing power, not burdening the formation of income but the investment expenditure in the given year, and the maximum of which would be fixed. Its concrete extent, in force for the given year, would have to be announced in advance. The bulk of state preferences would be support given to technological development and accelerated depreciation. Outside agriculture, production would not be subsidized at all. The exceeding of the financial funds approved for various purposes and distributed through tenders could be limited efficiently if the approval of the excess expenditure were tied to an uncomfortable parliamentary procedure. This might necessitate the public explanation of the additional expenditure (or a regrouping of resources).

In the financial system, the autonomy of the banking system from the budget, and the granting of credit must be ensured already in the short term. In the longer term, the establishment of a two-level banking system is probably necessary. The institutions must be expanded which draw the accumulation of personal incomes into the financing of commercial, productive and infrastructural investment activities. (At present, the saving cooperatives, the share- and target share system fulfill such a function.) The competency of the existing institutions should be increased, their dependence on the National Savings Bank should be loosened or abolished.

Doubts and hopes

The majority of the proposals concerning the development of economic control bear the unequivocal marks of certain typical mistakes. Almost everybody concentrates his ideas willy-nilly "as by magic" on a certain point in time, and offers them as pure and closed ideas carrying in themselves harmony and the capacity of changing the conditions immediately. In rereading my proposal, I see, that unfortunately I have not succeeded either in being an exception to this rule. So nothing but posterior explanation is left.

I assume – and the experience with the present price mechanism does not contest this in spite of all its contradictions – that price can function even with relatively strongly centralized enterprise organization forms as a real constraint on enterprise management. (This is so even if the price is not objectively given to the enterprise – the large enterprise –, as it is not given today either, but is formed in negotiations between enterprises and groups of enterprises which have partly or wholly opposed interests.) I also assume that the small organizations which are not in direct contact with the control organs are forced to live on their incomes. And in the case of the large organization the dual interest of the manager who is a member of the bureau (partly in accumulation by the bureau, and partly in the development of his own enterprise) would set a limit to the regrouping of income which can be experienced at present within the trusts, and a flow of capital

might come about more clearly, which – even if partially – would set out from the differences in profitability. I assume further that there will be much more limited and difficult possibilities for increasing financial supports (even in a concealed form). To sum up: the budgetary constraint on the economic units would become substantially harder from the side of price and the redistribution of income (subsidies). I am uncertain whether – even if all this came true – the wage agreement could really be an efficient barrier to inflationary tendencies. I believe that this question still has to be clarified in the future.

I believe that in the conditions sketched down in the proposal, the strengthening economic pressure on the enterprises (which today also exists in Hungary) would call forth rational and partly entrepreneurial reactions, which would differ from the present situation.

The essence of the proposal is an ensemble of organizational forms which are capable of growing into each other, the termination of hierarchic dependence, and that the economy should be governed by several forces which are in partnership with each other. The plan taking shape in this way would result in a genuine integration of the different – macroeconomic, social entrepreneurial – priorities (because they would be accepted mutually after having clashed), and "trueness to plan" represents, I believe, something like this.

I do not consider it a decisive shortcoming of the proposal that it is still in broad outlines, that its perspective details are not yet elaborated, at least not in the present phase of the work. It is not the perspective system which must be known more exactly, but how we can progress, how we can move out of our present condition. For this, I believe, room and conditions must be created for the entrepreneurial operation of the large and medium enterprise sector. After this I imagine a long process of exploratory development, in which not every step can be foreseen, and especially planned, and which would represent at the same time a process of learning of the relationship between the partners. It must also be admitted frankly that the further development of the economic mechanism does not lead to rapid and spectacular results. On the other hand, as opposed to the earlier, rapidly rising standard of living, it may offer new values to society (or to the strata which are most likely to be able to make use of them). These include the more equal opportunities, the broader possibilities for mobility, the widening of democratic rights. In all these areas the further development of the economic mechanism may have appreciable effects already in the short run.

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РАЗМЫШЛЕНИЯ О ДАЛЬНЕЙШЕМ РАЗВИТИИ ХОЗЯЙСТВЕННОГО МЕХАНИЗМА В ВЕНГРИИ

Л. АНТАЛ

Под влиянием экономических трудностей в последние годы в управлении венгерским народным хозяйством произошли существенные изменения. Целью этих изменений безусловно явилось укрепление предпринимательства, приспособление к условиям рынка (прежде всего мирового рынка) и ослабление зависимости предприятий от органов государственного управления, в частности, от предоставляемых ими исключений и льгот. Под влиянием этих изменений улучшилось внешнее равновесие венгерского народного хозяйства, предприятия перестали быть заинтересованными в росте производства независимо от возможностей сбыта и прибыли. Однако эти результаты могут быть сохранены, по-видимому, лишь при стагнации венгерской экономики, сокращении внутреннего потребления и увеличении доли изымаемых доходов предприятий, что означает сужение простора хозяйственной деятельности предприятий.

По мнению автора, вынужденные обстоятельства не только оправдывают, но и делают возможным дальнейшее развитие начавшегося в 1968 г., но позднее приостановившегося процесса реформы. Сущность необходимых, по мнению автора, изменений состоит в ликвидации непосредственной зависимости предприятий от органов государственного управления. Аппарат государственного управления не должен даже частично осуществлять функцию собственников предприятий. Необходимо создание многообразных организационных форм (бюро предпринимателей, коммунальные предприятия, самоуправляемые кооперативы, предприниматель-арендатор, индивидуальное семейное частное предпринимательство), а также обеспечение правовыми нормами и хозяйственными условиями возможности саморазвития, организации и сочетания этих разнообразных форм.

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PROBLEMS OF SOCIAL OWNERSHIP AND OF THE PROPRIETORY ORGANIZATION

Progress in studying the fields of economic control organizations and enterprise structures is greatly impeded – both in Hungary and in the other socialist countries – by the theoretical vagueness regarding ownership and the proprietory functions. In this study an attempt is made to approximate the problem from a complex sociological aspect, setting out from the traditional notion of ownership, and reaching finally the problem central in respect of practice, namely, how to shape the so-called proprietory organization best conforming to the Hungarian economic reform.

Transformation of the ownership notion

The notion of ownership is interpreted and used in practice *in the most diverse ways.* The objective basis of this situation is that this earlier purely legal notion has in recent years become a complex sociological notion, and among the branches of social sciences even a minimum of consensus is lacking as regards the contents of the notion of ownership. The novel contents of ownership has become common knowledge by now, but has not eliminated the traditional ones, and they are mixed up in a chaotic manner.

Within the complex economic-philosophical notion of ownership four aspects may be distinguished: *the legal, the economic, the sociological and the socio-psychological.* It is precisely the differences in these aspects that make the problem of ownership scientifically highly difficult.

The juristic notion of ownership

The traditional notion of ownership is juristic and this can be proven even by philosophical theories. As inherited from Roman law, on the European continent ownership in the juristic sense means a generally accepted *central structure,* which secures for the entitled person (owner, proprietor) the possession, use and disposal over a given thing, (or an aggregate of things, assets) in the circulation of commodities, with an absolute force excluding everybody else. Rights are only due to the owner in such circulation, he is the only person entitled to posses, use and dispose, but is not obliged to do so, and all others have a negative obligation, namely, that they must not disturb, not limit the owner in the free exercise of his rights relating to the goods. This type of property rights is realized in horizontally coordinated, so-called *autonomous structural relations,* (commodity relations, market relations) and, of course, has not affected from the very outset the negative and positive public law obligations imposed on the owner by state sovereignty, (e. g. land had to be cultivated also in ancient times, the owner was not permitted to set his house on fire etc.).

Within the appropriation and disposal relations (i.e. the ownership relations in the economic sense) regulated by private (civil) law, ownership is thus a narrower central structure established by special techniques. In its present legal (extraconstitutional) formulations it is related – both in capitalist and socialist countries – exclusively to the commodity (market) relations, it is an *ownership of commodities* and, as a matter of fact, it artificially stresses certain static states in the intricate web of commodity (market) relations. This (commodity) ownership right is inapplicable to appropriation by public power from the outset, and it was not used in the continent for the ownership relations of feudalism, nor for the public goods that persisted even in liberal capitalism (places, roads).

This juristic notion of ownership is the notion of the simpler commodity production, thus its real field of realization is liberal capitalism. This notion necessarily got into a "*crisis*", partly with government interference and the establishment of large enterprise organization systems in the West, partly with the appearance of the monolithic unity of state ownership after the socialist revolutions. But the socialist theory established after 1936 formally retained this juristic notion of ownership and Hungarian legislation applies it even today in the scope of social ownership.

The economic notion of ownership

As regards the economic notion of ownership, summarily I can only say that it is *not sufficiently solid.* Practice can hardly make any use of such formulations in textbooks of political economy as "ownership is the mode of appropriation", the "sum total of economic-production relations", "relation of production from the aspect of appropriation."* It provides somewhat better orientation, if I say that, in the economic sense, the substance of ownership is *disposal and appropriation,* although even these two elements may separate to different extents. As a matter of fact, economic theory relies on different elements of the traditional juristic notion of ownership, it uses its certain elements, *without the exactness* of the juristic term of ownership. At the same time, this economic treatment has also reacted on the juristic notions of ownership in many ways – and partly in a positive manner.

Above all, the economic approach *has slackened* the notion of ownership which originally related exclusively to things in the field of law. The object of ownership is less and less restricted to things, various intellectual creations (e. g. inventions etc.), assets and even enterprises appear as objects of ownership. The ownership of enterprises is less and less a rule over means, assets, the value of the enterprise becomes more and more an *intellectual value,* the enterprise can be sold as an object of commodity relations. And in this case it is the enterprise goodwill, the long-term market changes of the enterprises, the nature of relations of the enterprise with state administration, banks etc., the quality of the scope of business, the standards of management and the skills of the staff that are decisive, and not the means of production constituting its wealth. This has long been so in the West: it is particulary in the British-American and French-

*See e.g. the identification of socialist international ownership with the sum total of production relations coming about within the CMEA integration, which is rather widespread in international literature [1].

-Italian legal fields that ownership extending to intellectual property and to whole complexes of wealth and organizational units is recognized, while this development is found exist to a lesser extent in the "German" area. In the socialist countries the objective property nature of intellectual creations, of wealth a value was negated for some longer time. The sometimes actually occurring "sale and purchase" of enterprises (e. g. the handing over of a factory unit by a large enterprise to the local council for countervalue) was excluded under the artificial title that an enterprise also comprises labour, and man cannot be a subject of purchase and sale in socialism. Lately welcome changes have occurred also here in this field and it is gaining recognition that ownership is more than the rule over things, means of production[2].

The value nature of the object of ownership plays a particularly important role in the view of Tibor *Liska.* As a matter of fact, with Liska it is the ownership of the concrete means of production that is the least important; his so-called human-capital, moral-capital notion is an extension of the objects of ownership. It is another question that Liska overdoes this correct element, and that credit, the promise of the highest long-term profit gets into the centre of his notion of ownership [3].

Concerning the notion of economic ownership it may be said that in respect of goods with limited circulation, i. e. which figure less in market turnover, economists stress *possession* as the decisive element of ownership, while with goods regularly participating in market turnover they put emphasis on *disposal.* It is no mere coincidence that in the fifties the theories of ownership still stressed possession and *use* as the decisive elements of ownership, while today literature more and more shifts towards emphasizing the primacy of disposal. At present, also in Hungary, the so-called lasting use is at the centre with goods of limited circulation (e. g. land), while in the case of goods figuring in market turnover disposal over the value, thus not the use value, but the market value aspect of ownership is stressed increasingly.

It may also be concluded that in modern economic circumstances, on a purely economic basis, ownership – irrespective of its location – necessarily *becomes divided.* If, namely, ownership means disposal and appropriation, then, under the present more complicated socio-economic relations, in general, *several* economic subjects exercise, to varying extents and in varying proportions, such rights relating to the same goods.

Let us take for example the Hungarian agricultural producers' cooperatives which are undoubtedly owners of the land in the economic sense, although it is in the legal sense only in their lasting use for the most part. Namely, the land constituting the wealth of the cooperatives is only to a minor extent legally owned by the cooperative, mostly it is given to them for use partly by the state, partly by the cooperative members. The member is, generally speaking, the legal owner of the land used by the cooperative, he also has some appropriation rights in the form of land rent but, at the same time, he can, as a matter of fact, never get hold of his land – thus his right of disposal is a minimum. The situation is similar with the immovables given by the state to citizens for lasting use, or with the recently introduced so-called contractual operation, where the lessee got an important ownership position in the economic sense, but also the lessor enterprise has rights of disposal and appropriation. If we further develop the system and, say, the lessee will no longer be an employee of the lessor as in the present regulation – his employment is anyway suspended – and perhaps we also experiment in a certain scope with the auctioning proposed by Liska, then it becomes even more promi-

nent that in the framework of durable leasehold ownership rights are realized to a significant extent.

As a matter of fact it is this division of economic ownership that materializes in the British-American legal solution, which acknowledges as owner both the lessor and the lessee, saying that both exercise rights of appropriation and disposal. The Anglo-Saxon legal concept also knows about "life-time" "99-year" – ownership, thus one limited in time. Here on the continent, however, only as much can be said about the dialectics of the legal and the economic notions of ownership that it is not certain that the economic subject declared by law as owner is the *strongest "economic owner"*, but it follows from legal ownership that its subject necessarily exercises – maybe only to very small extent – certain rights of disposal and appropriation (thus economic ownership). On the other hand, the right of ownership is only one institution of the sphere of the legal reflection of appropriation and disposal; economic ownership may appear in several other legal institutions (leasehold, use etc.), and economic development increasingly favours such "ownership substituting" solutions [4].

The sociological form of ownership ("owning")

As mentioned, the legal notion of ownership developed in liberal capitalism, basically with a thing as its object. Then, with the mostly prevailing small enterprises, this caused no problem, the entrepreneur was the "carrier of ownership" and the factory the object of ownership. The classical form for the common property of many entrepreneurs is the joint stock company, but the shareholder only has ownership rights in respect of his share, while the owner of the assets of the company is the joint stock company itself, as a legal entity. (This is the explanation for the fact that the capitalist has not disappeared from the present-day capitalist society, but capitalist property in the legal sense has disappeared, because this is realized with the organizations.) Thus, from the aspect of ownership right it is quite indifferent who exercises the rights of ownership in an organization. [5].

As a matter of fact, the American organization-sociology developed, parallel to the emergence of organizational systems, the organization-sociological notion of ownership from the beginning of the century. This, in contrast to the law, inquires precisely what organs exercise the rights of ownership within a system or organization. In a major organization, these rights are necessarily *divided* not only among internal, but to a certain extent also among external organs (the board of supervision of a capitalist concern is e. g. partly an internal, partly an external organ; also the shareholder is to a certain extent outside the enterprise, though the general meeting is an internal organ etc.). On the other hand, as against the earlier total exercise of ownership by the entrepreneur-owner, in the complicated "ownership administration" within the organizations a distinction must be made between *basic and partial* proprietory functions. The latter are getting slowly exercised by organs of other type than the former; they are conceived also terminologically as things to be done by others than the owner: the ownership function is restricted in the closer sense only to the basic decisions to be taken by the owner. Thus a rather *organization-sociological* and a rather *functional-sociological* approach to owner-

ship have developed. These theories have reached Hungary in the mid- and late sixties and, in the wake of Hungarian sociological authors, may be called "owning".

As regards the first one, the subjective theory of owning wishes to answer the question by what organs the basic ownership functions are exercised within a given system of organization (actual situation), and where the ownership functions have to be located from the viewpoint of the optimum functioning of the given organization (development). If, for instance, state ownership is exercised by organs of public administration, then we speak about state-administrative owning – the present state property in the socialist countries is, in the sociological sense, mostly *state-administrative* property (that of an organ of economic control). State ownership may also be exercised by organs of the nature of financial institution, then a capital-owning organizational system develops. All this also shows that, from the viewpoint of the legal solution of state ownership, *there would not be a change* if, instead of the hitherto basically sectoral ministerial ownership organization a "supervisory ministry" without sectoral character were brought about, or the "state" ownership functions were exercised by banks as holdings.

Also as regards the ownership of the enterprise as organization, there may exist a primarily managerial and a primarily self-administering owning (with several variants within each, which also may be combined) – and the supervisory board, the board of directors, or other organs of the collective of workers have to be set up accordingly. Thus it is clear that a solution relying on self-administration would already involve a legal change in ownership – as against a solution based on a holding or on a supervisory ministry. A basically managerial or basically self-administrative solution, however, means the same from the viewpoint of the legal solution of ownership: acknowledgement of the *enterprise property*.

Passing now to the functional theory, the so-called *strategic* ownership functions are more and more distinguished from the *tactical* ones also in Hungary, (in the closer sense, the latter are *not* considered as owning.). The strategic ownership function can be divided into three parts:

a) decision on the basic directions of business policy and the use of income *(capital-realization function),*

b) taking basic organizational measures: foundation, liquidation, reorganization of the enterprise etc. *(organizational function),*

c) basic cadre decisions on leading personnel, on the enterprise executives (function related to the *management of the organization).*

The scope of tactical ownership functions includes, as a matter of fact, the taking of daily routine decisions related to continuous operation, to the functioning of the enterprise. The exercise of the strategic and tactical ownership functions can be organizationally separated ("proprietary" and "operational" organization); in fact an organizational separation is conceivable even among the capital realization, organizational and personnel parts of the strategic ownership function. In major organizational systems, *such division of owning is almost necessary.* It is a particular contradiction of the situation that, as a rule, it is expedient to locate the *right of ownership* with the *running organization* since it has the nature of *commodity ownership* and manifests itself in concrete commodity turnover. Through this, the organization of tactical ownership becomes the legal owner. The organization making the "real" strategic ownership decisions does not

need the ownership of the means of production, it is enough if it "*only*" has the power of organizational control, that of directing capital flows, and of choosing the executives, that is, the owning of organizational control.

The ownership concept of social psychology

In the closer sense, the scope of the ownership concept of sociology is exceeded by what we consider to be the *socio-political contents* of a form of ownership. Namely, behind a state enterprise we may find e. g. both capitalist and socialist relations of ownership. Or, in the socialist countries a rather wide debate is conducted about how "public" a state enterprise is, or to what extent a cooperative means *group ownership*. Obviously, the discussion is not about the legal subject of ownership, since the subject of state property is the state which is necessarily distinct from the citizens of the state as a system of organization, nor is the subject of cooperative ownership directly the ensemble of cooperative members (the cooperative is no corporation) but the cooperative as a form of management, that is, as an organization and legal entity. The qualities „public" and „group" indicate the socio-political contents of ownership and, in this sense, the public or group nature of the state enterprise and of the cooperative change in the course of socialist development and also manifest themselves in different forms in the various socialist countries. The question may also be put in the form that, if we wish that the enterprises founded by the state (state administration) should really operate as enterprises, it is not necessary to increase the group elements with the state enterprises and perhaps reduce the so-called public (mostly formal and fictitious) element. We shall still revert to the problem.

The social psychological notion of ownership in the closer sense indicates to what extent the members of society feel the state property to be of public or the cooperative property of group character and to what extent they feel it to be actually *their own.* The question is thus how the given organizational, economic and legal solution of the state property affects the consciousness of the workers, to what extent it is suited to develop their *proprietory* (ownership) *consciousness.*

It is obvious without any particular analysis that the shaping of the ownership-consciousness of workers can also be promoted with the aid of certain organizational solutions and those of the laws pertaining to property. This is how the problem of workshop, or, more correctly of enterprise democracy gets into the scope of problems of ownership, namely, the question to what extent it is necessary to draw beyond the party and trade union (in some fields instead of the latter) direct worker forums into management or the taking of strategic proprietary decisions, further into the control on management in the wider sense. The evolution of ownership-consciousness may also be promoted with stimulative solutions; see e. g. the proposals on workers' bonds, or on the introduction of subscription to shares, and other experiments which wish to introduce, instead of mere financial interest, part-ownership, interest in capital. The complementary farms related to enterprises, e. g. the household plots in agricultural cooperatives, the land due to the workers of state farms, the contractual leasing, and even the economic working communities or special groups etc. formed either within the enter-

prise or supported by the enterprise may, as a matter of fact, also be conceived as particular forms of *granting a share* in the social or enterprise (cooperative) property.

Both Western and socialist experiences indicated that here two basic techniques may be combined, differentiated by types of enterprise: the "drawing into management" and the "granting a share in wealth." In Hungary the latter solutions were pushed all too much into the background in the seventies as against the participatory solutions, and this has to be changed in the future.

The politological aspects of the problem

Even a mere enumeration of the four components of ownership shows how deficient the problem of ownership theoretically is, how this includes, as a matter of fact, almost all problems of the central economic control, the organizational forms of enterprises, management, or factory democracy. In respect of practice, the problems of social ownership emerge essentially on the level of the so-called *form of management,* partly with the setup of the *organizational system of economic control* (e. g. whether the sectoral ministries should have at all so-called enterprise supervisory functions, and if so which should these be), and partly with the structure of the *enterprise sphere,* and the setup of *enterprise management* (e. g. distinction between large and small enterprises, affiliates, who should appoint the manager, how should the board of directions and the supervisory board be developed etc.). This deficiency is frequently detrimental because obsolete ideological taboos in respect of ownership may hinder the introduction of progressive enterprise-organizational and management solutions.

The development of socialism has been hitherto accompanied by efforts at a *superfluous overpolitization* and *overideologization* in the solutions of ownership. Particularly the history of the theory of state ownership is characterized by superfluous ideological diatribes. E. g. the solution of state ownership considered after *Venediktov* as a dominating view in the Soviet Union and in most CMEA countries, was qualified by some authors not only as anti-Marxist, but downright as fascist in the early fifties, because behind the state enterprises they believed to discover also the collective of enterprise workers and this seemed to contradict Stalin's thesis of 1951 formally, when he identified state enterprises with their directors (the theory of double collective = corporation).

In my opinion, it may be presumed in a well established manner that *the* – in my view, rather presumed than real – *interests and values* attached to the maintenance of direct public ownership in respect of all assets in enterprises *are more political and ideological in nature than economic and legal-"technical"*. The text of the Hungarian Civil Code, enacted in 1959 could be left completely unchanged at the introduction in 1968 of the reform of economic control and management and this was no obstacle to the reform. In 1977 substantial modifications were made in the text towards acknowledgement of the (partial) enterprise property, but this passed almost unnoticed in practice. All this illustrates that the solution laid down in the State Ownership Act does not affect in substance the actual operation of economic control and of enterprises.

It is clear to everybody that if we conceive ownership in the traditional sense, (thus as a right meaning possession, use and disposal of means of production which appears in

market turnover towards partners by excluding others), then, even in a "moderate" directive planned economy – that is, where enterprise action is not completely determined in detail by plan indicators – the ownership of concrete things is actually exercised by enterprises.

A characteristic example for this is a Hungarian legal case from the sixties, when the manager of a state enterprise was driving home to Budapest from the countryside and stopped at a fisherman's inn. Not much later a car of another state enterprise arrived at the inn, but some parts of the car broke down and they could not continue their travel. The driver of the second car took the good parts out of the first one and so they continued on their way, while the first car had to stay there. A few days later the faultless parts were sent back to the first state enterprise. The first enterprise brought action against the workers of the second because of theft. They defended themselves by stating that the parts did not leave the scope of state ownership, they were put from one state-owned car into another, there occurred no appropriation in favour of a private person, and the state cannot steal from itself. The court still established a case of theft, and thus, as a matter of fact, it acknowledged enterprise ownership, that is, that assets of an enterprise cannot be "misappropriated" by another enterprise without punishment.

This political and ideological revaluation is related to the fact, that, under the impact of bourgeois traditions, ownership has a very strong *legitimizing impact* on social consciousness even under socialist circumstances. Though not very consciously, yet in daily politics endeavours are found which wish to support government economic control, central economy-wide planning, with state ownership. From the technical point of view this is superfluous, since an efficient economic control activity by the government can be carried on even without the legal maintenance of the public commodity ownership relating to concrete means of production.

For instance, in bourgeois war economy no nationalization takes place, yet because of interference on the part of public power, the enterprises in pure private ownership are actually deprived of the right of disposal of their means of production. (E. g. in the United Kingdom between 1941–1944.)

To mention also a socialist example, there are convincing analyses proving that in the 1930–1950's the Soviet kolkhozes, declared to be owners, had actual rights of appropriation and disposal much narrower than those of the state enterprises which were not owners but only administrators – namely, the "physical" approach was there still much stronger and they had no independent economic accounting.

Thus, I can safely state that if we rewrite in the Hungarian Civil Code the thesis on the uniform and indivisible state ownership and write instead enterprise ownership, but leave all the administrative organs and orders unaffected which today restrict enterprise independence, nothing will change. Thus, *a declaration of ownership rights does not solve anything.* Nevertheless, just because of the social consciousness and the political traditions, such a solution of ownership is hardly conceivable in Hungary which legally abolishes public ownership completely and acknowledges exclusively enterprise ownership, in spite of the fact that from the technical aspect an effective national economic planning and government economic control could be continued even with such a solution (perhaps even more effectively than now). If the British capitalist trade in real estate is not impeded by the fact that the primary ownership right of the Queen, inherited from feudalism, persists in respect of every real estate in Britain, then a solution can also be found in

Hungary which secures the actual enterprise commodity-ownership for the enterprises founded by the state, operating in the competitive sphere and transformed into full enterprising, and abolishes the owning by state administration is such a way that in some manner the public ownership embodied in central economic control is also preserved.

The above-discussed separation of legal from sociological ownership perhaps makes it clear that the location of ownership with the state or with the enterprises is a somewhat *different* problem from that of the ownership organization. Public ownership and enterprise ownership can both be served by several kinds of ownership organizations, with different advantages and disadvantages. At the end of this study I am going to propose a solution *differentiated* by types of enterprises, but each of them will be *combined* constructions, representing both public and enterprise ownership and varying them. It is my conviction that a more advanced Hungarian society of the future can only be served by a more refined, that is, *mixed* or *pluralistic* social ownership organization of the economy.

On the existing theories of socialist social ownership

The starting point

One of the basic causes of the ideological problems related to the ownership system of the socialist countries is – beyond what has already been treated – that the classical Marxist scientific theory (inclusive of Lenin) *identified property with private property and private property with commodity property*. The social ownership of the primitive community and that of communism are, as a matter of fact (not yet or no longer) properties, while the Asian property, or that interwoven with feudal and public law elements, is pre-ownership. Under socialist social ownership relations there can be no commodity relations, it is completely "natural", and its operation is purely of organizational management nature, since it is a closed, self-sufficient super-establishment. There is no need for a specialized ownership organization, for an enterprise as an undertaking; for state administration and law within social ownership – this is the area of *technical relationships*. War Communism after the October Revolution emerged in Soviet Russia not only from war management, but from the whole of the contemporary Marxist ideology; the New Economic Policy (NEP) introduced in 1921 was a tactical backward step in the eyes of the bolshevik leaders of the time. Under the NEP a dual economy came about, and in the state-owned (public) sector commodity forms only existed – according to the interpretation then given – because the real commodity relations dominating in the other sector demanded it [6]. All that is not only history. This is the principled standpoint even today in North-Korea, and Albania, and so it was between 1950–1980 in China, and in certain periods in North Viet-Nam and Cambodia. With several exponents of the Western "New Left" this idea of "commune" is also present – e. g. with Bettelheim.

With the abolition of the NEP, from the mid-thirties, a change of principle occurred in the Soviet Union, insofar as it was acknowledged also in principle that in this scope a real and simultaneously socialist state administration prevailed. But the private sector of the NEP was replaced by the ownership of the kolkhozes, as a *second-rate* form of social

ownership – the Stalinist theory declared that the kolkhozes are the primary cause of the persistence of commodity relations. In this system there are two basic forms of social property, the monolithic *state* property and the cooperative property. The state enterprises are not owners, and there are not any real commodity relations between them; the cooperation relationship assume *commodity form* only because this is demanded by the relations outside state ownership. It may be thus seen that the identification of ownership with commodity property did not cease, but was applied to the state as *a whole.* Thus, the theory of the forms of social ownership is partly *dualistic* and, within that, hierarchical (first and second-rate forms of ownership), and partly it is *subject--centred:* it is divided according to the subject of ownership. I note that with the individual property of the citizen this classification according to the subjective form of ownership was differentiated according to the *objective* form of property, since individually owned means of production were equal to *private property,* while individually owned consumer goods were *personal property.*

State property was characterized as *directly* public, while cooperative property as *directly* group property, (this is obviously mistaken from the outset). The worker of a state enterprise is more directly a public owner than a cooperative member, while the latter could comfort himself with his quality as a group owner, – according to the earlier theory public quality is realized through general civic *rights.* The basic criteria of public quality are: the right to work, remuneration corresponding to the work performed, and the influencing of state politics through suffrage and other civic rights. The central organs of the state have disposal – almost self-evidently – over all the goods in public ownership in the interest of the whole working people ("national-economic interest").

The solution of the classical direct planned economy and the modernization efforts of today

The theory of state ownership corresponding to the a mature direct planned socialist economy was developed from the late thirties to the early fifties. As the basic theory, the concept of Venediktov was accepted both economically and in legal theory, and this concept was enacted in most of the socialist countries in the late fifties or early sixties. [7]

The substance of the theory of state ownership in a mature directive planned economy is that the right of ownership of the assets constituting the objects of management in state establishments (not enterprises!) is exclusively due, *uniformly* and *indivisibly,* to the state, independently of the relative separation of the wealth of the enterprise. In this concept the state is the *uniform carrier of public power and ownership,* thus the exercise of ownership appears in the overwhelming majority of the national economy inseparably from the character of public power. The state enterprise, independently of the fact that its legal entity was already acknowledged in the fifties, can in no case and to no extent be the subject of (commodity) ownership. The status of the enterprise as a state organ is essentially centred on plan obligations, enterprise rights only exist because and only until they are necessary for the fulfilment of obligations imposed by the plan. The rights relating to the concrete enterprise assets are essentially equal to the three classical

partial ownership rights, i. e. possession, use and disposal (with the unlimited right of the supervisory organ to regroup assets, of course). Summarily these rights were called in this period *economic accounting,* or *handling,* and legally qualified as *operative administration.*

This theory of ownership is *dominating even today* in the majority of the socialist countries. The basic reason is that the basic frameworks of hierarchical economic control and the breaking down of plans have persisted. But today already some *partial modifications* may be observed within this cooperation. E. g. since the late sixties the literature has acknowledged the relative separation of state enterprises in most European socialist countries, their own interests, some of their of rights towards the superior organs related to economic accounting, and also started to delimit them from the budgetary organs. Today the obligation-centred situation of the enterprises is less emphasized, and enterprise rights are more underlined. Instead of the passive handling of assets by enterprises, and operative administration, more and more independent rights of management are mentioned, expressing the greater independence of the enterprises.

Beside this traditional concept in the majority of socialist countries there also appeared a new solution – elaborated mainly legally – the so-called *structured state ownership construction.* This is related to the fact that in these countries the combine-like and union-like large organizations with economic accounting, having both control and management functions, have become the main factor in the national economies of these countries. Economic control considerably loses its state-administrative character, as e. g. in the GDR almost all industrial enterprises belong to about 120 combines and, as a rule, the ministries must not interfere with the control of the former. The combines (unions) are not public-power administrative organs, they control through economic accounting and this is a *substantial* change against the earlier situation.

According to the adherents of the notion of structured state ownership the classical notion of ownership can be invariably applied to the individual property of the citizen. But state ownership cannot be squeezed into the commodity ownership right, since it does not regulate primarily relations of commodity nature, its object is not a thing, it is not exclusive and of defensive character, not of negative contents, but a complex unity of dynamic, positive rights and obligations.

The theory of structured ownership sets out from the fact that the state is a system of organizations. *This system of organization exercises the whole of state ownership through its total effect.* The individual partial rights constituting the contents of ownership are divided among the various state organs, such as the central state organs (inclusive of the sectoral ministries), the various organs of economic control (inclusive of the combines and the unions) as well as the enterprises. State ownership consists in the sum total of the most diverse rights and obligations (control, management, financial matters, labour affairs, commodity matters, contracts etc.), since the unified whole of public appropriation and disposal materializes through these rights and obligations. Thus the scopes of authority regarding appropriation and disposal of the various organizations are parts of the structured state ownership with relative autonomy and are in a dialectical relationship to the whole ownership as a *part is to the whole.* It is an interesting feature of this concept that (similarly to the 1920s) *it relatively separates the socialist state as political state from the economic state,* – in the economic state not public power relations but economic power relations are asserted. According to this concept,

the control of enterprises by the combine is not an administration by the owner through public power, but the realization of the economic organization function of the state. The enterprise is a part of the economic state, it is built in this manner into the hierarchical "management pyramid"* of the state.

The present Hungarian solution

The fact that the unified and indivisible state ownership, negating the commodity owner quality of the state enterprises, has remained as majority opinion even in the Hungarian literature after 1968, and that it has been confirmed by Hungarian legislation even after the modifications of 1977, may be traced back to several causes. I would mention the following:

a) the *well known difficulties related* to the *unfolding of* the Hungarian *economic reform* and the "rearrangement" process experienced in the early seventies [8];

b) the effect of *traditions* regarding ownership, the excessive political sensitivity of the problem. This was complemented by the general – in my opinion oversimplified – economic policy concept, according to which the rights of the state in economic life may be classified according to three major groups, to wit, the economic political control rights identified with the indirect regulators, the public power rights identified with the official scope of authority, and the ownership rights identified with the supervision of enterprises. Since on the introduction of the reform no *organizational reform* occurred basically for political reasons, the state ownership rights mistakenly identified with enterprise supervision remained under the authority of the sectoral ministries as before. Thus the earlier widespread view could persist, according to which the sectoral ministries are, so to say, natural representatives of the state's ownership rights;

c) the legal development of enterprise autonomy could be solved in the framework of the public ownership declaration of the Hungarian Civil Code, because of the already mentioned relative practical irrelevance of the solution of ownership. (Not to mention the fact that, owing to the unchanged ownership organization, and the informal interferences deteriorating the legal autonomy, the economic and sociological autonomy of the enterprises remained much below the one legally secured – and this situation partly persists even today.)

No such solution has emerged in the Hungarian economic literature that would have substantially changed the earlier theory of state ownership. The authors rather made efforts to work out the *economic separation* of commodity nature of the enterprise, the theory of the enterprise (the firm). But in jurisprudence *several* such concepts appeared which, though remaining in the framework of the principles of the traditional solution, yet in conformity with the more radical character of the Hungarian reform relative to the developments in the other socialist countries, somehow also wanted to express the economic and sociological "partial ownership" position of the enterprise.

*In working out the concept of structured ownership, leading roles were played in the late sixties by *Schüsseler, Langer, Pflicke, Streich, Kreutzer* and *Müller* from the GDR and by *Spisiak*, and *Hanes* from Czechoslovakia.

To this scope belongs above all the solution of Gyula *Eörsi,* according to whom a distinction must be made between the strategic ownership rights due to the state (to government economic control) and the tactical ownership rights due to the enterprise (operation), and he resolves this, actually divided ownership structure by qualifying as legal owner only the organization exercising strategic ownership rights, in this case the state. [9] Another such solution started from Miklós *Világhy* [10] as a theory and found expression as positive law on the occasion of the 1977 amendment of the Hungarian Civil Code. Ferenc *Petrik* explains this solution by stating [11] that the public ownership of the state has to be divided into an external and an internal legal relationship. In the external relationship, to wit in the trade in commodities, the enterprise appears as the subject of the commodity owner. But in the internal legal relationship of control, the enterprise is no-owner towards the state. This solution, as was pointed out by Salamon *Beck* [12] and Endre *Nizsalovszky* [13] at the end of the sixties, is nothing else but the technical utilization of the British trusteeship solution: in economic turnover third parties have to regard the enterprise, by will of the state as owner, as if it were the owner.

The Yugoslav theory

Finally, a few words about the Yugoslav theory of social ownership, which is a so-called *subjectless* ownership construction. At least in principle, the Yugoslav theory has no direct connection with the organizational solution of self-management. From the latter, namely, the acknowledgement of the enterprise ownership would follow – in Hungary the Yugoslav solution is generally regarded as having group ownership character. Proving the possibility of a considerable separation of ideology from actual reality, the *Yugoslav theory negates not only state ownership but also enterprise ownership,* – even the term enterprise is avoided, because it is "of bourgeois nature". The Yugoslav conception negates the possibility of institutionalization of social ownership in either the economic or the legal sense, thus equally of state ownership and enterprise (group) ownership. As is expressly stated in the 1974 constitution: "the social property is everybody's, thus nobody's". Of course, it is not possible in Yugoslavia, either, that the means of production of some associated organization of labour should be expropriated by another organization of labour. Therefore, enterprise commodity ownership has been replaced by the contentually corresponding category of the right of utilization of real effect. I shall still return to the problems of "owning" in Yugoslavia. Here I would note only as much that theoretically a self-management system does not at all assume such a conception of *subjectless social ownership.* Several Polish and Czechoslovak authors have advocated self-management solutions, but on the basis of open enterprise ownership.

Even this short review might have convinced the reader that the theory of socialist social ownership partly underwent historical changes and partly several different solutions have developed even internationally. Thus there exists no "single" or "unique" theoretical model.

The tendencies pointing to the social ownership forms becoming pluralistic

Looking back upon the seventies and also taking into account the signs of the comprehensive evolution of the Hungarian economic reform in the early 80's, it may be stated that the *traditional dualism of the state and cooperative subjective forms of ownership have begun to dissolve in Hungary in general.* This dissolution partly means internal division, partly the formation of new – mostly secondary and mixed – social ownership forms.

The theory of the functional form of ownership

In the wake of practical phenomena in the Hungarian legal theory also the theoretical recognition has appeared that the subjective and objective forms of ownership have to be completed by a new type of ownership, the *functional* one. As a matter of fact, the functional form of ownership is the precipitation of the reviewed sociological notion of ownership in ownership theory – the management and control ownership corresponds to the sociological strategic ownership.

Theoretically, three functional forms of ownership may be distinguished:

– under the control of management,
– manifesting itself in commodity turnover, with the character of commodity,
– natural exercise of ownership.

If control and management are exercised by administrative organs, then they are completed by features of *public power,* but they also may manifest themselves without such features (enterprise controlled by a bank, parent company-affiliate, enterprise jointly owned by other enterprises, system of relationships).

The property of the citizens

It was the theory of the functional form of ownership that provided an opportunity for challenging the standpoint according to which the property of the citizens can be divided – according to the character and quantity of its object – into personal and private property. Is a car or a plot personal or private property if it not only serves personal use (natural property) but is also used for carriage or the crop is sold (commodity property). The means of production in household farms and (closed) gardens were long ago qualified by the Hungarian legislation as personal property though recently regulations have implemented restrictions even in respect of objects typically belonging to the scope of personal property. [14] The introduction of the new forms of small enterprise in 1981 *abolished* this traditional classification altogether.

As regards the new small enterprises, part of them are either clearly social property (small enterprise, small cooperative) or came about basically by relying on social property, with its dominating role (cooperative specialized group, contractual operation, economic working community within the enterprise.) The *overwhelming part of small enterprises mean a particular mixture of social and individual ownership in various forms, with the*

preponderance of the former – thus it is incorrect to speak about some kind of reprivatization in Hungary. It is a different question that the traditional public state ownership based on the owning by administrative organs really cannot assert itself in this scope; but this does not affect the nature of social ownership [15].

Precisely on this account, it would be perhaps more correct to speak under Hungarian conditions instead of private and personal property about *individual citizens' and associated social property.* What makes a small cooperative of 15 people socialist, and why should not be socialist an economic working association of 30 members and 10 employees constituting an indispensable complementary economic unit of the socialist large-scale industry? Why should the latter be a "private enterprise" in a socialist country? Either we need background industries for complementing the socialist large--scale industry in the form of small enterprises, or not, not to mention that this is also a desirable form of accumulating the money incomes of the population. If so, we should not brand it as private property, private company, if for no other reason that we would in this way indeed strengthen the private ownership consciousness of the entrepreneurs.

Thus *the walls* erected between social and individual ownership *are wobbling,* individual property obtains a character of enterprise, and is linked in innumerable forms to social ownership, while the individual shares in several new ways in the social property. It is a quite independent problem that we prevent also with legal measures the abuse of the new forms and the proliferation of exploitative tendencies, the emergence of capitalist private property, and that we should properly evaluate the use of private property, for enterprise purposes in our income policy.

Stratification of the state ownership

Maintenance of the simplified solution that the state is owner, the enterprise is not owner but a unit with economic accounting has become questionable for the following reasons.

a) The problem of state ownership rights can be less and less restricted to the system of relations between government economic control agencies representing the state as a whole. Thus, since the local councils became *autonomous bodies* in Hungary, in 1968, the problem of *communal and town ownership* – subordinated to the primary ownership of the state – has been on the agenda. The problem was raised already in the late sixties by Sándor *Lakos,* then, under the impact of the increasing central redistribution after the 1971 Act on Councils it was pushed into the background, but recently it has again appeared in literature [16]. It should be quite obvious that a wider enterprise property and a local autonomous property *are conditional on each other.*

b) *Enterprise systems have come into being.* Thus, e. g., when the trust became a large enterprise from a medium instance of control, the law started to protect the economic accounting of the enterprises subordinated to the trusts. It then emerged necessarily that if the state is owner and the trust is administrator, then what is the status of the enterprise subordinated to the trust? If also the latter administers, then it is not possible to express the qualitative difference between the two kinds of administration. The situation is similar with the relationship between parent enterprise and affiliate. If the

parent enterprise is not owner but operative manager, then a secondary operative administrative right comes about with the affiliate, etc.

c) Linked to the state enterprises several *complementary forms* have come about. Thus, e. g., with the institution of specialized groups of state farms we witness the emergence of cooperative organizations within the state enterprises. The situation is similar with the economic working associations supported by the state enterprises or which come about within the enterprise, or with the so-called contractual operation. All this could be generalized by stating that under socialist conditions the chances for the evolution of forms of individual ownership embodied in economic enterprises are closely related to the ownership position of the state enterprises, since the linking with state property is necessarily possible only on micro-level and not on the level of central economic control. Therefore, a settling of the ownership position of the state enterprises better supporting undertaking is not immaterial even from the aspect of building out the individual ownership of the citizens.

d) The Act on State Enterprises of 1977 formulated the position of the state enterprise in a contradictory form. On the one hand it made it clear that the state enterprise is not an organ of the state, that no plan indicator can be applied to it, that its right and duty is to take risks, and that *every right* not prohibited or restricted by legal rule is due to it in connection with its management. The enterprise can be given instructions or assets can be regrouped from it only in exceptional cases, even then not at discretion, but when legal preconditions exist. At the same time, important elements of strategic ownership, first of all the organization of enterprises and the selection of executives are due not to the enterprises, but to the sectoral or council organs whose name has been mitigated from control organs into supervisory. Then, on the basis of these rights – partly routinelike, partly from ingrained habit, partly under the host of external "expectations" raised towards them (comforting themselves by saying that they act "in the interest of the national economy") they frequently take over *informally* also the management functions related to operative work. The law no longer uses the term "responsible leader in his own person", but invariably handles the manager as "*delegate of the state*" (forgetting his necessary links with the enterprise collective). The definition of the status of the collective leading bodies (boards of directors with right of decision, supervisory boards) is *extremely uncertain* – even after the 1981 amendment of the Act.

e) In the last decade a considerable differentiation took place among the different kinds of state enterprises. E. g. state administrative ownership can obviously be better maintained with the non-profit *public utilities* than with the enterprises active in the competitive sphere. If e. g. the linking to government control of the large enterprises of basic importance for the life of the country is undoubtedly implemented even in Western countries, why should the state administration exercise any kind of ownership rights toward a small firm founded by state organs (as e. g. under the present regulations, appoint the manager, or the right to issue orders etc.).

In the interest of expressing the changed but contradictory legal status of the enterprises such concept has emerged which, adjusting to the mentioned functional forms of ownership, separated the ownership expression of the rights of disposal and appropriation appearing in government economic control from the civil law ownership rights of commodity character appearing in the economic turnover between enterprises. In this concept the ownership right relating to property only expresses the ownership rights

of commodity nature and thus it can by no means be primary from the political aspect. Accordingly, as the main rule, the right of ownership of the assets of enterprises should be located in the turnover of properties to the *state enterprise* – the state ownership is indeed divided in the turnover of commodities (Marx could never imagine an exchange of commodities without an owner of commodities). The rights manifesting themselves in government economic control manifest themselves – indeed in a uniform and indivisible manner – *in economic control* and not in the turnover of commodities. Accordingly, ownership rights of the state of economic control character may be called summarily *political-law ownership.*

The advantage of this concept is that, insofar as we acknowledge the ownership right of the state manifesting itself in the central economic control organization and functioning of the state, and independently of the forms of ownership of commodity nature (thus in respect of every economic subject and uniformly also in international relations), then *we have satisfied the political claims to ownership legitimacy of the whole state organization.* But this legitimacy does not hinder the acknowledgement of the quality of commodity owner accompanying socialist enterprising. The problems of operative enterprise management under more complicated economic relations can be more easily solved on the basis of enterprise ownership than otherwise. Acknowledgement of the enterprise ownership would help in solving more differentiated property right problems also in respect of the secondary enterprises coming about through association, the problems of parent company and affiliate and also those of small enterprises. [17]

Otherwise, the solution qualifying state enterprises as commodity owners does not exclude that in the case of certain enterprises e. g. the public utilities the central economic control should reserve the commodity ownership right relating to the assets of the enterprise. At any rate, for the distant future, and trusting the further development of the Hungarian economic reform we might perhaps accept the principle that the commodity ownership necessary for management, the rights of possession, use and disposal relating to the concrete means of production should be located, as a main rule, to the state enterprises – if we do not wish to get into contradiction with the rules of the Act on state enterprises relating to the autonomous management of the enterprises and delimiting the enterprises from the central economic control. Even today, it may be justly asked why the direct state ownership is needed, what it guarantees, say, in a small enterprise of one hundred employees. If the state is owner of every machine and building (and even of the ashtray or the clothes-rack) then the central economic control will find no time for controlling the whole of the enterprise sphere. Or, as Marx said, why should the conductor also be owner of the instruments of the members of the orchestra? This concept is also suited to refute the misbelief also manifest in the Hungarian legal regulations, without exception, that *only the founders* can be owners of the assets given to the organization created by them. Modern capitalist practice shows well that the growing appropriation by the founders (that is, in the last resort, the efficiency of economic ownership) is better served by the *selfrestraint of the founders,* the delegation of commodity ownership to the organization founded than by the direct commodity ownership of the founders. There are many such foundations of enterprises known in international practice where the *founder* at most defines the objective but does not reserve any kind of ownership right or possession. See e. g. the foundations and funds of the Western countries, the enterprise founding practice of the Yugoslav banks etc.

Indeed, what does hinder us in colouring the enterprise sphere also with such *target-funds*, beside the other forms of enterprises founded by the state? The fact that since 1959 the Hungarian legislation does not know the *foundation* (fund) is no serious obstacle – this institution, known also in several other socialist countries, can be restored at any time. In my opinion it is in respect of such target-funds that the managerial owning, to be reviewed later, can be most efficiently applied.

Other forms of social ownership

a) *The cooperative ownership.* For the fullest possible evolution of the cooperative ownership it is essential that we should be able to bring about a *real economic and legal equality* between cooperatives and state enterprises in the market competition. Namely, as long as state control of the economy and state enterprises are considered as an amalgamated unity, it is almost necessary to make a distinction also in economic turnover between the enterprises of the state and the cooperatives in favour of the state organizations, fomenting, in spite of every political declaration, the inherited theorem about the superiority of state ownership over cooperative ownership. But if we proceed towards acknowledgement of the independent commodity ownership of the enterprises founded by the state, the chances for real equality between cooperatives and state enterprises will grow. Namely, the cooperative can only be equal to the state enterprise, but not to the state, the central economic control by the state, – it is, of course, *subordinated* to the latter.

The question of ownership is also affected by the fact that also a *levelling by size* can be implemented between the cooperatives and the state enterprises. Today, it cannot be doubted any more that some economic function *can equally be fulfilled* in cooperative and state enterprise forms. In other words, in principle there is no obstacle to transforming a state enterprise into a cooperative or a cooperative into a state enterprise. Thus, it may emerge that above a certain size, where cooperative self-management can no more evolve, the (mammoth) cooperatives should be broken up or, if not, should be transformed into state or joint enterprises. According to some authors, however, it does not make sense to found small state enterprises, from which it would follow that, below a certain size, only cooperatives could function as legal entities. As against that, in my opinion, it would be more correct if, below a certain size, every enterprise *were organized with self-management character.* Depending on the case, this could happen in the cooperative form, but also in a form other than cooperative (e. g. economic working associations, other associations of citizens should be acknowledged as legal entities, which is now missing). It is a different problem that beside the sectoral differentiation of cooperatives also their differentiation by size appeared (specialized group as affiliate of the cooperative, small cooperative). Further it is a justified question why a state enterprise should not have a cooperative affiliate, or why a cooperative should not have an affiliate which is not cooperative in character?

b) *Associative ownership.* The domestic and the international associations prove convincingly that with the present state of development of the economic and production relations, with the more and more indirect Hungarian planned economy the merger of

State economic control with state enterprises, the exclusive direct state ownership can be maintained in the microsphere only with growing difficulties.

The Hungarian Civil Code of 1977 already qualified the assets of the legal entity associations brought about jointly by state enterprises and cooperatives as *an independent (though secondary) form of social property*. But a consistent settlement of the ownership position of the wealth of joint enterprises (deposit associations, unions) has been *hindered* up to now by the negation of the commodity ownership of state enterprises. Let us only reflect, what happens, if the state enterprise is not owner and, say, two state enterprises bring about a joint enterprise with three cooperatives. In this case, namely, – with the present regulation – firstly there comes about a common state--cooperative mixed property, the state part of which is undivided, but its cooperative is divided. Secondly, there comes about a joint state enterprise and cooperative right of administration where the cooperative rights of administration amalgamate with the co-operative ownership, and, finally, a secondary right of administration due to the joint enterprise. As againt that, it would be a much more effective solution (But for this the acknowledgement of the state enterprise's commodity ownership is needed), *if the joint enterprise itself were the owner of its own assets as organization and legal entity*, and the partners in the association exercised the strategic ownership over the operation of the enterprise. In other words, a particular duplicity would develop: an ownership of control character over the associative organization and the property right of the independent associative organization over the means of production united in the joint enterprise. The strategic ownership of the members would be realized through a board of directors built into the joint enterprise but consisting of the representatives of the members thus connecting the external with the internal as the collective strategic leading organ of the joint enterprise. As a rule, the voting rights would conform in the board of directors to the business share.

Otherwise, in my opinion, *a secondary enterprise ownership* and no-state ownership comes about also in the case when two or three state enterprises create a joint enterprise, since in this case we do not have an organization founded by the public power organs, but an *enterprise of enterprises*. Similarly, if two cooperatives found a joint enterprise it is not a cooperative that comes about, since the basic criterion of a cooperative is that it is brought about by natural persons. Also in this case it is the founders who exercise the strategic ownership right, and it is the commodity ownership of the joint enterprise assets that belongs to the joint enterprise. (This solution should also be applied to the affiliates, that is, to the economic organizations founded by an enterprise but not through association.)

c) *Ownership in international enterprises.* The problems of associative property may get further complicated in the case of *international associations.* Today, the theoretical views are proliferating in the CMEA countries according to which the international economic organizations of the CMEA countries should be considered as *owners* of the assets put at their disposal as the organizational microcomponents of socialist international ownership. In other words, the assets of the international economic organizations of the CMEA countries are in this case *not joint interstate property of the CMEA countries.* (But we should not deny that the ruling standpoint still is the joint interstate ownership.) This is so also because in principle neither the Statutes of the CMEA nor the relevant model rules exclude that either a capitalist partner should participate as a member in an international economic organization, or, say, a cooperative from a socialist country.

Further, they do not prohibit that an international economic organization should come about by direct interfirm contract, and not through interstate agreement. (For the latter there has been no precedent as yet in practice.)

With the proliferation of the cooperations with Western firms, also in Hungary the joint venture has appeared, and its organizational form is the so-called mixed enterprise. The legal rules allow even today that a foreign capitalist enterprise should participate, even with majority share, in a joint enterprise in Hungary (in a joint stock company, a limited liability company, a deposit association). In principle even a company with 100 per cent capitalist ownership is conceivable on Hungarian soil – of course with adequate permission by the economic control organs. I hardly believe that these mixed enterprises can be conceived as being entirely or partly in private ownership, since, if in the trade among enterprises rules other than those relating to the socialist economic organizations are applied, these organizations will become unviable.

Only a decade ago a rather considerable aversion manifested itself against the operation in Hungary of such capitalist + Hungarian mixed companies, frequently also the accusation emerged that this would be anticonstitutional. Interestingly, no such objection was raised towards the opposite case, when Hungarian enterprises joined companies in the West, when they founded affiliates and branches there. Today the objections are raised in much more concealed form. For the solution of ownership the same might be proposed for the mixed companies as for the domestic ones: *the own legal commodity ownership of the enterprise,* while the members exercise their ownership rights through the board of directors. (With the exception of the joint stock company, for which the general ownership structure of joint stock companies is relevant.) [18]

It is a general feature of studies related to the organizational system of economic control that, for economic policy reasons and from the viewpoint of modernizing the organizational enterprise sphere *they deem the spreading of domestic and international associations absolutely desirable.* The associative property within social property and the necessarily involved double ownership structure *would reduce the number of direct state enterprises considerably* and thus, automatically, the possibility of state administrative ownership as well (over a legal entity association only a state administrative supervision of lawfulness character is possible.) It is particularly important that instead of the hierarchical enterprise amalgamation into trusts or large enterprises having the nature of public power, the *main form of enterprise organizational integration* should be in the future the *legal entity union* coming about by the voluntary contract of enterprises, of associative adjunct character. The organizational form of the union has to be *updated* significantly, and its pseudo-trust features have to be eliminated also by legal guarantees. The union (board of directors) should also be allowed to found an own (union) enterprise. It is similarly important that the banks should not only grant credit, but also undertake active participation in the associations as members. Finally, also in order to enliven the flow of capital, also forms of association based on securities would be needed.

d) *The property of social organization (societies).* In Hungary this is not yet elaborated, but in several socialist countries, thus also in the Soviet Union and the German Democratic Republic, the *assets of social organizations* are acknowledged as a new independent form of social ownership, and expanding the interpretation, it is also related to the majority of societies. The Hungarian legislation, however, also allows societies –

beside social organizations – to found enterprises. In this case it is hardly conceivable that the assets of these enterprises should be state property. Thus, the independent ownership of social organizations and societies *must be acknowledged* as new forms of social ownership also in Hungary.

The present Hungarian regulations order to apply the cooperative rules to the own assets of the social organizations and societies while the rules relating to state enterprises have to be applied to the management of their enterprises – this is obviously *a contradiction.* In the future, economic policy should strive, above all, to support the founding of such enterprises – the enterprise sphere and the ownership organization would become through this more pluralistic. Nor need the assets of these enterprises remain absolutely the property of the founder, if the enterprise is not closely related to complementing the non-economic activity of the founder, but is profit-motivated. In the latter case the separation of the strategic ownership from the direct ownership of the enterprise assets is conceivable also in this scope.

Some characteristic foreign solutions related to the ownership organization

Western solutions

The alternatives of the ownership system of state enterprises existing in Western countries emerge in almost every Hungarian proposal on development. Otherwise, the traditional capitalist solution agrees with the classical socialist solution. The exclusive owner of the enterprises founded by the state is the state alone, the state enterprise operates included into the public administration, it has *a public administration* form and has no rights whatsoever towards the superior state administrative organ. This traditional form is used today in only a few Western countries, mainly where the state enterprises play a relatively slight role in the economy (e. g. Switzerland). In countries where the role of state enterprises is greater, the public administrative forms are of minor importance and the state enterprises appear mainly in the form of commercial companies.

As regards the ownership control system of state enterprises that are not of public administration form, there are essentially *three main tendencies.* The most typical solution is that a *holding* company (an organization possessing the majority of the property deposits of the enterprises) cares for the ownership control of state enterprises functioning in the form of commercial corporations, which is generally not a purely financial institution but operates mainly with financial means. Supervision over the top holdings belongs either to the president of the republic (as e. g. the IRA of Italy), or to the prime minister (as in Austria). The second possibility, generally coupled with the holding solution, is that *a separate supervisory organ of state administration* is created for the independent state enterprises or their holdings. Such is e. g. in Italy the Ministry of State Participation, operating without division into branches, or the Chancellor's Office in Austria. Finally, there are such solutions, as e. g. the French one, which runs the large enterprises and the public utilities in monopolistic position *in subordination to*

the government, while over the state enterprises in the competitive sector it does not exercise any greater state administrative supervision than over the private companies.

With the major modern Western solutions it is important that – as against the typical socialist solution developed in the direct planned economy – in principle *a ministry that may be considered sectoral* (as e. g. industrial or commercial ministry) *may not exercise supervision over state enterprises.* The state financial institutions belong to the central bank of issue which is independent of the government, while the other state enterprises mostly belong to local autonomous governments, if they do not belong to the holding already mentioned, or to the specialized organ of state administration created for the purpose [19].

The traditional setup of private joint stock companies (assembly – board of directors – auditing commission) underwent significant changes. The substance is that in large companies *a pluralistic ownership of interests has developed.* (This is not characteristic of the smaller firms.) In this scope the importance of the general assembly diminishes, the small shareholder is a passive recipient of values, he is essentially squeezed out of the enterprise. *The group of large shareholders frequently exercises* their ownership rights *through several media,* banks, other enterprises (that is, organizations, legal entities), it frequently also takes part in management. The "power" of *management* is very big mainly in the preparation of strategic decisions, and in the current management affairs. This group is growing and becomes stratified (management of parent company and affiliates, managers in executive positions and others working in the auditing commission etc.). In the boards and auditing commissions of really large enterprises also the representatives of *state economic control* appear, but the real field of reconciliation of interests between the large enterprises and public administration is the activity of the *protectors of enterprise interests.* The protectors of the interests of employees, *the trade unions,* have an important say in owning, and beside them, in the name of participation, frequently accompanied by the concealed resistance of the trade unions, also the *direct protection of employees'* interests appears, (works' councils etc.). Also the latter fact has a role in that the auditing commissions, originally representing only shareholders, slowly turn into *supervisory commission* approving the strategic decisions – that is, the order of collective decision-making becomes one of several stages in the strategic questions of ownership. And the main effort of the sociological literature of the left in the West is to "neutralize" the capitalist, to squeeze him out of the enterprise, the concept of the *enterprise on its own* (Unternehmen an sich).*

The socialist solutions of ownership

In the Soviet Union control through the glavki, the sectoral main directorates, became typical already in 1919–1920. As a matter of fact, then began the location of state ownership rights to the sectoral organs of public administration. It is generally characteristic of the direct planned economy that the control of the state enterprises (actually establishments) deeply embedded in the sectoral state administration

*See e.g. the views of O. *Kunze*, T. *Raiser*, H. *Krüger* and others. For a summary see C. *Ott* [5].

is exercised, through several instances of medium control, by the *subsectoral hierarchy* and the one-man management. In view of the plan instructions, formulated in physical terms this is quite understandable and logical. The number of the sectoral (more correctly subsectoral) ministries was extremely large. They arranged for sectoral „autarky", their activity was centred on the control of their "own" enterprises, and in this respect they even interfered with the detail questions of operative work, in the sign of "Étatism reaching down to the foreman". This system so much follows from the logic of the system of directive planning, that when, in the name of the so-called complex regional reform, Khrushchev abolished the sectoral ministries (1958–1965), the sectoral control organs continued to operate as unit of the national economic councils. From the point of view of the socialist economic reforms the ownership by sectoral state administrative organs is to this very day the most depressing tradition of directive planning

In the other CMEA countries the number of fissures on the system of state administrative ownership has been growing since the 1970's because of the consolidation of the system based on the predominance of combines (unions). An ever greater number of elements of ownership shifts to the large organizations and the number of sectoral ministries is also diminishing. In addition, recently a concept has appeared in these countries which wishes to separate increasingly from each other the economic policy, the official and the ownership rights even within the state organization. A germ of this solution is when in sectoral ministries the industrial directorates are shifted to *economic accounting* as against the functional departments. In recent times,however, also *complete ministries* with economic accounting have appeared, especially in the S. U., e. g. in precision engineering and in two subsectors of the heavy industries. In this case a sectoral "*economic system*" emerges, headed by the economically accounting ministry. (The same idea became manifest in Bulgaria in the late seventies, in the so-called attempt at a national complex program.) But from this concept it follows that the control of the given industry necessarily *doubles,* to wit, a separate organ exercises the official and the economic policy rights, and another the ownership control over the enterprises. In the Soviet Union a resolution was passed in 1970, that in twenty years every sectoral ministry had to be shifted to economic accounting. But the resolution contained no provision regarding the organizational order of exercising the economic policy and the official rights. There are several opponents of this idea in the Soviet literature. In the GDR the idea of economically accounting ministries has not even emerged.

It is characteristic of the Yugoslav self-management – *but of every kind of self-management* – that the "enterprise" is built up from below. (The economy thus copies the setup from below of the Yugoslav state organization, the decisive role of the communities, the lack of direct parliamentarism.) The basic unit is the "brigade", that is, the *basic organization of associated labour* (BOAL), which is an autonomous subject at law and has the right to bring about in association with other BOALs a complex BOAL (works, etc.) and through further association an associated organization of labour, that is, an enterprise. The form of association is the so-called *agreement on self-management,* and its particular form is the one creating the BOAL, which is simultaneously an organizational agreement and a work contract. Owing to its independent rights, the BOAL *may at any time leave* the higher unit, and stay independent or unite with other BOALs, and this lends high mobility indeed to the Yugoslav enterprise sphere – even if we take into account local political limiting influences.

In the Yugoslav system there is no ownership organization of public administrative nature, the authority of the government is much narrower than in Hungary, the "sectoral ministries" degraded into secretariats and commissions, have in general no functions to influence the economy, they only fulfil official activity. The ownership is located completely with the enterprise, though it is significantly influenced by the a) party (mostly informally), b) the communities, provinces etc. (supported by normative orders), c) the banks, d) the *system of economic chambers,* which is a *very strong system representing the interests of enterprises and managers* towards the public administration, but which simultaneously exerts a strong pressure on enterprises as well. Also the effect of self-administrative jurisdiction and of constitutional jurisdiction on economic processes is highly important.

In Yugoslavia *highly complicated direct and indirect democratic forums develop within* the enterprise setting out from the BOAL system and there is a constant process of reconciliation. The majority of strategic ownership rights is exercised by the *workers' council* which appoints the manager directing the operations through tender – but in the framework of normative regulations and under political influence.

Yugoslavia has proved that a socialist national economy can also be operated in a self-management system and it will not become necessarily capitalism or anarchy. Its most advantageous feature is the exclusion of ownership by sectoral state administrative organs. In my opinion, its disadvantageous features are:

– the constant conflict between the social self-management and the market mechanism, the fight against "technocracy" does not do any "good" either to market enterprising;

– the BOAL structure can only be *manipulated* in larger enterprises or new investment projects; it can exert its real efficiency only under a certain size.

Ending now the highly simplified treatment of foreign ownership organizations, it may be stated that a generally accepted solution to ownership organization, that would be free from contradictions, *does not exist* either in the West or in the socialist countries. Several immature, constantly changing constructions appear that are frequently inconsistent with the whole organizational system of the economy and with ideology. Thus there is no "international model" that could be taken over as a whole by Hungary. But there is no obstacle to, and it is even very useful, taking over some tested solutions corresponding to the Hungarian conditions and building them into the development concepts.

Ideas about the development of the Hungarian ownership

The actual situation

In the foregoing we have reviewed the concrete ownership solutions in respect of the cooperatives, the associations, the international enterprises, and the enterprises of the social organizations and societies. What is left over is the problem of ownership organization within the state sector, which, in my opinion, is the *key question* of a further development of the whole Hungarian reform.

It is characteristic of the ownership organization developed after the 1968 reform that economic theory made efforts to distinguish as to contents the *economic political control function* (indirect economic regulation), the public *power* (official) *function* and the *ownership function* of the state, identifying the latter with the supervision of enterprises. From the legal point of view this distinction is obviously an important simplification, since e. g. the economic political control and the supervision of enterprises also are of public power character, since also the economic regulators appear in the form of legal rules, the foundation of enterprises is with most state enterprises an act of state administration etc. Thus public state power cannot be identified with the scope of official authority.

But all this was *only a distinction of contents*, it was not asserted in the organizational setup of the economy and state administration, since the sectoral ministries continued to fulfil all the three functions even after 1968. True, there were, mainly in 1968–69, tendencies in the internal organizations of the sectoral ministries which brought about *different* organizational units within the structure of the ministry for fulfilling the three functions – but this tendency did not evolve fully. In the course of the general rearrangement process of the seventies one could observe the proliferation of departments engaged in the supervision of enterprises and the restoration of the subsectoral system.

The Hungarian scientific literature continually *attacked* the identification of the state ownership rights with the enterprise supervision rights and, particularly, to present the sectoral ministries as the representatives of the state as owner. The substance of the scientific standpoint is that after 1968 the ownership rights of the state were exercised by the organizational system of government as a whole. E. g. the enterprises depend, under a system of basically indirect regulators, *at least as much on* the ministry of finance or the banking system as on the so-called supervisory ministry. On the other hand, literature also pointed out that certain sections of the strategic ownership rights *have already been delegated to the enterprises.* Thus it is mainly the right of using capital and stating the enterprise business policy that are fundamentally exercised already by the enterprises. But the right of selecting executives and of enterprise organization have undoubtedly remained with the sectoral ministries, and it may also be stated that the state administration exercises important influence in respect of the tactical ownership rights, that is, the operation of the means of production due to the enterprise, partly also in a manner fixed legally, but mostly informally [20].

Hungarian practice has not taken account of these theoretical views up to 1978. The sectoral ministries appeared everywhere as representatives of state ownership. Otherwise, they used the ownership rights mostly to nullify the public power regulations, the economic regulatory system, with the traditional ideology that this was rightful, since an owner can unrestrictedly dispose of "the object of ownership". In other words, in the course of the activity of the sectoral ministry as owner, the observance of the legal rules securing enterprise independence and of the economic regulatory system is, as a matter of fact, not obligatory.

Since 1978 the situation has changed essentially. In the recent measures reorganizing the sectoral ministries it was already partly reflected that the enterprise supervisory functions – turning into control – *are not primary, but secondary tasks* of the sectoral

ministries. A process has started which makes the sectoral ministries into *professional functional organs* of economic control. This holds first of all for the creation of the Ministry for Industry, taking the place of three sectoral ministries, but the principle was also enforced on the occasion of the internal reorganization of the Ministry for Construction and Urban Development. Thus the principle of organization becomes increasingly manifest that the economic policy, the controlling and the supervising activities should be again *consistently separated* from each other, and that the organizational units engaged in enterprise supervision should be partly reduced in staff numbers and partly that they should not be built up according to sub-branches, excluding the so-called dispatcher system. But, for the time being, no such guaranties could be built into the system that would exclude the great danger of re-arrangement, that instead the professional functional and long-term sectoral policy activities again the operative control of the enterprises should get into the centre of activities of the sectoral ministry.

The 1981 legal regulations, beside legalizing the small undertakings, also *increased* the number of ownership functions located with the enterprises. The scope of activity of enterprises widened, the possibility of issuing orders in respect of the trade in commodities diminished, and the possibility was given to enterprises to found an enterprise. But, in the last resort, the measures taken up to now *have not meant a radical change* relative to the situation of the enterprises developed in 1968.

Recently, on the basis of central decisions, various working panels are engaged in the modernization of enterprise management, the selection of managers, the up-to-date status of the board of directors and the supervisory board. But in the economic state administration a (concealed) standpoint can be rather well discerned, that *no significant deviation is necessary* relative to the present situation in defining the status of either the board of directors or the supervisory board. There is an aversion to the boards of directors with right of decision, and the supervisory board is linked exclusively to the founding organ. On the other hand interest is spreading in more up-to-date instruments for selecting the manager (e. g. tenders, appointment for a definite term etc.), but there is invariably strong aversion to the election of the manager by the workers' collective, or to subordinating the manager to the collective leading body of the enterprise.

General characterization of the ideas about development

In the scientific literature *radical* ideas came to light regarding the *development of organization.* The subjects in which there is almost complete agreement in the literature on organization known to me, may be summed up as follows:

a) Apart from exceptional cases, and particularly in the competitive sphere, it is justified to *separate* from the organs of state administration both the exercise of strategic ownership rights and the rights related to management; it is not justified that these should be exercised by state administration organs of *sectoral nature.* As far as possible, care must be taken that the "industrial directorates" should not return in the guise of the new ownership organizations, *the medium instance of control should not revive* (e. g. in the supervisory boards or commissions).

b) The overgrowth of the vertical hierarchical dependence of the economy must be abolished; the *coordinative horizontal relationships* based on partnership must be

increased, together with the *pluralism of interests,* the relationships aimed at the reconciliation of interests.

c) The literature emphasizes that there exists *no abstract state interest* (national economic interest), that the declaration of national economic interest emerges in the wake of conflicts between several interests, and means, to a certain extent, a subjective decision (e. g. it is different in the short term and in the long run).

d) The basic problem of the healthy market mechanism is the abolition of the present "administrative" market power of the large enterprises of today.

e) It is necessary to develop a *representation of enterprise and manager interests* of full value (in a scope representing and protecting interests far beyond the regulations relating to the Hungarian Chamber of Commerce and the cooperative associations), as well as to eliminate the state administrative functions of the trade unions.

f) The strategic enterprise decisions should be taken basically by *collective* management organs, while in operative decision-making the *personal* decisions should gather momentum. The enterprise manager should be linked fundamentally to the enterprise, appointment by the state administration should be reduced to exceptions. This does not affect the possibilities of political and economic control over the selection of cadres (e. g. the right to veto etc.).

g) It is necessary to eliminate the overgrowing financial redistribution from the sphere of enterprises, and to implement a comprehensive reform of the banking system.

h) The role of cooperatives and of organizations coming about through association should be strengthened in the microsphere. Part of the state enterprises should be transformed into associations or cooperatives. The exaggerated interference of economic control organs with the operation of cooperatives and associations should cease, and the flexibility of cooperatives has to be increased.

i) It is necessary to build up various channels for the *state and social control* over the economic state administration: the role of the National Assembly and the Presidential Council has to be increased, perhaps a constitutional or administrative court has to be created to control the observance of norms, the protection of consumers' interests has to be strengthened, and the possibility of control through other social organizations has to be created.

j) The citizens should not share in the social ownership mainly through the general political rights of citizens, workers should feel their being "partial owner" primarily at their own workplace, in a manner, differentiated by types of enterprise, partly *through participation,* and partly through being *interested in the assets as well.*

Beyond these major targets there cannot be found a fully elaborated idea for the system of state ownership organization in the Hungarian literature. In the proposals mainly the holding, the self-management and the enterprise ownerships are discussed. But these are frequently all too general, they comprise many internal contradictions, none of them is suited for actual introduction in its present state. But as much can be established from the so far unelaborated proposals that such – in my opinion correct – idea is slowly maturing, which advocates *the side by side existence of a pluralistic ownership organization instead of the monolithic structure.* In my view, essentially the types listed below have to be reconciled with each other and fitted into the political and governmental system of society: a) state-administrative ownership, b) holding (capital ownership organization), c) council ownership (by local government), d) enterprise ownership

depending on enterprises, e) managerial ownership, f) self-administrative ownership, g) individual and associative enterprise ownership by citizens.

In the following these basic forms of ownership will be discussed as to contents.

Description of the various forms of ownership

a) *Supervisory organization of state administration character.* This concept sets out from the idea that, differentiated by types of enterprise, the ownership rights due to the state, and the state administrative supervision over enterprise ownership should be exercised on an *inter-sectoral* basis, that is, these rights should be withdrawn from the sectoral ministries. This supervisory organization would fulfil functions similar to the present ones a) in respect of the enterprises in state administrative ownership, b) would exercise the organization-shaping and supervisory tasks (e. g. right to veto the appointment of the manager, suspension of the manager, dissolution etc.) in respect of the state economic organizations of basically entrepreneurial ownership (managerial, self-management), further c) over the cooperatives and associations of national importance (this is in addition to the present regulations). It could also exercise supervision d) over the holdings having ownership functions. (The latter could only be, of course, of legal (nature).

The disadvantage of this solution is, that though it withdraws the ownership rights from the sectoral ministries, it invariably keeps them in the scope of authority of *state administration* – therefore, *it cannot be applied in a wider sphere of enterprises.* In my opinion, however, the state administrative ownership cannot be eliminated from the Hungarian economy even in the longer run, even if we know that, as a matter of fact, it carries the danger of restoration of the present sectoral ownership.

The supervisory organization may be a *Ministry of Supervision* or an *auxiliary organ* of the Prime Minister, or the secretariat of an economic government commission. As a matter of fact, it even might be a *directorate* (centre etc.) system as well, with a small staff and subordinated to a governmental organ – if, beyond tax control and the sectoral professional control function we classify as belonging here every other economic control function. (The new danger here is the revival of the medium-level control, but a solution without such a risk does not exist.) If the amalgamation of sectoral ministries continues and their economic political and professional functional character become consolidated, I can even imagine for the future that the supervisory ministerial functions should be exercised by a separate organizational unit of each of the *four ministries organized by branches* of the economy (or by a centre under their supervision).

The economic organizations remaining under the state administrative ownership of the supervisory organization would be mainly the *public utilities* and other, basically *not-profit* organizations that cannot be assigned to the councils. In this scope the ownership would correspond to the present relationship between the state administrative organ and the institution of appointed individual managers can be maintained (of course, the system of tenders and appointment for a definite term can also be applied in this sphere), a board of directors is generally not needed, and the drawing in of workers remains on the present level of factory democracy. But it would be worthwhile to bring about, in the interest of social control, supervisory commissions consisting of the

representatives of consumers and delegates of other social organizations. The situation of the non-corporative, large enterprises (trusts), and of those not belonging to holdings as well as of those subject to state administrative ownership not fulfilling the functions of a holding, would be different. These would be led by a *board of directors* with authority of decision but in which a decisive role would be played by the representatives of the central economic control organs. Beside them, the leading executives of the central machinery of the large enterprise, and the managers of the basic production units would participate in the board of directors. The participation of workers would basically materialize in the productive units; a supervisory commission would, in general, not be necessary, and a general manager, appointed by the supervisory organization, would direct production, subject to the board of directors. This would be then a mixture of *state administrative and managerial ownership,* with the predominance of the former.

b) *Holding (organization of owners of capital).* This idea is very old indeed. As a matter of fact, it already appeared around 1956 with Sándor Balázsy, Tamás Bácskai and others. Its most theoretical and most detailed elaboration can be found perhaps in a study written by Sándor Kopátsy in the mid-seventies, but it became really known in the wake of the articles by Márton Tardos. (The idea also emerged in the writings of Miklós Mandel, György Varga, Jenő Rédei and others [21].) The great historical perspective of the idea and its use by several authors is also disturbing to a certain extent, because the most diverse organizations are called holdings. Originally, the holding was unambiguously consisting of 4–10 financial institutions. Now also the supervisory commission, the centre of large enterprises, and even other organizations appeared as holdings.

The basic of the holding idea is that there are *four basic functions* in the economy which have to be separated from each other: a) the state administrative official functions, b) the ownership functions, c) the operating functions, and d) the interest-protective functions. The ownership organization is engaged basically in the organization of enterprises, in the appointment of the leaders, as well as with the regrouping of assets on a particular socialist Exchange (the latter presumably requires that the enterprises should be built up as joint stock companies.) The owning would be unambiguously separated from the operating functions independently fulfilled by the management. The protection of interests would be fulfilled according to the original idea only by the trade union, recently also the protection of enterprise interests is contemplated.

The advantage of the solution is the facilitating of the flow of capital, as well as the sensing of the conflict of interests existing between the enterprise management interested in the development of the given enterprise and the strategic capital ownership decisions. It is, however, not quite clear where the economic policy control functions (indirect economic control) are located in this system of organizations. It is further its disadvantage that in the prevailing CMEA mechanism an organisation owning the assets independently of the government is hardly conceivable, since thus the council of ministers could not conclude well-founded interstate economic agreements, it would depend on the organization owning the assets. Subordination of holdings to Parliament would not solve the problem, since Parliament obviously cannot deal with the continuous supervision of concrete organizations. A separate machinery could indeed be created under the Presidential Council, but I would consider more correct to join it to a supervisory organization of holdings subordinated to the government, as mentioned under a). Finally,

it is a disadvantage of the holding solution that the level of *enterprise autonomy* is obviously lower than in the case of managerial ownership or in that of self-management.

As regards the concrete form of the holding, *part of the now existing large enterprise centres (trusts)* could indeed be operated as holdings. (As a matter of fact, this would not be so much a holding as rather a relationship between a concern and its enterprises, control through financial dependency relations.) Another form of the holding might be the enterprise founded by *banks.* (I deem the idea of the supervisory committee as holding basically mistaken.) In both cases, the control of the enterprises belonging to the holding would be exercised with means other than those of state administration, presumably on the basis of long-term profitableness and capital-realization viewpoints; while the operative, tactical ownership functions would be exercised by the management of the enterprises.

It has still to be elaborated how the board of directors and the supervisory board of the holding and its supervision by the state administration should be shaped. In my opinion, the holding should be basically *a collective professional leading organ,* the acting manager would be employed for a definite term through tender – perhaps with the right to veto of the economic control organ. In general, in the board of directors a share must be given – in differing proportions according to the two types of holding – to the management of the enterprises of the holding, to the management of the holding itself, and finally, to the representatives of the various economic control organs.

The enterprises belonging to the capital ownership organization may be managed by one person or by a board of directors, but in my opinion, they cannot be of self-management type, because this is excluded by the additional rights of the holding. If there is a board of directors, the representation of the holding in it is necessarily decisive.

c) *Council (local autonomous government) ownership.* The council ownership would manifest itself basically in respect of enterprises under *town or community supervision.* This group would comprise mainly smaller communal enterprises, performing local supply and services, with restricted autonomy. Also the legality supervision over smaller local self-managing and other enterprises, cooperatives and associations would be exercised by council organs. (In my opinion, there is no need for county council enterprises, the county demands can be met by national enterprises, or, as a rule, by associations of town and community enterprises.)

d) *Enterprises depending on enterprises.* In variants a) and b) strategic ownership is not with the enterprise, but *outside it.* As a matter of fact, the situation would be the same with enterprises as affiliates, or the domestic and international enterprises founded as associations of several enterprises, and with the enterprises of social organizations and societies, the ownership structure of which has already been discussed. These are enterprises depending on other enterprises. These affiliate constructions (outside a holding), enterprises of social organizations (societies), joint enterprises and international associative relationships are the fourth alternative of the ownership organization. Within it, owing to the complexity of this sphere, several *subalternatives* may be conceived, (e. g. the board of directors and the supervisory commission have to be built up differently with a joint enterprise operating with the full responsibility of its members, differently with a limited liability structure, and differently with an international joint enterprise or, finally, with a union, etc.)

e) *Enterprise ownership with the decisive weight of basically collective managerial leadership.* In this solution the enterprise would be led in strategic matters by a so-called *enterprise council,* in which the leaders of the central functional organs of the enterprise centre, the leaders of the productive units belonging to the enterprise, as well as the representatives of the party and trade union organizations and direct representatives of employees would participate. In larger enterprises it is conceivable to bring about a supervisory committee beside the board of directors, and thus the establishment of a two-stage strategic decision system (more correctly: *decision approval system).* In the latter case, the representatives of the economic control organs, the worker collective, the party and the trade union would find a place in the supervisory committee. In operative matters the enterprise would be led my a manager appointed by the enterprise council for a definite term through tender.

In my opinion, this solution would be particulary advantageous in the case of independent *medium-size enterprises.* It is here that the principle of the enterprise "for its own self" could be best asserted. It could be founded mainly from a part of the present state enterprises or could be used with new enterprises to be brought about for a definite purpose with the character the strategic ownership.

f) *Enterprise ownership of self-management nature.* The last variant is the case of enterprise ownership where the majority of strategic ownership rights is exercised by a *general assembly* of the working collective, or a *council* (leadership) elected by the collective, while the director (chairman) functions in subordination to the general assembly or the council. In Hungary today the actual form of such self-management, self-government ownership is the *cooperative,* no such other form exists, but a part of scientific experts advocate its wider spreading. As a matter of fact, I agree with this demand, but I am of the opinion that *beyond a certain enterprise size* the self-management ownership can only be manipulated. In larger enterprises not the direct ownership of its employees is needed, but "only" the drawing of employees into the ownership in varying forms, and the creation of interest in assets of ownership nature (through shares, bonds etc.).

Also such opinion exists that, because of its "socialist sounding" every small Hungarian enterprise should be organized in the form of cooperative [22]. (Literature largely agrees in that there is no need for a small enterprise founded by the minister and with a manager appointed by the minister – as is the case now.) I do not agree with this proposal, because the traditions of cooperative principles – from which we could not depart in the case of the cooperative form – would hinder the evolution of the *rich forms* of small undertakings. I am of the opinion that also non-cooperative self-managing small enterprises are needed, to be formed partly from the existing small enterprises in state administrative ownership, partly by *acknowledging* the legal entity, the enterprise nature of the major organized economic working associations. In the organizations formed from the existing small state enterprises the interests of central economic control would be represented by a supervisory commission of checking nature, not participating in the approval of decisions, in which also the representatives of the party and the trade union would get a place.

In enterprises built basically on the self-management of the collective, the employment relationship of the working member of the collective gets mixed with an associative relationship having the character of association of persons; as a matter of fact, he "cries

and laughs together" with collective undertaking. I would note, however, that I do not agree with taking over in Hungary the Yugoslav system of basic organizations in the self-managing enterprises, nor with granting the right of secession to units belonging to major enterprises together with the choice of self-management. What the public power amalgamated, can be separated only by the public power – the Yugoslavs themselves did not shift to self-management around 1950 in this manner, either.

g) *Non-profit-enterprise, other individual and associative entrepreneurial ownership.* The enterprise sphere would be complemented – in rich forms – by minor civil-law societies, associative undertakings in economic working communities without legal entity, and by diverse individual undertakings, where ownership, enterprising, operating and working are merged, and which could simultaneously form the background and completion of larger undertakings.

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In the foregoing I outlined the picture of a pluralistic and differentiated organization of social property and ownership. Of course, a great many problems are waiting for elaboration, without the analysis of which even this concept is not a model suited for implementation; e. g.

– what is the relationship of this ownership organization to the functional and sectoral control?

– where is the place in this, in my opinion more rational, economic system of the party organizations and the trade unions?

– what is the relationship to each other in the individual types of the board of directors, the supervisory commission, the manager; how does the board of directors take decision, in what matters do the collective organs have a say and how?

– what would be the approximative relative proportions among the individual organizations of ownership?

In such an ownership organization the mode of planning and economic regulation necessarily change; thus the basic economic processes must be put into this framework.

The mode of transition, the problems of the *transitional* period have to be worked out. At any rate, I am of the opinion that this concept does not yet transgress the limits of political reality, and it also tries to integrate the core of every economic idea, to build them into a complex system.

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ВОПРОСЫ ОБЩЕСТВЕННОЙ СОБСТВЕННОСТИ И ЕЕ ОРГАНИЗАЦИИ

Т. ШАРКЕЗИ

В первой части статьи дается сравнительный анализ экономических, правовых, социологических и социальнопсихологических аспектов собственности. Затем автор рассматривает теорию форм собственности и исследует процесс, который произошел в Венгрии в сфере расширения форм общественной собственности, ее структурирования и приведения во взаимодействие с личной собственностью.

Затем автор переходит к основным вопросам, а именно: какая организационная структура собственности может оптимально выразить государственную собственность на нынешнем этапе развития. Прежде всего автор рассматривает основные организационные формы собственности, существующие в социалистических и западных странах, затем дает обзор венгерских публикаций, содержащих предложения по развитию в этой области, после чего переходит к обоснованию собственного предложения, сущность которого заключается в том, что необходимо создать оптимальное сочетание владения собственностью со стороны государственного управления и местных советов, самостоятельных и зависимых от них предприятий и объединений, а также на основе самоуправления и мелкого предпринимательства.

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PLANNING IN PHYSICAL UNITS AND ENTERPRISE RELATIONS IN HUNGARY

The quality of the Hungarian export articles and of those sold at home is interrelated with the disturbances in the relations of the enterprises. This was one of the reasons of exaggerated enterprise concentrations. In the final analysis these disturbances may be traced back to the primary role of planning in physical units of measurement and in this context to the fact that in investment the enterprises see not mainly a source of income but an instrument to alleviate the supply tasks. The enterprises are dependent on each other and protect themselves against this dependence by amalgamating the supplier factories by increasing self-sufficiency. From the viewpoint of organization theory this is rational microeconomically but irrational macroeconomically because it makes the economy rigid and reduces the international competitivity of the enterprises. The forms of appearance of this phenomenon cannot be eliminated one by one, the basic cause has to be remedied by a fuller implementation of the 1968 reform.

It has been frequently attempted to find individual ways for solving problems of cooperation or, in the broadest term, of business relations between enterprises which decisively handicap product quality and competitivity. On the other hand enterprises have tried to assure themselves safer supply through self-sufficiency and amalgamation of their suppliers. Such solutions are not advantageous from the point of view of the national economy. The final cause of the difficulties showing such a variety lies in the financing through exceptions of the targets specified in physical terms, and in the fact that enterprises consider investment not as a resource of revenue but as a means facilitating their own supply tasks. The cause cannot be expected to cease out unless there are independent and risk-taking enterprises with the main aim to increase their incomes independently and unless capital allocation becomes flexible.

The symptom

Any analysis of the competitivity of Hungarian products in external markets or of the opinion held by domestic consumers about Hungarian products will inevitably arrive at objections to quality. Going into greater depth and interrogating the manufacturers themselves about the reasons for inadequate quality, the tardy or inefficient work of suppliers is blamed frequently. It is by now generally admitted that in the Hungarian industry an impracticably big share of the necessary parts, components, joining elements etc. is turned out by the manufacturers of the end product.

It is not hard to state a causal relationship between the above-mentioned two phenomena: the tendency of concentration experienced in the Hungarian industry resulted in the painful degeneration of the small and medium enterprises and has been caused, among other things, by the strive of bigger enterprises after safer supply resources for

themselves. Amalgamation of the supplier enterprise and the transformation of business relations into organizational relations have been the instruments towards the said end. The literature of organization theory describes this process with the term "backward integration". The problem I wish to analyse theoretically in this context is the following: why business relations among enterprises are beset with difficulties what their consequences are, and whether it is right or wrong to choose the concentration of enterprises as a general solution for the resulting problems.

The attention of the Hungarian economic leadership was directed to this matter by the complaints mentioned in the introduction and for which the term "problem of the development of the background industry" was soon coined. This slogan is not a useless one for the practical tackling of part of the problem under the current conditions. A certain range of products can be thus identified which can be given preference in production even if it is not easy to define. Actually this happens in the framework of the "background industrial project" sponsored by the Ministry of Industry. Still, it would be a mistake to expect that, however successfully accomplished, the background industrial project could completely eliminate the symptoms stated in the introduction. (Not mentioning now that the timing of the result may be extended by increasing the breadth or depth of the project.)

A more intensive study will show that it is very hard to find an industrial sector or even a subsector – perhaps with the only exception of the food industry – that supplies consumer goods only for the general public. It will be therefore more appropriate not to make a distinction in the study of enterprise relations and not to restrict the matter to the problem of any given commodity category or any given group of sectors but to discuss the business or supply relations among enterprises as a whole.* The observation that the symptoms and the excuses quoted by enterprise officials are identical or similar in every sector also supports that this approach is right. Therefore, it has been found reasonable to concentrate on the host of problems of business relations in general.

The Ministry of Industry was guided by this consideration when it had case studies made about the business relations of 13 enterprises belonging to its supervision. The hypotheses were backed up by the case studies also by finding that suppliers that faced problems of capacity utilization were perhaps a little bit more keen to satisfy their buyers' demands. In her article [2] Mrs. M. *Csurgay* already wrote about these case studies which were prepared by several institutes for the Ministry of Industry. Since the essential statements of the case studies are summed up in the said article it will be sufficient to recall them only by enumerating them. Reluctance to sign contracts, failing to reconfirm them, accepting only long delivery terms, missing the deadline, out-of-schedule delivery, poor assortment, non-observation of the contractual assortment, inability to satisfy special or higher requirements, failing to produce the contracted quality and frequent litigation in consequence. According to general opinion these symptoms because of which this country is unable to sell but cheaply if at all in Western markets but which the domestic market will eventually accept, can generally be traced back to the following:

* M. *Laki,* correctly stated this in his article [5].

– lack of the required capacity
– full quantitative exploitation of the existing capacity*
– lack of auxiliary equipment
– limited import opportunities
– preference for exports.

The supposed causes

Speculatively, it is comfortable to reduce all these causes to the notion of shortage. Shortage, again, is only a relative factor economically and, therefore, in the case of fully utilized capacities, either supply is insufficient because of the poverty of the country or demand is too high because of inadequate control. Experiences show the restriction of consumer demand to be quite efficient in this country and so, if the limit to supply that can be explained by actual conditions is not accepted as a final cause, then, thinking it thoroughly over, one necessarily arrives at the realization that the shortage economy is caused by an insatiable investment hunger.**

On the other hand it is considered to be another general observation that Hungarian enterprises are usually not striving after the full exploitation of all the opportunities but their conduct is rather typically indolent and they prefer to avoid risks. The most often quoted but absolutely not the final or exclusive reason of this conduct is that incentives are governed by the "basis approach" (also called "incrementalism"). Besides, the insatiable growth drive which is also typical of the "overheated" stages of the business cycle does not produce similar symptoms in the capitalist economy, or, more accurately, these symptoms are very mild.

The result is mainly inflation and by no means a general disproportion between the production of end products and the necessary parts etc.

Setting out from here it will not be sufficient to state a bare quantitative relationship as the major cause of the symptoms under study. The findings of the mentioned case studies confirm the lessons of earlier research work made into associated subjects, namely, that the roots of factors disturbing inter-enterprise relations reaching deeper than the causes manifesting themselves in terms of quantity lie in the way as, and in the place where, demand, ie., volumes, are determined.

The insufficient or sufficient quantity of a product is decided at the point of the investment. In Hungary investment projects are decided, even if upon enterprise recommendation, by the central state authorities. Moreover, the amount of money presumed to be available from public savings is distributed almost completely and practically at one point of time, at the beginning of a given period. But *this distribution is preceded by the plan bargain between enterprises who know the resources and the central authorities who know the final balance and the global requirements.* As at the spot of the investment there is no limitation to the investment demands raised by enterprises who know more about details, the central authority will in fact only have *ex post*

*The term capacity is not used for the sum total of the theoretical capacity of each machine but for the performance under normal work conditions (e. g. number of usual shifts.)

** This idea was developed into a comprehensive theory by J. *Kornai* [4].

information about uncoordinated requirements and resources, when the balance of payments becomes upset or other tensions emerge. Then it has no other alternative but to step on the brake somewhere. Consequently, the result of direct plan instructions is a cyclical investing activity.*

In this paper I should like to note another impact of this planning process, namely, the discordant relations among enterprises and the lack of competitivity, but my train of thoughts is closely connected with the aforesaid. However, while Bauer limited his analysis to the system of directive planning, in my opinion the essential cause is the *stating* of recognised *social needs in physical terms*, and the corresponding way of allocating investment funds, and this holds not only for the case of directive planning known from before 1968. (I should like to remark, by the way, that stating needs in physical terms in itself adds to the investment strain because "the necessary", as against "the profitable", is not a selective principle as it is suitable to justify next to anything.)

It has remained valid that although most of the money required for financing originates already from enterprise sources, the setting of targets is powerfully centralized. Consequently, the funds available for investment purposes are distributed among physical targets which can be grasped centrally. But now the amounts of investment funds are not distributed for once, at the beginning of the plan period any more, but the carrying out of the original ideas is achieved in the course of the plan period by means of various preferences for investments and production. The ideas, too, might change, but always in physical terms. *The instruments of financial implementation are adjusted to them afterwards.* At the same time the Planning Office is gradually replaced by the Ministry of Finances, the National Bank, or lately by the Price Office. As I am going to show later, this method is a cause of the disturbances studied here also beyond the consequences of physical allocation. Nor have the enterprises stopped *considering investment, instead of a source of increasing income, primarily as a means facilitating the supply task* (above increasing the size of the enterprise). This latter factor is the one that makes the insatiable investment thirst of the socialist enterprise different from the drive of the capitalist enterpreneur after higher profits. This is the reason why the first one remains to be extensive while the latter one always pursues intensity because, in his eye, little money is also good money.**

Returning to the distribution of investment resources, firstly it is impossible to form a comprehensive central idea of all the „background requirements" of the said physical objectives and, secondly, the suggested investment projects are usually pretended to be cheap ones and thus the implementation of plans necessarily produces bottlenecks, that is, implementation is often not accompanied by the auxiliary investment that would be necessary in order to meet the requirements of western markets. At the same time there is no available free capital that could undertake the elimination of shortages developing this way, through the profit motive.

In addition to the system of allocating investment funds, also the existence of the typical belongings of the system of institutions, namely, the existence of monopoly

* A detailed presentation of this relationship and its proving with a wealth of data is given by T. *Bauer* [1]

**The significance of the supply task in the Hungarian system of economic control is illustrated by I. *Schweitzer* [4].

organizations, "branch masters" or enterprises with prescribed spheres of activity, contributes to the deprivation of buyers of alternative supply sources and to the lack of an institution – except for the complementary industries of cooperative farms – that could undertake the organizing of production to meet quantitatively smaller or temporary requirements. For this reason the additional capacity unavoidable from the point of view of producing the foreseen and required volumes and which would be more rational to buy from specialized manufacturers is included in the plan as part of the main project and even in the case of starting up a new product the opportunities of commercial supply of parts etc. are not taken into account.

Finally the disturbances of inter-enterprise relations are worsened also directly by the possibility of various preferences and subsidies, and exceptions in general. The purpose of the above is in part the promotion of the target set in physical terms and in part the levelling of incomes. As a result the enterprises are, namely, not in need of making intensive efforts in quest of sales opportunities or of satisfying the requirements of their clients. It is much simpler for them *to improve their position at the expense of the state budget* because the central authorities dealing with a multitude of enterprises are never able to act against an enterprise as firmly and with as much insight as another enterprise.

Focusing our attention on a given business transaction instead of a national economic outlook we have to realize that *most buyers do not have any chance to choose* between sources of supply and similarly, it is not worth while for the seller either to seek new clients because his capacity is usually exploited and, anyway, he knows all the opportunities. The search for market relations and marketing are relinquished. The enterprises expect quidance from the higher authorities concerning the needs they should satisfy and once they have such a guidance they immediately talk about "interest" and "incentive", that is, exceptional treatment. One of the case studies is a fairly good portray of the prevailing situation: "Close cooperation is needed between the two enterprises because any eventual difficulties in public supply will sooner or later be transmitted by the various authorities also to the enterprise. It is therefore a common interest to assess the predictable trend of the domestic market in due time." Furthermore: "The enterprise is doing its best to observe the terms of delivery but this is not always possible to realize owing to different reasons such as shortage problems, export obligations, or bottlenecks in production capacity."

So is "his majesty the buyer" replaced by trying to please the authorities as a stimulation towards responsivity to the market situation. Just so is the obstacle caused by cooperation passed on by one enterprise to the other. Because when he "does not realize" then his buyer will face "shortage problems". In a situation like this it is easy to understand if the manufacturers of goods satisfying production requirements only accept the most comfortable orders with respect to quality, quantity and delivery term, that is, if they will only comply this way, while the buyers, seeking security, arrange internal – and in most cases not economical – production whenever they can. As an ultimate result the volume of inter-enterprise relations gets relatively narrower, the fulfilment of orders is inaccurate and foreign trading competitivity is poor.*

* Many relevant examples are given in the paper of the Institute for Economic and Market Research [9].

Rationality and irrationality of enterprise mergers

It is stated in the literature of organization theory that the most rational solution to a market situation of *buyer and seller in a bilateral exchange relation* is the *replacement of market relations by organizational relations.* This way the enterprises will be oriented to this direction not only by the conceptions of the higher authorities and not only by shortage but also by the nature of the relations. One may risk the statement that *the decisive notion dominating the other ones is not shortage but dependence, vulnerability.* But this notion is only considered to be a basic symptom whereas it is a cobweb of causes mutually amplifying each other which free the enterprises from the need to observe demand. One of the schools of organization theory describes the choice between market contracting and internal organization as a form of transactions as dependent on the effort at the combined minimizing of costs of production and transaction. The main characteristics of transactions affecting costs are: frequency, uncertainty and the degree of specialization of capital goods. Assuming that the transactions are of average uncertainty and recurrence it will depend on the latter whether the market or the organizational way of transactions will be the more advantageous. According to the formula of *Williamson* the first principle of efficient organization states: "the normal presumption that recurring transactions for technologically separable goods and services will be efficiently mediated by autonomous market contracting is progressively weakened as asset specificity increases" [8]. This theorem is based on the assumption that as soon as assets become "totally" specialized to a single use or single user, hence are less transferable to other uses and users, economies of scale can be as fully realized when a firm operates the asset under "its own internal direction as when its services are obtained externally by contract." *The bilaterality of the given transactions increases and the system of market contracting turns proportionately less advantageous.*

The advantage of competition is initially clear as long as there are many buyers and sellers in the market of a product. But when, in the course of recurring transactions, any given buyer and seller make arrangements to serve each other, then the intellectual resources and material goods used will be specialized in accordance with the given situation. These will be no longer available for another purpose without loss of productivity and therefore *both seller and buyer will want guarantees* before signing a contract. Thus the deal will be far more difficult and, consequently, the transaction cost of purchasing from the market will strongly increase. On the other hand, the solution through internal organization shows the advantage that it is not so favourable for the clients to pursue local objectives, that in case of disagreement interference by peremptory order is possible, and the information necessary for overriding arguments is more easily available. Also the increase of uncertainty strengthens bilaterality because it is more difficult to harmonize relations between parties under changing circumstances. In addition Williamson notes that "forward integration", the fusion of production with its own network of sale and servicing into one organization, makes it possible to eliminate the harmful external economic impact of the probability that, due to difficulties of quality control, certain members of the distribution network might deteriorate quality and this may have a harmful influence on the judgement of the quality of the products of others. An organization with uniform quality control can better cope with this problem. I only mention this advantage of the large organization because this kind of intertwining cannot be found

in Hungary. An organizational link between the producer and its own selling and servicing network barely exists.

As far as the first case, that of the bilaterally linked buyers and sellers is concerned, this situation was found to be rather widespread here for different reasons. According to the organization theory, the merger of enterprises was a rational measure after the development of "shortage". However, the mergers increased the monopolistic nature of the organization still further, and situations where fusions could save "transaction costs" multiplied. Enterprises keenly accumulated materials, parts and capacities equally in order to secure their position for any eventuality. But this way they did harm to the chances of other enterprises and both themselves and others lost from their flexibility. Their mobility was blocked by the engagement and that of others by the lack of assets. And since here "they" and "the others" actually mean in the last resort one group, *the national economy as a whole was made inflexible.* Our experiences show that in this field the identity of macroeconomic and microeconomic efficiency was not realized and what had to be regarded to be sensible from the enterprise point of view was absolutely not sensible from that of the national economy.

Why could this happen? To start with, although the bilateral confrontation of buyer and seller and the transformation of market relations into organizational relations entail a saving of transaction costs, yet they do not produce a higher degree of flexibility than in the situation when more offers were made. Furthermore, when a functioning market remains around the organization then there is a continuous transition from the market situation that can be described by countless offers to the situation described by durably and totally specialized assets. The actors have their *choice* depending on the development of costs, no longer between the commodities in the market but between terms of contracting or organizational solutions. The difference is enormous. *The organization must namely always fight its battle against the option of the market offer.*

Our case is not such an ideal state of affairs in compliance with organization theory but one of bilateral monopoly created by bureaucracy where the seller side has the upper hand in the market of his product but where the existence of neither party is threatened whatever may happen to business. Therefore, the relative advantage of the organizational system is not really appreciated. Partly because the growth of enterprises – especially when for technical reasons the returns to scale are not realised – has besides its advantages also disadvantages owing to the prolonged path of information, the increasingly labyrinthine decisions and other factors that make big organizations clumsy.

Moreover, for several reasons *the Hungarian big enterprises are not forced to strive after the maximum returns* on the capital they use. Among other things it is because of this and because of the said characteristics of investment that the capacities integrated in the big enterprises are built out or exploited only to the extent necessitated by the end product, and thus the optimum size is usually not reached. Actually this is another reason for the supply difficulties. If the conglomerates, or big enterprises with mixed production profiles, were able to assess the market to all their products and showed an inclination to optimize the use of capital then, through specialization, they could establish a more or less well functioning business cooperation between each other. In some cases this organizational system would manoeuvre more clumsily than many free and adaptive little units in the market but in our present case this would be still far more serviceable than the prevailing situation.

Organizational system and product quality

The proliferation of organizational relations, however, is not always as favourable from the point of view of the quality of the end products as in the case of a sound commercial quality control of branded goods. It is necessitated by the very specialization of the capital stock to assemble any end product in a process of several technologically specified activities. The question is how to attain the harmony required for cooperation and the perfect quality of the end product. This requires that materials, parts or intermediaries should be transmitted at the points of contact of the specialised fields in a manner that they be as perfectly suited for the requirements of the user of the end product (also depending on price) as is possible.

From this aspect the characteristics of intermediaries, parts and materials can be dissected into an infinite number of parameters and the conditions of satisfying the parameters are connected through untraceable links of the general state of the economy as well as to the production of the other goods. Therefore the requirements raised towards actual production and products can be conceived as an ensemble (a partial set) selected by compromise from the set of continuous parameters. Because of this abundance of possible characteristics it cannot be an optimum solution to specify the quality at the said different points of contact through higher directive. There namely does not exist any point from which all the possible parameters of the entire vertical system, from which the really feasible ones are selected, and the parameters of their determining conditions could be surveyed and, furthermore, it is similarly impossible to state the requirements with the necessary flexibility and expertise. A much broader range of possibilities can be recognized if a choice can be made at the said points. This way those located at a lower grade of the vertical system are forced to do their best to statisfy the requirements while the requirement of the upper level will be higher just because of plentiful offer.

It is therefore a reasonable inference that it is more proper to develop *competitive conditions* at the points of contact between specialized segments of the division of labour where it is technically possible, instead of running the whole vertical system as a homogeneous organization. The division of labour between conglomerates is not only more cumbersome than an institutional system that gives more ground to market cooperation but is also less advantageous from the point of view of product quality.

Enhanced participation in the international division of labour which the dimensions of this country necessitate by any means appears to be a help. The only point is that enterprises cannot make decisions at present on purely economic grounds either on export or no import. As a rule, import is not a real alternative because in the given state of affairs of the world economy and with the given amount of debts imports cannot be expected to increase significantly. On the other hand, export is practically a quantitative obligation for the same reason, not in the sense of a specified volume but in that in the evaluation of the directors' activity and in informal expectations export *is regarded to be so great a virtue* that everything possible is exported instead of making precise analyses of profitability, with the exception of a few cases when the obligation to secure domestic supply asserts itself as a stronger barrier at an earlier stage. The export of parts and materials is therefore often an additional obstruction to cooperation instead of facilitating more flexible business through the international division of labour. In lack

of a marginal rate of exchange it is naturally not known for sure whether a reduction of exports for the sake of eliminating such drawbacks and the reduction of imports this will necessitate in consequence would not cause still worse problems.

At any rate, currently exports and the global satisfying of domestic quantitative requirements are the task that enterprises understand to be the major higher expectation and, therefore, their attention is concentrated on that and not on the optimum working of their total capital stock. Moreover, the efficient exploitation of advantages originating from international cooperation is impeded just by the discordant inter-enterprise cooperation. *Thus it would be a naive idea* to reverse the case and *assume that foreign trade could be a substitute for domestic business relations.* Such expectations are indeed frequently attached to international cooperations and this is one of the reasons why subcontracting (commission work) has become widespread. The solving of the problem which the domestic "background industry" has failed to solve is passed on to the foreign partner in both cases.

Ways of solution

Having disentangled the threads of the antecedents and the consequences let us now say a few words about the way of solution. Owing to the above outlined reasons the tackling of the different isolated symptoms is unlikely to be successful. At the same time, the present slower rate of economic growth paradoxically directs to the same way which is also suitable for healing the maladies of inter-enterprise cooperation. Final demand curbed for the sake of external and internal equilibrium gives little or no chance for the quantitative increase of end use. At the same time only the most profitable investment projects have to be implemented. It is a fairly safe premiss that the relatively most profitable investment opportunities will be offered just by the creation of such capacities as are suitable for the elimination of the "bottlenecks" of quality and quantity. As a matter of fact, the basic capacities are already given – what is needed is only the complementary investments. Or small-size capacities whose products can be built into a broader spectrum of finished products for end use. In both cases the investment will pay off in an improved competitivity of the end product. The cutting of funds available for investment is likely to draw greater attention to "background industrial" investment projects aimed at the elimination of problems of inter-enterprise cooperation. However, the assertion of this trend is retarded because in the current system priority must be given in allocation to products directly suitable for exports.

We are nevertheless aware that the curbing of final demand is not a lasting solution of our economic policy problems. Such solution would require a breakthrough in the field of efficient management and competitive production and the only way to achieve this is by *accomplishing the comprehensive reform of the entire system of economic control and organization started in 1968.* What are the ingredients of this reform that are of particular importance for eliminating the problems of inter-enterprise business relations?

The first aim is the following: the state should consider as the main task of the enterprise to use the assets assigned to it as profitably as possible. From this point of view the promotion of enterprising and of cost sensitivity deserve special emphasis. The enterprises have to seek the relatively most urgent demand that their equipment and knowhow

are able to satisfy. They have to find the ways to meet it as efficiently as possible, which implies that they must also mind little sums of money in making business. This aim cannot be reached as long as enterprises are expected to achieve anything other than profitability.

From the point of view of enterprising and the exclusive role of profitability in evaluations as well as of the price discussions between factories assembling sophisticated products and manufacturers of parts, it would be important to reduce drastically and even stop the spreading of financial interventions by the state and, by implication, *to permit the real possibility of bankruptcy.* Only an autonomous enterprise on its own can be expected to concern itself with every opportunity in the market with suitable efficiency and in compliance with the national economic interest. The removal of financial interventions entails the introduction of an equilibrium rate of exchange and price system which in turn remove a substantial obstacle from the way of import competition.

In case of such a price system profitability may become determinative in the allocation of investment funds. The rapid flow of funds under the influence of profitability cannot be managed but by institutions of enterprising proprietorship and therefore the relevant propositions deserve serious consideration [3, 7]. Enterprise autonomy can not be identical with the exclusive existence of self-financing – but the administrative allocation of funds has failed and this is the reason of the troubles enumerated. *A solution has to be found where demand and the limited amount of money required for satisfying it are present simultaneously and with equal intensity* both as information and as sphere of decision-making authority. Demand must seek the investment funds just as keenly as money must seek the opportunity to earn profit. It may be unnecessary to note that it is incompatible with this system of allocation to prescribe compulsorily the sphere of enterprise activity. As long as no decision is taken on the proprietary organization and production profile restrictions there will be no other form of organization capable of satisfying demands for smaller volumes than the complementary workshops of cooperative farms. Bearing the regional concentration of industry and the location of workforce in mind, these are not without advantages from the point of view of regional development and occasionally from that of saving of capital but from many other aspects they are not always rational.

A quick and radical analysis must be made of the points where it is worth while to transform *the internal relations of the existing big enterprises* back into market relations so as to let the separated units work for a broader range of customers. If this is a task of the state administration then the problem lies in the fact that the required information is necessarily held by persons who are in some way interested in interpreting the data to their own advantage. On the other hand it is unlikely that the misconstructed distribution by size of the enterprises will quickly rearrange itself under the mere influence of the market and of profitability. Therefore, the starting point must be as follows: considering that a hasty separation can be changed easily and voluntarily while the justified aspiration at independence is hard to assert, it is a smaller mistake to separate too many than to separate too few conglomerates. We can also try to make use of the opportunities offered by affiliates, joint companies, enterprise associations, etc., so as to use transitional *forms* acceptable also for the headquarters of big enterprises.

The existence of small and medium enterprises is essential for enterprise business relations as the supplying of some accessory or part is often found to be a problem because

the quantity in question is not significant enough for the manufacturer. It is probable that if the production of smaller batches is otherwise possible with the same or another technology then the required quantity will be important enough for a smaller enterprise. From the point of view of the structure of enterprise organization the technology of use must be just as important as the technology of production.

In summary I should like to emphasize that the study of disturbances of inter-enterprise business relations, quality defaults, late deliveries, long deadlines, etc. takes us into an impenetrable jungle but when this jungle is viewed from some distance a *pattern of causes becomes visible which lends itself to easy analysis,* being a system consisting of mutually interdependent yet merely a few elements.

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НАТУРАЛЬНОЕ ПЛАНИРОВАНИЕ — МЕЖДУ ПРЕДПРИЯТИЯМИ

Г. КОЗМА

При анализе конкурентоспособности венгерской продукции на внешних рынках, а проще говоря, факторов, ухудшающих качество, часто можно встретиться с тем, что производители сваливают ответственность за недостатки на поставщиков материалов и узлов и деталей. Неудовлетворительность связей между предприятиями обычно объясняют дефицитностью, вызванной непомерным инвестиционным голодом. Однако отсутствие количественного равновесия между спросом и предложением дает удовлетворительного объяснения тому, почему дефицит ведет не к инфляции, а к диспропорции между производством конечного продукта и необходимой промежуточной продукции. Причина этому — натуральное определение познанных общественных потребностей и распределение капитальных средств в соответствии с этим, что продолжается в Венгрии и после реформы 1968 г. Финансовые средства выделяются на натуральные цели развития, потребности которых в промежуточной продукции невозможно постфактум установить в централизованном порядке. К этому прибавляется и недостаток свободных капиталов, регламентирование круга деятельности предприятий и то, что положение предприятий зависит не только от удовлетворения желаний их клиентов, но и от «торгов» с центральными ведомствами. В своих капитальных вложениях предприятия стремятся не к эффективному использованию капитала, а к спокойному выполнению задач по поставкам. В результате этого поставщики, а еще больше покупатели в большинстве случаев отданы на милость друг другу. В такой ситуации с точки зрения поведения предприятий целесообразным предоставляется желание превратить деловые, рыночные связи в организационные и поэтому они стремятся перейти на самообеспечение, не протестуют против объединений и слияний по инициативе сверху и даже сами выступают инициаторами такого укрупнения. Этот процесс в конечном итоге привел к ослаблению гибкости народного хозяйства. С одной стороны, потому что организационная связь хотя и является более гибкой, чем связь двусторонних монополий, не является таковой при рынке, предоставляющем возможности выбора, а с другой стороны, потому что организационные связи не были включены в круг рыночных связей и поэтому возможность выбора их участников сузилась и в этой области.

Преобладание организационных связей также неблагоприятно с точки зрения конкурентоспособности конечного продукта. Правильнее, чтобы там, где это технически возможно, в точках соприкосновения специализированных пунктов разделения труда существовала конкуренция, при которой покупатель имеет возможность выбора и поэтому может настоять на наиболее благоприятном для конечного продукта качестве. Неполадки в связях между предприятиями можно ликвидировать лишь при доведении до конца общей реформы, начатой в 1968 г. Одновременно следует радикально проанализировать, где целесообразно преобразовать внутренние связи нынешних крупных предприятий в рыночные связи.

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IMPROVING THE CONDITIONS OF CAPITAL FLOW IN HUNGARY

Capital flow has become an issue in connection with the further development of the system of economic management in Hungary. The objective of the paper is to review the way of creating more liberal conditions to capital flow. For this reason the author treats the method of planning, capital formation and flow, the circulation of securities and the question of involving foreign capital. Along with maintaining the present framework of the banking system it should be necessary to set up, in addition to the existing monetary institutions, also a special bank in charge of the circulation of securities.

The redistribution of resources (capital) had been examined in Hungary already in 1968, at the time of the introduction of the economic reform. Capital flow has come to the fore once again in connection with the further development; it is made timely by the scarcity of development funds for enterprises and also by the necessity to assert more consistently the principle of a system of incentives based on profit and that of management based on economic considerations.

On the *financial side* it is necessary that enterprises should be able to invest their own resources into undertakings more freely and on a wider basis, because

– the development possibilities of a great number of economic organisations are limited in the long run;

– there is a real and constantly rising capital shortage in the case of dynamic growth

– at the same time, some of the economic organisations dispose of a certain quantity of development funds, insufficient, however, for independent investment; yet with adequate mobilisation and concentration the active participation of existing capital in production and trade could be accelerated, and thus the allocation of resources improved.

In recent years, however, investment has involved greater risks because of the only moderate growth of markets (in the case of certain products and groups of products even their constriction), higher quality requirements, and stricter conditions of payment.

An officially organised and guaranteed free capital flow, a broader participation in economic associations, as well as the development and realisation of a production pattern not strictly bound to any special line postulate the transformation of the existing, mainly hierarchical control system, thus promoting an effective redistribution of means, made even more necessary by increasingly difficult economic conditions.

According to Hungarian law firms can transfer their resources and free development funds to each other *outside associations or through participation in economic associations.* The rules for the redistribution of resources for the purpose of an association are flexible. Economic organisations can use the free financial resources of their development funds for the foundation of an association (providing the initial capital); they can transfer their fixed assets and reserves; they can offer any appreciable contribution, as well as a development credit advancing development funds. Members can also use bank credits in founding an association. The creation of the financial means of associations is further

promoted by local councils being permitted to allot means for such purpose from their development funds and the corporate organs of cooperatives can do the same from the common funds of the cooperatives. The new legal rules opened the gates for enterprise, giving it various forms, yet they still impede capital flow, since no such forms have developed yet as are necessary for a capital market (shares, bonds), that is, securities which the owner may sell or pledge in order to raise a Lombard loan. The restrictive character of the legal rules shows for example in the case of funds transferred outside an association, in which *refinancing and income in the form of* dividends are excluded.

Conditions of capital flow

A large-scale development of direct capital flow – to involve the transfer not only of development funds but also of amortisation and circulating funds – infers, in my opinion, the following:

– prices have to function as an adequate measure in each field of the economy;

– the economic regulation system has to be stabilised over a long period;

– profit incentives must be real for firms; it follows that there must be no forced lines, that is, no obligatory specialisation in certain products or certain services;

– support from the budget must be reduced, just as profit tax and the skimming off of amortisation funds; this is an indispensable aspect of enterprise activity;

– there must be a high degree of development decentralisation which infers also great freedom of decision of the firms;

– marketable instruments (shares, bonds) are needed, which can draw into the economic circular flow the savings of economic organisations and of individuals;

– sectoral control must be transformed as has been done in industry and the authority of the new control organ(s) ought to be limited to the comprehensive and theoretical economic policy tasks, while the administration and control of central assets should be assigned to (a) non-sectoral institution(s).

The further development of the economic management system and within it of the enterprise management system necessitates the introduction of mechanisms not, or only partially, used so far in socialist economies. In a market-oriented planned economy this is conceivable only if a (larger) part of capital flow is allowed to go its way in full freedom, without official intervention. The solution is based practically on three conditions:

– savers must be allowed free choice as to where, in what, and for how long they risk to invest their money; and the companies must have an independent right to decide as to what, in what form of enterprise, and in which allocation of means, they wish to produce (what kind of deals they wish to engage in)

– The role of the banking institutions (credit system) must be strengthened: on the one hand by a quantitative increase of bank credit and, through more diversified forms, in the financing of enterprises; on the other by developing the forms of typical capital loans and arrangements for their issuing

– The role of the budget in the redistribution of national income must be reconsidered: on the one hand by reducing state loans and basic allocations, on the other by modernising the central distribution and credit system.

In the present conditions it has to be taken into account that capital flow is today affected by two opposed tendencies: the prescriptions of the regulating system that restrict the growth of enterprise funds, reducing the development funds of the enterprises and thus also the capital flow among economic organisations; at the same time, the multiplication of forms of associations, small enterprises and cooperatives, the increased scope for private enterprise and the permission to found subsidiary companies improve the conditions for capital flow.

One of the most important tasks of financial planning in the future will be the comprehensive assessment and planning of the size, composition and direction of capital flow, making use of all the market factors that influence the demand and supply of capital. This is a novel and special task, for which in want of the necessary experience, it would be hard to make detailed proposals. Planning should concentrate on two points: first, to what extent company investments are expected to grow in the reflected system and, within it, what are the proportions of intersectoral trade; second, in what proportions individual savings are distributed among the forms of cash, deposits in savings banks and the accumulations of capital. In planning this last item the connection between income and savings should be borne in mind and as part of it the question what kind of liquidity is desired by those who save. Therefore,

– the need for means of development and replacement as well as the composition of resources should be assessed within the framework of *enterprise planning,* taking into consideration also enterprise intentions in acquiring the missing resources; the mobility aspect of the savings, and desire for the liquidity of those who save. The amounts to be considered for capital investment should therefore be examined in their relation to the *planned income and expenditure of people.*

Capital accumulation and capital flow in the enterprise and the cooperative sector

Act No. VI/1977 on state enterprises in Hungary, amended by decree No. 20/1981, declares that an enterprise may engage in planned, efficient and profitable activities in its special field in the service of the general interests of society, thereby promoting the fulfilment of the tasks laid down in the national plan, as well as contributing to satisfying the needs of society. The enterprise is free to manage the assets committed to its care by the state and other assets, as well as labour in its employment in terms of the valid legal norms and within the sphere of activity laid down in the founding articles. That is to say, the sphere of activity of the enterprise is determined by the founding organisation.

Cooperatives are formed through the joining of the personal and financial powers and resources of the members, with the condition that there should be at least fifteen members at the time of the foundation, that they undertake to engage in *personal* and *continuous* activity and produce the minimum funds necessary for functioning. Members' contribution to capital may be, in addition to buying a share, the transfer of land, of some other means of production (property), or of money to the ownership (use) of the cooperative.

Companies, cooperatives and organisations can associate to form enterprises. These may be *economic partnerships and associations,* subsidiary companies, small enterprises, special production groups and enterprise economic teams. Citizens can organise cooperatives, small cooperatives, special groups and economic teams. This shows the wide range of forms open to the enterprising. However, capital accumulation and flow are impeded to some extent by the fact that *it is not permissible that the capital stock of the partnership be placed in securities,* except for associations with foreign partners. With a view to promoting capital accumulation and flow, it should be left to the *free decision of the founding members,* whether,

– in founding a partnership or association, they proceed according to the rules valid so far, or establish their membership rights on assets and income in terms of securities;

– they acquire the capital sotck or its increased amount of a partnership company or of a cooperative by issuing *shares;*

– they provide for the means missing for performance of their tasks through *bank credit,* or present their demand for loans on the Hungarian capital market – which is yet to be created – (first of all by bond issue).

The possibility for an increased utilisation of home savings in production has been created by the fact that – apart from the activities representing political and foreign economic interests on the national scale, or satisfying primary social needs – that organ or those organs can found a company which are also able to provide for the means necessary for its functioning. Individuals can found cooperatives, small cooperatives, special groups, etc. It ought to be permitted on a larger scale that people contribute capital loans to the functioning of companies. In other words, the possessor of money could decide to keep his savings in money (cash, deposit), or to transform it into capital.

At present the bank gives *investment credit* mainly for development, and to a lesser extent for the replacement of fixed assets. Yet the purpose of a partnership may not be just the raising of production or the changing of its pattern, but also more efficient trading. Therefore it is to be considered that developments otherwise described in practice as *need for working* assets – such as a more rational carrying out of exports and imports, transport or warehousing – should be reckoned the same kind of development as the enlargement of fixed and working assets have so far been in financing practice.

The utilisation of *foreign capital* primarily for development and extension should be permitted also in the future under the present legal norms, that is, in founding an economic partnership or association with the participation of a foreign firm, or establishing a cooperation venture by augmenting the capital of the existing company, or by obtaining foreign loans.

The management and control of *state firms* in Hungary is a much discussed subject. Of the various views, I consider those interesting for our subject, which intend to separate the control of the specific type of production from the management of property.

More liberal financial management and capital flow necessitate a more intensive control, therefore, the legal norms concerned with *boards of supervision* should be asserted in general, and also the role of the bank control in addition to the present financial control. Furthermore, the accountability of the partnerships and associations founded with the right to issue securities should be made more open to the public than is the case at present. More precisely, *there should be limited public accountability.*

The resources (capital) flow may be aimed at final investment or a temporary transfer, or a loan subject to certain liabilities. The following methods of final capital contribution and transfer are possible:

- direct capital flow between firms and economic organisations,
- foundation of a firm or partnership,
- final capital placement by banks,
- government capital contribution, capital raising,
- capital (and money) contribution by individuals, invested on account of membership,
- capital imports.

The conditions of a more intensive capital flow can be created mainly by a firm functioning between the limits of the economic regulating system and exposed to the value judgement of the market asserting well interpreted group interests and not spending development funds. In this way a free resource will accumulate that can be redistributed. I think that, with this in view, legal rules should be amended in two respects: first, it should be stated that if a firm has performed its duties under contract, it can transfer its free financial resources, finally or temporarily, to other economic organisations without any legal disadvantages; second, if companies grant loans to each other, they can fix the rate up to the level of the rate of interest on bank credits.

In Hungary a number of suggestions have been made lately which assign *banks* an important role in enterprises and partnerships, that is, in their foundation and organisation. This is made possible by the act on finances: the State Development Bank and the Hungarian Foreign Trading Bank, for example, do participate in partnerships. Such initiatives will probably grow in number. I think, however, that the main concern of banking institutions will remain, also in the long run, the circulating of capital loans. This is indicated by international data, but it follows also from the fact that banks have relatively little capital of their own and, as for the placing of accumulated resources, the regulations of liquidity must be closely observed.

In a system in which resources can flow more freely among the various sectors and economic organisations, *the role of the budget in financing firms* will essentially change. Quantitatively, the change appears as reduction, and qualitatively, it takes place in the forms of financing. According to present ideas, the budget will grant the final basic contribution up to the necessary amount of fixed and working assets at the time of foundation to the large firms that are important for the economy, as well as to organisations outside the competitive sphere and the management functions of those carrying out nonproductive activities. It would mean further change if the central (development) loan granted subject to certain liabilities also ceased, including the basic contribution in the form of allowances. At the same time, or gradually, the banking system ought to take over this task making uniform credit terms effective.

The proposed change in duties means that the obligations of the state would be reduced to a considerable degree so that, taking into account the improvement in budgetary equilibrium, certain financial resources (or part of them) used at present for financing developments could be left with the firms. There is almost general agreement that the best means for this purpose is the reduction in the extent of centralisation of *amortisation*, or perhaps, its total elimination. The proposition is, however, not timely, because such a move would lead, on the one hand, to a decline in the income of the

budget and, on the other, to increasing direct development possibilities for the enterprises. At the present time the purpose is percisely to improve the balance of the budget and to reduce the investment tensions. The idea seems to be more realistic that dynamically growing companies should adopt methods of faster depreciation.

Concerning capital investment by individuals, I think it is realistic only in the cooperative sector, apart from private enterprise and real estate. The main form of resources transfer is assets brought into the cooperative at the time of the foundation or development, or an amount of money paid for a share. There are two kinds of shares under the present legal norms: founding (members') share and special share issued for the purpose of developments.

The issuing of founders' shares ought to continue according to present legal norms, to assure that members' income should depend on the results of the cooperative, without any restriction. The special share essentially represents a loan the members grant to the cooperative; as such, it borders on the nature of a bond, it could therefore be considered a cooperative's bond.

The idea has lately arisen that firms should be organised as *joint stock companies,* or else that existing large enterprises should be reorganised into such form. In my opinion, joint stock companies can play an advantageous role in the Hungarian economy if a joint company is founded by economic organisations and the joining members decide to issue securities covering the funds they supply to the new venture. This version has a double advantage: first, the way of management resulting from the joint stock company form, second, that members can leave the company by selling their shares, while new members replace the capital thus taken out of the company. Therefore, changes in shareholders do not affect the financial condition of the company, or its form and method of management. However, the argument of those cannot be accepted who suggest that existing, mainly socialist, large enterprises be reorganised as of joint companies. This would mean formal changes only, while the position, role, and income producing ability of the firm would not be essentially changed.

Finally, let us examine the role of *foreign capital* and the possibilities of its participation in the undertakings of Hungarian firms at home and abroad. In the coming period it is to be expected that Western capital investment intentions will be damped by a prolonged recession and the tensions of the international political situation. At the same time, the diminishing Hungarian enterprise development funds make it even more important to establish joint companies. Therefore, in my opinion, it would be important in the future to carry out thorough market research with a view to using production capital by the Hungarian party, since Hungarian legal norms on foreign investment and profit transfer correspond in general to international usage. The idea arises also that Hungarian firms ought to seek further possibilities of partnerships to be founded in foreign countries. In this work an important role could be played by the Hungarian Chamber of Commerce.

Capital accumulation in Hungary, forms of saving

In capital accumulation within the country an outstanding role is to be played by the population's savings even if a few years' stagnation of living standards is taken into account. The condition for this is that other forms than savings bank deposits should be available, such as can be considered primarily as capital. The aim should be that monetary savings should transform into real "capital accumulation", committed for a longer period and therefore earning a higher rate of interest. From the point of view of capital accumulation such forms of savings are of importance as function as direct investment in enterprise management. However, the new forms can be expected to be a success only if people are psychologically prepared and taught that their investment can be transferred or sold or that, by depositing it as security, a loan can be obtained from a banking institute.

New forms of saving require legal regulation and an institutional system in which negotiable securities are bought and sold, held, or, on request, credited. That is, an important role has to be played by the organizations issuing and circulating securities, since individuals, not versed in financial matters certainly should be well acquainted with the financial standing and reliability of the debtor issuing the securities. A guarantee can be adequate only if the share is paid out in time, or if it can be transferred before expiry. To put it more precisely, the individual has to be almost as well informed as the crediting bank organisation.

In the following I shall sum up my proposals for bonds, shares, and deposits in savings banks.

A *bond* is a generally negotiable security for both the issuer and the buyer; to be used in loan transactions with 5 to 15 years' expiry, mostly with a firm interest return (in exceptional cases combined with profit), at a rate of interest between that of deposits and credits according to the period contracted. The issuer of the bond could be the state (budget), local councils, enterprises, cooperatives, institutions, banking institutions or social organs. Bond holders are the same, plus individuals. For such investment individual subscribers are considered in the first place, and to a lesser degree banking institutions (mainly as intermediaries) and enterprises. The bond is payable to bearer and freely negotiable.

For a *special share* the rules are the same as for a members' share, with the difference that when the special purpose is realized, the cooperative buys them back, therefore, in Hungary this form is not an investment but, in practice, a loan. Although the law-decree No. 35/1971 declares that no interest can be paid on a special share, it ties the size of the dividend to the interest of a deposit in a savings-bank contracted for at least a year (it can be higher by 2 percent at the most). I think that this restriction ought to be relaxed and a rate identical with that of a deposit for the same period ought to be allowed. Also, the limitation on application should be eliminated, as well as the rule that the purchase of a special share be bound up with membership. In other words: a members' share should express cooperative ownership, and the special share should be a creditor's certificate of a wider sphere in the form of a security, that is, a bond issued by the cooperative.

The savings deposits already exist in a variety of forms. A forward step could be taken, however, in two respects: first, the rate of interest on a savings certificate contracted for 5 years should be bound in its fluctuations to the general interest on bank credits, with a gap of 2 or 3 percent. In case of a deposit of at least one year, a rate of interest should be paid as on savings deposits of the same period. The second way would be to index interest payments, making them inflation-proof. Building society type savings should be mentioned in the first place – a much discussed subject – but other purposes are also to be considered, for example, saving for a car (the amount to be paid above the obligatory preliminary deposit), and furnishings.

The role of the banking system in capital flow arrangements

The Hungarian banking system has a given organization and in this paper I shall deal with it only inasmuch as this is made necessary by a modernization of the credit system with a view to better organized arrangements for the capital flow.

Two actors of the Hungarian system are banks (other banking institutions will be mentioned only where it is absolutely necessary): the central bank of the socialist state: the National Bank of Hungary, functioning as an issuing and credit bank; and the organized institution of the capital flow: the Central Bank of Exchange and Credit Ltd carrying the trade of securities.*

The legal status of the *National Bank of Hungary* is settled by the law-decree No. 36/1967 of the Presidential Council of the Hungarian People's Republic which states that it is the bank of issue of the Hungarian People's Republic and the central bank of the Hungarian economy. Its duty as a bank of issue is to watch over the value of the forint, to issue bank notes and mint coins, to carry out tasks of credit- and interest rate policy approved by the government and to accumulate gold and foreign exchange reserves. The National Bank of Hungary grants short, medium and long-term credits, it has the exclusive right to keep bank accounts of enterprises, to render accounts, to handle payments, credits and other banking operations for international trade, and to administrate precious metal stocks. It is thus the central organ of the foreign exchange policy and in a monopoly position. In addition, it can have other duties as requested by the government.

The statutes of the Central Bank of Exchange and Credit Ltd permit practically all transactions in the category of banking, exchange and commodity business, and particularly various forms of granting loans, the buying and selling of claims and securities and granting advances on them; the discounting or purchase of bills of exchange, assignments, stocks, bonds, cheques, debentures, etc.; the acceptance of deposits, the foundation and organization of trading or industrial companies, the take-over of existing enterprises, and participation in their reorganization.

Parallel with the modernization of enterprise independence and enterprise management, the role of banking institutions and of the credit system ought to be changed, that is, further developed, as well. This can take place in two fields: first, by enlarging the

*Not identical with the central bank (the National Bank of Hungary)

present forms of the credit system and extending the areas of financing: second, by developing the various forms of capital loans, performing the banking tasks of capital accumulation, participating in the foundation of firms and trading in securities. This is all the more important as there is no stock exchange in Hungary, nor is one necessary, in my opinion.

The question of extending the sphere of credit and of increasing the role of bank credit in enterprise management arises because, under present conditions, the state also performs financing operations that ought to be the province of banks within a uniform credit system. With the objectives to be realized with *credit, requirements must be formulated at a higher standard* than they are in the sphere of state financing, and the results achieved are also easier to control by banks. Therefore, the National Bank of Hungary should take over all the resources financing tasks in the competitive sphere which can be carried out in some form subject to reimbursement. For example, a bank credit should be given priority over a state loan.

It is going to be increasingly important that the credit system be enriched with a wide range of forms of loans, which could be concomitant with contentual changes in the finances of companies. Thus, for example:

– working capital credit ought to come nearer to transaction financing, that is, short-term single credits should be connected, as a rule, to orders, i. e. to supply contracts;

– at the same time, new terms should be laid down for commercial credits, with a view to smoother trade between firms and the reduction to a minimum of financial and payment difficulties.

A wider inter-enterprise application becomes possible if a 90 days' loan is not granted to the debit of the enterprise's own development funds, but if it has its place in customary trading practices. Such extension of commercial credit infers the use of a negotiable security, substituting for money. For this purpose the bill of exchange seems to be best suited. The money circulated through the discounting of bills is in close relation with trade.

In order to reduce the periodical payments difficulties of otherwise solvent economic organizations and the troubles caused by the multiplication of difficulties, present liquidity credits could be replaced (or completed) by the *open account credit construction.* The point of this is that the account of a firm could be turned into a debt – transitorily but at any time – up to a definite amount depending on turnover. The account credit limit would be fixed by the financing bank in the course of concluding the yearly credit contracts.

With fixed *capital credits* – to which credit to finance the durable working capital of development are closely linked – the types of credit could be further varied, in my opinion, if the bank used a wider differentiation in laying down the conditions for granting credits and the actual terms (period of repayment, interest, profitability, foreign exchange returns, etc.). In order to accelerate structural transformation, it would be important in the future to assert more strongly the method of incentive and restriction with firms in different sectors (for example, concerning the minimum ratio of income to means, the required rate of contribution to the development funds, and the conditions of producing the net foreign exchange returns), on the one hand, and on the other, interest rate conditions and the term of repayment should be better adjusted to the terms of

the bank credit sources, first of all of foreign loans. One way of achieving this is, that foreign loans are to be announced in each case as an *offer of credit,* that is, the concrete firm or institution benefiting from a foreign loan should be responsible for servicing it.

A new socialist business: trade in securities

Professional trade in securities fully in accordance with the legal norms requires an institutional system which does not exist in the socialist economy as yet, at least not in Hungary. Thus it would be necessary to establish such an institution, or to charge one of the existing banks – e. g. the Central Bank of Exchange and Credit Ltd – with the new duties. The trade in securities has the following phases: issue (application, investment); trade (sales); preservation (deposit); acceptance as cover of a credit (advance on securities), repurchase.

The purpose of issuing the securities is capital accumulation. A bank which can itself issue securities within its liquidity limits would help in fact to collect the unused money of firms and of individuals and to mobilize it for the economy. The bank trading in securities would work exclusively with the existing unused money and not with transaction money lately issued by the bank of issue. The bank would thoroughly examine safety, solvency and liquidity among the issuers and would handle, sell and credit only such securities as satisfy all requirements. The purpose is to offer investment possibilities of optimum profitability and to negotiate only such business. In the final account, the pledge for capital accumulation and flow is a profit or income-oriented economy in which the interests of enterprises, investors, and of the whole economy coincide. The common interest of the three parties must be considered as a *theoretical optimum.*

The National Savings Bank has taken the first steps in issuing *public utility bonds.* The conditions suggest that beside profitability, the local interest of the creditors are also taken into account, since the returns on the bond are not better than the interest on a deposit contracted for a similar period. It is reasonable to apply this form in a wide sphere and, if not the issue, but the trade (sales), the acceptance as a cover for credits, and the handling of deposits could be managed also by the savings cooperatives. These local banking institutions could also handle special shares – from the organization of the issue down to repurchase.

The bank trading in securities could found a company directly, in addition, however, it would establish and negotiate partnerships between economic organizations, which would add to confidence in securities and make their possible early negotiation and their continuous sale through other organizations and persons natural. In general, the starting-point is that the ownership of shares changes only through transfer, since the issuing company cannot repurchase them before it goes into liquidation. The main point in bonds embodying loan transactions is also that a 10 to 15 years maturity is required in most cases. Therefore, it should be made possible for the creditor to recoup his investments, if he so wishes, before the expiry of this term. The condition for this is that there should be demand for the security in question, or, that the bank should have at its disposal financial means enough to buy the securities on its own account or, by accepting such as cover, to grant loans (Lombard loan).

To continue this train of thought the bank(s) engaged in trading in securities act on the capital markets not only as agents for the economic units and individuals, but also as that of the *bank(s) of the central authority* (government) in this respect. Therefore, all state securities – except for treasury bills to be bought also by the bank of issue – could be sold through this banking institution.

Organization of the banking system

During the preparation period of the economic management reform of 1968, the transformation of the banking system was already under discussion. The most important feature of the present *one-level banking system* is that one bank representing the general, national economic interest, and functioning on a non-business basis attends to the duties of both issue and credit. Beside it, a few other banks also function, with special spheres of activity. Most of the ideas that have been put forward in recent years judge the future role of banks upon the ground that real economic competition necessitates that the market for enterprises should be strengthened also in this field, therefore, a real credit market has to be established. This is not possible within the framework of a one-level banking system; a two-level banking system would mean that, through the separation of the functions of an issuing bank and of a credit bank, an independent bank of issue would be established on the one hand, and credit banks working upon business principles on the other. A further argument in favour of establishing *commercial banks* is that a credit policy based upon the profitability principle can be made effective only if it is carried through by the banks in the form of a business enterprise, that is to say, if their investments do not rest simply on promises by the firms, but they take risks jointly with the firms and are just as interested in the results of the investment.

A simpler version of a two-level banking system would be to separate the functions of issue and credit in a way that the banks becoming independent of the issuing bank would be organized on a sectoral or regional basis. This would in practice be a mere *decentralization* of the present organization of the National Bank of Hungary with the only addition that in the independent banking institutions the characteristics of trading banks would be more freely asserted.

In my opinion, the two-level banking system would not fulfil the hopes attached to it, since it would not suitably represent the general national economic interest and sectional or local ambitions would necessarily come to the fore, which is not permissible, given the present condition of the economy. It should be bornen in mind that:

- the transformation of the banking system and its adaptation to new conditions requires quite some time. In the coming years a stable banking system is necessary in oder to accelerate the structural transformation of the economy and the transition to an intensive period of development;
- under the conditions of the financial and credit administration which are largely determined by the national economy plan and high (government) level decisions, no such means of indirect control through an issuing bank could develop as could sufficiently replace, within a two-level banking system, the present methods of control. A subsequent issue of account money on the part of the business banks

would make more severe the equilibrium problems of the economy which is already sensitive to inflation;

– at present it is only individuals who dispose over additional financial resources, which are however, handled by the National Savings Bank. Therefore, because of the limited sources the credit placing perspectives of the newly formed commercial banks would be extremely scarce, or, their financial resources could be only the issuing bank and, to some degree, foreign loans. The likelihood that they take part in partnership with their own financial assets is practically nil.

On the basis of the above, I think it reasonable that the institutional capital flow should take place within a bank specialized for the purpose, such as e. g. the *Central Bank of Exchange and Credit Ltd.* The functions considered to be state tasks, falling within the competence of the budget, should be left, in the future as well, in the care of the National Development Bank. The National Savings Bank should continue to handle the money, credit and capital operations of individuals and of the local government authorities. Locally, in carrying out the capital market operations of co-operatives, the *savings cooperatives* should also take part. As for money and capital market operations of foreign concern, the Hungarian Foreign Trading Bank is also competent, as it suits its special line.

In the National Bank of Hungary the issuing functions should be clearly separated and institutionally asserted. The regulation would take place in two spheres: it would affect the credit organizations functioning within the National Bank of Hungary, and the independent banking institutions belonging to the banking system. In my opinion, during the 6th Five-Year Plan period, a forward step ought to be taken first of all in production and trade. In the present situation a hasty decentralization of the central bank would impede progress and damage the efficiency of the measures taken with a view to improving economic equilibria, since it would shift competition over to an area in which proper conditions for it have not yet developed.

The role of the government budget in financing capital expenditure

In financing capital expenditures of enterprises, the budget reallocates funds both temporarily and for good. The granting of state financial resources depends in most cases on economic policy considerations, on the carrying out of the duties assigned in the framework of the national economic plans, and only to a smaller degree on profitability. Therefore, it is suggested that the budget should finance firms only in cases in which there is no real possibility for proper cost accounting. It follows that the system of distribution of government money should be modernised.

One of the important conditions for modernization is the further development of the *economic regulation system* which requires, from the aspect of capital allocation, that the long-term stability and normativity of the system be guaranteed, as well as that the financial relations of the budget and of the economic organizations be settled, particularly those financing duties which arise from ownership by the state, and credit relations between the banking system and the budget.

A characteristic feature of investment financing from government resources in Hungary today is that the resources granted by the government budget to the producer firms are not freely granted. The majority of those concerned with the flow of resources share the view that the state budget should finance investments providing for the most important social needs, such as the infrastructure, large energy projects and national defence, in general by final basic allocation, while the financial needs of firms in the competitive sphere should be satisfied by the credit system. This solution would release the state budget from financing tasks which it is unable to fully cover, anyway, from its income. In any case, the state would continue to play an important role in the development activity and in determining economic policy objectives or other aims important from different aspects. For example, government decisions are certainly needed on investments based on interstate agreements of the CMEA, the establishment of firms of a special importance, or price policy.

Finally, the state has to play a role in the reduction of size of firms and in liquidation, which cannot be done fully in an automatic way.

For the time being, what seems reasonable is that the National Bank of Hungary should take over from the state all forms of enterprise financing which are subject to liabilities, that is, those which represent an advance on budgetary credits, and enterprises should pay back out of untaxed profit or from gross amortization funds. Economic organizations could cover their needs for funds above bank credits on the home capital market.

In forming the future credit policy directives and with each investment credit decision an *optimum system of conditions* ought to be established between the minimum extent of enterprises' own resources, the rate of profit to resources, the expiry date, and the rate of interest. Economic efficiency interpreted as directly related to profitability can be increased only in case resources lacking for accumulation are offered to the economic organizations through *competition* for bank credits on stricter conditions than heretofore.

The carrying out of these tasks necessitates that the state financial and credit system be placed on a new basis, and that it should approach the new financial and credit system as outlined above. The most important points are the following:

– it must be said as a general principle that, in the state budget, current and accumulation items are separated according to the nature of the expenditure;

– the latter items are financed from resources indicated in advance, contained in the plan version of the budget;

– cover for credit must be provided for systematically.

For the loss of seasonal or transitory income the state would issue short-term – not longer than 90 days' – treasury bills as well as bills falling due from one to three years, which the banking institutions (in the worst case the bank of issue) would buy at a discount. Finances falling short of what is needed for *accumulation* should be raised on the home or foreign capital market in the future as well. Local government councils should cover their financial losses as explained above. In this field it is mainly the interest of people in the extension and improvement of public utilities and investment – connected with profitability considerations – in economic organizations to be established with a view to satisfying special local needs, that seem to be reasonable.

The timeliness of the notions outlined above may be supported best by the fact that the modernization of economic management is necessary. The most important point is to make economic development more intensive as soon as possible. With this in view, it is necessary in the near future – relying upon a high-level decision – to investigate and to indicate the conditions and methods that permit more rational distribution and better allocation of the means of production and of the available resources. The structure of the capital allocation can be improved if

– enterprises are given more freedom than before in the final and temporary transfer of their development funds;

– a more flexible credit policy is pursued in the financing of production and trade processes, coupled with the conditions for providing support for accumulation through credit;

– the role of the banking system grows in enterprise financing, through the establishment of a uniform banking system and through effective trade in securities;

– through the issue of negotiable securities (shares, bonds) the security, the length of the period for which they are tied up, and profitability of investments increase;

– in consideration of the requirements of equilibrium, the ratios and methods of income distribution and redistribution between state and enterprise, as well as the credit relationships between the budget and the banking system change reasonably;

– a better harmony develops between the tasks formulated in the national economic plan and the demands arising from impulses conveyed by the market; leading to more flexible economic decisions that take into consideration the risk factors.

ДАЛЬНЕЙШЕЕ РАЗВИТИЕ УСЛОВИЙ ПЕРЕЛИВА КАПИТАЛА В ВЕНГРИИ

Й. ШАРИ

В связи с дальнейшим развитием системы управления экономикой в Венгрии на повестку дня встал вопрос перелива капитала, актуальность которого мотивируется важностью предпринимательства, относительным недостатком средств развития предприятий, более последовательным проведением принципов системы материальной заинтересованности и управления на экономической основе. В настоящее время предприятия могут передавать свои средства производства и свободные фонды развития предприятию, не входящему в объединение, и хозяйственному объединению. Цель статьи — показать, как можно создать более свободные условия для перелива капитала. Поэтому автор рассматривает методы планирования, образования и перелива капитала, обращения ценных бумаг, вопросы привлечения иностранного капитала. Особенно важную роль в помещении капитала получает банковское и государственное финансирование. При сохранении нынешней банковской сиетемы необходимо, помимо нынешних финансовых институтов, создать специальный банк для обращения ценных бумаг. Дальнейшее развитие банковской системы возможно, с одной стороны, в направлении целесообразной реорганизации кредитной политики и кредитирования, а с другой стороны, — в направлении более эффективного контроля эмиссионного банка внутри системы Венгерского национального банка. Улучшение структуры размещения капиталов служит более быстрому росту экономики и улучшению экономической структуры, учитывая требования равновесия в условиях ориентированной на рынок плановой экономики.

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GY. VARGA

ALTERNATIVES OF THE DEVELOPMENT OF AGRICULTURE AND FOOD INDUSTRY IN HUNGARY

The development of the Hungarian agriculture and food industry during the last two decades offers quite a few lessons which could be of help in creating a basis for a long-term development plan – even though the development over these two decades determines the sphere of activity in many areas, almost till the turn of the century. Therefore, in this study special emphasis will be placed upon the review of the past period, attempting, in the course of the discussion, also to indicate tendencies of expectable development in the future. Finally, I shall try to describe the actual decision alternatives concentrating to the most essential problems.

The foundations of the structure of agricultural production were laid down by the historically inherited agricultural production of diversified composition, and, following this up to the 1960's, by the autarkic structural policy giving primary importance to the supply of the home market. The essence of this policy was the effort to satisfy internal demand fully out of domestic production; the importation of foodstuffs – with the exception of the items that cannot be produced in Hungary – was not to be included in the armory of the state pursuing a more efficient economy.

Production, which was supposed to – and became increasingly better able to – satisfy internal demand with its diversified structure, virtually became a determinant of the Hungarian food industries, which started to produce more and more for *exports* as well. This determining role prevailed to a great extent not only from the point of view of the product composition of the structure participating in the international division of labour, but also regarding quality and choice, hindering thereby the assertion of the differing demands of the absorptive external markets.

All this has to be regarded as natural and regular, since in Hungary the same economic regulations mainly stimulating quantitative development governed even those sections of the food industries which produced for exports, as the whole of food production. This phenomenon could not really be qualified as negative until the early and mid-1970's, that is, until it became manifest that the rational export structure of food production is not identical with the structure of internal needs, and that it is not enough simply to export more, but that it is necessary to export more, and profitably, or more profitably. We could hardly err in stating that neither the present Hungarian system of economic regulations is able to satisfy this condition of an effective structural policy, which qualitatively differs from the earlier state. Therefore, *the role of the needs of the export markets in forming the production structure through the system of conditions of profitability, can still not be asserted.*

Knowing the tasks ahead there can be no doubt that the future structural policy or, to be more exact, the development of the variable elements of the structure of the Hungarian food production will primarily be determined by the conditions of the external markets. Yet it would be a mistake to disregard the exploitation of the possibilities inherent in a more rational structure of the internal food consumption – which,

I believe, is hindered by the retail prices divorced from actual value relations, by the price level and by the relative prices; that is to say, that is an other task for regulation.

It is difficult to find an adequate relationship between the growth and the changes in the structure of food production in Hungary. The major fluctuations in growth during the past 20 years are mainly characteristic of the field crop production and of the food industry. The former can be easily explained by the effects of nature. The often extreme changes in the output of the food industry cannot, however, be explained by factors independent from the industry. In this partly problems of capacity and partly disturbances in the supply of basic materials (shortage or excess supply) are reflected.

In spite of the fact that the price system of the Hungarian agriculture and to some extent also that of the food industry is mostly inadequate for the measurement of changes in efficiency during a longer period, the detail analyses show fairly expressly that growth and efficiency are independent of each other. In my view the most important lesson to be learnt from this is that fast growth is not a condition of improving efficiency.

In the following we shall review the growth and structural changes in a few of the more important segments of food production in brief. This also offers a possibility to get some kind of a picture of the opportunities for future changes.

Development of the structure of crop production; land use

The territorial proportions of primary agricultural production, that is of crop production, being adjusted partly to natural endowments and partly to agrotechnical conditions (such as changes in sowing, etc.) show a remarkably constant picture: really significant changes in the distribution of the sowing area can only be observed with potatoes and the oil-crops (cf. *Table 1*.). The rest of the changes occurred within the sphere of crops that can be substituted for each other (wheat was produced instead of barley and rye, lucerne instead of clover, etc.). The true changes, which brought about a real rearrangement of the structure, was the highly differentiated development of yields by sectors. It would hardly be an exaggeration to say that *the changes in the structure of crop production were a result of the rational exploitation of the possibilities of increasing yields* (possibilities mostly independent of us) *rather than that of wishing to adjust to changes in demand.* Wheat was not grown on a larger area in Hungary even when the crop had to be imported; nor, when advantageous export possibilities could have provided an incentive for it. On the basis of the above it is not only rational, but also very likely that their interests in the development of the vegetable-oil vertical production line will be realizable much more by increasing yields than by increasing the sown area. All the more so as arable land is on the decrease, and the smaller area must be used for more purposes.

Table 1
Changes in the structure of field crop production in Hungary (in percent)

Name	1961–1965	1966–1970	1971–1985	1076–1980
Cereals	64.2	64.8	65.8	62.7
of this: wheat, rye	26.4	29.4	29.0	28.6
barley	10.3	8.2	5.8	5.0
maize	25.4	25.5	29.1	28.6
Legumes	2.2	2.1	1.5	1.4
Industrial crops	6.3	5.9	7.0	9.8
of this: sugar-beet	2.5	2.0	1.9	2.5
oil seeds	2.6	2.3	3.7	6.0
fibre crops	0.6	0.5	0.4	0.4
Potatoes	4.4	3.3	2.3	1.8
Rough fodder	13.0	13.9	13.9	14.0
of this: lucerne	7.1	7.3	8.6	8.3
Succulent fodder	4.6	6.1	5.5	6.9
of this: fodder beet	0.7	0.7	0.4	0.2
Vegetables	2.3	2.6	2.5	2.7
Other plants	3.0	1.3	1.5	0.7
Sown area altogether	100.0	100.0	100.0	100.0
Total sown area in 1000 hectares	4 988	4 831	4 837	4 732

Data sources of this and of the following tables:

A mezőgazdaság termelési értéke, termelői és árumérlegei (The production value of agriculture, its producer and commodity balances) Budapest, 1966. Központi Statisztikai Hivatal. (KSH).

A mezőgazdasági ágazat főbb termelési értékmutatói (The main production indices of the agricultural section in terms of value.) Budapest, 1978. KSH.

Negyedéves statisztikai közlemények. Mezőgazdasági adatok, 1966–1980. évi kötetei (Quarterly statistical publications, Agricultural data, Vols 1966–1980)

Mezőgazdasági adattár (Collection of agricultural data) Budapest, 1965. KSH.

Mezőgazdasági Statisztikai Évkönyv (Statistical Yearbook of Agriculture), Budapest, 1980. KSH. 1981.

Statisztikai Évkönyv 1975–1980. évi kötetei (Statistical Yearbook, vols, 1975–1980.) KSH.

Külkereskedelmi Statisztikai Évkönyv 1971–1980. évi kötetei (Statistical Yearbook of Foreign Trade, vols. 1971–1980.) KSH.

Apart from the direction and extent of the growth of the plant producing sectors, the vigorous fluctuations in the growth rate are also phenomena deserving attention. By dividing the years since 1960 into 5-year periods we get a rather uneven and what is more, in the case of several sectors, a contradictory picture. The alternation of fast upswing and spectacular downturn is characteristic of virtually every sector (cf. *Table 2*), even of wheat and maise production, which occupy the largest areas. All this could be the result of a deliberate development policy. However, it is well known, this is not what it

primarily springs from. Although in the cases of certain sectors (also sugar beet and sunflower) the sown area developed in accordance with the data shown in *Table 2* as a result of central measures and incentives, yet this could also be referred to as an example of belated adjustment to the conditions of the world market. Due to the inadequate production of sugar beet enormous sugar imports, and then, because of its forced pace, particularly expensive development became necessary in Hungary at the beginning of the 1970's. On the other hand, the expansion of sunflower production at a rate adequate for the exploitation of the advantageous export possibilities has not been successful for years – while these days there are problems of marketing, too.

Table 2

Average yearly growth rates of the gross output value of plant production (in percent, at comparative prices)

Sectors	1960–1965	1965–1970	1970–1975	1975–1980
Field crop production	– 0.3	1.9	6.0	2.9
of this: wheat	6.8	2.1	8.0	8.7
barley	0.6	– 11.4	4.8	5.7
maize	0.4	2.5	12.0	– 1.2
sugar beet	0.5	– 8.8	13.5	– 0.7
sunflower	– 0.5	4.2	10.1	24.3
potato	– 10.1	0.6	– 2.1	1.9
Vegetable production	2.0	3.8	1.9	2.9
Fruit production	3.2	8.6	1.4	3.4
Grape production	1.2	5.9	1.9	3.2
Other plant production	– 1.0	– 19.0	26.7	– 28.5
Plant production altogether	0.3	1.8	5.6	1.7

Reviewing the rate of growth of production during the last two decades by sectors (cf. *Table 3*) and adding to that the results achieved in raising the average yields it becomes quite obvious that qualitatively greater yields quickly making up for the arrears can only be expected at most on a quarter, but rather only on 10–15 percent of the sown area in the course of the next few years. Even that only if the conditions as to variety (species strains) and agrotechniques of increasing the yields are created here as well. We believe therefore that there are no such enermous reserves for the economical increasing of yields as there had been during the 1970's, since Hungary has caught up with the vanguard of production in the case of cereals, which occupy two-thirds of the arable land in the country.

The share of the horticultural sectors in the cultivable land is modest, especially in comparison with their share in production value. The constancy of this share is also great, as both grape and fruit production are so-called standing cultures, plantations.

The share of vegetable production in the arable land is 2.5–2.6 percent; a maximum decrease of this share by about 0.2–0.3 percentage points can be expected only if the

Table 3
Growth in the production of the most important plant products between 1961 and 1980

Products	1961–1965	1966–1970	1971–1975	1976–1980	Production in 1975–80 in relation to that of 1961–65, in percent	Average yearly growth rate between 1961–65 and 1978–80, in percent
	1000 tonnes					
Wheat	2020	3008	4299	5186	257	6.5
Barley	970	845	813	772	80	– 4.2
Maize	3350	4049	5934	6374	190	4.4
Potato	1997	2044	1570	1567	78	– 5.0
Sugar beet	3093	3175	3097	3978	129	1.7
Sunflowerseed	115	100	143	300	261	6.6
Rape seed	7	19	60	81	1157	17.8
Lucerne hay	1064	1545	2025	2108	198	4.7
Silage maize	4528	5222	4864	6104	135	2.0
Hay yield of swards	1640	1835	1553	1924	117	1.0
Vegetables	1470	1730	1784	1985	135	2.0
Fruit	955	1218	1379	1450	152	2.8
Wine, in million hectoliters	377	460	495	516	137	2.1

backlog in average yields behind the international vanguard will be somewhat moderated. A well-known problem of the sector is the continuous, but fluctuating increase in the value of production, which characterizes the last two decades. However, the raising and primarily the stabilization of yields side by side with the narrowing down of the present mixed structure, presence on the market and supply of an adequate choice are favourable to a more or less unchanged maintenance of this rise.

The combined area of the *plantations,* which is made up of the orchards and vineyards and the areas taken up by the gardening sector – the latter of which is used for a variety of purposes but can still primarily be qualified as plantation culture – shows a continuously decreasing tendency accompanied by a very complicated inner transformation and realignment. Its total area decreased by 35 thousand hectares to 520 thousand hectares during the last ten years. Vineyards suffered the greatest decrease of round 50 thousand hectares in a decade. The attempts at increasing production were for a while in step with the decrease in area, but in the second half of the 1970's the value of fruit and grape production began to stagnate due to the smaller rise in yields. Often these sectors offer the only rational exploitation of the land, especially on soils of lower

quality, or on areas with disadvantageous terrain configurations. At the same time it is an undeniable fact that the returns on investment in the increasingly capital-intensive fruit and grape production are much worse on these areas than where natural conditions are better. I believe the only – although merely partial – solution to this serious contradiction is a vigorous assistance of small-scale production on areas where the natural conditions are disadvantageous (or disadvantageous for large-scale farming). The cheapest and easiest way of protecting and in certain cases, of reclaiming, arable land is the winning over of small-scale farmers to the establishment of plantations on areas disadvantageous for large-scale producers.

Sward areas (grassland) are also to be included in amongst the primary resources. There are many people with differing views concerning its future reserves. Research carried out in the Agro-Economic Research Institute indicates the necessity to remain on the safe side when estimating the possibilities for increasing the yield of the swards. A significant part of the meadows is scattered, and most of the grazing land is alkali soil with weak productive capacity the majority of which cannot be ameliorated, or only with major investment, for which the capital needed is not available. The dubious experiences with the exploitation of the soils of low productive capacity at all costs indicate the importance of a more rational employment of resources. *There has not been so far, a justification for such employment of resources, where there are no returns on investment, and there will even less be in the future* – that is, where the sward is though won, but more is lost of resources that could be better employed elsewhere.

The future of areas with low productive capacity should be evaluated in an analogous way. In order to achieve this it is necessary first and foremost to make a clear-cut distinction between the economic and the social aims, as opposed to merging them as practiced today. *Owing to the limited nature of the resources investment must be concentrated on areas with better returns,* and these are not to be found in farms with lands of low productive capacity. Those existing equalizing regulators, which are intended to be kept (extra assistance to weak farms), and which improve the competitive conditions for enterprises with lesser potentialities in Hungary, ultimately decrease the competitiveness of the whole of agriculture. In farms with lesser productive potential assistance should essentially be limited to that sphere which is not influenced by natural endowments. That is to say, to industrial activities, supplementary activities, etc.; and if there are such, to agricultural activities as well. Much experience indicates that greater profitability can be expected from extensive production than from intensive cultivation in these farms.

Structural changes in animal husbandry

It is well known that the indirect dependence on natural circumstances, the storability and availability out of imports of the most important resource, of fodder, enable animal husbandry to have a development at a much more balanced rate than that experienced in plant cultivation. This is the case in Hungarian agriculture as well, where the average growth rate in animal husbandry during the two decades since the 1960's well surpassed that achieved in plant production: the index for the period between 1960 and 1980 stands at 160 percent for plant production and at 188 percent for animal husbandry.

Table 4
Average yearly growth rates of the gross output of animal husbandry
(in percent, at comparative prices)

Sections	1960–1965	1965–1970	1970–1975	1975–1980
Cattle-breeding	– 0.5	2.8	– 0.3	3.4
Pig-breeding	4.2	3.0	5.5	2.8
Horse-breeding	9.7	5.0	– 7.2	– 6.0
Sheep-breeding	2.1	4.4	– 4.1	7.4
Poultry-breeding	4.5	7.9	4.6	4.7
Raising of other animals and production of animal products	13.9	6.0	20.6	– 3.8
Animal husbandry altogether	2.7	4.1	3.5	3.3

In spite of the relatively steady rate of expansion of the whole of animal husbandry, there have been significant inner changes, and, in some cases, such as were opposed to those in the whole of the sector (cf. *Table 4*). *The two most important meat producing sectors in Hungary, pig and poultry-breeding, are characterized by a uniform rate of growth.* The mass fodder consuming cattle and sheep-breeding exhibit a fluctuating rate and unconsolidatedness. Sheep-breeding, which had very profitable export-outlets, suffered a major – although only temporary –set-back during the first half of the 1970's, while cattle-raising enjoyed an exceptional rate of growth from 1975 on, during which period the profitability of beef exports suffered a steady decline, and milk cannot be sold at all. (I. e. here, too, we have an example of the so-called belated effects of the world market, of belated reactions as mentioned earlier at the discussion of the sugar and vegetal oil vertical production.) *Table 5* shows that the increase in the production of the last few years arises out of dairy products in the case of cattle-breeding, and out of meat-production in the case of sheep-breeding.

As a result of the fast expansion of animal husbandry, Hungary is now in the forefront in respect of per capita meat production. Naturally, this does not automatically mean that production is profitable according to international standards. It indicates, however, the export-oriented nature of production and the characteristics of its position within the international division of labour. Thus Hungary has settled for major exports of the products of animal husbandry; and for similarly significant imports in creating the fodder basis of livestock breeding.

The future of the Hungarian animal husbandry depends on two factors basically:

– on the future development of the world market prices of imported protein fodder and of the exportable fodder grain produced at home (i. e. the import and export prices valid for Hungary);

Table 5
Growth of the production of the more important animal products during the period between 1961–1980

Products	1961–1965	1966–1970	1971–1975	1976–1980	Production of 1976-80 in relation to 1961-65, in percent	Average growth rate p. a. between 1961-65 and 1976-80 in percent
Livestock 1000 tonnes						
Beef-cattle	256	307	324	337	132	1.9
Pig	524	692	968	1108	212	5.1
Sheep	27	35	35	44	163	3.3
Poultry	184	238	317	426	232	5.8
Cow's milk produces in million hectoliters	15.0	16.4	16.9	22.1	147	2.6
Hen's Egg, million pcs	2046	2787	3521	4475	219	5.4
Wool, in 1000 tonnes	9.6	10.3	8.3	10.6	110	0.7
Honey in 1000 tonnes	5.3	7.0	8.5	10.4	196	4.6
Fish in 1000 tonnes	15.9	20.0	21.3	22.6	142	2.4

– on the future efficiency in animal husbandry, and primarily the *output in relation to fodder input.*

According to often voiced and well-known views, there are enormous reserves at hand for the improvement of fodder utilization in Hungary. Less is said about poultry production, where spectacular results could hardly be expected, in view of the fact that Hungary is very near the standard setting forerunners of the world poultry production. Reserves are more significant in the case of pig and especially cattle-breeding; in the latter case, in substituting bulk feed for fodder grain. However, research results unanimously prove that only the substitution of bulk feed not produced on arable land (and to some limited extent, of various agricultural and industrial by-products) for fodder grain can be a rational aim. Otherwise although, the use of fodder grain can be decreased in feeding cattle and sheep, but only at the cost of sacrificing a far greater portion of arable land than would be needed for the production of the fodder grain "saved". In the course of rationally economizing on fodder grain, and, in a wider sense, on the available resources (with arable land taking the first place amongst these) such a modification of the

structure in livestock breeding is still going to have an important place which would assign an increasing role to poultry and pig production, as these utilize fodder grain more efficiently. In cattle and sheep breeding, which are more based on bulk feed, the use of the latter will grow at a faster rate.

And if – taking cognizance of the fact for the recognition, and more significantly, the realization of which there has been considerable reluctance for years – the world market prices of fodders are taken as starting points, then only a very moderate rate of expansion can be justified for the whole of livestock breeding. Hardly a higher one than that offered by the aforementioned savings as "new" sources of fodder. For we believe that the import of protein fodder is of such great volume that it now approaches the limit of tolerable price and other risks. Yet there are few possibilities and primarily little economic justification for the decreasing of fodder import, as it is going to be much more worthwhile to increase the efficiency of fodder grain utilization through the expansion of the vegetable oil vertical production line and with the products of the now hardly delayable processing of waste proteins, than to substitute for a part of the imports.

For, from an economic point of view, there is no difference between the saving of the imports of protein fodder and increasing the exports of the internally produced fodder grain. Unfortunately, this fact is often lost in the course of deliberation. It is mainly due to this that, referring to reasons of "import economy" many argue for increasing the export of beef cattle, which consumes an average of 6 kgs of fodder grain, against the "import wasting" poultry, which consumes less than 2 kgs of fodder grain, or pigs, requiring about 4 kgs of fodder grain (per one kg of live weight – ed. note).

I believe, however, that companies are going to consider forgone exports as equivalent to import surplus only if *this will be perceptible to them economically as well.* That is to say only, if – governed by their interests in income – they will be able to decide independently what the optimal structure of fodder utilization is for them and whether the exportation or the feeding up of maize is the more worthwhile for them. The most important condition of a rational protein management also is the objective deliberation by the companies involved. And for this it is necessary to form such fodder grain and protein prices, which mean realistic selling or buying opportunities reflecting international prices.

In connection with such an evaluation of fodder grain it is worthwhile to mention the development of the import requirements of the most important branches in livestock breeding. For the latest calculations have shown that, contrary to accepted professional opinion in Hungary, *the cumulative import requirements of the three main branches of animal husbandry are surprisingly near to each other,* and if imports forgone because of fodder grain used up are also taken into account (which could hardly be disregarded in the case of realistic considerations), then poultry gets into the most advantageous position. The actual proportions will remain unrecognisable as long as protein is irrealistically expensive in relation to fodder grain, or, the other way round, cereals are nonsensically cheap in relation to protein.

Of course, *inputs make up only one element within a rational structural policy: ultimately the decision will be based on profitability, on the profitability of the exports.* But these few data indicate that on the basis of inputs, which can be determined and influenced by the seller, it is necessary to be much more careful in judging the perspectives of animal husbandry than it is done nowadays.

The growth of production of the food industry and the directions of structural change

The development of the Hungarian food industry during the last two decades has been characterised by an annual growth rate of 6.5–7.0 percent and a remarkable inner structural change. *This structural change follow primarily the changes in the structure of agricultural output,* and is ultimately *related to a strengthening export orientation,* to better serving the aims of exportation. *Table 6* provides information about the production changes of the most important sectors between 1960 and 1980.

Table 6

Average annual growth rates of the gross output value of the food industry
(in percent, at comparative prices)

Sectors	1960–1970	1970–1975	1975–1980
Meat industry	6.4	6.8	1.6
Poultry and egg processing	14.5	4.8	3.6
Dairy industry	5.4	4.4	7.3
Canning industry	10.6	5.0	1.1
Milling industry	6.0	1.3	2.8
Baking and farinaceous prod. ind.	4.0	2.9	2.4
Sugar industry	– 1.6	5.9	6.1
Sweets industry	8.1	4.6	0.7
Vegetal oil industry	1.4	8.9	9.7
Alcohol and starch industry	8.4	4.2	6.0
Wine industry	4.7	7.4	4.3
Beer industry	4.9	8.0	4.9
Mineral water, soda and soft drink producing industry	4.0	13.0	2.4
Tobacco industry	4.3	1.4	4.9
Food industry, total	6.0	4.7	3.3
State and cooperative industry, total	7.1	6.4	3.4

The main direction can be drawn quite clearly (this being the intention to increase the exports), but the periodical fluctuations in the rate of growth indicate unanimously a lack of a conception, or its disturbances. Comparing for example the rates of growth of meat production and the meat processing industry, the direction of change is quite clearly opposite.

Without becoming involved in a more detailed analysis it is worthwhile to note that quite a lot of problems of growth accumulated within the sectors as well. According

to a study by Sándor *Balogh* and his colleagues (1) the degree of processing of foodstuffs, for instance, has not, or has hardly changed in the course of the last years, that is to say, the nature of the expansion of production has invariably been extensive.

Truly, the food industry has a significant role to play in the development of the structure of production. This is also proclaimed in those views according to which the aim in Hungary is to stop the growth of the processing industry at double the rate of growth of agriculture. Although this view is somewhat schematic and gives no clues as to the inner structural changes, it cannot be doubted that *changing the degree of processing* of the food products can be put forward as a solution to the structural changes which is the shortest in time and surmounts relatively easily the difficulties posed by the natural conditions and those of production. Many different kinds of semi-finished and finished products can be made out of the same basic material, and the flavouring of foodstuffs in accordance with the differences in tastes prevailing in various countries provides an opportunity for a still greater diversification.

Concerning the future structural policy it would still be wrong to accept the often voiced but never proved thesis that the more the degree of processing is increased the greater the attainable hard currency income, and, what is more, the more advantageous the export possibilities and the more the profitability of exports also improves. Practical examples could be cited to justify this thesis, but there are just as many disproving it. Therefore, *in a competitive structure there is a place for the exportation of raw or semifinished products just as much as there is one for the sale of processed articles.* That is to say, this question can only be dealt with individually, not generally. All this, of course, necessitates the giving up of certain ingrained points of view (or, I would rather say: prejudices). Thus, instead of the misconceived notion of mass production the production of smaller series, in certain cases, even of individual articles, should be promoted. Within the circumstances of a sharpened price competition export incomes should not be risked for 1–2 percent savings on costs promised by mass production. In any case the cost advantages of mass production vary greatly according to articles and technologies, and in agriculture they remain much under the level of savings achieved in industry. This point is proved by the competitive firms of medium and small size, which compete exactly with the Hungarian companies. That the Hungarian companies do not see this in this way is, naturally, not an outcome of the wrong "attitude" of their leaders, but rather of the wrong price system, of not appreciating the extra labour input connected with better quality, and also of the centralization of the Hungarian food industry. Therefore, it is useless to ask for or to demand a change in attitudes there, where the objective circumstances do not assist, or even hinder it.

With regard to the future of the Hungarian food industry, I believe the clarification and solution of the following questions is fundamental:

– Development of the processing capacities *in close accord with the agricultural raw material production,* within the framework of interests and organization of vertical integration.

– *A thorough transformation of the internal system of interests and organization* of the food industry *as soon as possible* (establishment of the economic independence of the companies, elimination of the harmful system of accounting prices, etc.). The steps taken in order to dissolve some of the trusts are only part of, and not even the most important conditions of the desirable changes.

– *Direct participation and interest of the processing industry in foreign trade,* elimination of the economic separation of the domestic food industry from the external markets as soon as possible.

– *Fast modernization of the food industrial technologies* in order to be able to satisfy the ever increasing demand for high quality goods. International cooperations seem to provide the most advantageous framework for this. However, a more rational use of the internal resources, which are much scarcer than before, necessitates the *flow of capital* not only within, but also *in between* the industrial sectors. Without this a rational transformation of the structure cannot even be expected under the present relations of accumulation.

– In the final analysis, the above requirements are *summarised in the requirement to modernise the price system,* that is, in the demand for the creation of stricter, but more consistent and uniform income conditions.

The effects and the directions of changes in consumer demand

In Hungary, food production has been able to satisfy the population's demand at a fairly high level for years now (cf. *Table 7*). Practically, importation of goods that can be produced domestically, only occurs for the expansion of the range of choice. Although a further increase and colouring of the supply with imported foodstuffs would certainly be greeted by consumers, the lack of hard currency needed for imports from the Western countries as well as the problems of internal food supply that the neighbouring socialist countries are facing, make this illusory.

The retail price adjustments of the last few years served to rationalize the harmony between consumption and production, and it is expected that further measures are also about to be taken towards the realization of a retail price system which conforms to production costs and prices. What kind of effect is this going to have in Hungary? Neither the volume, nor the structure of consumer demand needs to be radically altered, but a few significant changes can surely be expected. Some of these are:

– The increase of the per capita meat consumption will slow down, or even stop for a few years; the quantity of goods available for exports will increase.

– Consumption will shift towards a structure more rational from the economic point of view; that is, towards the goods, which the economy can produce more cheaply, using less inputs (e. g. poultry or egg as against the other protein sources of animal origin, etc.).

– A realistic value judgement between the subsidized (or heavily subsidized) and unsubsidized goods will be re-established.

– The rapid decrease of production for self-supply experienced during the last few years is expected to stop; a more realistic level of home pigstickings is to be established before all. The price changes effectively support – the in any case intended – maintenance of home poultry breeding and gardening as well.

– Wastage will be moderated, the decision alternatives between buying food or durable consumers goods will become more realistic, thereby also increasing the stock of goods available for exports.

Table 7
Development of per capita food consumption (in kgs)

Name	1960	1965	1970	1975	1980	Rate of change, in percent
Meat products, total	47.6	51.6	58.1	68.5	71.7	150.6
Fish	1.5	1.6	2.3	2.7	2.1	140.0
Milk and dairy products*	114.0	97.1	109.6	126.6	166.1	145.7
Eggs, pieces	160	187	247	274	317	198.1
Fats, total	23.5	23.1	27.7	29.1	30.5	129.8
of this: butter	1.4	1.6	2.1	1.7	2.0	142.9
cooking oil, margarine	1.3	2.0	2.8	4.6	6.6	507.8
Flour	132.8	135.5	124.1	117.8	111.7	84.1
Rice	3.4	3.7	4.1	4.3	3.4	100.0
Potato	97.6	84.3	75.1	66.8	61.2	62.7
Sugar	26.6	30.1	33.5	39.4	37.9	142.5
Vegetables	84.1	76.7	83.2	85.2	79.6	94.7
Fruit	55.3	52.8	72.5	74.0	74.9	135.4
Coffee, decagrammes	14.3	69.3	164.5	261.4	290.0	2028.0
Tea, decagrammes	3.4	5.9	7.2	8.1	10.1	297.1
Wine, liters	29.9	32.8	37.7	34.2	34.8	116.4
Beer, liters	36.8	44.2	59.4	72.3	86.0	233.7
Spirits, liters**	2.8	5.4	5.4	7.2	9.3	332.1
Tobacco	1.8	1.8	2.2	2.3	2.4	133.3

* Butter not included
** Converted to 50° alcohol

– Consumer demand for higher quality goods, for continuous supply and for higher standard service will increase. Demand will also rise for products which assist in the modernisation and rational economy of the households (e. g. large refrigerators, freezers, etc.).

After all, from the economic point of view a positive shift can be expected, modifying the structure of consumption as well as some out-of-date theses of consumption policy. However, it would be wrong to regard this process in a passive way. The increasing exploitation of the possibilities hidden in the transformation of the attitudes, the running and requirements of the households by way of an adequate supply of foodstuffs and industrial goods and through a re-strengthening of the rational elements of self-supply would be of particular importance (as opposed to the counter-propaganda being aired all the time!).

The structure of exports and imports

Agriculture and food production (also called food economy) have a significant and positive role to play in the formation of the foreign trade balance. According to all intentions this role is still to be increased, as a number of industrial products practically cannot be sold for convertible currencies, and the country needs the hard currency. There is another very important task ahead of the Hungarian food exports: improvement of the profitability of exports. The two aims, the boosting of the volume and improvement of the profitability of exports usually elicit opposing efforts. It is no exaggeration to say that *today the solution of this contradiction, finding a rational proportion between these two aims has become a task of vital importance not only for food management, but also for the whole of the Hungarian economy.* For it is obvious, that even if export profitability has no objective and definite "measuring rod", the realization of domestic labour under a certain level cannot be permitted even if there is a great need for the export revenues. On the other hand the criteria of profitability cannot be set too strictly either, since this would result in exports of smaller volume than that needed for attaining the necessary revenue.

Even without further analyses it could hardly be doubted that the export of products with on average "yield of foreign exchange" is indispensable for the country. Unfortunately, the actual incentives do not acknowledge this openly and consistently, and so the forced system of export subsidies always about to be curtailed can only be regarded as "resignation". At the same time, the conspicuously unprofitable export cannot be pushed sufficiently, and the rather low exchange rate relative to the average or worse "foreign exchange yield" producing the decisive quantity within the volume of exports virtually encourages the superfluous and unprofitable imports, even with the import duty included. This, then, has to be hindered by administrative means, out of necessity.

And what is the situation of food exports like in these intricate circumstances? It is rather insecure, standing in the cross-fire of often opposing evaluations, in between radically praising or condemning conceptions, even measures.

The structure of the Hungarian food exports (cf. *Table 8*) shows that it is fairly diversified, dominated mainly by the cereals and meat vertical production line with a share of 55 percent, but horticulture also plays an outstanding role with its share of over 30 percent. It is remarkable that the export share of horticulture is exactly double of its share in production. This means that the export orientation of horticulture is approximately twice as great as that of the whole food production.

Within the cereals – meat vertical line poultry, swine, the cereals and the cattle sector follow one another, in order of importance: however, this order interchanges quite frequently. Yet it has become consolidated now that the two fodder grain consuming sectors, poultry and swine, are in the vanguard.

Within horticulture, the order of importance is vegetables, fruit and wine, each with a share of about 10% of the exports, holding their places steadily.

Of the sectors of medium importance it is worthwhile to note the exports of plant oil, sheep and rabbit, each worth about one-and-a-half billion forints. These products earn nearly exclusively dollar-revenues, and approach even some industrial sectors with their performance.

Table 8

Structure and directions of changes of the Hungarian food exports on the basis of some significant products

Name	Average quantity of exports p. a. in 1000 tonnes 1961–1965	1976–1980	Average growth rate p. a., in percent	Average value of export p. a. 1976–80 in billion Ft
Cereals, total	.	.	.	6.8
of this: maize	53.9	330.4	12.8	2.0
mill fodder	5.3	273.2	30.6	1.0
bread grain	55.7	685.4	18.2	3.5
Plant oil vertical production line	.	.	.	2.4
of this: sunflower-oil	19.5	49.4	6.4	1.1
Horticultural vertical production line	.	.	.	16.2
of this: fresh vegetables	111.3	106.1	–0.7	0.8
canned vegetables	126.5	338.6	6.9	4.5
fresh fruit	170.8	436.6	6.4	3.7
canned fruit	41.5	121.7	7.4	2.1
wine*	481.2	1929.6	9.7	4.1
champagne*	30.3	167.1	12.0	0.8
Meat producing vertical line	.	.	.	24.1
of this: *cattle sector*	.	.	.	6.1
of this: beef cattle	59.9	86.0	2.4	3.3
raw beef	19.2	39.7	5.0	2.4
swine sector	.	.	.	7.5
of this: swine	16.1	41.4	6.5	1.4
raw pork	13.7	58.6	10.2	2.8
edible lard	5.0	35.8	11.4	0.6
salami	3.4	9.7	7.2	1.1
poultry sector	.	.	.	7.6
of this: fowls	0.01	7.4	55.3	0.2
fresh eggs**	165.6	407.3	4.9	0.5
breeding eggs	32.6	131.3	9.7	0.8
slaughtered poultry	28.8	121.1	10.0	5.0
goose-liver	0.1	0.6	12.7	0.4
sheep section	.	.	.	1.5
of this: sheep	8.4	23.6	7.1	1.3
rabbit section				
of this: rabbit**	4.3	5.0	1.0	0.6
hare-meat	0.4	10.8	24.6	0.8
Agriculture and food industry total:	.	.	.	55.4

* 1000 hectoliters

** million pieces

The structure of the Hungarian food imports is much simpler than that of the exports (cf. *Table 9*). In fact there are only two major items: the importation of feedstuffs and of consumer goods and tropical fruits. It is also worthwhile to emphasise that expenditure on the import of protein-holding feedstuffs, which for years has been the central theme of discussions concerned with the questions of the Hungarian foreign trade in agricultural articles, and also has been the saving task number one for agriculture for years, is of the

Table 9

Structure and directions of changes of the Hungarian food economy imports, on the basis of some significant products

Name	Average quantity of imports p. a. in 1000 tonnes		Average growth rate p. a., in percent	Average value of import p. a. betw.1976–80 in billion Ft
	1961–1965	1976–1980		
Cereals, total	.	.	.	1.4
of this: grain fodder	201.1	149.0	– 2.0	0.7
maize*	184.5	116.7	– 3.1	0.6
bread grain	268.3	8.3	–26.1	0.1
Vegetal oil products	.	.	.	6.5
of this: feedstuffs	145.0	613.8	10.0	6.2
Sugar	.	76.2	.	1.3
Feedstuffs of animal origin	.	.	.	1.6
of this: dried milk	8.0	16.1	4.8	0.2
fish, meat and blood meal	26.6	77.0	9.8	1.1
concentrates	0.8	12.8	20.3	0.3
Livestock and animal products	.	.	.	1.2
of this: raw beef	16.8	9.0	– 4.2	0.3
tinned meat	1.3	2.5	4.4	0.1
breeding cattle**	209	3414	20.5	0.1
Various consumer goods, total	.	.	.	.
of this: coffee	7.9	38.2	11.1	4.6
cocoa	7.3	14.9	4.9	1.6
tropical fruits	33.3	97.2	7.4	1.4
beer***	0.1	1.6	20.3	0.9
tobacco	5.7	6.6	1.0	0.4
cigarettes****	.	1.5	.	0.2

* Hybrid seed also included, that is why the value is so high
** Pieces
*** Million hectoliters
**** Billion pieces

same level as the expenditure on coffee and cocoa imports. Surely it is a mistake not to, or hardly to speak about the possibilities of economizing on the latter two items.*

However, it is difficult to exaggerate the importance of protein import, as it is the source of almost 100 billion forints worth of livestock production and of 25 billion forints worth of exports yearly. Compared to this output, this import cannot be regarded as exaggerated or as an unsupportable burden – as it can often be heard and read in Hungary today. It is also interesting that, with the exception of the cattle, all other sectors in livestock production increased their exports at the same rate at which the imports of the protein-holding articles increased. Thus there is only one important question to be answered regarding the setting-off of the imports: are the exports of animal products able to cover the costs of feedstuff imports paid for in dollars as well? The answer is unequivocally yes, since the proportion of products sold for dollars is nearly 80% in the case of animal products.

The structure of the Hungarian foreign trade – and particularly that of exports – has become somewhat "independent" of considerations of profitability. Although in most cases company profitability has its effects, it is not unequivocal and not clear.

The directions and main alternatives of development

The starting point in answering this question must be the consideration of internal demand and export possibilities and requirements.

The task posed by the basic requirement, the *supply of the home market* is neither insoluble for the Hungarian agriculture, not even particularly difficult, with regard to both its quantity and its composition. However, it is also true that major steps need to be taken for the now inavoidable improvement of the standards of supply within the commercial sphere. Unfortunately, the services of the food trade are laging sadly not only behind the opportunities offered by the stock of goods, but also behind consumer demand proportionate to the income relations of the population. Continuous supply of a wider choice, but necessarily of a much higher price level could result in quantitative savings in the home consumption of virtually all foodstuffs, in spite of the rising standard of living.

In the perspective of two decades the question with what kind of food imports the country can reckon is by all means realistic and unavoidable. For it is obvious that the structure of the Hungarian food economy would be much more efficient if it were not given the task of that colourful and diversified production which is required by the full supply of the country's needs (in all the products that can be produced in Hungary). The significant agricultural problems facing the neighbouring countries will hardly let them be regarded as absolute trustworthy partners, on whom part of the Hungarian supply could partly be based, in the course of the next ten years. Giving up this division of labour is, of course, concomitant with mutual disadvantages. The primary condition of overcoming these disadvantages would be an agricultural statute covering the whole

* The domestic retail prices of the two articles have been raised considerably since the completion of this study. – (Ed. note.)

CMEA which would warrant the uninterrupted supply and the mutual exploitation of comparative advantages. These days I judge the chances for such an agreement slim. However, it is also true that the answer given to the present inadequate supply situation, the development of self-sufficiency at all costs, will hardly provide the means for a lasting solution of the food problem in the socialist countries. The lengthy protraction of the problem will hardly let the subject of agricultural cooperation of the CMEA-countries be taken off the agenda. The solution and then the exchange of products which could help the internal supply can be expected no sooner than in 10–15 years' time.

Concening the shaping of the production and the production structure of the food economy of the future the most important question to be answered is *what volume of food exports must or could be considered, oriented towards which markets, and, therefore, what product range it should include* in the course of the next two decades. The alternatives of "must" and "possible" seem to be far off decision making fields with an extreme degree of freedom only in a first approach. Most probably those aims will be the most realistic for Hungary for a long time to come, which can be described as the approximation or even full coincidence of the "must" and of the "possible". That is to say, production expansion aimed at exports should be as great as possible. Today the coincidence of "must" and "possible" can be regarded as full. What is more, it would be no error to say that the commitments of the food economy go far beyond the profitable export opportunities, and thus the "must" exceeds the rationally and profitably "possible". Conversely, this means that the requirements of profitability – in spite of efforts to take them into consideration – suffer damage due to the export commitments of the food economy.

The fact that the *pressure on exports coincides with the lack of accumulation sources* is expected to increase the contradictory nature of the situation, thus it is necessary to look for and to find ways demanding less capital outlay. The reality of doing so varies by sectors.

The possibility of capital saving development varies not only according to the differentiated nature of the major sectors, but also according to the scale of production. Small-scale production, with its limited, but not to be underestimated, growth resources obviously offers more economical solutions with regard to the central resources than the development alternatives of large-scale production, partly because in the former case the central resources are substituted by personal savings and incomes. From a technical point of view, small-scale production is in the process of catching up with large-scale production, except that it follows much more economical solutions. Should there be a real intention to make the most of the growth potential of the sphere of small-scale production it will be necessary to greatly expand the technical bases of development of their production.

Regarding *sectors and scale of production* together the following conclusions can be drawn:

– The capital requirements of *cereals production* are below average, expressly advantageous in an international comparison in Hungary today. Of course, this will worsen with the increase of intensive farming, this being the only way of development to be followed, but it will still remain acceptable *and the most significant and at the same time the most advantageous, chance for the development of large scale production will be the increase of cereals production.* The condition of its exploitation is the raising

of yields, as the area which can be used for the production of cereals is inevitably on the decrease.

– With regard to the production of *industrial plants* (sugar beet, oil plants) the primarily land-intensive solutions followed so far cannot be maintained in the future; especially in the case of sunflower production there are major reserves in increasing the yields, which should by all means be utilized. The capital requirements of sugar production arise out of the necessity to develop the industrial processing capacity; the capital requirements of the plant oil sectors are similar to, or (due to reserves for increasing the yields) more advantageous than those of the cereals.

– *The sphere of large-scale production almost exclusively has the possibility of decreasing the land requirements of production,* and, within it, primarily that of decreasing land use per unit of products. Its reserves – apart from the sectors mentioned above – are firstly, in raising the level of yields of the field grown bulk fact and secondly, in the better utilisation of swards and by-products. It is important to know that the increasingly intensive nature of livestock breeding shifts even the demands of the bulk feed consuming sectors towards fodder grain consumption (this is the case in intensive dairy farming just as much as in beef and mutton production).

– Horticulture and forage-based sectors of livestock breeding offer the most advantageous chances for the growth of small-scale production in Hungary, or rather, its maintenance, even through the implementation of effective central measures, would be the most advantageous for society. These sectors will remain and become even more capital intensive, while the labour-intensive nature of horticulture will also remain. This demand for capital – as we have said earlier – can partly be met by personal savings. With regard to the satisfaction of demand for labour it is small-scale production, and, generally speaking, the looser organisational forms which have the better chances. Not because a general shortage of labour could be supposed for the next two decades, especially for the 1980's, but, to the contrary, small-scale production seems to be the most advantageous and the realistic way of handling the expected oversupply of labour, seeing that here we are talking about a kind of seasonal employment.

– *Means of production imported from the West will play a key role in the development of large-scale production; the industrial background for small-scale production could be established and expanded at home by way of licence purchases.*

– It is obvious that the attainable growth rate, or rather, which is to be attained, is both a source and a result of development funds. Should we wish to rank sectors, cereals production should be the starting point in the desirable development of the Hungarian production structure. Although it is obvious, still, it must be stated explicitly that the basis of the meat-cereals vertical line, which makes up the bigger half of the Hungarian food economy, is the *cereals production. Without its expansion no development of any sort is possible for animal husbandry, but quite independently of the latter, there are reasons, even pressure, for the increase of the production of cereals.* Thus the use of development funds must be concentrated to the cereals sector.

The size of livestock breeding built on the increasing cereals production depends on the desirable expansion of production, or on the expected rate of growth. *If the rate of growth will enjoy priority against profitability in the future as well then the parallel development of livestock breeding will inevitably take place.* On the other hand the reinforced opposition to the parallel growth of imports, and primarily of protein imports

particularly questions the economic justification of this development, since it would further worsen the utilization of internally produced feedstuffs in animal husbandry. These problems urge the adjustment of the fodder grain and protein prices mentioned earlier as soon as possible. In my view the development of animal husbandry *without increasing the protein base* (out of imports or out of surpluses produced at home, which are suitable substitutes for these imports) is unjustifiable and unequivocally disadvantageous. Of course, the expansion of protein production at the expense of cereals (for which thoughts already exist in Hungary, direct practical efforts in the preference given to soya bean production) *makes no sense* as long as a unit of land under cereals yields 50–80 percent more protein, and as long as efforts are made for the more rational utilization of the cereals produced. Ultimately, the solution can not be provided by domestic production of plant protein but with the processing of food industrial by-products into protein feedstuff, and with the production of synthetic amino-acids.

On the basis of all realistic considerations, the food industry connected to the meat-cereals vertical line should be adjusted to the requirements of the market, to the creation of a more differentiated supply and wider choice, rather than undergoing a quantitative development. This can by no means be simplified to raising the degree of processing rather, it should be fairly independent of, or, in cases, even opposed to this. The obvious East-European markets require highly processed products to a much lesser extent than the highly developed Western countries, and, of course, *they do not reimburse us for the extra costs.*

Talking about the meat-cereals vertical line, there arise two unavoidable questions. The first is: what should be the aim of development if solvent demand for meat decreases on the external markets; and the second: what can be done if the import market of protein carriers were closed for Hungary. The answers are similar to both questions. This would affect the interests involved in the expansion of cereals production insofar that it *could be worthwhile, and in the second case, there would be pressure,* to produce various protein-rich plants suitable for direct feeding *in place of some of the cereals;* as a result of which the domestic meat surplus would significantly decrease. One can count on persistent demand on the export markets of cereals even in the long run, with the possibility of temporary disturbances. The small-scale farming sector, which is better able to adjust itself, would then hopefully quickly reduce the quantity of meat production and would fundamentally alter feeding practices.

Sketching the future of the Hungarian food economy, *most of the open questions can be found in the case of horticulture.* Problems accumulating for decades can be met with just as new ones, unsolved inner problems and external difficulties. Apart from the adequate supply of the Hungarian home market, nearly half (35–50 percent) of the output is exported, the main export market being the Soviet Union. One of the major problems of the exports directed to the Soviet Union is the underdeveloped infrastructure of the recipient country, which will eventually raise technical barriers to the exports. The other problem is that neither tinned vegetables, nor apple or wine belong to the class of essential foodstuffs of fundamental importance, that is, they are not regarded as "hard" goods. This becomes manifest mainly at times of a stagnating standard of living, or when there are disturbances in the supply of basic consumer goods, of cereals and meat products. Hungary's dependence on the Soviet market is also increased by the efforts of Czechoslovakia and the German Democratic Republic to achieve the possible

fullest self-sufficiency in horticultural goods, even at the cost of disturbances in the supply of their internal markets and of a reduction in the quality of supply. It can hardly be doubted that these efforts cannot be maintained as the standard of living improves, but the present process could last even up to the 1990's. Hungary owes her presence on the Western markets to her deepfrozen products, to the good quality wines, and to some fresh and some tinned, labour intensive fruits. *The most important condition of the continuation of this presence is improving the quality,* which can be achieved by continuously updated technology and by careful manual work – which (always unjustifyably) sometimes seems to be insoluble. I regard careful work as the primary condition of increasing the Western exports, without which it is hopeless to expect any kind of expansion. Apart from this, a thorough change in the systems of export interests and transactions is also essential.

Considering the present circumstances, *the ideal solution for horticulture would be a decade of stagnation followed by a period of vigorous growth,* since the supply of an enormous population in both Central and Eastern Europe will be of an inadequate standard. However, stagnation as an aim needs further clarification. Apart from giving up quantitative growth, the modernisation of technology in the processing industry, and in the stages of harvesting, handling and storing the products is indispensable. *Ways should be found to develop to a high standard one or two companies in the canning industry, which at present satisfies nearly exclusively mass demand* only, preparing thereby for the general requirements of the future and for the present requirements of the Western markets. Some development in line with the available resources is justified in the deep-freezing industry, and also – making use of the absorptive capacity of the external markets – in the labour-intensive vegetable and berry fruits production as well. The condition of a quality improving production policy exploring the reserves of raising the efficiency (mainly: the yields) of production is that the unclarified economic situation of vertical stages (particularly the canning industry) producing for export (primarily for export directed to socialist countries) should discontinue, and the irrational economic regulations, which prefer the importer and disprefer the exporter companies, should be done away with.

The fate of the fruit plantations and of the vineyards should be decided virtually independently of the stagnating production of the 1980's, laying thereby the foundations for the production of the 1990's and of the turn of the century. Today the dilemma is that the abrupt earlier planting campaigns can only be off-set by conforming plantings (if an even supply is desired), or rather, an even supply cannot be expected if the aged plantations are replaced by plantings at an even rate (as would be obviously advantageous and desirable from the point of view of the plantations). In my view, small-scale production should be given a role many times greater than the present one in the solution of this difficult – because capital-intensive – problem. (The experts working in livestock breeding or vegetable production judge the role of the small farms much more progressively and realistically than their counterparts in the fruit and wine sectors, being mainly under technocratic influence even today). The large-scale fruit plantations and vineyards, the majority of which is very labour intensive, struggle with the complicated problems of over-centralization. They try to bridge over the disadvantages of being over-sized by expensive investment, complicated and not even cheap solutions of labour organization and labour rearrangements, with more or less success. In such circumstances it is

anachronistic to urge greater production concentration (whereby they unequivocally mean the expansion of the productive area), even in the latest directives. It is necessary to draw up a comprehensive conception for the system of small-scale plantations as soon as possible, so that the necessary preparations could be carried out in the production of propagative agents as well. Without assistance given to small-scale production the desirable rate of plantings cannot be expected; and economy with the central development resources, as well as the partial substitution of labour for capital, can only be realized in this way.

Some important conclusions

The effects of a structural policy, which keeps self-sufficiency and the quantity of export in view, characterize the production structure of the Hungarian food economy as it has evolved to this day. Due to the limited opportunities of the international division of labour, domestic production has to satisfy fully the home demand for all the goods that can be produced in the country. For this reason, but also due to the existing long-lasting production capacities the present mixed production structure will persist in the long term, reducing thereby the chances for the improvement of efficiency of structural transformation.

The diversity of the operating forms of production – primarily the permanently surviving system of large and small scale agriculture – provides advantageous conditions for the unequivocally and consciously urged bringing about of a division of labour between the operating forms of production also in the transformation of the production structure taken in the strict sense.

Cereals production to be developed with justification is obviously grouped with the tasks of the large-scale farms, while the vertical line of animal husbandry based on it can grow equally with the predominance of either large-scale or small-scale production, but, in any case, only on the basis of a combination of the two. The development of livestock breeding based on surplus grain is determined by the requirements of the market and by the resources available for development. The necessity to economize on arable land as well as the standard of fodder grain production in Hungary argue for the increase of the fodder grain consuming poultry and pork production as long as the interests in raising the amount of the net foreign exchange revenues take predominance over the pressure for improving the profitability of exports.

Deficiency in funds justifies the preference for the cheaper small-scale sector which is being modernised in any case. Therefore, assigning a much greater role to small-scale farming in fruit plantations and vineyards is also justified, thereby giving a new direction to the system of horticultural development followed so far.

In the development of the food industry that tendency has justification which would loosen centralization, improve quality, expand the conditions of flexible adjustment and the rang of choice of products. It would be wrong and detrimental to set the general raising of the degree of processing as a target. Instead, differentiated requirements, the solvent demand of the export markets need to be taken for basis when making decisions at individual, sectorial or product level.

Beside the economic regulatory conditions of strengthening the vertical connections particular attention must be paid to the system of institutions as well. The demand for change is most urgent in foreign trade, since the isolation of the Hungarian food economy from the markets abroad is still perhaps the most serious hindrance to development.

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АЛЬТЕРНАТИВЫ РАЗВИТИЯ ПРОИЗВОДСТВА СЕЛЬСКОХОЗЯЙСТВЕННЫХ И ПИЩЕВЫХ ПРОДУКТОВ В ВЕНГРИИ

Д. ВАРГА

Двадцатилетнее развитие венгерского сельского хозяйства и пищевой промышленности не только определяет возможности во многих областях почти до конца нынешнего столетия, но и накопило такой опыт, учет которого может во многом помочь разработке долгосрочной политики развития. Нынешняя структура венгерского продовольственного хозяйства формировалась структурной политикой, ориентировавшейся на поддержание самообеспечения и количественный рост экспорта. Из-за ограниченных возможностей международного разделения труда потребности в продукции, которая может производиться в стране, по-прежнему должны полностью удовлетворяться отечественным производством. Из-за этого и отчасти из-за существующих производственных мощностей нынешняя смешанная производственная структура сохранится и далее, сократятся тем самым шансы структурных преобразований, направленных на повышение эффективности.

Разнообразие форм производства — прежде всего сохранение системы крупного и мелкого сельскохозяйственного производства — открывает благоприятные возможности для более четкого и сознательно стимулируемого разделения труда между различными формами производства и в формировании производственной структуры в узком смысле.

Производство зерновых, развитие которого безусловно обосновано, является задачей крупных хозяйств, а опирающееся на это животноводство может развиваться одновременно как при перевесе мелких, так и крупных форм производства, но в любом случае только при комбинации этих двух типов. Развитие животноводства на основе прироста зерновой продукции определяется потребностями рынка и имеющимися ресурсами. Необходимость экономить пахотные земли и уровень венгерского производства кормов мотивирует расширение птицеводства и свиноводства до тех пор, пока интересы, связанные с повышением чистой валютной выручки, превалируют над необходимостью повышения экономической эффективности экспорта.

Ограниченность капитальных ресурсов мотивирует предпочтение более дешевого, но в любом случае модернизируемого сектора мелкого производства. Поэтому оправдано, чтобы в посадках виноградника и фруктовых деревьев гораздо большая роль отводилась мелким хозяйствам, что направило бы развитие садоводства в новом направлении.

В развитии пищевой промышленности целесообразно уменьшать централизацию, улучшить качество и прежде всего усиливать гибкость приспособления к требованиям рынка и расширять ассортимент продукции. Было бы неправильно и вредно ставить целью общее повышение степени

обработки сельскохозяйственного сырья. Вместо этого при принятии решений о развитии производства необходимо брать за основу дифференцированные потребности, платежеспособный спрос экспортных рынков.

Наряду с усилением мер экономического регулирования вертикальных связей повышенное внимание следует уделять системе организаций. В первую очередь, назрела потребность изменений во внешней торговле, поскольку изоляция венгерского продовольственного хозяйства от внешнего рынка и сегодня является, по-видимому, одним из самых серьезных препятствий его развития.

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EDUCATIONAL LEVEL AND INCOMES IN HUNGARY

Attaining a higher educational level – which is one of the preconditions of producing competitive products incorporating advanced technology – is not motivated in Hungary by a hope for higher incomes. As a matter of fact higher incomes associated with higher educational level are not so high that they could not be neutralized by other strong factors working in the opposite direction. In his computations the author investigates "lifetime" incomes by educational level and position. He points out that even if we neglect incomes originating from the so-called second economy (the inclusion of which would only increase the seriousness of the conclusions) the relative incomes of the non-manual (intellectual) workers have diminished over the last decade in comparison with the manual workers.

The levelling

It is usually mentioned as one of the major disadvantages of the wage system in Hungary that it neither stimulates sufficiently for better, for more successful performance, nor differentiates, to an adequate extent between good and very good, as well as between unskilled and highly qualified labour. The levelling is very well shown by the fact that the share in total earnings of the lowest quintile of the average earnings increased between 1970 and 1980 from 10.7 to 11.3 percent and that of the upper quintile decreased over the same period from 33.4 to 32 percent. In the same period the shares of earnings of the upper and lower deciles also decreased – with considerable fluctuations – from 4.04 to 3.85 percent.

As a partial compensation for the price increases occurred during the last years, every worker in Hungary is paid 290 Forints a month as an addition to the wage. Interestingly, even this works towards levelling. A numerical example [1] to prove this: 6000 Forints gross earning is naturally twice as high as 3000 Forints. On the larger sum a 9 percent and on the smaller one a 6 percent contribution to old age pension is levied. After subtracting these sums one can see that 5460 is already only 1.94-times as high as 2820. After the Ft 290 wage supplement is added this ratio changes again, the ratio of the new sums, 5750 and 3110 Forints actually received, is 1.85.

The ratio of average wages of non-manual intellectual workers with higher and medium level qualifications employed in the industry showed the following development pattern between 1969 and 1979: 1969: 1.34, 1974: 1.31, 1979: 1.28. The process of levelling by qualification level could also be observed in respect of the average wages of the manual workers in the industry. In 1975 skilled workers received 56 percent higher wages than the unskilled ones, by 1979 this difference diminished to 48 percent. In the case of the semi-skilled workers this difference dropped from 30 percent to 16 percent.

Indicators calculated per persons living in one household also prove the above statement: the personal incomes per head in managers' households were by 21 percent higher both in 1972 and 1977 than on average in those of intellectuals, this difference was 2 percent in 1977 for the households of medium-level production managers and for the households of specialists with higher qualification level taken together it was 9 percent

in 1972 and only 1 percent in 1977. In comparison with the average income level of workers (skilled, semi-skilled and unskilled workers) the incomes-lead of production managers declined from 23 percent to 13 percent, that of skilled workers from 5 to 3 percent. Incomes of persons with higher qualification level who are not appointed to leading (managing) positions, do not reach the income level of skilled workers even in the long run, although the incomes of managers also declined in comparison with those of non-managers.

The data quoted so far tend to illustrate the process of income levelling within groups which can be regarded as homogeneous in respect of qualification. However, examples pertaining in fact to the subject under investigation are just those which relate to comparisons between groups with different qualification levels.

Table 1

Relative earnings of persons employed in the industry

(percent)

	Earnings of	
	technical	administrative
	personnel as percentage of those of manual workers	
1938	301	238
1949	194.6	136.6
1958	158.4	98.1
1964	154.4	94.7

Source: Képzettség és kereset (Qualification level and earnings) Statisztikai Időszaki Közlemények, No. 93. Budapest, 1966. (Central Statistical Office)

In *Table 1* the earnings of technical and administrative employees are presented as percentage of those of manual workers. (Data for 1938 refer only to those employed in the private industry.) If the data presented in the table are further broken down, one can see that while the earnings of the junior engineers and technicians were by 10–30 percent higher in 1953 than in 1938, the earnings of those in managing positions were by 30–40 percent lower in 1953 than in 1938. In several branches of the industry – primarily in metallurgy and engineering – the earnings of the works managers (foremen) lag behind those of well paid skilled workers despite the fact that, as a result of levelling the relative wage level of skilled workers declined below the level of 1948. [2] In comparison with the wages of the manual workers, the relative wage level of clerical workers was 1.8–2.2 times higher, that of engineers more than 3-times higher in 1929 and 1938 but even in 1948. These ratios declined to the present level. According to a data of 1957 a turner earned 1.42 times more than a coal loader, a technician 1.77 times more and an engineer twice as much [3].

The development of average wages between 1967 and 1971 by qualification level in the industry is presented in *Table 2.*

Table 2
Average relative wages of persons with different qualifications

	Graduates from			Skilled and semi-skilled workers	Unskilled workers and employees
	Universities and institutions of higher education	Higher level technical school (college)	Medium-level vocational school		
Monthly average wage, Forints (1967)	3373	2665	2422	1936	1600
Monthly average wage, Forints (1971)	3753	3006	2753	2268	2040
Monthly average wage as percentage of the lowest category (1967)	210.8	166.6	151.4	121	100
1971	184.0	147.4	135	111.2	100
1971/1967	111.3	112.8	113.7	117.1	127.5
Monthly average wage as percentage of the average wage of persons with qualification lower than secondary school					
1967	1.91	1.51	1.37		100
1971	1.74	1.40	1.28		100

Source: Képzettség és kereset (Qualification level and earnings) Statisztikai Időszaki Közlemények, No. 324, Budapest, 1974. KSH.

A deteriorating trend can again be observed in the respective ratios between 1967 and 1971 at the expense of persons with higher educational level. The percentual increase in wages is inversely related to the level of qualification, the highest increase in wages occurred in the case of unskilled workers and employees and the lowest one in the case of persons with university and high school degree.

The same tendency is reflected by the data of *Table 3*. Within the group of manual workers the wage level of skilled workers deteriorated by 3 percent in comparison with the wages of unskilled workers and that of semi-skilled workers remained unchanged. Within the category of non-manual workers wage levels remained, in general, unchanged in comparison with the wages of "clerk A" or they increased slightly. Within the category of non-manual workers again, the wage level of "clerks A" increased at the smallest rate between 1976 and 1979, apart from the category "managers C". The ratio between the wages of manual and non-manual workers was gradually shifting in favour of the non-manual workers in the years under investigation. This can be pointed out both

Table 3

Average wages of manual and non-manual workers – in September which is characteristic for the whole year – in the state and cooperative sectors of the industry

(Forints and percent)

	1976		1977		1978		1979		1979/76
Skilled worker	3568	149	3941	147	4164	146	4236	146	1.19
Semi-skilled worker	2729	114	3083	115	3258	115	3306	114	1.21
Unskilled worker	2400	100	2688	100	2845	100	2896	100	1.21
Manual workers total:	3100	129	3543	128	3422	120	3479	120	1.2
Manager: A	6311	166	7562	179	8005	178	8452	179	1.33
B	5633	148	6339	150	6848	152	7201	152	1.27
C	4826	127	5316	126	5686	127	5964	126	1.24
Works manager: A	5036	133	5601	132	6076	135	6455	137	1.28
B	4320	114	4853	115	5223	116	5518	117	1.28
Senior Clerk: A	3794	100	4230	100	4492	100	4726	100	1.25
B	3140	83	3508	83	3723	83	3926	83	1.25
C	2823	74	3157	75	3359	75	3550	75	1.26
Junior clerk	2198	58	2486	59	2675	60	2856	60	1.3
Non-manual employees total:	3399	89	3884	92	4173	93	4421	94	1.3
Ratio of the average wage of non-manual employees to that of manual workers		110		112		122		127	
Ratio of the average wage of senior clerks A to that of skilled workers		106		107		108		112	
Ratio of the average wage of senior clerks A to that of unskilled workers		158		157		158		163	

Source: Foglalkoztatottság és kereseti arányok (Employment and relative earnings) 1977, 1978, 1979. Statisztikai Időszaki Közlemények (Statistical Periodical Publications) No. 447, Budapest, 1979; No. 464, Budapest, 1980; No. 478, Budapest, 1980. KSH

when all manual and non-manual groups are compared and also when the group "clerk A" with higher educational level is compared to the group of either the skilled workers or the semi-skilled workers. (It should be noted here, too, that the three types of comparisons performed indicate the smallest rate of wage increases in comparison with the wage level of semi-skilled vorkers.)

Lifetime earnings

In the following we are going to analyse when the lifetime earnings of persons with higher qualifications catch up with those of manual workers' groups. (By lifetime earnings we understand here total cumulated earnings received during the period from the first job to the retirement.) The comparison is carried out first with certain simplifications. Thus earnings are taken into account for the years between 17–60 years of age in respect of manual workers and between 23–60 in respect of persons with higher qualification and disregard the fact that in both groups males have to serve in the army and although females have no military obligations they can retire five years earlier. It can be regarded as another simplifying factor that in the course of our calculations we are going to rely on the average values contained in *Table 3.*

Consequently, in the first approach in the group of manual workers the value of average wages contained in *Table 3* is multiplied simply by 60 – 17 = 43 years = 516 months and in the case of "senior clerk A" with higher educational level by 60 –23 = 37 years = 444 months.

Table 4
Relative lifetime earnings
(Million Forints; percentages)

	Lifetime earnings		As percentage of „senior clerk A"	
	1976	1979	1976	1979
Senior clerk A	1.68	2.10	100	100
Manual workers total	1.55	1.80	92	86
Skilled workers	1.84	2.19	110	104
Semi-skilled workers	1.41	1.70	84	81
Unskilled workers	1.24	1.49	74	71

Author's estimates.

The results obtained by calculating with the data of the two "extreme" years have been summed up in *Table 4.* It might be inferred from this table that the lifetime earnings of persons belonging to the group "senior clerk A" do not catch up at all with those of skilled workers. However, this result contradicts our empirical evidence. Consequently, it may be assumed that we have applied far too much simplification by considering

average earnings in the computations. First, the category of "senior clerk A" is made up primarily of younger generations, thus by diploma-holders with lower earnings. Second, in case of manual jobs where physical strength plays an important part (miner, foundry worker, smith) the average earnings diminish after a specific age, but where physical strength is less dominating (turner, miller, mechanician) earnings do not decline but rather increase with time.

Before continuing our investigation by other methods, we would like to call attention to some empirical experience. According to data for 1964 the lifetime earnings of persons with completed higher education catch up with those of persons with medium education at the age 36.6 years [4]. The lifetime earnings of the technical intelligentsia catch up with those of skilled workers also at the age of 36.6 years. Persons belonging to the occupational group of intellectual workers others than administrative and business managers and the technical intelligentsia, (i. e. teachers, physicians, and other intellectual workers) catch up with the skilled workers in terms of lifetime earnings at the age of 43.7 years. According to data for 1971 this catching-up time declined to 35.5 years. Within this the catching-up time in respect of persons with medium qualification level is 31.1 years for economists, 31.5 years for university graduates with agricultural specialization, 38.8 years for technical engineers and 42.5 years for teachers. It was pointed out by the Industrial Committee of the Hungarian Parliament on the basis of a report submitted by the MTESZ (National Organisation of Technical and Scientific Associations) on its session of 11th October 1980, that the lifetime incomes of engineers caught up with those of workers at the age of about 40.

On the basis of the results of computations presented so far (See *Table 4*) and the data quoted we think that it is worth while carrying out our computations in less simplified forms, too. In the following we are going to prepare our computations in two variants. Firstly, lifetime earnings are analysed by educational level and age groups, secondly by position and age groups.

From the data contained in *Table 5* for 1972 and 1977 we compute yearly average earnings associated with the given age group and educational level, the hypothetic number of years worked determined by the given starting year and the total earnings cumulated over the period beginning from the starting year up to the upper limit of the age group. The results are summed up in *Table 6*.

From these computations it turns out that the lifetime earnings of persons with higher education exceeded in 1972 those of persons with an educational level of less than 8 classes by 48 percent, those of persons with lower-medium level by 42 percent and those of persons with medium level by 23 percent. The corresponding ratios for 1977 are: 42, 34 and 20 percent. Consequently, one can say that the ratio continued to deteriorate. If the five-year age groups are further broken down we can make the following statement concerning the catching-up time: in 1972 the lifetime earnings of persons belonging to the group of lower medium educational level (LM) caught up with those belonging to the group of low educational level (L) at the age of 46, persons with higher educational level caught up in terms of their lifetime incomes with persons with less than 8 classes at the age of 39 and those with 8–11 classes or medium qualificational level at the age of 37.

Table 5
Average monthly wages by educational level and age groups

Educational level (completed)	19 years old and younger	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60 years old and older	Average
1972											
Less than 8 classes, L	1825	2069	2256	2413	2519	2496	2463	2424	2555	2064	2407
8–11 classes, LM	1787	2232	2500	2619	2651	2726	2752	2836	2871	2760	2440
Medium level, M	1619	1988	2496	2868	3142	3479	3531	3741	3884	4105	2727
Higher level, H	–	2243	2993	3629	4384	4712	4705	5086	5122	5069	4051
Total	1768	2150	2536	2747	2845	2931	2867	2933	3010	2779	2611
1977											
Less than 8 classes, L	2337	2862	3003	3152	3225	3266	3152	3209	3435	2414	3169
8–11 classes, LM	2443	2978	3340	3492	3557	3689	3638	3778	4052	3156	3381
Medium level, M	2141	2705	3289	3659	3955	4322	4530	4893	5112	4051	3638
Higher level, H	–	2886	3707	4732	5177	5795	6338	6334	6691	5703	5139
Total	2380	2881	3345	3678	3783	3872	3894	3889	4148	3261	3553

Source: A keresetek színvonala, szóródása és kapcsolata a családi jövedelemmel 1972, 1977-ben (The level and dispersion of earnings and their connection with family incomes in 1972, 1977.) – Statisztikai Időszaki Közlemények, No. 487, Budapest, 1981. KSH

The position of those belonging to the lower medium group improved by 1977 as compared to group L, the position of persons with higher educational level continued to deteriorate, since their lifetime earnings caught up with those in the low and the lower medium groups at the age of 40 only and with those of medium educational level at the age of 39 years. In however cautious terms: these values reflect unbelievably inadequate proportions!

Educational level and position at the workplace do not necessarily coincide, thus in order to obtain more precise results calculations are carried out by age groups and positions. The basic data are contained in Table 7, i. e. average monthly earnings are detailed by position held and age groups.

From among the positions contained in the table, managers, works managers and high level specialists were assumed to be university graduates, consequently the lifetime earnings of these groups were calculated so that the career starts at the age of 23. The starting year of the career was assumed at 18 years of age for the medium-level specialists, at 17 years for skilled workers, and at 14 years for the other groups. It happened in the group of managers that we did not have a sufficient number of observations in the lower age groups (in case of data for 1972 for the age group 20–24 years and in case of data for 1977 for the age groups 20–24 and 25–29 years). Here the assumption was adopted that the manager whose data appeared for the first time in the age group 30–34 years, had worked previously as a senior clerk with higher education since the age of 23 years, thus the earnings of the latter group were applied in their cases. As compared to the preceding static method of computation, this reflects a certain degree of social dynamism, too, since nowadays it is the group of persons with higher educational qualification that serves as a source of replacement for the group of managers, works managers.

The data of the Central Statistical Office were otherwise compiled on the basis of a satisfactory sample. The data for 1972 were compiled from a statistical incomes survey conducted in a 1 percent sample of the households of the country and the data for 1977 in a half percent sample.

On comparing data contained in *Tables 5* and *7* one can see that the data detailed by educational level and those by position are similar only in respect of order of magnitude. The obvious reason for this is that actual qualification and the one required for the position do not fully coincide. Thus, for example there still are persons, although a small number, who have higher or medium qualification but work as manual workers, consequently their earnings considered in two different types of comparisons (by educational level and by position) are classified in two different groups. (We return to this question later.)

Computations were carried out on the basis of data contained in *Table 7.* The following results were obtained: the comparison of data detailed by position show that the lifetime earnings of persons with higher education (excluding managers and work managers) exceed those of medium level specialists by 13 percent, those of persons in non-manual (intellectual) occupations with low qualification by 22 percent, those of skilled workers by 13 percent, those of semi-skilled workers by 40 percent and those of unskilled workers by 48 percent. According to computations carried out with data for 1977 these values are as follows: the lifetime earnings of persons with high educational level exceed those of medium level specialists by 16 percent, those of persons

Table 6
Lifetime earnings by educational levels

Age groups	Hypothetical number of years, worked				Average monthly earnings of the age groups, 1000 Forints				Total cumulated earnings from the start of the career up to the upper limit of the age group			
	Low	Lower-medium	Medium level education	Higher	L	LM	M	H	L	LM	M	H
1972												
–19	5	2	1	–	21.9	21.44	19.43	–	1.095	0.429	0.194	–
20 – 24	10	7	6	1	24.82	26.78	23.86	26.92	2.336	1.768	1.387	0.269
20 – 29	15	12	11	6	27.07	30.0	29.95	35.92	3.689	3.268	2.885	2.065
30 – 34	20	17	16	11	28.95	31.43	34.42	43.55	5.136	4.839	4.606	4.24
35 – 39	25	22	21	16	30.23	31.81	37.70	52.61	6.647	6.429	6.491	6.87
40 – 44	30	27	26	21	29.63	32.71	41.75	56.55	8.128	8.065	8.578	9.697
45 – 49	35	32	31	26	29.56	33.02	42.37	56.46	9.606	9.716	10.69	12.52
50 – 54	40	37	36	31	29.09	34.06	44.89	61.03	11.06	11.42	12.93	15.57
55 – 59	45	42	41	36	30.66	31.45	46.61	61.46	12.59	13.14	15.26	18.64

Table 6 (cont)

Lifetime earnings by educational levels

Age groups	Hypothetical number of years, worked				Average monthly earnings of the age groups, 1000 Forints				Total cumulated earnings from the start of the career up to the upper limit of the age group			
	Low	Lower-medium	Medium level education	Higher	L	LM	M	H	L	LM	M	H
1977												
– 19	10	6	7	–	28.04	29.32	25.69	–	1.40	0.586	0.257	–
20 – 24	5	2	1	–	34.34	35.74	32.46	34.63	3.117	2.373	1.88	0.346
25 – 29	15	12	11	6	36.04	40.08	39.47	44.48	4.919	4.377	3.853	2.57
30 – 34	20	17	16	11	37.82	41.90	43.91	56.78	6.81	6.472	6.048	5.41
35 – 39	25	22	21	16	38.70	42.68	47.46	62.12	8.745	8.606	8.421	8.51
40 – 44	30	27	26	21	39.19	44.27	51.86	69.54	10.71	10.81	11.01	11.98
45 – 49	35	32	31	26	37.82	43.66	54.36	76.6	12.60	12.99	13.72	15.81
50 – 54	40	37	36	31	38.51	45.34	58.72	76.01	14.52	15.25	16.66	19.61
55 – 59	45	42	41	36	41.22	48.62	61.35	80.29	16.58	17.68	19.73	23.62

Author's computations

Table 7
Average monthly earnings by position and age groups

Positions	–19	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–	Average
1972											
Manager	–	–	3734	4257	5138	5575	5659	5835	6026	6705	5426
Works managers	–	2403	3165	3523	3752	3919	3705	3813	4305	4334	3612
High level specialist	–	2306	2939	3612	3936	4264	3964	4252	4333	4233	3594
Medium level specialist	1574	1970	2490	2804	3032	3267	3368	3461	3789	3553	2725
Lower level specialist	1579	2827	2182	2374	2464	2735	2793	2917	2860	2521	2590
Administrative workers	1457	1782	2010	2181	2182	2591	2368	2484	2500	2438	2051
Intellectual (non-manual) employees, total	1512	2014	2559	3000	3251	3656	3563	3748	3992	4102	3013
Skilled worker	1966	2328	2799	3069	3165	3131	3116	3034	3107	3026	2772
Semi-skilled worker	1686	2030	2190	2231	2283	2272	2302	2346	2478	2224	2174
Unskilled worker	1743	2060	2178	2170	2171	2187	2097	2083	2109	1684	2070
Non-agricultural manual workers total	1822	2208	2521	2603	2646	2583	2533	2489	2594	2157	2417

Table 7
Average monthly earnings by position and age groups

Positions	–19	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–	Average
1977											
Manager	–	–	–	5600	6261	6369	7062	6918	7247	–	6672
Works managers	–	3257	4014	4603	4863	5166	5084	5284	5249	–	4812
High level specialist	–	2930	3696	4514	4733	5012	5374	5407	5898	4825	4709
Medium level specialist	2077	2621	3127	3509	3695	4012	4152	4408	4466	–	3539
Lower level specialist	2033	2409	2862	3174	3228	3525	3520	3843	4233	–	3136
Administrative workers	1953	2300	2601	2697	2862	2924	2978	3099	3145	–	2659
Intellectual (non-manual) employees, total	2020	2582	3245	3881	4166	4464	4825	4973	5328	4923	4016
Skilled worker	2618	3126	3760	4057	4245	4407	4315	4193	4178	3931	3818
Semi-skilled worker	2298	2792	2950	3031	3153	3128	3120	3236	3384	2840	3023
Unskilled worker	2182	2691	2633	2561	2612	2446	2490	2543	2819	2059	2526
Non agricultural manual workers total	2447	2993	3398	3532	3567	3594	3459	3399	3547	2590	3328

Source: A keresetek színvonala, szóródása és kapcsolata a családi jövedelemmel 1972, 1977-ben (The level, dispersion of earnings and their connection with family incomes in 1972, 1977) Statisztikai Időszaki Közlemények, Nr. 487, Budapest, 1981. KSH

in non-manual (intellectual) occupations with low qualifications by 22 percent, those of skilled workers by 6 percent, those of semi-skilled workers by 30 percent, those of unskilled workers by 53 percent.

It has also been discovered that according to data for 1972 the lifetime earnings of skilled workers catch up with those of semi-skilled workers at the age of 29 years and with those of unskilled workers at the age of 30 years. Persons in non-manual occupations with medium qualification catch up with the administrative personnel in respect of lifetime earnings at the age of 33 years and with those in non-manual occupations with low qualification level at the age of 47 years. The lifetime earnings of persons in non-manual occupations with higher qualification catch up with those of the administrative personnel at the age of 36 and with those of semi-skilled and unskilled workers at the age of 38 and with those of skilled workers at the age of 45 years. The data for 1977 reflect a deteriorating tendency also in this grouping: skilled workers catch up with the unskilled ones in respect of the lifetime earnings at the age of 28 years and with the semi-skilled workers at the age of 30 years. Persons in non-manual occupations with medium education catch up with the administrative personnel at the age of 32, with those of low educational level at the age of 43. Persons with higher education catch up with the administrative personnel at the age of 36 and with the unskilled workers at 38, with persons in non-manual occupations with medium qualification at 39, with those with lower education in non-manual occupations at 40, with semi-skilled workers at 41 and with the skilled workers at the age of 54 (!).

Connection between the level of qualification and earnings

In calculating lifetime earnings a strong correlation could be found between the level of qualification and earnings. One could see that, in general, the higher was the qualification of a certain group, the higher was also the level of earnings of those belonging to the group. In the following we try to obtain numerical estimates to describe this connection.

As a result of investigations and computations L. *Harsányi* [5] has come to the conclusion that educational level has only an indirect influence on the average wages of manual workers. The system of wage rates referring to the manual workers primarily takes the professional qualification and the differences in working conditions into consideration. Harsányi carried out a regression analysis and his relevant and surprising findings can be summed up in that, firstly, a higher educational level means varying differences in earnings in terms of Forints in the individual branches of the national economy (the difference in the incomes of persons with an educational level higher or lower than eight classes is 37 Forints in the agriculture and forestry and 79 Forints in the services). Secondly, additional wage originating from higher educational level is more characteristic in the manual worker groups. Thus, in the case of skilled workers it means 84 Forints addition to the monthly wage on average, in the case of semi-skilled workers 53 Forints, and in the case of unskilled workers 38 Forints. Educational level as a factor shaping the wage rate has a stronger effect than the average income-increasing one in certain individual occupational groups. Higher than average educational level means 125 Forints additional

income for electric mechanicians, 110 Forints for mechanical mechanicians and 106 Forints for toolmakers.

Higher professional (vocational) qualification has a stronger influence in terms of money on wages. Thus, of the 320 Forints difference between the monthly wages of the semi-skilled and unskilled workers 143 Forints can be considered as an advantage originating from a higher professional qualification; of the 620 Forints difference between the monthly wages of skilled and unskilled workers it is 416 Forints (calculated from the wage data of 1974). In comparison with an "ideal" basic wage level, of the factors contributing to the raising of wages, higher educational level means 6.8 percent for the skilled workers, 6.4 percent for the semi-skilled and 5 percent for the unskilled ones. For the same groups, the certificate of vocational training (as skilled worker) means 8.2, 1.2, 0.6 percent, respectively.

It is necessary to underline again one of the conclusions of the preceding computations. The system of wage rates for the manual workers exerts such an influence in consequence of which the educational level only has an indirect and rather slight effect on the wage level. This statement is also supported by the data of the Ministry of Labour. Although it turns out from these data that from the unskilled workers with different qualification levels, those with higher education receive by 20 percent higher earnings as compared to the average wage level of the unskilled workers, yet in our view it is not probable that in occupations which are characterized by physical strength and not by mental activity in the first place, these higher incomes are due to higher education. For example, in an analysis of the wages of semi-skilled workers, those who have had higher education take only the fourth place in a ranking by the eight types of school education, and the preceding places are taken – in accordance with our everyday experience – by those who have qualification in one or more skills or who have a certificate in some other skills.

In respect of non-manual (intellectual) occupations the role of the qualification level is more marked in those categories which can be investigated. Thus, all categories are considered that a person having higher educational qualification has the highest earning because of having exactly the diploma required by the given professional field, he is followed by the persons with highest education whose diploma would be suitable primarily for an other field but who attended beyond this also a course corresponding to the special requirements of the given professional field.

Other factors influencing earnings

The relatively low earnings of intellectuals as compared to those with lower educational level would not significantly change even if all incomes originating from the auxiliary (second) economy could be quantified. According to our empirical observations in Hungary, of the intellectuals (those with higher education) perhaps only those physicians can receive such incomes who also have private practice or who work in places where, as a rule, "money of gratitude" is given. At the same time one should not forget to mention those non-intellectual occupations where tip is almost traditional, or "grease money" is becoming more and more usual or there is a possibility to get extra money for activities performed by the help of state-owned facilities in worktime or after (side work or "black" transport).

Royalties paid after patents have also been neglected in our analyses, although they are substantial sums. For example, in 1979 they amounted to 242 million Forints and were divided among 4567 inventors. On average this means four and a half thousand Forints per month, i. e. rather significant additional incomes, though this affects the incomes of such a small group of persons in intellectual occupations that neglecting it could not cause a distortion in our investigations. It is not certain that we can similarly neglect those factors decreasing earnings the effect of which spreads over a much greater number of persons. For if somebody wants to acquire a higher qualification, this means for him five more years of schooling, the delaying of earning activity for the same period, significantly greater financial burdens over this time for his family. This is accompanied by the fact that he has to do without many such things that are natural in the way of life of persons of his generation.

These financial differences manifest themselves among others in the data published by T. *Huszár* [6]. According to his survey, while the ratio of those owing a dwelling or having an independent rented flat was 24 percent only among the 23–26 year old persons with diploma, among persons of the same age group with secondary school-leaving certificate it was only 22 percent, but among persons with 8–11 classes it was 31 percent and among those with less than 8 classes it was already 35 percent.

The maintenance and further development of higher professional knowledge require a substantial volume of activity performed outside of the worktime, which is again a factor working against additional earnings. The purchase costs of books and periodicals necessary for this activity have the same effect. T. Huszár writes in his above-mentioned book: "what is most decisive: the training and self-training of young university graduates cannot end with the final examinations at the university: the physician becomes a specialist over these years, the jurist a lawyer, a legal-adviser, the engineer, the agronomist become practical specialists. A lot has to be relearnt, re-applied, not to mention those who go to scientific fields and who have to perform tasks connected with product development and innovation. Under such conditions we have to consider it not only as a personal loss of the young university graduates that in their most productive years a great part of their energy has to be devoted to jobs ensuring supplementary earnings necessary for the foundation of their living, that as a consequence of this little – less – time is left for their profession, for self-training, general education. As a matter of fact it is necessary just in this period of life that certain habits develop (reading periodicals and books) which are necessary for the intellectual way of life, the learning of foreign languages and obtaining practical experience in it, for becoming familiar with foreign professional knowledge and, what is a precondition for all these activities, the rational organization of leisure time."

Over-application in the institutions of higher education

The question may rightfully emerge that if the situation of persons with higher educational level is so disadvantageous why there has been already for some years a many-fold over-application for admission to the universities and colleges in Hungary. The reason for this lies in that the work conditions of persons with higher educational level

are, as a rule, more favourable and their jobs are, by their very nature in general, more diversified and more interesting and they are placed high in the prestige ranking of the society. It is a thought-provoking observation that, according to a Polish survey [7], although in the prestige ranking of the occupations by incomes the first places were taken in the majority of cases by university graduates (persons with diploma), the second, fourth, and sixth places were occupied by private merchants, private tailors, private locksmiths, preceding even physicians, university lecturers, mechanical engineers. It is probable that a survey conducted in Hungary would produce a similar interesting ranking. It should also be investigated which faculties are characterized by over-application. The following interesting picture emerges before our eyes. In 1981 the over-application was 14-fold at the School of Dramatic and Cinematic Arts, 10-fold at the Applied Arts School, threefold at the Musical Academy. (These colleges account for only 1.8 percent of students participating in higher education.) The over-application was 8-fold at the language courses of the Faculty of Arts. (The students of the Faculty of Arts represent 5.5 percent of the total number of students in the higher education.) The over-application was threefold at universities providing education in the legal, medical and economic sciences [8]. (Students of these universities account for 25.3 percent of the total number of students at universities and colleges.)

These figures quoted so far indicate that apart from arts colleges at universities representing the really great part of the students it is the three fold over-application that is general which does not seem to be an extreme value. We have not yet mentioned the data for institutions representing the highest share of students (29.5 percent), those training general engineers and works engineers. In Hungary these specialists are trained at four universities and ten colleges. In 1981 the over-application was 1.65-fold at the technical universities and 1.32-fold at the technical colleges. (In 1973 the corresponding figures were 2.14 and 1.5, respectively.)

On the basis of these data we think one cannot speak of over-application at all, moreover such proportions do not even ensure that those actually admitted at the universities and colleges were suitable indeed to carry on studies. This is why it has happened several times that training could not be started with the originally envisaged, planned number of students at the first-term courses. At the Technical University of Heavy Industry in Miskolc, the plan was to admit 110 students to the faculty of mining engineering and there were 147 applicants 35 of whom were accepted. At the faculty of metallurgical engineering of the 88 applicants 33 were found suitable, the planned number was 50. At the faculty of mechanical engineering where the number of points necessary for admittance was 11–12, of the 508 applicants 154 received the desired number of points [9]. At the Technical University of Heavy Industry in Miskolc the ratio of applicants to the possible number of admittances was 84 percent, at the college of Metallurgical and General Engineering established in Dunaújváros it was 77 percent, and at the Mihály Pollack Technical College 77 percent.

Ideas about developing correct wage proportions

The point has been made several times on the basis of the various calculations presented so far: the present wage proportions are inadequate since they do not sufficiently remunerate the higher schooling level, the higher qualified labour. The question emerges with reason whether we can suggest better, more adequate, more incentive wage proportions. We have to admit that a suggestion concerning the correct wage proportions was not set as an aim of our investigations, it was rather to prove numerically the fact that the present wage proportions are inadequate and a review of some available international examples would perhaps set off thinking about this question, too. One of the best specialists in this field – and also the author of the greatest number of publications on this subject – is Psacharopoulos. Among others he was the author of the book compiled on the results of a survey conducted in the OECD countries in 1975 [10]. The following Table 8 which is taken from the book, compares earnings pertaining to the different years of the sixties with the levels of schooling.

Table 8
Annual earnings by the level of schooling compared to those with basic educational level
(percent)

	Year	Basic level	Medium level	High level
Belgium	1960	100	251	502
United States	1967	100	129	200
United Kingdom	1967	100	140	225
France	1968	100	183	289
Greece	1960	100	139	220
Netherlands	1965	100	131	252
Japan	1968	100	117	161
Canada	1961	100	144	263
Norway	1966	100	140	213
Italy	1969	100	141	244

Source: Psacharopoulos, G.: Earnings and education in OECD countries, Paris, 1975. Organisation for Economic Cooperation and Development.

It can be seen from the table that in all the industrially developed countries, except for Japan, the incomes of persons with higher educational level are two-three times as high as of those with basic educational level. (Figures for Belgium show such extraordinary high values that we are not going to make any reference to them in the future.) In case of Japan it is the book by É. Ehrlich that points out the causes why these specific ratios have emerged which are not characteristic of the other industrially developed countries. [11].

In Yugoslavia and the Netherlands the relative earnings of persons with different educational level were in 1969 as presented in *Table 9* if the earnings of unskilled workers are taken for 100.

Table 9
Relative earnings of persons employed
(Earnings of unskilled worker = 100)

	Yugoslavia	Netherlands
University level	273	269
Medium level	132	148
Skilled worker	132	115
Semi-skilled worker	111	100

Source: J. Kovács: Néhány gondolat a bérarányok távlati alakulásához (Some ideas concerning the perspective development of the wage proportions) Gazdaság, No. 2. 1972.

Some indicators have also been collected for the developing countries in the book discussing the situation in the OECD countries. For Malaysia, the Philippines, Ghana, South-Korea, Kenya, Uganda, Nigeria, and India an average of 639 percent was received as against the OECD average of 219 percent. Obviously, if we look at the level of economic development only and neglect the differences in the social systems (which is inadmissible in our case) Hungary would have to be placed in between the two values quoted above. It can be seen from the first part of the recent article that the pre-war wage proportions were similarly large in our country too – perhaps far too large.

In an interview László *Pongrácz*, head of the Economics Department in the then still existing Ministry of Labour, declared in 1981 that, according to his opinion, instead of the 1.7–1.7-fold wage differences prevailing in 1981, 2.5–2.7-fold differences would be adequate since he would allow more than János *Kovács* for the physical burdens of work performed and for the differences in working conditions (They are, as a rule, less advantageous for the unskilled workers than for the intellectuals).

Besides emphasizing again that we do not feel entitled to declare some concrete proportions as correct ones – although the suggestions of J. Kovács and L. Pongrácz seem logical – we consider it important to point out that whatever proportions our wage policy is going to realize, it should ensure at any rate that on average the higher qualificational level, the longer schooling are better paid. However, besides this it would also be indispensible that personal differences should be large enough, so that for example an excellent skilled worker could earn more than an average engineer. We are convinced that the development of more adequate wage proportions would also promote that those seeking admission to higher education should be the best of their generations indeed and that university graduates remain in their professions.

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ОБРАЗОВАНИЕ И ЛИЧНЫЕ ДОХОДЫ В ВЕНГРИИ

Л. ХОЛЬТЦЕР

На базе статистических данных и расчетов автор статьи доказывает, что нынешняя венгерская система заработной платы недостаточно дифференцированна в отношении не требующего специальной подготовки и высококвалифицированного труда.

Вначале автор на целом ряде примеров показывает, что нивелирование заработков привело в наши дни к образованию таких соотношений заработной платы, которые не стимулируют к повышению квалификации. В 1977 г. среднедушевые доходы в семьях специалистов с высшим образованием лишь на один процент превышали уровень по всему слою работников нефизического труда, а доходы рабочих высокой квалификации лишь на три процента были выше среднего дохода всей категории рабочих (квалифицированный рабочий, малоквалифицированный рабочий, разнорабочий).

Затем автор проводит сравнение и анализ различных видов т. н. «общежизненного заработка» (под этим он понимает совокупный заработок, получаемый работником, начиная с первого места работы до выхода на пенсию). При анализе «общежизненного» заработка в зависимости от уровня образования выясняется, что, например, «общежизненный заработок» специалистив с высшим образованием только к 40-летнему возрасту достигает заработка работников, не окончивших даже общеобразовательной восьмилетней школы. Анализ «общежизненного заработка» в зависимости от должности показывает, что если квалифицированные рабочие догоняют разнорабочих в возрасте 28 лет, а малоквалифицированных рабочих — 30 лет, то специалисты с высшим образованием догоняют административных служащих к 36, разнорабочих — к 38, работников умственного труда среднего звена — к 39, работников умственного труда низшего звена — к 40, малоквалифицированных рабочих — к 41 и квалифицированных рабочих — к 54 годам.

Затем статья на конкретных примерах показывает, что корреляционная связь между специальным образованием и заработком является весьма слабой, перечисляет некоторые другие факторы, определяющие заработок, а также знакомит с пропорциями заработной платы в некоторых развитых и развивающихся странах.

В заключение автор, приводя данные по поступлению в венгерские высшие учебные заведения, пишет, что если еще несколько лет назад проблему представляло слишком большое количество абитуриентов, то сегодня серьезные трудности вызваны тем, что число желающих поступить в вузы, в первую очередь технические институты и университеты, настолько невелико (на это немалое влияние оказывают отнюдь не заманчивые перспективы заработков), что вузы не могут отобрать из них нужного количества хорошо подготовленных первокурсников.

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EAST-WEST TRADE AND THE NEW EPOCH IN THE WORLD ECONOMY

The earlier dynamics of East-West trade broke down in the second half of the seventies. Equilibrium and price relations as well as the indices of the modernization of the supply pattern became unfavourable for the CMEA countries. The share of turnover strongly shifted in favour of the Federal Republic of Germany and the USA in the West, and in favour of the Soviet Union in the East. Within the CMEA countries different trends appeared in the positions and problems of the Soviet Union and in those of the smaller countries. The diminishing relative international importance of East-West trade over almost half a decade cannot be explained directly by political factors or sensitivity to business cycles, but much more by structural long-term processes. Not only greater economic effort, but also an improvement in the political atmosphere are needed to reverse this process.

The new long-term stage of development of the world economy which took shape in the seventies modified, over a wide range, not only the external conditions of growth of individual countries and groups of countries, but also the trends in the international division of labour. East-West trade relations were also influenced by such movements as the progress made by neo-conservatism, modifications in strategic reasoning and the deterioration of Soviet-American relations. How then are these changes reflected in the commercial relations between the two groups of countries, and what basic forces can they be attributed to.

General trends in East-West relations

The economic factors in the background of trade between the CMEA and OECD countries underwent significant modifications in the seventies. Economic growth slowed down in both groups of countries both for internal and for external reasons. According to figures issued by the Economic Commission for Europe of the UN the average annual growth rate of GDP fell in the OECD countries to below 3 percent in 1973–1981 against 5 percent attained in 1960–1973. In the CMEA countries the rate of expansion of the net material product also fell below 3 percent between 1979–1981, though it was still above 6 percent in the first half of the seventies. The slowdown of economic growth in the two groups of countries is part and parcel of the grinding to a halt of the earlier expansion in world trade. Between 1960–1973 the volume of world trade expanded by more than an average of 8 percent a year, by merely 3.5 percent on average in 1973–1981 and in 1980–81 it even stagnated. In the last two years the volume of total trade diminished by 1 percent in the developed industrial countries as well as the European CMEA countries. Changes in the quantity of trade were accompanied by different price effects and modifications in the terms of trade in the individual groups of countries, mainly as a consequence of the second oil price explosion. Thus e. g. between July 1978 and 1981

the terms of trade of the developed industrial countries deteriorated by 12 percent while those of the CMEA countries improved by 7 percent, but the latter figure covered a 24 percent improvement for the Soviet Union and a 6 percent deterioration for the other European CMEA countries.

International processes getting off the ground in the seventies furthered the deterioration in the long term world trade positions of the two groups of countries. In the decade between 1970–1980 the share of the OECD countries fell from 73 percent to 64 in world exports and from 72 to 70 in world imports. The corresponding figures for the European CMEA countries were 9.8 and 7.8 percent for exports and 8.8 and 7.6 percent for imports. The trends in East-West trade were much influenced in the last decade also by the diminishing relative importance of these two groups of countries in world trade.

Table 1
Main indicators of the dynamics of East-West trade

	OECD exports to			OECD imports from		
	the Soviet Union	other CMEA countries	all CMEA countries	the Soviet Union	other CMEA countries	all CMEA countries
Increase in volume, percent						
1975	43	4	20	7	1	4
1976	22	4	13	23	14	18
1977	−10	− 7	− 9	2	6	4
1978	15	2	9	1	2	1
1979	1	1	1	− 2	3	1
1980	8	− 4	3	− 6	− 1	− 3
1st half of 1981	27	−17	7	− 6	− 8	− 7
Increase at current prices, dollar-based, percent						
1975	66	12	32	6	9	6
1976	− 9	− 1	5	22	9	17
1977	0	2	1	14	10	12
1978	16	19	17	14	14	14
1979	20	17	18	41	26	35
1980	14	9	12	29	11	19
1st half of 1981	28	−16	9	5	− 7	0

Source: ECE Economic Bulletin for Europe, 1981

In the long run the CMEA countries' purchases expand faster in East-West trade than their sales; the stagnation of the export capacities of the CMEA countries has become particularly conspicuous in the last four years. Maintenance of their international

purchasing power was only helped by the favourable price effects, first of all by the consequences of the second oil price explosion in 1979. On account of the unsatisfactory development of the exports of the CMEA countries, deficits in East-West trade could not be effectively reduced in spite of the import restrictions introduced in several CMEA countries.

Table 2
Balance of trade of the CMEA countries with the OECD countries, bn dollars

	1975	1976	1977	1978	1979	1980	Jan.-May 1981
CMEA countries, total	–9.0	–7.2	–4.6	–6.3	–2.9	–0.4	–5.9
of which:							
Soviet Union	–4.3	–3.5	–1.8	–2.3	+ 0.5	+ 2.9	–2.6
other CMEA countries	–4.7	–3.7	–2.9	–4.0	–3.4	–3.3	–3.2

Source: see *Table 1*

The easing in 1979 and 1980 of the significant deficit of the first half of the seventies proved to be transitory, the import cover ratio of the CMEA countries was 83 per cent on the average of the seventies, and, according to estimates, 93 per cent in 1980 and 87 per cent in 1981. The general importance for equilibrium of the current balance of trade has been continually growing for the CMEA countries since the late seventies, as the debt servicing of earlier credits was, in 1979–1981, already about threefold of that in 1975–1978. Within the current East-West balance of payments a greater part of the deficit, since 1978, derives from the burden of debt servicing. Under given circumstances long-term equilibrium requires either the elimination of balance of trade deficits or the possibility of resorting to further and increasing external sources of financing.

No improvement can be experienced in the product pattern of East-West trade either. Although the changes in relative prices in the seventies affected the exchange of industrial products unfavourably on a worldwide scale, in the long run the industrial division of labour remains the most dynamic and greatest sector, of decisive importance for the international division of labour. It is particularly smaller national economies, less well endowed with natural resources and already on a medium level of development whose chances for economic progress are influenced by the nature and intensity of their participation in the international industrial division of labour.

In a world economic situation characterized by sharpening competition between suppliers, the structural development, and velocity of adjustment of individual economies are indicated mainly by changes in export specialization. The commodity pattern of exports to the West of the CMEA countries which joined the international industrial division of labour with a heritage of backwardness, relying on an import substituting, inward looking development strategy, somewhat improved between 1965–1975. At the end of the seventies it not only did not keep pace with the structural transformation of

the world economy and of world trade, but deteriorated even relative to the results achieved in the meantime. In 1980 almost one fifth of the exports of the smaller CMEA countries and about two thirds of those of the Soviet Union were of primary energy and a stronger expansion of the offer could be experienced only in the case of chemical products in which there emerged a worldwide oversupply. On the import side, the ratio of machinery and equipment which most closely affects general economic, structural and technological development and competitivity was still 34 percent on the average of 1971–1975, but fell to 27 percent in Soviet imports and to 28 in those of the smaller European CMEA countries by 1980. The share of food-stuffs on the other hand rose from 14 to 18 and from 9 to 16 percent, respectively.

Table 3
Product pattern of the exports of CMEA countries by main groups of products, percent

	Soviet Union				the other CMEA countries			
	1971–1975	1976–1980	1979	1980	1971–1975	1976–1980	1979	1980
Food and live animals	2.5	1.1	1.1	0.8	19.5	13.0	12.3	11.0
Beverages and tobacco	0.2	0.2	0.2	0.1	0.9	1.0	0.9	0.8
Raw materials	27.2	16.0	14.2	12.2	9.9	8.6	8.7	8.5
Primary energy	42.7	58.9	58.6	65.5	14.5	18.3	18.8	21.1
Oils and fats	1.6	0.2	0.1	0.1	1.3	0.7	0.6	0.4
Chemical products	3.6	6.0	7.4	5.7	6.8	7.4	7.1	8.5
Engineering products	4.6	4.5	5.2	3.5	12.7	14.5	14.3	13.9
Other manufactured goods	17.7	13.1	13.3	12.1	34.4	36.7	37.3	35.8

Source: ECE Economic Bulletin for Europe

Modifications in the geographical flows of trade were more significant than those in the product patterns. In the quarter of a century after the end of the Second World War an interrelation existed whereby in the period of embargos and major political tensions, the neutral countries played a much greater role in East-West trade. The absence of political discrimination stimulated the development of relations and the neutral countries also played an important mediating role in trade. At the beginning of the process of détente, in 1970, the four neutral OECD countries in Europe, Austria, Switzerland, Finland and Sweden had a barely 8 percent share in the total exports of the OECD countries, but a 20 percent share in their Eastern exports. In the seventies, the small

neutral countries could only cope with difficulty with the structural development, buy-back and economic organizational requirements related to the nature of the import demand of the CMEA countries, and their weight was only 16 percent in 1979 and 15 percent in 1980. At the same time, the importance of the two leading world trade powers, the USA and West Germany, showed a strongly rising trend in Western exports. In general, it was the large corporations of the leading world trade powers that possessed the complex expertise more extensive organizational background, technology-transfer capacity, potential for "sitting-out" the longer contracting time needed for cooperation in the investment projects of the CMEA countries and for the solution of the novel problems emerging in the cooperation between capitalist and socialist countries. Thus the share of the USA within Western exports was 6 percent in 1970, 15 percent in 1979, and 10 percent in 1980 (when President Carter imposed his sactions), while the corresponding figures for West Germany were 21, 23 and 25 percent. In 1981 the importance of the USA as exporter further increased (American grain supplies,) Thus, at present, almost half of the Western exports derive from these two countries.

The geographical concentration is similarly fast growing on the Eastern side of the trade between the two groups of countries.

Table 4
Distribution by countries of the trade of the CMEA with the OECD, percent

	Exports		Imports	
	1970	1980	1970	1980
Soviet Union	42.1	58.0	40.7	50.1
Poland	17.1	12.5	12.4	14.8
GDR*	6.6	6.4	6.8	6.2
Czechoslovakia	11.7	8.0	12.2	7.4
Hungary	8.8	6.4	9.9	7.7
Romania	9.1	7.7	11.1	9.0
Bulgaria	3.8	2.3	2.3	3.9

* Excl. trade with the Federal Republic of Germany
Source: see *Table 1*

In consequence of the great Soviet purchases in 1981 (around 20 percent) and the less favourable trade performance of the smaller CMEA countries, first of all Poland, the share of the Soviet Union in East-West relations has become about 60 percent. Because of the dimensions of the Soviet market, and the hardness of the sources of energy in Soviet exports, the importance of the Soviet Union has become revalued in the eves of Western trading partners relative to earlier periods.

This survey of the general trends in East-West relations shows that, in recent years, the earlier dynamics of extablishing relations has indeed broken down, nor do the indicators of either structural transformation or of equilibrium hold out much promise

from the viewpoint of long-term development. The asymmetry of interests related to the different importance in world trade of the two groups of countries is increasing. On the average of the first half of the seventies East-West relations still represented round 3 percent of world trade, in 1980 only 2.4 percent. In 1980 3.8 percent of the total exports of the OECD countries went to the European CMEA countries and 3.1 percent of their imports came from there. At the same time, in the imports of the CMEA countries the share of the OECD countries was 35 percent and in their exports 30 percent. As regards the present level and medium-term possibilities of economic cooperation the order of magnitude of relations maintained with the CMEA countries lags much behind either the oil-producing Middle-East countries or the Far-Eastern countries which are becoming industrial exporters, or the Latin-American countries.

At the same time, trends in East-West trade indicate a fragmentation of the conceptual unity of problems, which are increasingly becoming differentiated from the viewpoint of the individual countries. On the Western side the interests and freedom of movement of leading commercial powers and small neutral countries deviate to a growing degree. The positions related to East-West trade of the Soviet Union and the other CMEA countries are less and less similar. The changes in relative international prices affected Soviet foreign trade extremely advantageously; in consequence of its huge purchasing power, the strategic importance of its exports present an attractive foreign trading partner. In the short run it is less vulnerable to various economic policy measures. On the other hand, the relative positions of the smaller Central European CMEA countries, which had earlier been the backbone of East-West relations, continually deteriorated in the seventies. In the wake of the unfavourable price changes with a lasting impact, the vulnerability and low dynamics of their exports they have in recent years been pushed to the periphery of East-West trade and world trade. Increasing differences have developed also among the smaller European CMEA countries in respect of their freedom of movement in the world economy. This process of differentiation, observable on both sides, in itself suggests that those statements and problem identifications which rely on an examination of East-West trade in large aggregates are of doubtful validity, and thus call for specific investigations, identification of problems and solutions. Bearing in mind the limitations of broad generalizations, it will be expedient to investigate more closely the forces which basically influence the development and foreseeable future of trade relations between the two groups of countries.

Political sensitivity in East-West relations

The state of the international situation in the 1980s, general strategies of growth and foreign trade and the experience of the embargo policies of the fifties prompted many specialists in East-West affairs to look on the motive forces of economic relations between the two groups of countries as political in nature. The position taken by the Swedish Nobel prize laureate economist Gunnar *Myrdal,* that every essential change in the development of East-West relations can be explained by political factors, is widely accepted among students of both OECD and CMEA affairs. These views have gathered particular momentum since the end of the seventies and then, in the wake of the embargo measures declared by Presidents Carter and Reagan.

The newer standpoints emphasizing the political determination of East-West trade relations are based on changes in and new interrelations between international economic and technological development, and strategic thinking. The deepening of the international division of labour after the Second World War and the internationalization of the development of the forces of production has continually increased the extent to which the foreign relations of the individual economies have become intertwined. The value of world trade (exports and imports) relative to the value of world GDP was still 15 percent in 1938, and already 33 percent in 1980. The unit costs of building up the effective research and development capacities necessary for technological progress, economic growth, and the improvement of competitivity, are growing at a rapid rate. The interests related to reducing the social costs of technical progress and structural change stimulate and urge international economic cooperation of an even widening scope. At the same time, with the growing complexity of technical progress, the growing demands it makes on the socio-economic environment, its costs and sensitivity to the time factor, the methods of "technological copying" circumventing patent rights, which had served well Japanese growth at the beginning of the century, are more and more costly and restricted and, because of the loss of time also less expedient. The growing dependence on imports of the industrially developed countries in consequence of the growing depletion of their mineral resources, however, raised problems in the seventies concerning the safety of supply of natural resources.

The increased dependence on the world market of particular economies has created an objective material base for foreign trade relations to serve power policy interests to a much greater extent than before since, in countries sensitive to foreign trade, an unexpected closure of either markets or sources of supply may force the affected trading partners to engage in costly substitution programmes and forced growth paths – as well as elicit socio-political tensions. Owing to the strategic equilibrium which had taken shape by the seventies and the resultant obstacles to applying military pressure, foreign trade turned into a strategic instrument suitable for influencing the international power relations. The growth in the strategic importance of foreign economic relations was accelerated by the deployment of the oil weapon in 1973–74 and its later conceptualization on the power policy level on the part of Zbigniev *Brzezinski,* US National Security Advisor at the time.

In the wake of the fading away of the leftovers of the Cold War in the sixties and the first half of the seventies the Western constraints on cooperation between the two groups of countries were eased in East-West relations. But, in consequence of the deterioration in Soviet-American relations the Carter administration, attributing strategic importance to the food weapon, imposed a grain embargo on the Soviet Union in 1980. Owing to the extremely meagre results of the latter and the export losses for America, the *Reagan* administration in late 1981 wished to exert political pressure mainly by restricting the exports of technology.

Technological pressure is nothing new, either. American measures making the export of modern technology into the CMEA countries more difficult have become more frequent ever since 1977. Following American steps, the January 19–20, 1982 meeting in Paris of the COCOM, the NATO commission coordinating exports of strategic goods to the socialist countries ordered a stricter control of export prohibitions. (The resolution was a compromise: the West-European countries and Japan resisted US pressure urging a

general export ban on products carrying the most modern technologies, first of all computer technical and electronic goods.)

Thus, the presence of the power policy intentions and the use of political pressure, is undeniable in East-West relations. But the international experiences of the long-term history of intentions aimed at a government level control of economic processes also call attention to the fact that government decisions do not automatically imply implementation. The lack of harmony between intentions and facts can be considerable if objective economic laws and interests are – if only in part – neglected.

The trends in actual trade at any rate challenge the political determination of East-West relations. Power policy is not aimed at the restriction of Western imports from the CMEA, but of exports of technologies thereto and of grain exports to the Soviet Union. Its geographical target were the Soviet imports, thus the Western imports of the Soviet Union should have diminished. The real sensitivity to politics of Soviet-Western trade is well shown by the fact that, in spite of the export ban measures, the Western imports of the Soviet Union increased in 1980, at current prices, by 20 and in the first half of 1981 by 16 percent, while at the same time those of the smaller CMEA countries, unaffected by political restrictions, increased by only 8 percent in 1980 and fell by the same percentage in the first half of 1981. The expansion of Soviet imports is all the more remarkable as the total exports of the OECD countries expanded in 1980 by 18 percent, while they diminished by 2 percent in 1981. Thus, the export restrictions not only had no re-channelling effect, but exports to the Soviet Union increased in both years faster than the total exports of the OECD. Looking back upon half a decade, it can be said that, relative to the first half of the seventies, the growth rate of Soviet imports of engineering products that can be described as strategic gradually diminished. Thus the rate of increase of imports of non-electrical products (SITC 71) was 14 percent in 1977, 7 in 1978, –6 in 1979, – 5 in 1980, while that of electrical machinery (SITC 72) was, in the same order, 41, 19, 8 and 7 percent. Thus, the rates of increase of machinery imports, sensitive to politics, show a declining dynamics. This is not necessarily a consequence of the export restrictions, but reflects to considerable extent the structural changes in the Soviet import pattern, the above-average dynamics of the import of foodstuffs and other agricultural products.

In spite of the difficulties experienced by détente and Western export restrictions it was not political, but economic aspects that come to expression in the trends of Soviet imports that could be described as sensitive to politics. Western interests connected to the exploitation of the increased Soviet purchasing power in consequence of the 1979–80 rises in the price of crude oil are at play. At a time of growing competition the traders of countries struggling with equilibrium problems cannot be held back from the markets of countries with adequate import purchasing power even by political pressure. The long-term determining role of political sensitivity cannot be supported even by the geographical pattern of trade of the CMEA countries. In the fifties, at a time of Cold War, then in the years of détente in the seventies, and then when relations cooled, in a radically different political climate, after 1979, the weight of the OECD countries in the trade of the CMEA hardly changed, fluctuating between 27–32 percent. The modest long-term changes in the geographical pattern of CMEA trade are not to be explained, either, by merely external, particularly external policy factors, but are signif-

icantly related to the development strategy concepts of the individual CMEA countries and their actual economic problems.

There exists a less frequently mentioned domain of political sensitivity which affects essentially the smaller industrialized CMEA countries exporting manufactured goods, but this is unrelated to strategic factors. The growth performance of the small socialist countries, their technological and structural development, and their terms of trade greatly depend on the introduction of more modern forms of industrial cooperation with Western countries and firms and on boosting the export of modern manufactures to the OECD countries. In the seventies this process was made difficult by the domestic policies of the OECD countries, by the economic policies of centre-left or social democratic governments committed to the trade unions, emphasizing the viewpoints of job-protection. With more uncertain internal power relations and in an uncertain world political climate capitalist entrepreneurs as well showed less inclination for establishing more modern forms of interfirm cooperation which anyway involved greater risks and generally promised returns in the long run only and in the case of lasting stability.

The role of business cycle and structural factors

Many other experts of East-West trade relations call attention to the strong cyclical fluctuations, to the sensitivity of East-West relations to business cycles, and derive the development of relations essentially from the business cycle of the OECD countries. It will therefore pay to examine to what extent assumptions neither emphasizing nor discarding political determination can be shored up by the actual trends in trade.

Table 5
Growth rates of the foreign trade of the OECD countries, percent

	1975	1976	1977	1978	1979	1980	1981
Total exports at current prices	3	11	14	20	23	18	−1
Total imports at current prices	4	13	13	16	28	22	−5
Total exports volume	−1	12	4	5	7	2	−3
Total imports volume	−2	11	5	5	7	1	−5

Source: UN Monthly Bulletin of Statistics, ECE Economic Bulletin for Europe

Table 1 already indicated that the exchange relations between the two groups of countries showed wide fluctuations indeed in the seven years under review. But the fluctuations in the rates of growth of trade are much stronger in the case of East-West relations than in the total trade of the developed industrial countries. The volume of trade of the developed industrial countries expanded at a rather even rate; with the exception of the critical years 1980–81, the growth rates at current prices do not show greater dispersion relative to the medium value in spite of the strong inflationary process. The growth rates of East-West trade show very great fluctuation both in terms of volume and at current prices. The size of these fluctuations much exceeds that of fluctuations in either world trade or in the trade of the OECD countries, or even in the trade of the developing countries.

The fluctuations in East-West trade cannot be explained simply by the phenomena of market anarchy, since they are much stronger than the swings of the business cycles of the market economies. Nor can they be explained by the foreign trade policy dispreferences of the OECD countries, since the import policy dispreferences against the four industrialized Far-Eastern countries which are responsible for more than 60 percent of the industrial exports of the developing countries (South-Korea, Taiwan, Hong-Kong and Singapore) were already stronger and multiplied at a far greater rate than those against the CMEA countries. In spite of this, the exports of these countries to the OECD expanded at a more even (and faster) rate. What might be relevant is the necessarily uncertain position of countries in a peripheric market situation, which do not supply essential goods, are not competitive and are in weak bargaining position. It might be argued that a decline in markets first squeezes out the marginal suppliers, and that these obtain with the greatest delay the benefits of the upswing and of an expanding market. Nor should it be forgotten that the Soviet Union is a supplier of essential goods in great demand. The order of magnitude of its demand and supply means that it is not a peripheric or a marginal supplier, and primary energy shows a great indifference to the development of the political atmosphere. Nevertheless the annual fluctuations in Soviet-Western trade exceed those of the other CMEA countries. Further doubts are raised concerning the validity of the argument related to sensitivity to business cycles by the circumstance that in the period of the general economic and foreign trade expansion of the OECD countries in 1977–79, when their trade expanded by 18 percent, the volume of CMEA exports increased by merely 6 percent, in spite of the palpable export drive and the modifications in development strategies. At the same time the export of manufactures from developing countries increased e. g. by 25 percent.

The cyclical movements of the capitalist economy, which show diminishing swings on account of the accelerating structural transformation and the preponderance of the service sector do not suggest that the capitalist business cycle is the main determinant of the development of East-West relations. It would be a grave mistake, however, to deny the role of business factors in influencing relations, but it can hardly be gainsaid that the role of cyclical factors asserts itself, particularly in the case of the smaller CMEA countries, mainly in a given product structure. Following the acceleration of the structural transformation in the OECD countries it has happened since the late sixties that the movements of particular sectors of the economy are not related to the general national cyclical movements but rather to longer-term processes of a structural nature on an unfolding worldwide scale. Sectoral lagging-behind, obsolescence, underutilization of

resources, excess supply have come about in close sequence in the textile, garment, leather, shipyard, railway rolling stock, steel-making and heavy chemicals industries. The general economic, industrial and import policies of the OECD countries are increasingly aimed at averting and mitigating the structural crisis phenomena emerging in a growing number of industries. In keeping with this, beside the general liberalization of conventional trade policies continuing also in the second half of the seventies (the GATT negotiations in Tokyo), a new type of sectoral protectionism, frequently independent of the general atmosphere of trade policies, is becoming stronger in most of the industrialized countries, even on the level of the Common Market. The various obstacles to access to markets (tariffs, non-tariff obstacles, measures restricting import competition, voluntary export restricting agreements in a bilateral framework), are focussed on the markets of a definite, though widening, scope of industries. The deterioration of the export positions of the CMEA countries is most immediately related to the fact that, beside the earlier increased restrictions on agricultural exports raised by West-European agricultural protectionism (whose relative importance is somewhat diminished by the fact that there are nc adequate export stocks available in some CMEA countries), also the overwhelming part of exports of manufactures falls to such products and groups of products which are considered as market-sensitive by the Western structural policies, and the imports of which they restrict with varying force in keeping with crisis phenomena. No doubt, it also contributes to fluctuations that not every CMEA country has concluded longer-term agreements regarding the products of the crisis-stricken industries with its Western trading partners which, though restricting the dynamics of exports, yet promise greater market stability. Thus, the fluctuations in CMEA exports are also related to the structural characteristics of supply, to its extreme and lasting sensitivity and not just to the phenomena of the general business cycle.

On the import side, it is much more difficult to find a direct explanation in a world market situation which is characterized by sharpening competition amongst sellers and a buyers' market generally. In such a case the large fluctuations in CMEA imports can hardly be explained by external market problems. The reasons are of an endogeneous nature in the prevailing world market situation and indicate that the general foreign trade planning and organizational system of the CMEA countries cannot cope with the tasks required by an even growth of imports, involving the smallest possible internal tensions.

Thus among the causes of the coming to a halt of the earlier impetus of East-West trade a large role is played by problems deriving from the limited export stocks of the CMEA countries and its structural features. On the basis of the developments in the past five years it is becoming clearer over a widening range that the above-average sensitivity to the business cycle of East-West trade derives from structural factors, particularly in the smaller CMEA countries. Unfavourable price trends, deteriorations in the terms of trade, and external economic policy constraints may be considered as the price to be paid for specialization in the export of commodities which are in excess supply. The growing weight of the Soviet Union and the growth of its import capacity can also be explained indirectly by world economic structural effects and advantageous price effects, but their stimulating impact is limited in time.

The perpetuation of these economic processes that have been in force for some years already may further reduce the world economic importance of East-West trade – even

without a further deterioration in the political atmosphere. It limits major cooperation with the CMEA countries, the diplomatic and foreign economic scope of movement of those OECD countries which have up to now exploited it in expanding their international positions (Federal Republic of Germany, France). It also influences, in a disadvantageous way, the conditions of the reproduction processes particularly in the small CMEA countries and, through its combined impact, it weakens the economic interest in maintaining the international atmosphere of détente. Although the weakening of trade relations between the two groups of countries has not been triggered off by political factors, in can hardly be challenged that a reversal of the disadvantageous trends evolving in recent years demands above all economic and political efforts going beyond the sphere of foreign trade. This, however, is inseparable from the elimination of the present political tensions, and the creation of a political atmosphere of mutual trust necessary for more intensive and more up-to-date economic cooperation.

ТОРГОВЛЯ МЕЖДУ ВОСТОКОМ И ЗАПАДОМ И СМЕНА МИРОХОЗЯЙСТВЕННЫХ ЭПОХ

Б. КАДАР

Международное значение торговли между Востоком и Западом уже с середины 1970-ых годов характеризуется тенденцией к относительному сокращению. На относительное сокращение этой торговли повлияло замедление общего роста экономики и внешней торговли, значительное увеличение несбалансированностей во внешней торговле. Проблемы, связанные с несбалансированностью, а также замедление общего экономического роста в значительной мере отвлекают внимание от того факта, что товарная структура торговли между Востоком и Западом и интенсивность международного разделения в промышленности не следовали на длительной перспективе за международными тенденциями.

Проблему торговли между Востоком и Западом все более осложняет концентрация, наблюдаемая на обеих сторонах географического распределения этой торговли. В отличие от 1950-ых и 1960-ых годов, ныне на долю СССР, а с другой стороны, — ФРГ и США приходится подавляющая часть этой торговли, в то же время значение малых стран-членов СЭВ и ОЭСР постепенно уменьшается.

Несмотря на растущую роль больших стран в этой торговле не следует приписывать новейшие тенденции в отношениях между Востоком и Западом политическим факторам. Несмотря на стратегическую переоценку внешнеэкомических связей в мировом масштабе и использование во внешнеэкономических целях технологических и экономических факторов, Советский Союз, обладающий соответствующей платежеспособностью, продолжал увеличивать свой импорт и в последние годы, в то время как в позициях малых стран-членов СЭВ, менее подверженных экономической дискриминации, но располагающих более слабым экономическим потенциалом, появились симптомы периферизации. Ухудшение политической атмосферы повлияло отрицательно в основном на кооперационные связи, требующие доверия и стабильности, но составляющие малую часть всего товарооборота. Большие колебания товарооборота и слабые результаты в экспорте малых стран-членов СЭВ в большей части не обьясняются конъюктурными движениями, а они отражают, скорее всего, последствия превышения предложения над спросом на мировом рынке, отставания отраслевой структуры их экономики и в связи с этим, усиленной специализации на производство товаров, сталкивающихся с препонами внешнеторгового протекционизма. Структурный характер настоящих проблем отношений между Востоком и Западом требует особенно интенсивных усилий в политике развития и улучшения политической атмосферы.

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M. N. OGBONNA

AN ANALYSIS OF ACP-EEC TRADE AFTER LOME I CONVENTION*

This paper is an effort to assess the performance of the Lome I Convention on the trade patterns and to establish whether there was truly free access of the ACP countries products to the EEC markets or not, and whether there was any noticeable growth of trade for the ACP states.

Any economic relationship between the industrialized world and any group of third world countries has always been viewed with suspicion and thought to be more beneficial to the industrialized countries. This results from the classical formulation of the doctrine of comparative and free trade followed by economic imperialism. The result of these doctrines was that the third world countries merely served as a source of raw materials for the metropole as markets for the disposal of manufactured goods made with the same raw materials and as source of investment for the surplus capital looking for profitable outlets.

It is wrong to assume, however, that any such association between the industrialised countries and any group of less developed countries is always for the former to exploit the latter. In our times, the relations are much more complicated and in most cases contain positive elements as well for both groups. One of such cooperative agreements in recent history between the forty six ACP states and the nine European Economic Community states was concluded on February 1st 1975. This agreement known as Lome I, was signed in Lome, the capital of Togo on February 28, 1975. The agreement covered most of independent black *Africa,* the *Caribbean,* the *Pacific* and the Indian Ocean Islands (ACP). The agreement was supposed the provide the African, Caribbean and Pacific countries with greater development possibilities, through five channels as follows:

1. Priveleged access to the EEC markets for all ACP states exports most of which would be imported duty free;
2. A. stabilization fund to compensate the ACP states for any fall in the market prices of a number of basic products;
3. Financial aid, amounting to 3390 million EUA (US $ 4068 million) from the Community to ACP states over the life of the agreement as development assistance;
4. Industrial cooperation, to provide a better international distribution of labor in favor of the ACP states and lastly,
5. Joint EEC-ACP institutions (Ministerial Council and an Ambassador's Committee) to make sure that the agreement was correctly applied.

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The Lome I was signed on February 28th, 1975 and expired on March 1st, 1980. And now that it is come and gone, a look at its achievement is worthwhile. This paper, therefore, is an effort to assess the performance of Lome I on the trade patterns and to establish whether there was truly free access of the ACP products to the Community's markets or not, and whether there was any noticeable growth of trade for the ACP states. In doing this, it is necessary first to look at the characteristics of the economies of the two groups which negotiated this agreement.

Tables 1 and *2* present economic indicators of the European Economic Community – Belgium, Denmark, France, West Germany, Ireland, Italy, Luxumburg, Netherlands and the United Kingdom. (Greece has lately joined the Community) and the ECOWAS – (the Economic Commission of West Africa), representing the ACP, respectively. Generally, it can be said of the Community as being highly industrialized with greater percentage of the population engaged in industry and manufacturing and having a substantial foreign trade sector. It had an average per capita GNP of $ 4833.00 *(Table 1)* as against the USA $ 7755 [1] [2] . For the other group, as represented by the Economic Council of West African Countries *(Table 2)* the ACP is largely agricultural, exporting a few agricultural or raw/ primary commodities, with the foreign trade

Table 1
Economic indicators of EEC countries.[2]

$\frac{\text{Exports}}{\text{GNP}} \frac{100}{1}$	Degree of openness of economy 1976	GNP in EUA million		GNP/per capita	Population in agric.	Population in industry
Belgium	46.5	49 950	(1975)	5.000	3.6	41.2
Denmark	23.8	34 160	(1976)	6 737	9.8	31.5
France	16.6	311 510	(1976)	5 900	11.3	38.6
West Germany	N. A	400 320	(1976)	6 400	7.3	46.0
Ireland	41.4	7 150	(1976)	2 265	24.3	30.3
Italy	21.8	152 100	(1976)	2 700	15.7	44.1
Luxemburg	46.5	1 828	(1975)	5 091	6.2	47.2
Netherlands	44.8	80 220	(1976)	3 538	2.7	40.9
United Kingdom	21.0	198 300	(1976)	3 538	2.7	40.9
Average[1]		137 282		4 833	10.0	39.0

Source: Extracted from Courier No. 48. March-April 1978, pp. 28–33

1 calculated from the table

2 Had a population of 260 million in 1975 with a land area of 1.529 thousand km^2. Commanded 37.7 percent of world imports and 36.1 percent of world exports as against the USA 11.4 percent and 12.9 percent and USSR 4.4 percent and 4.1 percent respectively – Courier, No. 48, March–April, 1978. p. 27

accounting for a reasonable proportion of the GNP except in few cases. Industry and manufacturing have not been significant parts of the economy. The table highlights the importance of foreign trade to the ACP states and thus the need for such a trade cooperation.

With this background, the provisions of the relevant aspects of the convention in relation to the trade agreements are examined. Title I of Lome I states the objective as to "promote trade between contracting parties taking account of their respective levels of development and, in particular, to ensure and secure additional benefits from trade to ACP states so as to accelerate the rate of growth of their trade; and to improve the condition of access of their products to the Community's markets . . . so as to ensure a better balance in the trade of the contracting parties" [3]. A further guarantee of access of a wide range of products *"originating"* in the ACP states was provided. It was hoped that under this arrangement about 96 percent of the total exports of the ACP states would have access to the EEC markets. The remaining 4 percent would be ACP products which under EEC agricultural policy would not have access [4].

In return for this, the ACP should not discriminate among the member states and should further grant to the community no less favorable condition than the most favored

Table 2

Economic characteristics of ACP states represented by ECOWAS

ECOWAS countries representating ACP	Per capita GNP In U. S. $ 1976	Percentage of population in agriculture	Export GNP ratio (1976)
Benin	133	47.1	17.4
Cape Verde	570	–	1.1
Gambia	183	79.2	33.7
Ghana	584	53.0	14.5
Guinea	154	81.6	23.0
Guinea Bissau	460	83.8	7.6
Ivory Coast	609	81.0	38.4
Liberia	452	71.6	66.1
Mali	101	88.3	14.3
Mauritania	340	84.3	38.7
Niger	156	89.6	18.1
Nigeria	380	56.0	33.2
Senegal	386	76.0	25.9
Sierra Leone	201	67.1	16.7
Togo	261	69.6	17.4
Upper Volta	115	83.2	7.5

Sources: 1. The Courier EEC-ACP, Jean Durleux, Brussels No. 51, D 79. p. 95
2. Modern Africa, Johnston International Publishing Copr. London, Vol. III. No. 4 1979 pp. 20–21
3. The Courier, November–December D 78, Annex 6. No. 52, p. 82

nations [5). Recognizing that foreign exchange receipt was important to the ACP states for their development process and that the bulk of exports from the vast majority of developing countries were primary, representing some 60 percent in the non oil producing countries, the question of maximization and stabilization of their export receipts was accorded priority rating in the trade cooperation agreement of Lome I. In *three-quarters* of the third world countries, *more than half* and often as much as 90 percent of export earnings are derived from between one to three commodities. And raw materials markets are notoriously known to be unstable with attendant consequences on prices and incomes. Excessive fluctuations in the price of many raw materials prevent long term planning.

To remedy this situation, Title II of Lome I provided a mechanism known as Stabex which would take care of the harmful effects of the instability of export earnings, in order to enable the ACP states achieve the stability, profitability and sustained growth in their economies. The Stabex arrangement was to guarantee the stabilization of the export receipts of the ACP states of certain products to the community. These products constituted the mainstay of ACP states and were constantly subjected to price and quantity fluctuation. *(Table 3)* lists out products covered by the Stabex and all of them were agricultural products except one item – iron ore.

Table 3
The products included for Stabex arrangement Lome I

1. *Ground nut products* – ground nut, shelled or not, ground nut oil and cake	7. *Hides and skin* – raw hides and skin cattle, sheep and goat, skin leather
2. *Cocoa products* – cocoa beans cocoa paste, cocoa butter	8. *Wood products* – wood in the rough, roughly or half-squared wood, sawn wood (length wise)
3. *Coffee products* – raw or roasted coffee, extracts, concentrates of coffee	9. *Fresh bananas*
4. *Cotton products* – uncombed or uncarded cotton, cotton linters	10. *Tea*
5. *Coconut products* – coconuts copra, coconut oil, coconut oil cake	11. *Raw sisal*
6. *Palm products* – palm oil, palm nut and kernel oil, palmnuts	12. *Iron ore* – iron ore concentrates and roasted iron pyrites

Source: Articles of the Lome Convention.The Courier No. 35, 1975

To implement the Stabex scheme, the Community provided 375 million EUA initially from the total of 3990 million EUA earmarked for financial and technical cooperation during the pendency of the convention. For its operationalization (the Stabex) a reference level was drawn up for each product and for each ACP state. If receipts dropped below the reference level by the dependency threshold percentage, the ACP state concerned would request the community to pay it a sum corresponding to the shortfall provided (a) the export of the commodity went to the Community and was consumed or processed in Europe; (b) the export of the commodity must represent more than 7.5 percent of the total receipts of the state concerned. This threshold of dependency was 2.5 percent in the case of the thirty-one least developed ACP states, the nineteen islands, and the thirteen land-locked ACP states.

In order to encourage industrialization and manufacturing, Article 26 provided for transfer of technology to the ACP states; adaptation of such technology to their specific conditions and needs; expansion of research facilities in the ACP states and promotion of marketing arrangements for the ACP products in foreign markets, so as to increase the share of ACP states in international markets of manufactured products. To facilitate the above, the community undertook to set up programs: and projects of infrastructure, industrial training, technology and research, small and medium-sized firms, industrial information and promotion of trade cooperation.

For trade, financial and technical cooperation the overall Community's aid was put at 3390 million EUA. This comprised 3000 million EUA from the European Development Fund allocated as follows:

Non-repayable grants	210 (million EUA)
Loans on special terms	430 (million EUA)
Risk capital	95 (million EUA)
Stabex Fund	375 (million EUA)

The balance of 390 million EUA was expected to come from the European Investment Bank (EIB) which is the Community's institution that specializes in investment contribution to economic development. (See Article 46 for projects included under the financial and technical cooperation.) Under Lome I the Community Aid was provided as part of the development plans and programs for each ACP country called the "indicative programs". 'The indicative program' was drawn up jointly by agreement between the Community and each ACP government; and it normally consisted of items based on proposal by each of the countries and subject to the particular ACP government's own priorities.

In examining the performance or achievements of Lome I with particular reference to the trade negotiations, three aspects of Lome I are closely assessed; namely: (a) Guaranteed access of the ACP products to the Community's markets. (b) Growth of trade between the ACP and the EEC and the market shares of EEC and its competitors Japan, USA vis-a-vis ACP states and (c) a better balance of trade between the Community and the ACP states.

The question of access posed no problems, simply because, both the Community and the ACP states had been traditional trade partners ever before the Lome I Convention was entered into. They knew the equilibrium values of their imports and exports. Most of the ACP export items had zero tariffs as stipulated by both the GATT and the UNCTAD. Furthermore, most of the ACP exports were important raw materials to the

Community. The problem with the preferential access of the ACP products was that earnings were not guaranteed as well. This meant an erosion of much of the benefits the ACP states would have derived from such preferential treatment since the EEC contracted similar trade cooperation agreements with other non ACP states. However, it is not easy to be everybody's best friend. Therefore, one must expect a difference between the GSP '(General Scheme of Preferences) granted to everybody and the preferences granted to the ACP states in particular.

In theory 96 percent of the ACP products, manufactures and foodstuffs were deemed free to enter the Community's markets. In practice, however, there was no easy and free access for the products. During the pendency of the Lome I Convention, the Community applied the strict rules of ,origin' which kept off many of the ACP products particularly, manufactures, from their markets. Potential export products from the ACP states must 'originate' from the ACP state exporting it. This included even the equipment used in production, all of which must originate from the country. Textiles and clothing which were good candidates from the ACP states as export commodities and produced cheaply in some ACP states, qualified in theory under MFA (Multi Fibre Agreement) to enter, in practice never entered. Most of the equipment used was imported. Quality again would not have been as good as to pass the 'quality clause'. Cost of production was high in some cases (such as Nigeria) when compared with the Asian producers.*

Low productivity of most textile mills in West African states and low wages in Asia would make in difficult for the ACP states to compete. Besides, the materials and equipment used in production must be of local origin, all these conditions tended to negate the free entry clause in the Convention agreement. In the final analysis, textiles and clothing goods from all the ACP states accounted for only 5 percent of all textile and clothing exports to the Community: in effect, the quantitative restrictions on textiles in spite of guarantee under MFA would definitely effect the ACP competitive position in the EEC markets. These quantitative restrictions were designed to protect weak industries in the EEC member countries which also allowed them to erect temporary trade barriers [7].

Evidence produced in *Table 4* suggests that there is not a significant increase resulting from the free access clause of the Lome I Convention.

The value of ACP exports to the Community was 10 500 million ECU in 1974, 8711 million in 1975, 12465 million ECU in 1977 and went to 19.000 million ECU in 1980. Compared with the figure of 1974 before the Lome I came into being (1974–ECU 10 500 million) shows that even at the 1980 figure of 19 000 million ECU improvement due to free access from which many countries already benefitted under the two Yauonde conventions and the Commonwealth preferential system was not enough to push up the sales of ACP goods in the Community [8].

If account is taken of the range of products which the ACP states offered during the period, and their production structures in these states, in would be difficult to conclude that prospects and outlets were substantially improved from the free access. In descending

* An International Labour Organization survey carried out in 1979 found that the average wage of African textile workers was 50 percent higher than in Pakistan and more than twice as high as in Bangladesh [6].

Table 4
ECC imports of ten (10) primary products from the ACP 1974–1977

	1974	1975	1976	1977
EEC imports of 10 primary products from ACP	10 500	8 711	10 472	12 461
EEC exports to ACP	8 327	6 701	8 245	9 967
Proportion of ACP imports covered by 10 products	79.3	76.9	78.7	80.0

Source: Data from the Courier, No. 52 November–December 1978

order of importance for the group of exports to the community, crude oil claimed 27 percent raw coffee 13 percent, cocoa 10 percent. Copper, wood, sugar, iron, ground nuts, aluminium and cotton followed in that order, all of which were important primary export commodities of the ACP states. The first three accounted for 50 percent on average between 1976 and 1978.

There was also export concentration. For instance, 50 percent of the total exports came from three countries. Nigeria claimed 29 percent, the Ivory Coast 11 percent and Zaire 11 percent; while 32 countries of the ACP accounted for less than 1 percent. [9]. In 1977 alone, crude, coffee, sugar and copper represented 60 percent of the Community's imports of the ACP states products. In this year one main product accounted for 50 percent of exports to the EEC from 33 of the 53 ACP countries. In short, all the ACP exports to the community between 1970–1980 (ten years) stayed at its lowest level 7 percent. If energy was excluded, it even dropped from 8 percent to 5.8 percent in 1979 [10]. In the circumstance, it becomes difficult to conclude that the free entry aspect of the convention did help the products of the ACP to have gained more access than previous traditional arrangements would have made possible.

Growth of trade

Trade between the ACP countries and the member states of the Community increased and ACP exports to the EEC went up from an average of $ 4094 in (FOB) in 1970 to $ 9300 million in 1976, reaching a peak of $ 11 113 million in 1974. These figures show that before the Convention was applied, trade figures increased regularly, reaching their height in 1974 and dropping back again after the agreement was signed in 1975. So in 1975, exports dropped to $ 9900 million and there was a 6.35 percent decrease in ACP exports to the Community between 1974 and 1976. [11]

Table 5
EEC-ACP trade in million EUA 1972 –1st half of 1980

	1972	1973	1974	1975	1976	1977	1978	1979	1980 (6mths)
EEC Imports of which	4 890.6	6 159	10 491	8 697	10 474	12 465	11 863	14 819	–
Jan-June					5 017	6 428	5 944	7 111	9 518
Exports to ACP of which Jan.–June	4 036.3	4 432	6 065	8 079	9 841	12 503	12 707	11 818	
					4 559	5 976	6 455	5 315	7 462
Trade bal.	– 854.3	– 1727	– 4426	– 618	– 633	+ 38	+ 844	– 3 001	– 2 056

Balance + favour of EEC
– in favour of ACP

Sources: 1. 1972 figures adapted from annexes of the Courier EEC-ACP, Jean Durieux, Brussels, no. 52, Op. cit.
2. 1973–80 figures extracted from The Courier EEC-ACP Jean Durieux, Brussels, No. 66, 1981, p. 10

The quantities, also, had in fact decreased between 1974 and 1977, 120.9 percent in 1974 and 99.8 percent in 1977 (1977 = 100) [12] As can be seen from *Table 5,* in value terms, there was a spectacular increase in the exports of ACP to the Community before the Convention. This growth attained the highest levels in 1973 and 1974. The reason for this was the rise in the Opec Oil prices and the fact that the community before Lome I had been a traditional customer of the ACP states. The drastic fall in growth in 1975 and 1976, (6159 million EUA in 1973 10 491 in 1974) compared to 8697 million EUA in 1975 could be accounted for, by the slump of 1975 which affected the purchase of oil and other primary products from the ACP states. Slight recovery was in sight from the last quarter of 1975 through 1976 and into 1977. There was a drop in 1978, but the trend changed in 1979 with 14 819 million EUA.

Table 6 shows percentage growth of imports from the Community by the ACP states and the Community's imports from the ACP states. The Community's exports to the ACP states showed a growth rate of 10 percent, in 1972/1973; 37 percent, in 1974/73; 33 percent, in 1975/74; and fell down to 22 percent, in 1976/75, and moved slightly higher to 27 percent, in 1977/76, slumped to 2 percent, in 1978/77 and was negative in 1979/1978, –7,1 percent and picked up to 33.1 percent, 1980/79. At the same time, the ACP states' growth rate of exports over the relevant period was 28 percent, in 1973/72, 70 percent, in 1974/73, –17.0 percent in 1975/74; rose to 20.0 percent, in 1976/75, went down to 19.0 percent, in 1977/76 slumped negatively to –5 percent, in 1978/77, rose to 24.4 percent, in 1979/78, still higher in 1980/79 to 28.4 percent. (See *Table 6*).

Table 6

Annual growth rates of ACP-EEC exports and imports between 1972–1980

	1972/73	1974/73	1975/74	1976/75	1977/76	1978/77	1979/78	1980/79
ACP imports from EEC	10%	37.0%	+ 33.0%	+22.0%	+27.0%	+ 2.0%	–7.1%	+33.1%
EEC imports from ACP	+28%	+70.0%	–17.0%	+20.0%	+19.0%	–5.0%	+24.4%	28.4%
Community's balance EEC/ACP	–1.7	– 4.4	–0.6	–0.6	0.0	+0.8	–3.0	–3.3

– In favor of the EEC's trading partners (ACP)
+ In favor of the EEC
Source: EEC Statistical Office

The negative growth rate for the ACP states in 1975/74 by – 17 percent was understandable. The worldwide depression of 1975 affected the exports of the ACP states. With the recovery of late 1975 and the early 1976, growth of exports picked up again. Growth rates on either side were not a steadily growing trend. However, with the minuses and pluses in favor and against the parties *(Table 6)* the ACP states would appear to have done better in attaining higher growth rates.

Two years after the Convention had been ratified, the ACP states supplied (1/6) one-sixth of the Community's imports out of 43.8 percent from the developing world as a whole. At the same time it took one-fifth (1/5) of the Community's exports of 37.6 percent to the developing world. However, the share of the ACP states generally was a drop, from 1.3 percent, in 1976 to 0.8 in 1978, despite the fact that the group increased its exports by an average of 23 percent, during the preceding year. * In 1978, however, the export of ACP states to the Community was a drop (–5 percent) and that of the Community was up by 8 percent. But in 1979, the ACP states absorbed 3 percent less of the Community's finished products, but increased its exports by 24.4 percent and again by 28.4 percent the following year. It was a deficit for the Community in 1979 with a drop of –7.1 percent in exports to the ACP markets. It improved in 1980 and registered a growth rate of 33.1 percent. Its level of export was still low as oil price rise of 1979 accounted for the large deficits, raising its deficits to ECU 3000 million.

To the Community, Europe-Lome ACP partners would appear to have achieved a net gain of more than ECU 3000 million, much of which went to Nigeria, an oil exporter. To the Community, too, the importance of the ACP states as export markets for the Community's products thus continued to decrease by 1979 as their share which stood at 7 percent in 1977 had dropped to 6.1 percent in 1979. But to the ACP states, the Lome I Convention, had not worked the magic expected of it as growth was more before the Convention. It was not successful in increasing substantially their sales of goods to the Community despite the free access clauses and the Stabex mechanism.

* The interpretations and analysis are derived from the tables.

Market shares ACP–EEC–Japan and USA

The above picture (annual growth rates) can be complemented with the analysis of trade shares of the EEC and its major competitors – the United States and Japan vis-a-vis some selected ACP countries as laid out in *Table 7.*

Considering *Nigeria* for example, the table shows that the Community's share of the former's total imports remained at its pre-agreement levels with the same range of annual deviations long after 1975. It was 59.3 percent and 61.0 percent in 1968 and 1969 respectively; in 1976 and 1977, it was 61.5 percent and 59.8 percent. On the other hand, Japan's share of Nigeria's imports grew almost consistenly from 3.7 percent in 1968 to 10.6 percent in 1977. The share of the United States did not change significantly over the ten-year period – 1968–1977. At the same time the EEC's share of Nigeria's export fell from 68.9 percent in 1968 to 32.7 percent in 1977. Japan's share of Nigeria's export reflected a fluctuating fortune before and after the convention; but the United States' share rose from 7.8 percent in 1968 to 41.2 percent in 1977 and about 46 percent by 1978 and 1979. That spectacular rate of growth was a reflection of the U. S. being a major importer of Nigeria's expanding crude oil export as against the Community's dwindling share which went down consistently from 38.5 percent in 1978 to 34.6 percent in 1980. [13]

Thus, on the whole, we observe that in the post-Lome I years under consideration (1975–1977), at least one of the EEC's major competitors was increasing its share of either exports to or imports from Nigeria while the EEC's share was declining in both cases.

Similarly, in respect of *Ivory Coast*'s imports, EEC's share maintained a moderate declining trend after 1975. Although the trend was already in process before 1975, the agreement seemed to have been unable to reverse, or at least modulate the trend. On the other hand, Japan gained appreciably from a favourable trend in share of Ivory Coast's imports – a trend which seems to have been unaffected (adversely) by the Lome agreement. For the United States, the share was stable. Export-wise, the shares of the three competitors were all considerably stable at their pre-1975 narrow fluctuating ranges. Here again in the case of the Ivory Coast, we observe that whenever an improvement in market shares occurred among the trading partners, such an improvement was *not* between the ACP country and the EEC.

Jamaica's imports from the EEC after the agreements obeyed an already existing declining trend so that it stood at 6.3 percent in 1978 as against 28.2 percent in 1969; the shares of Japan and the U. S. remained fairly stable. EEC's share of Jamaica's exports also showed low figures relative to the pre-agreement years: 19.4 percent in 1976, 21.0 percent in 1977 and 1.2 percent in 1978 – the lowest for the ten year period under consideration. The U. S's share of exports remained stable. Japan's figures were not available for the author.

For the other three ACP states considered – Guyana, Mauritius and Madagascar, only in the case of exports from Guyana did the EEC register a significant increase after the agreement; even then there was no noticeable decline in the shares of any of the competitors under consideration.

It is a possibility, however, that the Community's trade performance with this group of ACP countries could have been in a worse shape had the agreement not come into

Table 7

Shares of import and export trade of some ACP countries and the EEC, Japan U.S.A.*

	NIGERIA										
	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	
EEC	59.3	61.0	58.6	58.1	60.9	61.1	58.2	59.9	61.5	59.8	
Japan	3.7	3.8	6.3	8.4	9.9	9.1	9.2	9.9	9.3	10.6	IMPORTS
U.S.A.	11.5	11.8	14.4	14.0	10.4	10.3	12.3	11.0	10.9	11.1	
EEC	68.9	65.2	66.6	62.6	60.3	52.8	50.6	46.3	40.3	32.7	
Japan	1.8	1.0	0.8	1.4	3.9	4.6	4.1	3.5	0.5	0.1	EXPORTS
U.S.A.	7.8	12.5	11.5	17.8	21.0	24.2	32.7	29.0	35.6	41.2	
	IVORY COAST										
	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	
EEC	73.6	70.2	71.5	69.8	68.9	62.1	57.5	58.2	58.4	57.1	
Japan	1.8	1.6	2.5	3.8	2.8	2.7	3.5	4.0	5.0	4.9	IMPORTS
U.S.A	6.3	8.3	7.9	7.0	6.1	8.7	6.7	7.0	7.3	7.3	
EEC	67.2	68.1	65.9	64.5	63.5	62.8	66.1	57.5	68.2	59.7	
Japan	2.5	2.0	1.7	1.8	1.6	2.3	1.0	1.6	2.6	2.8	EXPORTS
U.S.A.	15.1	13.9	18.7	16.9	13.9	11.0	7.0	10.2	10.4	11.7	
	JAMAICA										
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	
EEC	28.2	27.8	28.9	28.2	26.7	20.7	19.9	17.2	15.6	6.3	
Japan	2.3	2.6	2.5	2.4	2.9	3.4	3.8	3.2	2.3	3.0	IMPORTS
U.S.A.	41.2	43.8	39.6	37.3	38.9	35.6	37.6	37.4	36.2	37.4	
EEC	21.8	17.8	20.6	22.9	24.2	16.6	23.8	19.4	21.0	1.2	
Japan	–	–	–	–	–	–	–	–	–	–	EXPORTS
U.S.A.	37.7	53.4	44.7	43.8	41.3	46.7	38.4	41.3	43.7	38.2	

Sources: United Nations, 1978 Yearbook of International Trade Statistics, Vol. 1, N.Y. 1979, pp. 553–838

* Nine countries

Table 7 (cont.)

Shares of import and export trade of some ACP countries and the EEC, Japan U.S.A.*

	GUYANA										
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	
EEC	41.6	41.3	41.4	39.5	35.9	30.7	30.2	29.8	30.8	30.3	
Japan	3.9	4.1	4.0	4.2	3.3	3.3	4.2	4.4	3.3	3.0	IMPORTS
U.S.A.	21.3	23.9	24.4	24.4	24.3	25.8	29.6	28.5	26.9	22.7	
EEC	28.6	23.9	30.1	36.3	37.8	26.4	37.1	39.8	42.1	40.9	
Japan	1.4	2.0	2.2	3.9	4.0	2.6	2.0	2.3	3.9	2.8	EXPORTS
U.S.A.	25.5	27.8	26.2	24.9	21.0	27.6	22.5	20.0	18.0	20.2	
	MAURITIUS										
	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	
EEC	41.5	31.4	37.0	38.0	38.6	40.8	34.4	20.2	37.5	35.1	
Japan	3.4	3.5	5.2	6.6	7.8	6.5	5.7	7.9	8.1	10.4	IMPORTS
U.S.A	2.1	1.4	5.7	7.1	3.4	2.8	5.0	5.0	3.0	2.3	
EEC	77.2	71.9	68.1	56.2	61.2	48.6	39.8	8.2	83.2	79.9	
Japan	–	–	–	–	–	–	–	–	–	–	EXPORTS
U.S.A	6.1	5.0	5.5	6.0	6.3	8.7	7.9	5.5	5.8	3.9	
	MADAGASCAR										
	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	
EEC	77.8	78.2	70.5	77.3	76.3	74.1	65.2	52.3	57.4	55.7	
Japan	2.7	2.4	2.4	2.7	2.2	4.5	4.5	4.9	3.9	3.7	IMPORTS
U.S.A	6.9	5.0	8.4	5.7	4.9	3.9	7.6	7.0	4.0	4.4	
EEC	43.7	43.8	46.6	43.0	43.5	48.2	48.3	49.0	39.2	46.3	
Japan	1.5	1.6	2.3	3.2	4.5	4.6	6.4	5.9	3.6	7.5	EXPORTS
U.S.A	24.6	22.5	23.7	22.7	22.3	20.5	17.5	20.6	11.7	16.6	

Source: United Nations, 1978 Yearbook of International Trade Statistics, Vol. 1, N.Y. 1979, pp. 553–838

* Nine countries

being, but from the above few examples, there is no conclusive evidence that the market shares of both the imports and exports of the ACP group considered going to the Community had increased as a result of the Lome I agreement; thus giving some support to the analysis of growth of trade.

The ACP–EEC balance of trade

The trend in growth of trade and market shares explain the balance of trade that occurred between the ACP and the Community. In *Table 5,* it was only in 1977 and 1978 during the nine year period that the ACP states suffered deficits on trade accounts. In 1972–1975, the ACP states had a surplus on current accounts with the Community. In 1975, the Community's deficits were 618 million EUA, which rose to 633 million EUA in 1976. In 1977, the Community improved with a surplus of 38 million EUA* By the first half of 1978, the surplus had widened to 844 million EUA *(Table 5).* During this period, the Community, exported in value terms, 12 707 million and imported 11 863 million EUA. Inflation in the industrialized countries led to an increase in the price of imported manufactured goods, followed by a 5 percent drop in the ACP exports. [14] However, balance of trade was an improvement for the Community as it registered a trade surplus of EUA 1018 million with Nigeria alone. This followed a considerable deficits in 1975 and 1976 [15]. The community's sales to Nigeria alone was about EUA 1120 million in a single year which accounted for a half to the total increase in the import of all ACP states. In fact in 1977 alone, the average import of the community from the ACP group was 7.6 percent as against its exports to the group of an average of 13.5 percent. (See Table 8)

Table 8
*EEC imports 1977 and EEC exports with a group of ACP**

Countries	Imports	Exports	Countries	Imports	Exports
Nigeria	27.9%	36.8%	Ghana	3.7%	3.3%
Ivory Coast	11.8%	68.0%	Gabon	3.5%	3.6%
Zaire	8.7%	3.6%	Liberia	2.9%	6.3%
Cameroon	4.2%	3.4%	Senegal	2.8%	3.2%
Kenya	4.2%	3.6%	Tanzania	7.61	13.5%

Source: Compiled from Courier No. 52, p. 75 *op. cit.*

* The average export of the EEC to ACP in 1977 for the group above was about 13.5 percent, as against import of 7.6 percent. Nigeria and Ivory Coast largely accounted for most of the imports from the Community.

* See *Table 6.*

The structure of exports of the participants

The analysis may not be complete without reference to the Commodity pattern or structure of the two groups. Apart from one or two agricultural and food products (milk, eggs, cereals, sugar, and beer), the rest of the Community's exports were semi-finished industrial products – iron, steel products, and above all, machinery and transport equipment. In contrast, the ACP exports were mainly semi-finished goods at the first stage of processing (cocoa, butter, copper for refining, cut wood, sugar, shelled peanuts, groundnut oil, tanned hides, preserved meat, etc.) More or less, elaborate semi-finished products (clothing) were an exception and this only represented between 1–2 percent of the Community's imports from the ACP group; 8 percent cotton fabrics from the whole of developing countries, 7 percent for wood veneer and 2 percent for clothing. Total ACP export of manufactures to the Community was estimated at between 3–6 percent. [16]. Therefore, of balance trade in manufactures during the period was fundamentally weighted in favour of the Community.

In this regard, Community's exports were more than ten times its imports of manufactures [17]. However, a period of five years was rather too short to have redressed the existing imbalance and achieved any balance in the export of manufactures. It was not necessarily because of the inadequacy of the Lome I convention as much as the problems associated with changing production structures in most African states. Equally to be considered would be the rudimentary industrial production base, management problems and other institutional rigidities. With this in view, cooperation arrangements in the field of industrialization and manufacturing would go beyond five years to show positive results. In the present circumstances, it would be better to say that there was no balance and any agreement to achieve such a balance would take time to materialize, provided the Community would be sincere, avoiding fear that any such balance would deprive it of its markets for manufactures. Obviously, definite steps were taken in Lome II under the chapter on industrialization to ensure that many of the obstacles in the way of industrialization in the ACP states would be taken care of.

In short, any industrialization that occurred under Lome I was not in the ACP states. *(Table 9)* shows a selection of manufactures imported by the community from the ACP for this particular year 1977. Apart from clothing, the so-called manufactures were mainly intermediate goods that were not far from processed primary commodities.

Was Stabex more successful?

Table 4 lists the products included in the Stabex arrangement under Lome I Convention. The Stabex was necessary for the Convention because demand patterns for primary products were considerably influenced by the economic conditions prevailing in the Community's markets on the one hand and by the changes arising from supply conditions in the producers' economies. The primary producers thus found themselves faced by both endogenous and exogenous variables which eventually affected their earnings from primary products. The fluctuations in the revenue receipts of the ACP states from primary exports invariably coincided with business cycles prevailing in the EEC economies which could not be predicted by the ACP states. Any sudden change in demand of

Table 9
Selection of manufactures imported by EEC from ACP 1977

Principal products (representing 70% of all manufactured products)	ACP States	Individual Afro-Caribbean Pacific States (ACP)
Aluminium	102.6	Jamaica 48.5/Suriname 38.5 Guinea/1.9
Cinchoma alkaloids	14.7	Zaire 14.6
Natural uranium	25.3	Niger 25.3
Chemical preparations	12.9	Guyana 12.8
Dressed goat and kid skin	21.5	Nigeria 14.8
Veneer sheets	38.0	Congo 12.9/Gabon 6.4
Cotton textiles	29.6	Madagascar 10.0/Ivory Coast 8.2/Cameroon 7.0
Clothing	46.5	Mauritius 36.3/Ivory Coast 5.5

Source: The Courier No. 52, p. 73, *op. cit.*

their products caught them unaware. It was to protect the ACP states against risks of uncertainty resulting from the fluctuations in the demand of their products that the Stabex arrangement held to be an innovation in the international economic system and a practical insurance against drops in the agricultural raw material earnings of the ACP states, was included.

Therefore, two conditions were born in mind in making transfers. Firstly, economic conditions which prevailed in the Community and were unfavorable to the security of export earnings of ACP states. Secondly, local conditions such as drought and plant diseases which adversely affected production of Stabex commodities. For instance, in 1975 and 1976, compensatory payments made to cover earnings affected by economic conditions in the Community were of the order of 68 percent and 21 percent respectively. At the same time, transfers made for products affected by local conditions were 32 percent and 79 percent [18].

During the period under review 1975–1979, the Commission took 123 transfer decisions in favor of 37 ACP states, 243 products broken as follows: 40 percent of transfers for groundnuts, 16 percent for iron ore; 11 percent for cotton and 10 percent for rough timber. Thirty-one countries benefited and 24 products were covered to offset a drop in the production caused by natural circumstances (57 percent of the total amounts involved). Compensation for fall in export earnings due to the economic situation (43 percent of the amounts involved) concerned only a number of products (wool, sisal, hides and skin, cotton and iron ore [19].

There was a fair balance in the Stabex transfers during the period. Half of the amount disbursed remedied production instability in the ACP states. The other half took care of market instability originating from the community. To the Community, Stabex

Table 10
Stabex transfers by country and by products: 1975–1979
(In thousand ECU)

ACP STATES	PRODUCT	Amount 1975–1979	ACP STATE	PRODUCT	Amount 1975–1979
BENIN	Groundnuts	464.3	MALI	Cotton	1 145.0
	Coffee	1 174.9		Gum Arabic	848.5
	Cotton	10 363.3		Groundnuts	7 787.4
	Oil cakes	1 191.1			
	Palm oil	2 232.9		Total	9 780.9
	Palm nut oil	4 940.2	MAURITANIA	Iron ore	37 000.5
	Total	20 366.7	NIGER	Groundnuts	7 853.7
BURUNDI	Cotton	965.6		Untreated hides &skins	507.7
	Untreated hides & skins	520.1		Groundnut oil	14 139.3
				Oil cakes	153.3
	Total	1 485.7		Total	22 654.0
CAMEROON	Untreated hides & skins	3 601.4	RWANDA	Pyrethrum	608.8
	Cocoa paste	463.6			
	Total	4 065.0	SENEGAL	Groundnut oil	49 882.3
CAPE VERDE	Bananas	1 206.6		Oil cakes	15 224.1
				Total	65 106.4
CENTRAL AFRICAN REPUBLIC	Cotton	6 926.6	SIERRA LEONE	Iron ore	3 977.3
	Coffee	353.4			
	Sawn Timber	549.8	SOMALIA	Bananes	1 296.9
	Total	7 829.6		Untreated hides & skins	635.2
CHAD	Cotton	7 336.2		Total	1 932.1
CONGO	Rough timber	7 361.7	SUDAN	Groundnuts	37 484.9
ETHIOPIA	Coffee	9 339.7		Untreated hides & skins	1 658.6
	Untreated hides &skins	5 080.4		Sesame seeds	2 632.9
	Total	14 420.0		Total	41 776.4
FIJI	Coconut oil	2 115.0	SWAZILAND	Iron ore	13 224.9
GABON	Rough timber	6 703.3	TANZANIA	Cotton	1 887.1
				Sisal	18 814.5
GAMBIA	Groundnuts	2 448.7		Total	20 701.6
	Groundnut oil	3 999.9			
	Groundnut oil cakes	1 026.1	TOGO	Coffee	3 626.6
	Total	7 514.8	TONGA	Copra	831.7
				Bananas	317.6

Table 10
Stabex transfers by country and by products: 1975–1979
(In thousand ECU)

ACP STATES	PRODUCT	Amount 1975–1979	ACP STATE	PRODUCT	Amount 1975–1979
GHANA	Rough timber	5 176.4		Vanilla	58.6
GUINEA BISSAU	Groundnuts	10 514.5		Total	1 208.0
	Palm nuts	627.0	UGANDA	Cotton	12 219.1
	Sawn timber	146.8		Tea	8 376.3
	Total	11 288.3		Total	20 595.5
IVORY COAST	Rough timber	15 000.0	UPPER-VOLTA	Groundnuts	4 745.4
LIBERIA	Iron ore	7 586.9		Cotton	2 516.5
MADAGASCAR	Sisal	1 762.9		Total	7 261.9
	Cloves	1 139.5	WESTERN	Cocoa	1 057.6
	Vanilla	2 845.1	SAMOA	Copra	1 331.5
	Total	5 747.5		Rough timber	349.0
				Bananas	99.3
				Total	2 837.5
			TOTAL ACP STATES		377 495.7

commodities needed by it flowed regularly. To the ACP export earnings were available for their development process in whatever form it was made available.

The Stabex plan may be open to criticism on some grounds. The sum of 380 million EUA was thought to be inadequate for a period of five years. But the scheme itself was laudable. A start should be made no matter how modestly. It was felt also, that the coverage was too thin and was only for agricultural products, the only exception being iron-ore during the period. This, of course, in our view is understandable bearing in mind the importance of those agricultural products to the economies of the ACP states at this stage. It was criticized again on the ground that, such transfers were made after the events had occurred, such as the drought in the Sahel region or a hurricane in the Caribbean. Of course, there was no way the Community could have determined in advance such possibilities and made provisions to cover them.

The implicit level assumed in the Stabex for computing the shortfall was criticized for being static over a period. This may not be a serious criticism in our view as something had got to be assumed for computing any shortfall. It was probably because of this implicit level that President *Jawara* of the Gambia expressed a dissatisfaction with the operation of the Stabex. According to him its provisions assumed that "Our main concern is to maintain a fixed level of income and resources are made available only when the economy of the particular ACP country is totally ruined" [20]. "We consider that, reference levels make it near impossible for any ACP state to benefit from the scheme"

[21]. One logical and legitimate criticism against the operation of the Stabex would center around the fact that Stabex transfers were not made in monetary terms, but in the form of other resources for which the ACP states were assumed to need assistance if they experienced no shortfalls in their export earnings.

In come cases, Stabex was used to resuscitate declining commodity production, of course to ensure there was a continuing flow of Stabex commodities to the Community. Making transfers in non-monetary terms was probably to ensure that Stabex was used in the spirit of the Convention and that there was no switching to other sectors.

Conclusion

The analysis mainly concentrated on the trade cooperation between the ACP states and the Community. Financial, technical and industrial aspects were not discussed, not being part of the analysis. Taking the issue of the free entry of ACP products into the Community's markets, three points would appear to make nullity the entry clause of the Convention agreement. Firstly, almost all the ACP products have zero import restrictions as stipulated by the GATT and the UNCTAD. Secondly, the common external tariffs (CET) of the Community prohibited member states from imposing duties on the exports of most of the ACP products. Thirdly, it would be detrimental to the economies of the Community to experience a declining trend in the supplies of the sixteen most important raw materials – rubber, sizal, jute, tin, bauxite, cotton, manganese, copper, oil, coffee, cocoa, timber, sugar, iron ore, aluminium and groundnuts; when even supplies of these products from the ACP states were not sufficient for the Community's industries.

The free entry under the MFA (Multi Fibre Agreement) did not mean much. For one thing 'the quality clause' and that of 'country of origin' tended to make it near impossible at the present stage of manufacturing in the ACP countries to export textile and clothing materials to the Community. The non-reciprocity clause on the part of the ACP did not come to much either. The Community paid for most of its imports by exporting its manufactures. The Community's exports of manufactures made it impossible for the ACP to shut off dumped and smuggled manufactures.

The Convention agreement was to secure "additional benefits for the trade of the ACP states so as to accelerate the rate of growth". Evidence presented by *(Tables 4, 5, 6)* is not conclusive enough to say that the objective was eloquently achieved or realized. The spectacular increase of 1974, and of course before the Convention, was due largely to the oil price, from Nigeria and Gabon.

This probably had led President Kenneth *Kaunda* of Zambia to observe as follows: "We negotiated the Lome Convention in the belief that it will confer on our exports terms and conditions more favorable than those granted to the products of other countries (Non-ACP states). After some two years of implementation of the Convention, we now have reason to doubt that this is the understanding and policy of the Community" [22].

It would appear that some of the leaders of the ACP states (Jawara and Kaunda) who had expressed an opinion were under the impression that results achieved under Lome I were not positively in favor of the ACP states. Inasmuch as it is not the intention of this paper to dispute such views, it would be wrong to conclude that nothing positi-

vely good came out of Lome I. What, however, seems to be clear from our analysis apart from marginal growth rates on either side, which, of course, could have occurred without Lome I, was that from the structure of exports of the two groups, the usual asymmetric dependency was very much in evidence after Lome I. The ACP states supplied raw materials and depended on that for foreign exchange. The ACP states depended again on the importation of manufactured goods for their development programs. Lome II and Lome III will provide machinery, cerrective enough to redress the imbalance.

In addition to what has been said of the Stabex, it remains true to say that Lome I 1975–1980 did not take into consideration inflationary phenomenon in making Stabex allocations. This defect is assumed to have been taken care of in Lome II as well as other defective sections of Lome I. In spite of whatever might have been the shortcomings of Lome I being a human institution, it contained positive elements of development possibilities for the ACP states. The Multi-Fibre Agreement (MFA) and the possibilities of acquiring market shares for ceramic tables in Europe and the United States of America offer development possibilities that can be exploited by the ACP group. Thus, the possibilities of abundant markets in the Community for textile clothing and ceramic table wares (all of them) if manufactured with equipment developed in the ACP states, and in Europe and the USA is a sufficient incentive to develop manufacturing industries in the ACP states so as to capture part of the markets and improve balance of trade in manufactures.

That is not all. Both the Community and the ACP states learnt a lot from Lome I which helped to forge Lome II. For instance, the two groups had learnt that the sum of 380 million EUA earmarked for Stabex under I was inadequate, hence the balance of the unutilised amount of the previous convention was carried over to the second Lome to raise it to 557 million EUA. Secondly, positive steps taken under Lome II in respect of industrial organization in the ACP states were based on the inadequate preparations in that regard during the Lome I convention. Thirdly, a review of programing aid in Lome II which reflects the priority given to the least developed ACP states was borne out of experience from Lome I. Under Lome II, the 36 least developed countries accounting for 44 percent of the total ACP population get 64 percent to 66 percent of programable aid, landlocked states, 19 percent of the population, get 33 percent to 34 percent and island states, 5.8 percent of the population, get 10 percent –11 percent. [23].

Finally, where the ACP states during the Lome I convention appeared not to have fully benefited from the Agreement, the exploitation of any such preference probably failed because of the extremely low level of development, the backward relations of production and inadequate management skills as mentioned elsewhere. Indeed, in our view, the Lome I Convention served as an example for pragmatic relations between the industrialized and the developing countries. It is internationally recognised as a right step towards realising part of the objectives long sought for, by the GATT, the UNCTAD and the NIEO. But, if Lome I was that total failure, Lome II would not have been necessary.

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РАЗВИТИЕ ТОРГОВЛИ МЕЖДУ СТРАНАМИ-УЧАСТНИЦАМИ ЛОМЕЙСКОЙ КОНВЕНЦИИ И ЕЭС ПОСЛЕ ПОДПИСАНИЯ 1-й ЛОМЕЙСКОЙ КОНВЕНЦИИ (1975—1980 гг.)

М. ОГБОННА

Ломейская конвенция является наиболее крупным соглашением, определяющим экономические отношения между группой промышленно развитых стран и развивающихся стран. Охарактеризовав основные черты 1-й Ломейской конвенции, автор обращает особое внимание на товарообмен между ЕЭС и африканскими странами бассейна Карибского мор.л и Тихого океана, подписавшими Ломейскую конвенцию. После подробного анализа общих темпов роста следует сравнительный анализ рыночной позиции двух основных конкурентов ЕЭС — США и Японии, рассматривается состояние внешнеторгового баланса и товарная структура экспорта стран-участниц конвенции в страны ЕЭС.

Статистические данные показывают, что большинство мер, направленных на интенсификацию экономических, прежде всего — внешнеторговых связей между ЕЭС и странами-участницами Ломейской конвенции, имели весьма скромный успех. Однако было бы неверно делать вывод о том, что это соглашение не принесло никаких положительных результатов. Накопленный в ходе выполнения 1-й Ломейской конвенции опыт был использован при заключении 2-й Ломейской конвенции, целью которой является улучшение организации производства, увеличение фондов «Стабэкс» и предоставление наибольших льгот наименее развитым странам-участницам конвенции. Безусловно, в недостаточной эффективности соглашения сыграли роль и весьма низкий уровень экономического развития, отсталые производственные отношения и неудовлетворительное хозяйственное управление бассейна Карибского моря и Тихого океана.

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REVIEWS

I. VINCZE

FOREIGN CURRENCY INCOME AND PROFITABILITY OF HUNGARIAN TOURISM

Active tourism (foreign tourists in Hungary) and passive tourism (Hungarian tourists abroad) have differing political and social effects and their importance should be judged on such a basis as well. What here concerns us, however, are the considerable and manifold economic effects of both active and the passive tourism.

The reception of foreign visitors in the country can become the source of foreign currency, depending on the way they use hotel and restaurant as well as other services. Shopping by foreign visitors should also be taken into consideration.

The power of attraction of a country depends on several factors. Such are the scenic views, architectural and historical monuments, community services and law and order, the road network, the standard and equipment of hotels, restaurants and other facilities, and of services offered, etc. Some of these cannot be changed, or only to a small degree, by human intervention, others can be changed by substantial and lasting investment activities, and a third group can be improved by growing expertise, better organisation and closer attention to the needs of visitors.

It is common knowledge that in some countries an overwhelming part of earnings in foreign currencies derives from tourism, while in other countries tourism produces an important share: 20 to 22 percent, additional to exports, or substituting for them as a source of foreign currency.

How much foreign currency income is earned by active tourism in Hungary, how profitable is this activity in itself and in comparison with commodity exports? The answers to this question allow one to draw conclusions as to the useful development of relevant facilities.

Active tourism (foreign tourists in Hungary) of 1981 was characterised by the following figures: the number of foreign nationals who entered the country in the course of the year was 14 841 000, amongst them 10 450 000 tourists; at least 48 hours were spent here by 1 626 000, and 2 665 000 were in transit. 12 525 000 of the total were from socialist and 2 316 000 from non-socialist countries. In 1981 the Hungarian foreign currency earnings amounted to $ 217 million (Ft 6952 million) and 249 million transferable roubles (Ft. 7205 million). The foreign currency earnings produced by tourism amounted altogether, converted into forints, to Ft 14 157 million.

The calculation method of the specific foreign currency production of tourism

Foreign visitors in Hungary buy forint against foreign currency at the current rate of exchange valid in Hungary. From October 1981 till July 1982 they obtained Ft 34.58 $1. Here and in the following the data of the analysis reflect the conditions of 1982.

Visitors from the CMEA countries buy forint at the non-commercial rate of exchange valid for their own national currency. In rendering accounts of the returns and expenses of tourism, the authorised banks of the member countries use a coefficient of accounts agreed multilaterally, which serves to convert the amounts expressed in roubles into transferable roubles, which are the international currency of the CMEA.

At the beginning of 1982, this coefficient was 1.7 (1.7 national ruble = 1 transferable rouble). On the basis of the valid non-commercial rates of exchange and of the coefficient of accounts 1 transferable rouble is the equivalent of 28 forints.

Foreign visitors in Hungary pay the current consumer price (tariff) in hotels, restaurants, shops, theatres, swimming-pools, etc. It follows from the rates of exchange as described above that every visitor from a country of convertible currency pays $ 2.9 for consumer goods or services of a Ft 100 value and every visitor from a CMEA country pays Rbl 3.57 for the same.

It is an important characteristic of Hungarian consumer price system that the price level and price ratios of consumer articles differ from producer prices not only because of the retail trade mark up, but also because of the strongly differentiated turnover tax and consumer price support on the various groups of articles and services. The differentiation of the turnover tax and of the consumer price support valid on the 1st January 1982 is shown by the figures of *Table 1*.

In determining real cost and in judging the profitability of foreign currency production, of the articles sold by the retail trade and in the catering industry, one should consider the sum of the producer price and of the mark up. Turnover tax – as a separate net income connected to the consumer price – should be excluded from real cost. The exclusion of the turnover tax from real cost is further justified by the following argument. argument.

If the foreign tourist spends his Ft 100 (or $ 2.9 or transferable Rbl 3.57) on consumer goods containing a turnover tax of 30, 40, 50 or even 70 percent, the production of a currency unit is much more favourable – and in proportion with the magnitude of the turnover tax – than it would be in case of consumer prices with no turnover tax, but containing only the producer price and the mark up. As for goods (and services) with a consumer price subsidy, the effect is the contrary. In their case the prevailing consumer price is lower than would be justified by their producer price and the mark up. Therefore, in order to obtain real cost, the amount of the consumer price subsidy has to be added to the prevailing consumer price; this will be the calculated real input, and this should be compared with returns in currency.

For each article, the real cost on a Ft 100 consumer price turnover divided by 2.9 consumer price subsidy, as well as the mark ups of wholesalers and retailers are announced in a public proclamation. This permits the calculation of real inputs of products sold in retail trade.

For each article, the real input on a Ft 100 consumer price turnover divided by 2.9 or 3.57 results in the production cost of one dollar or of one transferable rouble. Calculations for the ratio of the specific net income as well as of specific currency production can be made for the entire turnover of the catering industry as well.

No figures are available for the pattern of spending or purchases by tourists in Hungary. We must rest content with estimates or approximations through models, which may differ considerably from the consumer habits of individual tourists.

Table 1
Turnover tax and consumer price subsidy as a percentage on 1st January 1982

Article	Turnover tax +consumer price −subsidy
wine	+ 34
beer	+ 64
spirits	+ 86
soft drinks	+ 20
roasted coffee	+ 26
tobacco	+ 63
pork	−22
beef	−34
sausages (cold meats)	−23
salami	+ 11
poultry	−30
sugar	−12.6
milk	−31.2
butter	−76.1
bread	−12.6
rolls and c.	−12.8
cotton* wool cloth, outerware, (adults)	+ 27.0
leather shoes	+ 22.0
carpets	+ 27.0
portable radios	+ 22.0
cosmetics	+ 27.0
petrol	+ 11.0
* the rates refer to wholesale prices	+ 50.0
	+ 53

Results of the calculations

Calculations according to the method explained – relying on consumer prices, commercial mark up, turnover taxes and consumer price subsidies valid in early 1982 – gave as results the following real inputs and specific currency production in respect of the most important consumer goods, basic foods and a few articles sold by the retail trade:

Table 2
Specific foreign currency earnings of tourism in retail trade

Article	Real cost as a percentage of current consumer price*	Specific currency production	
		$	Rbl
Wine	70.0	24.12	19.60
Beer	33.0	11.38	9.24
Spirits	28.6	9.86	8.07
Soft drinks	84.0	28.93	23.72
Roasted coffee	75.5	26.03	21.14
Tobacco	40.6	14.00	11.37
Pork	120.3	41.48	33.69
Beef	131.4	45.31	36.80
Sausages (cold meats)	121.3	41.82	33.97
Salami	89.8	30.96	25.15
Sugar	117.4	40.0	32.88
Milk	127.2	43.86	35.63
Butter	176.1	60.68	49.32
Bread	117.4	40.00	32.88
Rolls and c.	117.4	40.00	32.88
Poultry	124.5	42.93	34.87
Cotton cloth	75.0	25.86	21.00
Wool cloth	75.0	25.86	21.00
Outerwear (grown-ups)	74.7	25.76	20.92
Leather shoes	79.6	27.45	22.01
Carpets	75.0	25.86	21.00
Portable radios	89.6	31.00	25.97
Cosmetics	54.2	18.62	15.17
Petrol	67.10	23.13	18.79

* Producer price + commercial mark up, as a percentage ot the consumer price

In comparing the rate of Ft 34–35 to the dollar and the rate of Ft 26 to the transferable rouble with the specific foreign currency production of the goods sold in retail trade, calculated on the basis of real input, it is found that the purchases of foreign visitors mean highly favourable currency production for Hungary in consumer articles, cosmetics and petrol, the result is good (better than the currency rate) for the articles of clothing, it is on a par with the currency rate for technical articles, and considerably

worse for basic foods (meats, cold meats, milk, dairy-produces, bread, sugar), that is, disadvantageous for Hungary.

Foreign visitors in Hungary buy the food and drink they need exclusively or mostly at catering enterprises. In the catering industry, however, neither drinks, nor hot or cold meals are sold at retail trade consumer prices. The drinks and foods bought at wholesale prices (consumer price – retail trade mark up) are sold with an added mark up – as material cost – differentiated according to the categories of the catering units, and this covers the costs, profit and taxes of the catering trade.

Table 3
Guiding mark up on drinks in the catering trade
(as a percentage of the prime cost)

Kind of drink	Night-club extra class	Category of the catering unit I	II	III	IV
Wine (bottled)	270	130	90	38	12.4
Beer (bottled)	180	110	83	40	12.4
Spirits	348	248	124	30	25.0
Soft drinks	260	235	70	30	19.75
Fruit juices	220	190	80	40	-19.75
Espresso coffee	1000	455	233	144	133.0

Table 4
Guiding mark up of food in the catering trade
(as a percentage of the prime cost)

	Category of the catering unit				
	extra class	I	II	III	IV
Hot food unit	310	205	125	88	44
Patisserie	250	170	105	75	60
Bar, snack-bar	–	–	95	75	44

The following can be said on the basis of the preceding figures: the mark up in the catering industry amounts to 30–40 percent for drinks and 75–80 percent for food in third-class units. In second-class units it is about 100 percent counted upon basis of the value of the drinks and foods purchased at wholesale prices. In first-class units it approximates 250 percent for spirits and soft drinks, it is above 100 percent for wine and beer, and 200 percent for meals. In extra-class units a mark up of about 220 percent is added on beer, fruit juices and soft drinks, and 300 percent or over on wine, spirits, and meals.

In consideration of the selling prices of the catering units – counted on the basis of the prime cost of drinks and of raw materials for meals, the specific quantities used, and the

profit margin of the catering industry – the rate of the turnover tax will be lower than it is in consideration of the wholesale prices or of the consumer prices. In the case of meals based on subsidised foods the subsidy will appear much lower in consideration of the price at which the catering unit sells the prepared meal, than the consumer subsidy on the price of the foods used. The apparent reason for this is that the catering industry applies a relatively high mark up, and also, that subsidised foods are used only to a limited degree in preparing meals (for example, potatoes and vegetables are served with meat courses and they are not subsidised) *Table 5* illustrates by figures what has been said.

Table 5
Percentage rate of the turnover tax on drinks

Kind of drink	In trade wholesale price	Retail price	At catering units according to categories			
			I	II	III	IV
Wine (bottled)	34	30	14.78	17.9	24.63	30.00
Beer (bottled)	67	67	32.81	36.61	47.86	59.82
Spirits	86	71.7	24.71	38.10	66.1	68.9
Soft drinks	20	16.0	5.97	11.76	15.38	16.0

Figures are available on the sales turnover of catering units and its division (specified for each category). The turnover of on the job catering is shown separately.

According to statistics, the turnover of the catering units amounted to Ft 43 163 million in 1980, of which Ft 35 546 million in the commercial catering and Ft 7617 million in on the job catering.

Table 6
Catering trade turnover in 1980
(million Ft)

	Commercial catering	On the job catering	Total catering
Total turnover	35 546	7 617	43 163
Meals total	8 530	6 846	15 394
Espresso coffee	890	50	940
Alcoholic drinks	20 800	100	20 900
Other drinks	2 375	331	2 706
Tobacco	2 293	372	2 665
Other articles	658	–	658

The consumer subsidy content of the foodstuff purchases of the catering industry can be reliably reckoned. The consumer price subsidy content of the purchases of 1980 amounted to Ft 1298 million, of which Ft 713 million for meats and meat products, Ft 325 million for milk and dairy-products, Ft 201 million for fats (butter included), Ft 48 million for bread, rolls and c. and Ft 45 million for sugar. The turnover tax content of chocolates and cocoa purchased by the catering industry amounted to Ft 146 million. Of the round Ft 1300 million consumer price subsidy of food 800 million is charged – on estimate – on commercial catering and 600 million on the job catering; the turnover tax content of chocolate and cocoa is fully credited to the commercial catering.

Statistical calculations have been made on the basis of the real meal price calculations on a few catering units, in order to discover what is the consumer price subsidy of the consumer price of the meal that derives from the consumer price subsidy of the meat used. Figures are in *Table 7.*

Table 7
Rate of the consumer price subsidy in the price of meat dishes (percent)

Category of the catering unit	Pork based	Beef and poultry based
Extra-class unit	3.3	5.0
I	3.9	5.9
II	6.2	9.2
III	6.4	9.6
IV	8.4	12.6

The turnover tax content – a total of Ft 23.175 million – of alcoholic and non-alcoholic drinks sold by the catering industry has been counted upon the following assumption:

The allocation of the turnover of alcoholic drinks has been assumed to be as for the whole of the retail trade (shop sales and catering together), according to which the share of wine is 22.4 percent, that of beer is 35.4 percent and that of spirits is 42.4 percent.

The percentage of the specific turnover tax in respect of the consumer prices of the catering units have been considered on the basis of the purchase price, and of the average gross profit margin of the catering units in the second and third category. The same process was followed in making the calculation for non-alcoholic drinks.

The turnover tax content (calculated on the basis of the turnover tax rates valid on the 1st January 1982) of the drinks sold in the commercial catering in 1980 is shown in *Table 8.*

Table 8
Measure of the turnover tax in the price of drinks sold in the commercial catering

Kind of drink	Turnover (thousand million Ft)	Turnover tax rate (percent)	Turnover tax computed (million Ft)
Wine	4.6	21.2	975.2
Beer	7.4	42.2	3 122.8
Spirits	8.8	52.2	4 593.6
Alcoholic drinks total	20.8		
Non-alcoholic drinks, total	2.4	13.5	324.0
Drinks total	23.2		9 011.6

The turnover tax content of espresso coffee sold in commercial catering amounted to Ft 112 million, that of tobacco amounted to Ft 1200 million. On this basis the turnover tax content of commercial catering amounted to Ft 10 504 million in 1980 and the consumer price subsidy on food purchases reached Ft 800 million. On this basis the net turnover tax content of the turnover of commercial catering amounted to Ft 9704 million.

On the basis of the turnover of Ft 35 546 million and of the net turnover tax content of Ft 9704 million, the rate of the turnover tax will be 27.4 percent and the rate of real input 72.6 percent for commercial catering, which renders currency production favourable.

Catering enterprises do not pay turnover tax on hotel services and do not receive a consumer price subsidy. Their receipts in convertible currency are converted for them into forint at the uniform rate. Tourists on organised trips from CMEA countries pay directly in transferable rouble which is converted for hotels at the commercial rate of this currency; individual tourists pay in forint which they get at a non-commercial rate. No special financial support is granted on currency income. Therefore, hotels produce foreign currency at the current exchange rates.

In comparing the specific currency production of tourism and commodity supplies the following can be said:

– if visitors buy alcoholic drinks – either in shops or at catering units – the returns in foreign exchange are favourable;

– the returns in foreign exchange of meats, dairy-produces, vegetables and fruits sold to visitors in the Hungarian catering industry are more profitable than in exports;

– the specific currency production of the retail trade in meat, meat-products, milk and dairy-products, and of the exports of the same products to non-rouble countries is approximately on a level;

– visitors' purchases in Hungary of textile clothing, other textiles, and cosmetics produce foreign currency much more profitably than do Hungarian exports.

A summary evaluation

The computation and analysis outlined above show that tourism produces foreign currency at a much higher profitability than commodity exports. This applies in respect to both convertible currencies and the rouble accounts. It is particularly goods with a high turnover tax content that are sold at a high profit in tourism. Also, the foreign currency production of basic foods with consumer price subsidies sold by the catering industry is more profitable than exports – this also holds for both kinds of currencies. The specific foreign currency production of the retail trade of basic foods is practically on a level with exports for convertible currency as for rouble accounting, the home retail trade seems to be more advantageous. The purchase of clothing and their export within the framework of international tourism is not disadvantageous to Hungary as regards the profitability of returns in foreign currency. Restraining such exports can be justified only from some other aspects, such as the smoothness of domestic supply. In Hungary the entrance charges to swimming-pools, to cinemas, theatres, museums, and the cost of public transport fares in the cities and of the railway enjoy high financial support. Therefore, if foreign tourists use these facilities, the profitability and specific returns in foreign currency of tourism as shown above declines. Since, however, in the spending of foreigners a higher rate is made up of the catering services and retail trade purchases, and the above-mentioned services are present only to a lower degree, this does not affect the preceding evaluation of the foreign currency production of tourism.

On the whole, this analysis shows – on the basis of the returns in foreign currency and of their profitability – that it is necessary to develop further active tourism in Hungary and to use all the potentialities of the country in this respect.

BOOK REVIEWS

BOGNÁR, J. (ed): *Tanulmányok az új világgazdasági rendről* (The new world economic order – studies). Budapest, 1981. Akadémiai Kiadó. 287 p.

A contemporary global problem is analysed in the volume on the new world economic order. To solve the social and economic problems of the "third world" is an acutely pressing task for the whole world, irrespectively of the heterogeneity of this group of countries. Not only because of the big weight of these nations in the population of the earth but also on account of complex global political and economic considerations.

In addition to placing the demand for a new economic order among contemporary philosophical trends and exposing the deep-rooted causes of the disadvantageous position of developing countries, also the problems the third world faces with respect to nutrition and agriculture in general, as well as to mineral resources, are analysed in separate chapters. Also special studies cover the subjects of the export of industrial commodities as well as the import of capital and technology which the developing countries cannot dispense with. The three closing analyses of the volume complete the idea given to the reader with reviews of the internal social and economic conditions and tasks of these countries as well as of their economic relations maintained with each other and with the CMEA countries.

In his introductory study (The importance of the "new international economic order" in the contemporary economic trends), J. *Bognár*, treats mainly the political and scientific nature and background of the critiques of this concept. Beside critical voices coming from the platform of interests attached to the maintenance of the present state of affairs, the author also covers the criticisms that assail the economic weaknesses of the concept, namely, those claiming that this host of requirements was not integrated into the political and ideological trends of the world of today and assuming that the role of external economic factors is absolute. The place and role of the concept in the development of the third world is discussed through a manysided approach, also considering the interaction of factors. With respect to the influence of the "new economic order" on international political and economic relations it is stated that part of the so-called global problems manifest themselves inside and through the third world. It is demonstrated with examples that this concept "tries to find the connection with problems of survival or, in other words, with the cardinal socio-economic and international problems which humanity is to face at the end of the century and the millennium." The neglect of the problems of East-West trade is noted to be an inconsistency of the NIEO document. At the same time its recognition of the need to delegate responsibility for tackling the basic international economic problems to governments is considered one of its best merits.

The paper written by P. *Mándi* outlines the antecendents of the new international economic order. The struggle for freedom of the colonies is mentioned as a "precursor" and it is noted that inequality existing as a barrier to development is not removed automatically by gaining independence. The antecedents of the NIEO are approached from three aspects. Firstly, the creation and work of UNCTAD is reviewed, then the role of the movement of countries in preparing the united action of the developing countries, and finally the emergence of a real power that has made it possible to claim this system of requirements. It is stressed that the transformation which power relations went through in 1973 and 1974, the formation of the OPEC and the cooperation of the developing countries were the "divide" wherefore the using of the term NIEO has become justified.

T. *Szentes* in his paper "Asymmetrical relations of the capitalist world economy and structural inequalities of the international division of labour between advanced capitalist and developing countries" gives an analysis and demonstration of the persistence of the said inequality. Subsequently to a review of the history of theory in the fields of the international

division of labour, specialization and economic order, the study presents the first world-wide division of labour, its evolution, motives and consequences. A depth analysis shows that this "colonist type" division of labour has been struggling with troubles already since the Second World War and by the 1970s it showed the symptoms of crisis. The factors in the background of the crisis, ie., of "readjustment", were such as the technical-scientific revolution, the growing multinationalization of capital, the detachment developing between mother countries and ex-colonies, as well as the impacts of the socialist world system. Finally the elimination of inequalities from the international division of labour and from the ownership relations is demanded as a precondition to the new international economic order.

It is felt to be anachronistic in the last quarter of the 20th century that the primary food requirements of hundreds of millions of people are not met, and mainly just in the developing countries. The problem of food is closely linked with agricultural production. A combined analysis of these two subjects is given by K. *Karcsai,* (Nutrition and agriculture). In his study he referred to the findings and deliberations by the World Food Conference held in Rome in 1974. He reviews the state of world nutrition during the past two decades and reveals the reasons of the world food crisis of 1972. Enumerating the conclusions reached by the World Food Conference as well as the conditions of relieving the global food problems, he gives an analysis of the chances for improvement over a longer run. In this latter context special importance is attributed to the reclamation of new land areas, to the amelioration of fertility, to choosing the right agricultural strategy, to social and economic reforms, and to the mobilization of human resources.

Assessing the world economic value of mineral deposits to be found in developing countries is of prominent importance, already not from the point of view of domestic consumption but from that of export. This subject is treated by I. *Dobozi* (Controlling the raw material markets and the new international economic order). It is stated that raw materials have always constituted a "problem" in international economic relations. This goes back to the so-called notion of scarcity, to the drastic fluctuations of raw material prices, to the worsening trend in the terms of trade between raw materials and finished products, as well as to the increasingly discordant geographical distribution of mineral deposits and consumption. The international market of raw materials turned to be a "real problem" in the 1970s as shown from the side of supply and demand alike. Thereafter a list of factors is given which can be regarded to be traditional forms of regulating the raw material market: price formation in international enterprises, price regulating activities of multinational concerns, price regulating impacts of long-term delivery agreements, the decline of the so-called free markets, price regulating activities of international governmental manufacturer concerns, the market regulating role of commodity agreements and the mechanisms used to control export receipts. The integrated UNCTAD raw material project is reviewed in conclusion.

Industrial commodities offer another important source of export receipts for the developing countries. Moreover, the boosting of the export of finished industrial goods appears to be the only way towards a dynamic expansion of their export capacities. B. *Kádár* in his paper (Industrial exports of developing countries) gives the following reason: „over a longer run the ambitions to develop the extracting industries . . . of the advanced capitalist countries, the raw material and energy saving nature of technological development, and the slower rate and structural transformation of the industrial development of the advanced capitalist countries do not promise any dynamical and liquid international demand". The characteristic traits of the industrial exports of developing countries are presented (dynamism, trends in changes of its pattern of relations, structural transformations, major markets) then the background factors of the development of industrial exports are reviewed. In conclusion the perspectives and conditions of the participation of developing countries in the international division of labour are discussed.

Beside the flow of goods, another important sphere of the international economic relations are the other "flows": the transfer of capital and of technology. The flow of capital between advanced capitalist and developing countries is presented by the study of A. *Blahó,* while the flow of science and technology is treated by B. *Bojkó.* The first one is a study of the development of indebtedness of the developing countries, the role of the World Bank group and the workings and role of foreign capital in the developing countries in general. The second study is an analysis of theoretical and practical problems of the transfer of technology, the

main channels of its flow and its demographic and employment aspects, and discusses the agricultural as well as industrial traits and problems of the transfer of technology in particular.

M. *Simai* sets out in his paper (Domestic conditions and tasks of the struggle for the new economic order in the developing countries) from the basic assumption that "the struggle for the new international economic order has created a new situation and new opportunities for the governments of the developing countries." He states that although the forms and degree of dependence have changed, most of the basic problems have remained so far unsolved. These connections require a new way of approach to the planning of the external economic sector, an improved planning of foreign trade, regional coordination of national plans, revision of the international rights of industrial ownership, and the improvement of statistical work. For the sake of advancing the new conditions of planning and plan implementation, economic policy recommendations are made to the developing countries: the importance of greater political willingness and support and of complex planning is emphasized as well as the need for a substantial improvement of sectoral planning, for subjecting the system of plan implementation to critical analysis and improvement, and for creating better organized relations between planning and the state budget.

The economic relations maintained among the developing countries were not left untouched by the world economic changes of the seventies. While aspirations at unity were apparently stressed in international platforms, in "practice", in the face of the "challenge" of the new world economic situation, rather the national economic strategies were emphasized. The paper of A. *Inotai* deals with this symptom. A review is given first of the specific traits and practical experiences of economic integration between developing countries until the early seventies and then of the direct impacts of the changing world economic environment upon regional integrations. It is proved with data that "regional integration has been found to be unsuited to diminish the import dependence on the world economy". Also the concrete "behaviours" of the groups of integration of developing countries between 1973 and 1977 are analysed. As to the future of cooperation he votes for the theoretical approach according to which in the case of commodities and services suitable for international circulation the viable way is the broadest possible international action and not the regional frameworks.

In the concluding study of the volume (Economic relations between CMEA countries and developing countries), J. *Szita* did the necessary and usually not the most agreeable work of "sweeping before our own door" as it must be done in connection with the subject. Outlining the basic characteristics of relations he underscores that although political considerations affect them decisively, their expansion is a clear economic interest of the CMEA countries and also the developing countries are becoming more and more interested. In these relations the combining of mutual advantages and assistance is asserted which can be at the same time taken as a model of the new way of international cooperation. The dynamism, main fields and characteristics of the development of relations are also analysed. It is stated that although cooperation between the developing countries and the CMEA member states is generally based on bilateral intergovernmental agreements, the importance of multilateral agreements is also growing. Finally the chances of the further expansion of relations are noted, also mentioning a number of tasks to be done by the Hungarian party.

This volume of studies is appreciated as a useful and important enterprise of the Publishing House of the Academy of Sciences. It may well become a basic reference book for research workers or readers interested in the subject. In addition to the diversified knowledge the book also offers colourful treatment guaranteed by the variety of the "composition" of the team of authors, for the different chapters were written by practical and theoretical experts (economic policy makers, university lecturers, academicians, scientific research workers). The portray given by the partial studies is nevertheless unified. Its completion may need at most the reading of the new literature.

A. HERNÁDI

STREISSLER, E. – WATRIN, Ch. (ed): *Zur Theorie marktwirtschaftlicher Ordnungen.* Tübingen, 1980. J. C. B. Mohr (Paul Siebeck), 514 p. + Index

German economic science had produced its last and internationally successful "export article": the Austrian capital theory at the

end of the last century. Since then the economics of the German-speaking countries: the FRG, Austria, and Switzerland, as well as their university education, have been mostly importers of intellectual capital. The great thinkers of the first half of this century: *Schumpeter, Mises* and *Hayek* – to mention only the greatest of the German-speaking economists of Austrian origin – had been further developing that old "article" and integrated it into the whole of the bourgeois economics.

Because of the general spreading of economic literature in English the Eastern-European reader is only too ready to put the entire bourgeois economics into two boxes, each labelled "Cambridge". The simplified conception according to which in the British Cambridge reside the Keynesians and in the American Cambridge the neoclassicists and that all other schools – from neo-Keynesians to monetarists – can be placed under those two labels may be useful in some respects, yet it gives little information if we wish to find the theoretical motive power behind the economic policies of our Central European partners in trade FRG, Austria).

The book edited by Erich *Streissler* and Christian *Watrin* may convince the Eastern-European reader that there exists, within the bourgeois economics, also a *specifically German* economic theory, which differs decidedly from the two main schools of the Anglo-Saxon theory, as well as from almost all of the secondary trends of the latter, and which is, however, no less homogeneous than those. This volume has been compiled from the twelve lectures read at the Symposium of the Austrian Chamber of Industry organised in the autumn of 1979, and from the records of the contributions and following debates; a highly informative introduction by E. Streissler is added.

The German, Austrian and Swiss participants of the Symposium were mostly theoreticians, engaged in the "verbal" theory, university professors as for their profession. Mathematical economics was represented by Hans G. *Monissen* and Christian *Seidl;* the former gave his lecture on the externalities, the latter on the nature of individual and collective decisions. (The only lecture of the Symposium in the field of law was held by Bernd-Christian *Funk:* it treated the legal interpretation of freedom guarantees.)

One of the characteristic features of the German economic theory is – as it is clear from the lectures of Jochen *Röpke* and of Streissler, co-editor of the present volume – that it is sharply opposed to the neoclassic equilibrium theory. Contrary to the impersonal world of perfect competition, Streissler deliberately puts the enterprise activity attached to real persons into the centre of his theoretical examinations. In his opinion, "enterprise economy" is a better name for the economy of industrial countries than the traditional "market economy". The neoclassic theory assumes that the preferences of the members of society are given and fully known, while the German theory starting form Hayek's thoughts lends more importance to the relative cheapness of acquiring information relevant for economic decisions. Similarly, the infinitely fast adjustment of the market actors is opposed to the emphasis laid on relatively fast adjustment.

The use of the world "relatively" is of key importance in the preceding context. What is involved is not simply the relativisation of the neoclassic theory or an attempt of institutionalising. Streissler – as well as all the other participants of the Symposium – interprets the system of the market economy or that of the enterprise economy as a *conceptual counterpart of the collective planned economy* and, in the last resort, all comparisons are related to this "counterpart". This interpretation follows the division by Walter *Eucken* – not very well known outside the German-speaking countries, died in 1950 – who tried to draw up systematically the characteristics of these two ideal-typical economic models, taken in the Weberian sense (in his posthumous work often cited in the reviewed volume (Grundsätze der Wirtschaftspolitik, Bern, Tübingen, 1952).

The twelve-year Nazi rule had a shock effect on Eucken as well as on his followers not only in respect of their political, but also of their economic theory conception. All papers included in the volume display mistrust and scepticism toward the state as well as any kind of central power. (This mistrust is, of course, extended to the practice of the socialist countries and to the whole of the Marxian economic theory.)

In the closing study of the volume the co-editor Christian Watrin lists the critical arguments regarding the market economy system which have been summed up, descriptively, by Kurt W. *Rotschild* in the first study of the volume. It is clear from Watrin's study that the German followers of market economy *are in dispute* not only with the neoclassicists but *also with the Keynesians.*

As it is known, Keynes found the capitalist economy of his age unsatisfactory basically from two aspects. First, ha objected to the insufficient utilisation of resources (unemployment), second, he criticised the highly uneven distribution of individual incomes. As for criticism number one. Watrin, as well as the other participants of the Symposium, took the position following logically from the train of thought cited above, which is that in the macro-economic sense the market economy is by all means more efficient than any kind of planned economy, or an alternative mixed economy, based upon self-management or the Keynesian state economic policy.

As for the just or unjust distribution of personal incomes, Watrin stresses – following Hayek – that in a market economy the distribution of incomes and of accumulated wealth does not reflect, *per definitionem*, the distribution of personal merits. The market economy system is not to be legitimised by the proposition that the inequalities in income and wealth are smaller in it than in any other system, or that these inequalities better reflect the contribution of individuals to the social welfare, but that this system promises the fastest possible development dynamics for society as a whole. It is an important thought of Watrin – characteristic of all German economic thinking of today – that inequalities of income and wealth are rooted partly in the monopolistic situation of individuals and of companies and as such are in fact unjust, harmful and to be eliminated.

It may be clear from the preceding that the economic theory in German-speaking countries today presents a basically normative and defensive argumentation. One of the best features of this volume is exactly that it well reflects this character of the school, making it clear for the reader. The majority of the mainstream German economists sharply criticise, exactly on account of their political and scientific conviction, the interventionist economic policy of the capitalist state wishing to do everything by itself. They also oppose the Keynesian theory legitimising such policy, as well as the school of the equilibrium theory, considered to be too abstract, and irrelevant for economic policy practice.

The list of literature attached to each study suggests that the participants of the discussion did not content themselves just to repeat their own views. The authors of the volume have practically processed the entire modern bourgeois economy, making a clever use also of the contradiction existing between the two rivalling Anglo-Saxon economic theories. This book may be a useful reading for all those prone to become the all-out promoters of one or another school of economic thinking.

P. MIHÁLYI

PEREIRA, J. M.: *Sistemas Económicos e Consciência Social – Para uma Teoria do Socialismo como Sistema Global* (Economic systems and social consciousness – For a theory of socialism as a global system.)* Oeiras, 1980. Fundação Calouste Gulbenkian, Instituto Gulbenkian de Ciência, Centro de Estudos de Economia Agrária, Estudos. 306. p.

Apart from its intrinsic interest, the book has the added attraction for the Hungarian reader that it refers extensively to the Hungarian economic reforms in and after 1968. Its list of references includes some 40 Hungarian titles, most of them papers published in *Acta Oeconomica.*

The Portuguese author (whom we shall denote JMP for brevity) is a chemical engineer by training. He took up political activity against the dictatorship, „on an individual basis", as he writes. After the ousting of the dictatorship in April 1974, he remained likewise independent. Secretary of State for Industry in the 4th Provisional Government (March-August 1978), he subsequently retired to management, after a spell at research, of which the book in hand is the fruit.

The book is made up of three Essays, which hang together, although they can be read separately. Essays II and III analyse the theory and practice so far of present day socialism and of its potential of evolution, whereas Essay I, a formidable methodological prolegomenon reflecting JMP's wast reading and familiarity with science, is connected with the other two rather tenuously and shall be discussed but very briefly here.

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The post-World-War-II scientific-technological revolution has partly engendered, and partly emerged from, some extremely powerful tools of cognition such as information theory, control theory (cybernetics), systems theory, management science and operations research. These theories have so far been integrated insufficiently if at all with economic science. As laid out in Essay I, such integration raises two intriguing questions.

*The word "global" in the title means "comprehensive" (society-wide) rather than "world-wide".

1. Each of the above-mentioned theories claims full generality as an instrument of scientific/scholarly disciplines. Applying them to economics would, in JMP's view, imply that, in the n-dimensional attribute space of any such theory, each economic system, pure or mixed, real or imagined, would be represented by just one point, and distinguished from all the others only by the numerical values of its attribute-parameters. This, in JMP's opinion, is liable to blunt ideological conflicts, including the conflict between socialism and capitalism. In reality, however, it does nothing of the sort. No matter how powerful the above-enumerated disciplines may be as tools of cognition, tools is all they are. If correctly applied, they do not in themselves carry any ideological charge: it is the wielder of the tool who must add his own. If these tools do raise ideological misgivings, it is because, by exposing inconsistencies, they sometimes help to slaughter the odd sacred cow. That, however, is a benefit rather than a drawback.

2. Another crucial issue is the openness of closedness of a system. The closed system – a system that does not interact with its surroundings – is another powerful tool of cognition. For example, the law of the conservation of energy in physics does not hold for open systems; in *Keynes'* General Theory, the closedness of the economic system (of the fiction called the national economy) is an underlying albeit somewhat inadequately stated condition. In fact, however, no closed system in the strict sense exists: the closed system is just a convenient thinking aid; the assumption that a system is closed (or can be closed by physical or conceptual manipulation) facilitates its handling but reduces the verisimilitude of the findings to the extent that the actual system is in fact open. Regarding the economic system as closed (as in General Equilibrium Theory), even if only as a thinking aid, entails much inconsistency. This inconsistency serves no very useful purpose since, as JMP states, original Marxism, which refuses to see the economy (or any other system) as closed, already incorporates most of the points of attachment to which these recent methodological achievements can be hooked up: systems thinking and dialectics turn out to be highly compatible. Some of the hookup has in effect been performed: JMP refers extensively to *Althusser* and "Marxist structuralism" and to *Guillaumaud* and his "Cybernétique et matérialisme dialectique".

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Essay II, "From practice to the 'economic theory of socialism'", starts with JMP defining the term "scientific socialism" as a distinction from utopistic socialism. Marx and Engels left us no "science of socialism": nor is such a science possible. JMP shows this by confronting the Political Economy Manual of the Soviet Academy, dated 1959, which stated what it claimed to be the "fundamental economic laws of socialism" with several contemporary Hungarian authors *(Csikós-Nagy, Kornai, Madarász)*, one of whom wrote, "I doubt it greatly if a satisfactory theory of socialist political economy can at present be elaborated".

For an example of the political economy of socialism in the making, JMP presents at some length the "great economic debate" on the problems of building socialism in the USSR between 1924 and 1928. In JMP's assessment, this debate gave a rich crop which contained, in outline at least, the system of central ("imperative") planning and also that of "market socialism" and, indeed, highlighted as a sort of by-product many an aspect of post-World War II development economics. The debate covered "the desirable and supportable rhythms of economic growth, the base of accumulation, investment strategies, the relation of industry to agriculture, the pricing system and the function of money, the degree of openness of the system to the outside criteria of investment, 'opportunity costs', the social allocation of resources, the Plan/market relationship, the role and nature of economic laws in conjunction with the 'margin of voluntarism' that is desirable or possible, the concepts and methods of planning, and so many others . . ." This makes it "surprising, to say the least, that it should be possible to state in a 'socialist country' that 'there is nothing to guide us in the matter of political economy'." (p. 146: the last quotation within the quotation is from *Csikós-Nagy*, 1970.)

(It should, of course, be added that none of the views proposed in the "great economic debate" was ever put into practice: it was I. V. *Stalin* who, outmaneuvering both sides, imposed his brand of headlong industrialisation and enforced collectivisation, at a swinging social cost, as JMP himself is not slow to point out. JMP seems to have overlooked the point of view from which this chain of events makes sense: the dialectic of the open economy that expects a fair deal as an economic partner from a majority at least of the great nations of the world, vs. the closed one which feels threatened and does

its best to erect barriers and fortifications. It all depends centrally on the view taken of the world economic environment, together with its full political impact, a strikingly contemporary dilemma. It is only seen in this way that Stalin's choice, based on his perception of a mortal threat, makes any sense at all. Yet the very "richness" of the views presented during the "great economic debate" makes one suspect that those did not constitute anything coherent, taken in the aggregate. [They would, in our "attribute space" referred to above, plot as a welter of scattered points rather than as a compact domain.] They are also little use to the socialist countries' economists today, in a situation that is not "transitory" or indeed revolutionary; socialism in one country is a thing of the past, and [at least as far as Hungary is concerned] the openness of the economy is a fact of life, not a matter of choice. It would be wrong to assume that, in this situation, present day socialism should no longer have any major problems of a political-economic nature, or that it should be able to solve such problems as there are simply by taking its clue from the "great economic debate".)

There follows a perceptive chapter on central directive planning as it evolved up to and during the 1970s, with the correct emphasis on the role and power of *mattekhsnab*, the system of material and technical allocations, the global and imperative nature of planning and its inconsistencies, the relegation of market mechanisms and categories to a subordinate position. wide-ranging state control over the non-economic spheres of social life, and the ways in which all this was affected by what JMP calls the „decompression of 1956 (the 20th Congress of the CPSU)" (p. 156.) The need for reforms was made patent by wild fluctuations of enterprise output, widespread reliance on the *shturmovchina* or shock-work, the accumulation of unsaleable goods, the supply of misleading or inadequate information to the higher levels of the hierarchy etc. Reforms were in fact introduced, but – except in Hungary – they did not affect the essence of directive planning. In a general way, "the reforms contributed to the improvement of many of the shortcomings of the system's functioning . . . but did not, except in the Hungarian case, change its essence, and contributed in no substantial way to the changing of the managers' or workers' behaviour at the enterprise." (p. 174) Even so, JMP writes, "it is useful to point out . . . the immense potential of a model of this type if *combined* with a developed social consciousness by mechanisms of collective participation in the fixing of objectives and the performance of tasks whose meaning has been understood and accepted by all as a *natural* imperative."*

The "Hungarian system", "a reform *en bloc* . . . not only of the pricing system but also of the entire system of the enterprises' relations with the national economy", characterised fairly extensively in terms of quotations from Á. *Balassa*, Z. *Bihari*, B. *Csikós-Nagy*, L. *Faluvégi*, O. *Gadó*, P. *Glattfelder* and P. *Mátéffy*, R. *Nyers*, G. *Révész*, Sz. *Szegő*, B. *Szikszay*, G. *Tallós* and M. *Timár*, boils down in JMP's view into the following main items:

1. And end to *mattekhsnab*.
2. A liberalisation of investment decisions.
3. A general reform of pricing.
4. A central plan, orientative for the major part, whose fulfilment is promoted by indirect incentives.
5. A redefinition of Hungary's role in the international division of labour.

One crucial element which JMP seems to have overlooked is the deliberate stipulation that, under socialism, too, there do exist conflicts of interest between the individual, groups of individuals and society as a whole.

It is no less important to point out the experimental element in the Hungarian mechanism which, in this reviewer's opinion, is just as rich in practical experience as the "great economic debate" was broad in intellectual scope. The changes introduced in 1971 and 1975, which JMP mentions, and those since 1978, which postdate his research, were important measures of adaptation both to the internal responses to earlier measures and to the motley events of the change of epoch in the world economy. The adaptability and the *de facto* adaptations of the Hungarian mechanism render JMP's criticism of the concept and its workings (pp. 189–199) largely outdated albeit fair enough. But we can certainly go along with him when he concludes (p. 199) that "the general philosophy of the New Economic Mechanism is being maintained, and it is not justified for the time being to suppose, as is apparently being done by Marie *Lavigne* (175), that the days of the experiment are counted and that it will tend to converge to the central-planning model."

JMP then goes on to consider the impact of the "Hungarian system" upon social conscious-

* Throughout this review, no emphasis has been added to or removed from the quotations.

ness. „The Hungarians have an economic system whose theoretical foundations are precisely the material optimisation of individual behaviour (which leads to a growing differentiation in terms of performance and power) in a setting of collective non-participation and . . . a 'socialist' affirmation to which is associated a 'moral' idea of solidarity, of cooperation, of egalitarianism, which in the foregoing period . . . managed to penetrate the masses, making it difficult for them to adapt to the new system, and making their response to the 'incentives' contained therein unpredictable if not uncontrollable." (pp. 209–210.)

Two remarks are in place here. Firstly, the reactions of the Hungarian people to the incentives of the reform did certainly not prove uncontrollable, nor any more unpredictable than the people's reactions are in any system with a similar number of degrees of freedom. Also, in the knowledge of today's Hungarian (or any other East European) reality, the reference to 'moral' solidarity, cooperation and egalitarianism, although not unjustified, seems somewhat exaggerated. Secondly, the critical passages chosen by JMP from the writings of *Csikós-Nagy, Révész, Timár, Faluvégi, Héthy* and *Makó, Bihari, Kozma, Kornai, Connor* etc., fair and appropriate as they are, are true by and large of most countries of persent day socialism, and should not therefore be considered "Hungary-specific".

What conclusions are to be drawn? In JMP's view, both "real systems" ("market socialism" in Hungary and directive central planning in all the other countries are "economic systems in which conscious political participation and adhesion have no relevance whatsoever. The citized and wage-earner is considered in both an 'economic agent' who serves, in the latter case, a central logic of accelerated accumulation, or behaves, in the former, as a 'maximiser of utility', serving a central logic of 'efficient resource utilisation. In both cases, the individuals are motivated or stimulated in ways conceived at the central level, to act for the best fulfillment of the targets set by the 'centre' " (p. 213.)

"Market socialism is an interesting experiment of a 'programmed mixed economy' . . . (mixed in the sense of being an articulation of Plan and market as non-mutually-exclusive mechanisms) . . . [it] is to considered 'progressist' . . . if introduced *after* a market system and supported by large-scale collective participation at all levels – that is, in a phase of transition towards central planning with mass participation (planificação central participada). However, it is the system of central planning [that] may become, if collectively undertaken, . . . the true 'economy of socialism', following a phase of 'market socialism' in which the collective achievements and social relations of a socialist character are in the process of growing more profound (and *not the other way round,* as it seems to be the case in Hungary)." (p. 218.)

There is an issue that needs raising here: the relation of planned economy to socialism.

No very good case be made out for the centrally planned economy as a *conditio sine qua non* either of economic socialism or of global socialism in JMP's sense. In the Hungarian case, JMP emphasises "unplanning", the relaxation of a much tighter earlier planning system. Nevertheless, although JMP bypasses the point, the Hungarian economy is still very much a centrally planned one, and has no intention of becoming anything else. One of the minor inconsistencies of JMP's approach is that, on the whole, he gives better marks to the Hungarian system of relaxed planning than to the other countries' tighter plans. This is not fortuitous. True, the complexity of today's industrial societies makes some sort of planning imperative: true too, there is no reason for having no plan in a society in the sign of full social consensus. But – as stipulated by the 'Hungarian system' – even under real, as opposed to utopic, socialism, social consensus will only be partial at any time. Precisely in terms of the theories on systems, information and control, to which JMP dedicates most of his Essay I, it can be shown that keeping all the nodes of the complex net which is a country-wide plan rigidly fixed requires the expenditure of practically infinite energy (in the economic sense), and that energy expenditure decreases rapidly as the conditions of node rigidity are relaxed. From this viewpoint, the Hungarian economic mechanism may be viewed as trying to find an optimum trade-off between the costs and benefits of different levels of planning rigidity (in a setting of capriciously fluctuating "externality nodes"). All in all, we in Hungary tend to feel that progress towards the more global and more advanced forms of socialist society must go hand in hand with progress towards technically more sophisticated and, simultaneously, more relaxed forms of planning, *rather than the other way round.* Whether or not this entails, as JMP maintains, a risk of giving up socialist values, is a point to which we shall return later on.

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Essay III, on "The socialist project and social consciousness", starts with the question. What is socialism? The basic question breaks down into a number of crucial issues connected with "the project of shaping socialism as a global system": how to reconcile self-management with planning? Democratic power with technological and organisational complexity? Creativity in the individual and in the group with mass production? Qaulity of life with industrialisation? How to pass from material/monetary value to social utility (value-in-quality)? How to reconcile egalitarianism with economic/social dynamism? And quintessentially, how to reconcile democracy with socialism, freedom with collective engagement?

In his quest for answers to all these questions, JMP consults three sources: [1] Ernesto Che *Guevara's* contribution to the "Cuban debate on socialist management", [2] Rudolf *Bahro's* "Alternative" and [3] the *oeuvre* of the philosophical-sociological "School of Budapest".

Central to JMP's scrutiny is, what is the "precise distinction between an economic system that is 'more or less socialist' . . . and a *global* socialist system"? It is above all „an overriding preoccupation with the issue of 'social consciousness' and common realism as regards the problems raised by the existence of organisations and relations of an increasing degree of complexity as the general process of 'economic growth', based upon 'industrialisation" advances . . . a return to what may be called the 'Marxist tradition', according to which socialism represents a jump (from the realm of necessity to the realm of liberty) in civilisation, and not only an alteration, however radical, of the 'economic system'." (p. 271) All this is an ongoing preoccupation also in the countries of present day socialism, not confined to this or that critical school. The difference from JMP's attitude (let alone Rudolf Bahro's, whom this reviewer has not the slightest hesitation to label a utopian) is a more pragmatic approach, which stands on three legs. Firstly, the struggle between different social systems, especially in a period of fading détente, makes it increasingly unrealistic to concentrate on the Bahroan (or Guevaran) criticism of present day socialism: making the economy work in a way permitting it to stand up to the problems, external and internal, it is faced with much more immediate issues. Secondly, there is the strong demonstration effect of Western living standards and lifestyles: the deliberate choice being, in Hungary at least, to let people judge those on their own, rather than mystify them, an idea that, by its very nature, produces some failures side by side with a tolerable success. Thirdly, there is a considerable difference in the assessment of the human personality.

JMP's Essay III seems to share with most of the writing on the subject the paradox of prescribing medicine against a familiar illness in a practically unknown patient. The point that neither Guevara, nor Bahro, nor the Budapest School, nor again JMP seems to have raised is: *do* people want to *participate*, in the sense of permanently keeping up a high-level social consciousness and of continuously acting upon it? It is this reviewer's surmise that, at any time in any given society, only a minority will; and that, in "a non-tense society (which will be, by definition, a socialist/communist society)" (p. 273), people will have strong motives, firstly, to reduce rather than to raise their level of participation/consciousness (to let Cincinnatus return to the plough), and secondly, to concentrate upon levels of the superstructure remoter from the base than the economy. (Just as no healthy human being can be expected to be preoccupied full time with his/her metabolism.) The Bahroan universe thus seems highly elitistic in the sense that ordinary people do not appear capable of the postulated permanent social consciousness except under strong and permanent hypnosis and indoctrination by an elite. (At the practical, everyday level, in fact, an ordinary person would find it rather difficult to distinguish this sort of permanent hypnosis and indoctrination from, say, Stalinism which, in Central Europe at least, came in postulating a very similar sort of elevated social consciousness.)

Finally, it is useful to raise the question of time frame: when is global socialism timely? In the West, even social democracy seems a somewhat precarious acquisition. In the CMEA group of countries, social development is greatly (and, it would seem, increasingly) influenced by the surrounding world economy which is essentially capitalist. And the developed groups – the CMEA and the OECD – are embedded in a world of mass poverty where the global issues of limited resources and limited ecosystem tolerance place massive constraints on political and economic freedom of action. One therefore suspects that global socialism, whether on Bahroan or any other lines, is rather a remote prospect: it is in fact not even a certainty because humanity may well founder before attaining it. All this does not make research into global

socialism (including its anthropological foundations in a spirit of "know thyself") any the less necessary or fascinating, but it does make the search for viable social alternatives, global in the planet-wide sense, seem rather more urgent.

Let me end by saying that, all my critical grumblings notwithstanding, I have won great respect for JMP's acuity of vision and intellectual honesty. His main shortcoming – no fault of his – is his lack of experience with the realities of present day socialism. His main merit, on the other hand, is having written a book of truly global interest, in a Portugal that, "today . . . is a frozen-in melting pot . . . a concrete complex which raises theoretical challenges to which one fine day we shall be sorry not to have wanted or not to have been able to respond." For, in fact, today, "socialism in Portugal is for thinking". And it clearly needs a great deal of courageous thought.

B. BALKAY

JUDET, P.: *Les nouveaux pays industriels.* Paris, 1981. Les éditions ouvrières. Collection Nord-Sud, 174. p.

Consideration of the past, the present, and the perspectives of the Third World have been traditionally an organic part of French economic thinking and especially of university research and education activities. So far the approach to developing countries has been determined by the theories of dominance, unequal exchange, one-sided dependence, and of centre-periphery. The situation of the Third World, showing an immobility in comparison with other parts of the world for a long time, and that of the African states belonging to the French sphere of interest have occasioned – quite understandably – not so much a description of the facts of little movements, but rather a theoretical explanation, partly of emotional and political motivation. One of the important centres of such research work and of lively debates is the Grenoble University. Its Department of Economics and the Research Institute of Economics and Planning working within the University maintain close relations with several developing countries, first of all with Algeria, in working out economic development strategies. The book – written by Pierre Judet, head of a research team on the new industrial countries in this Grenoble Institute – polemises with statements according to which the dynamism of the new industrial countries is not rooted in their own development, but in the sovereign activities of the multinational companies and of the dominating centre. Let us take in turn the statements as well as the author's counter-arguments.

The duty-free border zones, that is, the industrial zones having a legal status of a „state within a state" established with a view to attract foreign capital are often cited as examples of a high degree of technological, financial, and commercial dependence on the centre, while they are hardly connected with the domestic level of development and progress. *But* such zones are characteristic only of South-East Asia and even there they employ (with the exception of Japan and China) only 3 percent of the workers of the manufacturing industry within the area.

It is to prove the idea of external impulses and of the internal development impeded thereby that the argument – of dubious meaning for economic policies – is formed according to which the countries in question can only produce labour-intensive products, mainly of the light industry, since they are not in a position to produce capital-intensive goods. *But* the new industrial countries are switching over gradually – even though to a relatively small extent and highly concentrated as yet – to the exports of engineering products and equipments. As for the delivery of turnkey factories, these countries do not play any more the passive contributor's role at the side of the multinational companies, since even their contribution requires such capacities of planning, adaptation and innovation as can be created only by internal dynamics.

Many hold the opinion that industry is diversified in vain, for the centre relocated only the middle phase of the production process, that is, assembly, while it keeps away the new industrial countries from the technology as well as from the markets. As a result, through the inputs the dependence of these countries further increases. But, non even the advanced countries can fully control the technology used by them and it is exactly through imports that competitiveness can be increased, as it is proved by the example of the French aircraft industry. It is true that the judgement of the dependence is also a question of the criterion used, or, a question of comparison. If we examine, namely, the trade balance of the often cited technological sales and purchases, these countries will find themselves in a good position: in a line with the German Federal Republic and Japan, both with growing deficits

in this field. And it is exactly the case of Japan that proves the extremely important role of the time factor in judging the degree of technical dependence. That is, a time lag occurs between the intensification of the external technical relations (imports) and the accomplishment of a more autonomous technological base which becomes natural upon the basis of the former. Learning is not independent of external factors, but it is ultimately determined by the internal dynamics.

Yes – the argument goes on – but these countries will still become dependent: through the sales. The exports increased through the demand of the multinational companies derom the economy which becomes increasingly vulnerable and defenceless and its already damaged independence is further weakened. *But,* beside the external suction and other effects exerted also by the international organisations, the movements originating in the internal dynamics play a decisive role, as it is proved also by the slogan voiced at the UNCTAD on the relationship between industrialisation and exports. The foreign trade intensity indicators brought up to support excessive openness do not prove anything: the export of each country correlates basically with the size of the country and not with anything else. It is, for instance, highly misleading to explain the root of the problems of the South-Korean economy by saying that exports have been growing too fast. It is true that the 2 percent export ratio of 1962 had grown to 30 percent by 1979, yet it is not the latter value but the former that seems particular in comparison with the 25 percent ratio of 1930. Therefore, what has to be mentioned is not an excessive "opennes", but the fact that the South-Korean economy has caught up with its own openness through a considerable change of its export structure.

The author's critics in a resolute style – convincing for the reader – are based upon the idea that the process of industrialisation feeds on inland roots, which is the central message of the book. The case study of South Korea – whose development as a new industrial country is dated from 1962 – proves that the energies of a later development have been released through a long historical process. For instance, the small national enterprises producing mainly for the home market, upon which the opening of 1962 relied and which provided the later great names of the Korean industry, proliferated in the economy as early as in the 1950s. It is an important merit of the study that it ascribes a great importance to the historical process, i. e. to the slow ripening which prepares a new phase, in many cases recognised only much later. This is done, however, somewhat one-sidedly and the turning-points which are an organic part of the process are not presented and analysed in due detail, although they determine, to no small extent, the character, success, and perspectives of industrialisation. The aggressive political changes (e. g. in Brazil) strongly determined by economic policies, which have become frequent in the developing countries from the 1960s, have been the result not only of a previous development, but also represent a qualitatively new phase of the industrialisation process.

This can be demonstrated not only through the example of each country, but also through the development of the sectors presented in the book: petrol-chemistry and metallurgy. Relying upon the multitude of existing small producers the new industrial countries have implemented structural changes, after the economic policy change, which coupled quantitative growth with qualitative diversification.

But who is it that initiates and puts into effect these changes? The author admits that the dynamism of the multinational companies is partly rooted in their ability to influence economic policy decisions by their initiatives, yet he points out that flexibility is also in their nature, thus they are well able to adjust themselves to phenomena outside their influence.

And such "phenomena" are found in a great number in the countries in question. And there is often a government initiative behind them. For instance, South Korea asked the World Bank in 1966 for a loan to build up a metallurgical capacity of 600 000 tons. Since, however, this was not granted because of assumed profitability problems, the government charged the state enterprise Posco with the task, and this built up the twelve-fold (!!) of the capacity originally planned, thus establishing one of the largest and at present the most competitive metallurgical complexes. This also makes it clear that the governments of the new industrial states do not simply represent the multinational interests, but play an active and autonomous role with their considerable planning activities, the elaboration and implementation of sectoral programmes, and with their purchases through their own enterprises. With these means they wish first of all to strengthen the national capital.

Relying on the internal elements of the "tripartite alliance" (multinational companies, state, home capital), these countries – or at least many of them – have realized a really spectacular export offensive. At the same time, it is the author's opinion that export orientation in itself does not explain sufficiently the successes achieved by the new industrial countries. Brazil and Argentine of the 1930s had produced such machines and equipments – beside substituting home production for commodity imports already from the 1920s – which did not fit into the logic ot the economic policy considered to be import substituting. The home markets of the countries qualified at present as open and export-oriented enjoy strong protection. Before the Tokyo round of the GATT, for instance, the customs duties imposed on certain textile articles in Brazil and in South Korea amounted to tenfold of those imposed in the most advanced industrial countries. As for development policy, the upswing of the export-oriented industries has its roots in import substitution. Similarly to the Japanese development, the first products of the manufacturing industry designed for exports have been developed from the start with a view to export orientation (textiles, clothing). In the second phase the exports of the manufacturing industry are already preceded by a dynamic development of the given products based upon a large home market (metallurgy, the chemical industry, and then the engineering industry). Besides, it is to be stressed that the role of the home market does not lose of its importance even at the time of the export offensive: the foreign market expansion of the building industry based upon high productivity and low wages (from the South-East-Asian countries first of all toward the African and the Middle-East states) is coupled with an intensive development and no less important role of the home activities.

One of the best features of the author is the historical approach, through which it is clearly demonstrated that economic development is inseparable from social relations. This is reflected in the chapter discussing agricultural development in the new industrial countries. At the beginning it is found out that in 1960, out of the fourteen countries examined, eight had an agricultural export ratio of over 70 percent, and by 1978, out of the same fourteen countries, ten had lowered this ratio to 30 percent. Behind this fact, however, there is beside, or rather intertwined with, a fast progress of the manufacturing industry a radical change of agriculture. From this aspect, the author distinguishes two roads to development: the Japanese one, characteristic of the South-East Asian countries, and the Mexican one, to be found in the Latin-American states. In the first case, a wide modernisation took place, affecting the whole of the peasantry. This had created, through the growing demand of the agrarian population, favourable conditions for the manufacturing of industrial products, and in a way that it promoted industrial activities also locally, in the villages. Whereas the characteristic feature of the Mexican road is that modernisation is concentrated on a few large estates, while the masses of peasant small producers are left out of this "marginalising modernisation". This model sets several limits to development. On the one hand, as it is shown by the serious socio-economic difficulties of several Latin-American cities, the migration of the population from village to city has not been motivated by the demand of industry, but by the abandonment of lands. On the other hand, because of the pauperisation of small peasantry, the demand for industrial products can grow only between limits and, finally, no industrial activity can develop in connection with agriculture and villages, as it is the case in the countries following the Japanese road.

Pierre Judet compares the fast economic growth of the new industrial countries and its background with the parallel historical phase of development of the "old" or "older" industrial countries. He finds that the historical experience of industrialisation shows that it has always demanded great sacrifices from those promoting it, whether we have in mind Great Britain, Western Europe, Japan, or even the Soviet Union. At this phase fast progress is bought at the price of low wages – with large differences mainly according to sex –, hard working conditions, and a total or partial lack of social insurance; everything as it was described by Engels relying upon his experience in England. The author quotes Francois Perroux who says that at this phase of development the satisfaction of human needs is subordinated to the satisfaction of industrial needs: "humans are consumed, in order to produce things".

The idea is widely held that these countries are the new Japans of the world economy, and this raises the question of the development perspectives of the new industrial countries. Yet a comparison with Japan makes it clear that the economies of these countries have not yet developed such wide home markets which could

serve as basis for the industrial system of an advanced economy. That is, it should not be left unobserved that Japan, beside being one of the largest exporters of the world, represents the third largest market of the world. Therefore, the character of the domestic market is an important criterion in judging the future perspectives of the new industrial countries. It is important to eliminate the large differences in income distribution, which slow down or even stop further development and the expansion of the home market.

The new industrial countries are no new Japans, but "they are on the way, carrying the burden of contradictions, in trying to catch up". The consequences have to be drawn both in the theoretical and in the practical fields.

By his analysis and critics of the new phenomena, Pierre Judet has greatly contributed to our being able to ask new and more penetrating questions regarding the general development and radical restructuring of the world economy.

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