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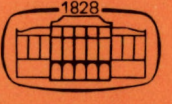

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B. CSIKÓS-NAGY

LIQUIDITY TROUBLES AND ECONOMIC CONSOLIDATION IN HUNGARY

The author searches first of all for a consolidation program to fight the economic difficulties that emerged in Hungary in the wake of the two oil price explosions. He establishes, among other things, that the experiences gained in the course of planning for 1983 indicate that even a slight reduction of the stock of foreign debts causes grave conflicts in the distribution of the domestically disposable national income. Thus, when drawing up a program for consolidation, the problem of capital supply has to be put into the centre and the process of consolidation has to be based on planning the balances of payments in roubles and in convertible currencies.

An increasing number of signs indicates impending changes in the central control and management of the Hungarian economy in the coming years. To prepare these changes, the Political Committee of the Hungarian Socialist Workers' Party set up a Consulting Body of experts.

This is the third case in the past twenty-five years that the party leadership has taken the initiative in improving the system of economic control and management and did organize a temporary committee to provide for a critical analysis of the economic situation, summing up the disputes about the control and management system and to judge the proposals.

Turning-points in the Hungarian economic policy

In 1957 an Economic Committee was organized in order to investigate the economic policy mistakes made in the course of establishing the socialist planned economy after World War II. In the said year already important measures were taken, first of all in agricultural policy. The compulsory delivery of agricultural produce was abolished. Contractual and free procurement were introduced. Changes were made also in the non-agricultural sectors. Wage regulation became an autonomous enterprise affair, which the government controlled by laying down the basic labour conditions, and the lower and upper wage limits for jobs, as well as by taxing the wage increment. The economic policy introduced in 1957 proved to be efficient through ten years. The troubled economy had consolidated at a spectacular speed. In this a certain role was played by the financial aid provided by the Soviet Union, which alone, however, could not provide for a permanent solution. As against expectations the socialist reorganization of agriculture took place rather smoothly, and it was perhaps the first case in the history of socialist economies that it took place in a way that

— it was not accompanied, even temporarily, by a decline of production; on the contrary,
— it became a starting-point of intensive development, and of the spreading of industrialized agricultural production methods.

The socialist reorganization of agriculture released labour. This is one of the reasons why the political leadership considered extensive industrialization, that is, providing for the largest possible number of jobs, as the main line of development. However, the reserves of extensive development were soon exhausted and, when full employment had been reached, intensive development became the timely question. In order to prepare such changes in economic management, the Political Committee of the Hungarian Socialist Workers' Party called into being a Coordination Committee in 1965 which set forth a proposal to carry out a reform of economic control and management. The reform introduced in 1968 abolished the control based on compulsory central plan directives. Independence, responsibility for decisions, and the taking of risks became the main elements of enterprise economy. In accordance with this, a mixed price mechanism was made effective. Some of the fixed prices turned into maximized prices. A free movement of prices was allowed in a wide sphere, partly through replacement of price fixing by guidelines, and partly through imposing limits.

The analysis covering the period from 1967 to 1974 clearly shows the positive changes brought about by the economic reform. In these years, the yearly average of economic growth fluctuated between 6 and 7 percent. The rising labour productivity became gradually the only source of growth. The so far chronic deficit of the balance of payments in convertible currencies ceased, and it became possible even to accumulate foreign exchange reserves, but not through import restrictions. The ratio of products bought on the world market even increased in the production structure and in commodity supply. While living standards were rising at an accelerated rate, also the commodity supply was improving. This period of Hungarian economic development can justly be considered a golden age.

This favourable development process was broken by the first oil price explosion of the OPEC in the last quarter of 1973. Hungary ranges among the countries of the world in which the terms of foreign trade most deteriorated; she lost about 10 percent of her national income. The disadvantageous turn in the world market price conditions was aggravated by the increasing relative shortage of natural resources within the CMEA. Undoubtedly, this fact afflicts Hungary the hardest, since the highest material import ratio per unit of production increase can be found in this country.

To form an opinion about the situation, the following has to be considered: after World War II, up to the mid-1960s, the yearly increment of the energy and material imports of Hungary from the CMEA assured, together with domestic production, a 90 percent supply, at a 4 to 6 percent increase of national income. Today Hungary has to manage her economy under essentially different international conditions. In our days, East-West trade has a structural regulating role, since two-thirds of the demand for industrial raw materials can only be satisfied on the world market, or, against payment in convertible currencies. Imports of primary energy paid for in convertible currencies remained marginal. In this respect, a successful

energy rationalization, and a deliberate braking of economic growth only may delay dependence on the world market.

It took more than six years to overcome the disturbances caused by the 1973 first oil price explosion. And then the country found itself faced with the second oil price explosion of 1979. This put the Hungarian economy in an even graver situation, though crude oil was bought nearly exclusively from the Soviet Union, and the price to be paid in transferable roubles for the quota laid down in the contracts follows the world market price by a gliding five-year average. In other words: the effect of the second oil price explosion makes itself felt in the Hungarian economy gradually, during 1981-86.

The shock caused by the second oil price explosion may be attributed much more to the fact that it came at a time when development programmes implemented partly with foreign credits were drawing to a close. These programmes added to the per unit crude oil and oil derivative needs of Hungary, while it turned out that in the 1980s it would not be possible to increase the import quotas from the Soviet Union. A turn had to be made in economic policy. This turn was decided upon in 1978. It was also expressed in the 6th Five-Year Plan, covering the years 1981 to 1985. The plan reduced the yearly average growth of national income to 2.8 percent, so that two-thirds of the increment had to be earmarked for additional exports. In distributing the the increment of the national income, the plan gave priority to living standards over investments. It expected that in the first half of the 1980s the rate of investment would fall from 20 to 17 percent in the domestic utilization of the national income.

It was assumed that the turn in economic policy would help to overcome the problems caused by the second oil price explosion within five years, and in 1985 the reduction of the foreign credits would start. The economic processes in the years 1981 and 1982 made it clear, however, that the situation was graver than expected and that consolidation could be only attained with the most serious efforts. This fact accounts for the organization of the Consulting Body.

The economic situation of Hungary

It was easier to make the 1979 economic policy change accepted, than to carry it through in practice. In order to stop over-investment, Hungarian economic policy had applied several times a restrictive financial policy, which had remained, however, in several cases ineffective. At the same time, alas, the restrictive policy introduced a special kind of cyclicality into economic development. The cycles were characterized by two-phase processes. In phase one construction and machine investment speeded up, which was ended by drawing away the monetary resources. In phase two there was overstocking. In the last two decades three full cycles have been completed and the 1979 economic policy turn coincided with phase one of the fourth cycle. It was to be feared that around 1980 overstocking and around 1983 the fifth cycle would jeopardize the economic policy conceptions.

The fourth stock cycle was successfully averted and the emergence of the fifth cycle has been so far prevented. This was enabled only through a permanent

process control of the operative economic policy. Among other things, the instruments of restrictive financial policy had to be resorted to repeatedly, which the enterprises frequently complained of. They were of the opinion that the economic policy of the government was incalculable and deprived them of the financial resources which they would use to meet their earlier obligations and to finance technological modernization.

The problem in question is one that is well known in the socialist economies. Enterprises act under the "pressure" for a permanent expansion and full utilization of capacities. This is the case whether enterprises are made financially interested in increasing profit or productivity, or in reducing production costs. This pressure rather increased after the 1968 economic reform, since the rise of the wage level was tied to the increment of profit and the reform of wage control eliminated this only from 1983. Overinvestment was made easier because, with several groups of investments (for example, public investments), economic policy has acted, even after the 1968 reform, upon the principle that it is not the allotted financial means but the parameters defined in physical units of measurement that are determinant for the purpose of the plan. This also gave rise to the practice of underestimating investment costs, particularly because it was never too difficult to acquire the additional amounts of money. The same reasons also led to overstocking.

Exerting influence over enterprise attitude was made difficult among other things by the fact that the 1980 price reform set strict limits to the official price regulation in industry; price fixing was replaced by the so-called price stabilizing mechanisms. Among these, it is particularly the legal regulation of unfair profit, the decreeing of an obligatory advance announcement of intended price increases in the sphere of selected products, and the assertion of a six months' veto on the part of the price authority that are to be mentioned. A more serious problem came, however, from the financial concessions granted to enterprises, based in many cases on subjective information. In any case, it was characteristic of 1981-1982 that enterprises were able to implement wage increases and investments above the plan, in spite of the repeated skimming of financial resources. Real income rose in 1981 by round two percent, and a further rise in 1982 could only be avoided because as a result of an additional price increase of products with official prices, the rate of inflation was 7 percent instead of the planned 5 percent.

To all this it must be added that in 1981-1982 international conditions were much worse than expected when the five-year plan had been drawn up and approved. Because of the world market recession and its prolongation exports rose to a smaller extent than planned. As a consequence, economic growth remained below the planned value. The 1983 national income exceeded the 1979 national income by a mere 2.6 percent, which almost amounts to economic stagnation. This was so in spite of the fact that agriculture made a striking progress, even by international comparison. In corn production and animal breeding Hungary soon caught up with the leading countries. As a result of this dynamic development, even though world market prices fell in 1982, the foreign trade balance of the food economy considerably improved and its surplus exceeded the planned one. How-

ever, this branch alone could not counterbalance the unfavourable development of industrial exports as regards both prices and volumes.

It was under such circumstances that Hungary was hit by the partial credit embargo, which the West imposed on the East in 1982. Hungary's debt stock is not oversized. In fact, the only unfavourable indicator is the debt service rate in convertible currencies, in which a role is played, in addition to the high rate of interest, by the disadvantageous term structure of the credits. There is no such problem in the balance of payments in transferable rouble since, under the terms of the Hungarian-Soviet agreement, the debt accumulated on the "oil account" has to be paid off at a low rate of interest and over long years.

The partial credit embargo is by all means a political challenge, that is, a form of expression of the worsening relationship between East and West. The same goes for handling the CMEA countries as one bloc. When Poland declared herself insolvent, the West at once extended its more severe judgement on the other CMEA countries as well. This hit Hungary unexpectedly, and meant, among other things that, under the harder than planned international conditions, she had to start reducing her debts in convertible currencies in 1983 instead of 1985. This was possible only by a strict import restriction. Therefore, Hungary, as a member of the GATT, announced a temporary import restriction, in order to protect her fast sinking monetary reserves. The government said that this was done with a view to improving the external equilibrium of the country, making it clear that she was compelled to act in this way by such external circumstances which are beyond the control of the Hungarian authorities. In this not only credit restrictions played a role, but also that the protectionist measures taken in a few countries with advanced market systems made access to their market difficult. Therefore, for some time coming, Hungary will be compelled to control import licences depending on the available amounts of foreign exchange. At the same time, the government announced that import restrictions would be lifted as soon as the reasons for it would cease.

The conditions of consolidation

The said changes in world economic conditions made the Hungarian economy to face new problems. It is now inevitable to transform the economic structure, which is only possible through adequate adjustment to the new conditions. This has to be expressed first of all in central planning of the national economy.

In the small CMEA countries having comparatively narrow domestic markets, among them Hungary, the traditional system of economy-wide planning relied on the assumption that the CMEA foreign trade was determinant for economic growth. Practice developed accordingly, therefore:

- five-year plan periods coincide in the CMEA countries;
- five-year and yearly plans are made in two phases;
- in phase one the development conception is worked out, which serves as basis for the CMEA countries to develop their position held at the bilateral interstate foreign trade negotiations;
- the plan proposal to be submitted for approval is formulated as a rule in

phase two, when the interstate foreign trade agreements have been signed.

This planning system was thus based on plan coordination within the CMEA as regards the economic growth rate as well as the most important questions of structural policy. The plan coordination system based on foreign trade agreements allowed the CMEA countries freedom of decision in shaping their economic policies, but it determined most of the industrial development projects.

Thus the planning of economic development raised certain problems already at a time when foreign trade outside the CMEA played only a marginal role. As a matter of fact there was no guarantee as to whether the production capacities earmarked in the plan for Western exports would be in fact utilisable, and at such price as provided for in the plan in view of a sound balance of payments. Therefore, the fact that the plan founded a balanced economic development through the system of material and commodity balances, that is, with the method of balance accounts, was not in itself a guarantee against disturbances. However, after World War II, up to the first oil price explosion of 1973, no unsurmountable difficulties arose, partly because, on the basis of mutual interests within the CMEA each country's right was respected, that their exports consisting of products salable on the world market should finance their import needs payable partly or wholly in convertible currencies.

The economic control system thus established started to cause grave functional disturbances in the Hungarian economy in the late 1970s, when economic growth became increasingly attached to the intensification of East–West trade. This is not only a problem of foreign trade relations, but reprensents a novel task, among other things from the aspect of how far the production structure can be planned and thus also from the aspect of controlling investment. With the diminishing role of the bilateral foreign trade agreements in the regulation of economic growth within the CMEA, it becomes pressing to develop the ways and means by which to found the intensification of East-West trade.

In fact, we have not yet asked the question what fundamental changes are to be made in the planning system, if East–West trade gains more importance in economic growth. In Hungary, a kind of answer to this question was the declared openness of the plan. This underlines, however, only the hypothetical nature of the plan, while planning is based on the hypothesis of exactness in several of its elements as well as in its quantitative formulation. It arises from the shortcomings of the rules of the game of economic policy that the authorities still consider plan computations, for lack of anything better, as the determinant factor in making their decisions.

The complexity and novelty of this task shows in that its solution infers the preparation of a series of action programmes, that cannot be described with the traditional methods of drawing up a national economic plan. The problem is twofold. On the one hand, the Hungarian economy that has become open demands a new kind of planning system. On the other hand, we are in a period of consolidation, in which the routine control of the economic processes must be changed, with a view to adjustment to the changed world economic conditions. Keeping all this in view, macroeconomic development goals for the period of 1980 to 1985 are

worked out while aiming at consolidation. We are in a period of consolidation, but we interpret the conditions of consolidation as incorporated into the system of national economic planning. The plan is also a complex system of instruments and behaviour. However, economic policy cannot have two systems of objectives at the same time nor can two trends of action be determined simultaneously. The ways and means of approach must be arranged in the plan. The action programme of consolidation is thus integrated into the annual national economic plans.

As a consequence of the new requirements, central planning is enriched each year by such new elements, which made it necessary to work out special programmes. The action programmes of energy rationalization (conservation), material saving, and an increased utilization of secondary materials have been drawn up. A revision of public consumption is on the agenda and, in general, those questions which can be summed up under the heading: rehabilitation of the budget.

The primary question of consolidation is so far unsolved: the marking out of the way leading to the new growth path. In other words: today we do not know the answer to the question, in which way the relationship between the growth of the economy and Western imports could be reversed, at least as long as the latter cannot be financed from convertible exports.

The problem of the established order of planning in this respect is that it bases te relationship between targets and resources on balance analyses alone, except for the abovementioned rationalization programmes. These comprise the planners' intentions. The conditions have not been actually explored, with which these intentions can be carried into practice, nor are those important decisions which would create a chance for realizing the aims formulated in the plan. Since the slowing down of economic growth is interpreted as an inevitable, transitory measure taken in order to restore the upset equilibrium, in addition to so-called consolidation elements, also so-called activation elements have to be built into the control system to an increasing extent.

The structural transformation of the economy infers, among other things, elaboration of a comprehensive development conception, which would adequately synthesize the natural and technical potentials of the country, the expectations towards the Hungarian economy as formulated in the CMEA, and the world market demand. The disputes about the conception may presumably be settled in 1983, and the differences in views can be clarified, which exist today in respect of

- the possible versions of an efficient production structure,
- the narrowing or expansion of the range of simultaneously produced commodities and of markets,
- the judgement of unprofitable production.

The new phase of the economic reform

The liquidity troubles throw a new light on the future course of development of the economic control system:

- Certain planned measures have to be postponed until the consolidation process has ended. Such are first of all those connected to the convertibility of the Hungarian currency.
- Certain planned measures are not influenced by the liquidity concerns and it depends on the preparation and discretion, how and when they are taken. Such is the up-dating of the institutional system, which will create better conditions than the present ones for a rational marketing policy.
- There are, finally, a few measures which are to be taken as soon as possible because of the liquidity troubles.

The establishment of conditions of rational economic calculation is one of the most urgent tasks. Since 1968, Hungary has done much to enlarge the sphere of action of market factors in price formation. Starting from the fact that the Hungarian economy is sensitive to foreign trade and thus a sign of equality can be put between economic efficiency and international competitiveness, in 1980 the conception of competitive price was introduced. From 1980, on industrial production prices are either directly linked to the world market export or import prices, or indirectly, through some specific rules of game.

However, a rational price formation infers an adequate cost calculation system, which is basically different from the traditional socialist system of economic accounting. This is because the attributes of the calculation change, when it does not serve to inform central planning, but to provide foundations for rational enterprise decisions.

Two specific features of the normative costs calculation used in the socialist countries have to be pointed out. One is that even such costs have to be accounted which do not arise in reality, or not in the prescribed measure. Some of them are such a part of which is taxed away from the enterprise for the purpose of central financing, as is done with depreciation costs, and the technological development funds. Further, there are costs which must (can) be accounted as overhead expenses, even if the actual overhead cost level is lower than that.

The other specific feature of the traditional socialist calculation is the principle of adjustment to the average cost. To put it more exactly: in price formation the cost + profit formula is based on the principle of average cost. Cost norms are regulated according to average conditions. This system of cost accounting virtually requires a budgetary accounting according to the "gross" system. Namely, the enterprise may shift into the losing zone even if the price still exceeds the marginal cost. Therefore, enterprise subsidy is shown in the budget even if the returns from sales of the enterprises are taxed away an extent exceeding the subsidy. In spite of the price reforms, Hungary has kept several elements of the cost calculation and

fiscal systems form before 1968. The measures expectable for about 1985, that is, in the new phase of the economic reform are expected first of all to coordinate the competitive prices with the financial (calculation) system.

The liquidity troubles made the management of imports a central problem of the regulatory system. A three-phase import economy conception is applied. The first phase: the so-called strict import economy was enforced mainly in the second half of 1982. This was intended, while preserving liquidity, to reconcile the debt service with the financing of imports. This could only be done with a considerable, almost 10 percent reduction of imports. This phase of the strict import economy was on the whole successful. Disturbances in production only occurred in a few fields and only temporarily, and the commodity supply deteriorated only slightly in Hungary.

The year 1983 is the second phase of the import economy. The following elements of it are worth mentioning:

1. No liquidity troubles are expected, therefore, the holders of an import licence have the necessary foreign exchange as well. This can be achieved, however, only by realistically reckoning with new credits, and by maintaining to some extent the import restrictions.

2. With 230 large enterprises, the strict import restriction was replaced by "reference system"*. These enterprises consume 75 percent of the imported materials. The enterprise "reference system" has been introduced in order that, staying between the customary import limits, enterprises may be free to decide in programming their production. The quota system and individual licences are retained where this has been unbroken practice since the introduction of the new economic mechanism in 1968. Foreign exchange funds are at the disposal of the government authorities and the home trade.

3. Beside the instruments applied to reduce imports, it is basically by restraining domestic demand and raising import prices that convertible imports can be reduced. Several measures have been taken for both restraining domestic demand, and raising import prices. Such are the devaluation of the forint, as well as the import duty. In distributing the "reference percentages", the economic policy expectations were laid down which are "assigned" to the requirements of national economic equilibrium, and a deviation from these may entail exclusion from imports, or the reduction of import possibilities.

It is assumed that the abolition of the restrictive measures can be reported to GATT in due time, or, to put it more exactly that in 1985 the system of import management introduced in 1968 can be gradually restored with some modification, which can then be incorporated into the general economic control system through a re-regulation of the "reference system", or, with certain products, of the import licence.

*Free flow of import goods up to the value of imports in 1981.

The year of 1982 was a critical period, since the strict import management amounted to a break in the process of structural transformation, which is, though, an important condition of the development of the export potential. Looking at it from this aspect, in 1982 the contradiction sharpened between the short-term target of eliminating the liquidity troubles, and the medium-term target of structural transformation.

As regards technological modernization and structural transformation, it is in general the reconciliation of the criteria of import substitution with the increase of exports that represents the gravest problem. Such coordination can be made at all times only in view of relative prices. In our days, energy rationalisation investments enjoy priority over the export increasing ones in a rather wide sphere. But the strict import management of 1982 evoked by the partial credit embargo is irrational. That is why it had to be replaced already in 1983 by a "reference system" which takes into account the complex of economic processes. Further, that is why efforts must be made in order that the second phase should not last long, either.

The experiences with the drawing up of the plans for 1983 show that even a light reduction of the foreign credit stock leads to serious conflicts in the distribution of the domestically disposable national income. The 1983 plan envisaged, with a 0.5 percent growth of national income, a 2 percent reduction of the population's real income, stipulating that the rate of accumulation of national income must fall to 12 percent. This is a much lower rate of accumulation than considered in the five-year plan. Thus, in working out the consolidation conception, the problem of capital supply must be put into the centre. The foundations of the consolidation process must be laid by planning the rouble and nonrouble balances of payments.

Closely related to the above, it is important to place the East-West business relations on new grounds. Debts arising from bank credits with high rates of interest are felt as an unbearable burden in certain phases of the business cycle. This form of capital import shifts the risk one-sidedly onto the user of the capital. The possibility of large-scale undertakings (joint ventures) based on shared risk and shared profit must at least be examined.

Some hold the opinion that the growth problem can be solved by drawing closer the economic ties among the CMEA countries, first of all by rendering production cooperation and specialization in manufacturing more efficient. Accordingly, they attribute importance to diminishing the differences between the economic control systems of the CMEA countries and to approximating the national economic mechanism to each other.

In any case, as much can be clearly stated that the CMEA has been and will remain the first market for the European socialist countries. Also, the consolidated development of these economies is inseparable from a realistic consideration of possibilities and from a cooperation within the CMEA that takes into account economic efficiency to an increasing extent. At the same time, the different character of East-West trade must be clearly noted

— on the one hand, in the case of the Soviet Union, where trade is centred on the energy and food sectors;

— on the other hand, in the case of the smaller CMEA countries dependent on the world market imports of natural resources, where the financing of these imports is only enabled by a diversified product pattern and by means of an adequate foreign exchange gain which also takes into consideration the import intensity of the export products.

In the former case, the central control of foreign trade is not only possible, but an objective necessity. In the latter, however, the regulation of foreign trade can only be based on a decentralized decision system, in which only the conditions of a rational attitude can be centrally controlled. In the former case, foreign trade can be organized in physical terms, and for this every possible variation of barter transactions seems to be satisfactory. In the latter case, however, up-to-date forms of cooperation are to be developed.

Since the problem is different in the two cases, the ways to solution are also different. That is why it is not at all strange that each CMEA country lays emphasis on a different element in up-dating their economic control systems, and that Hungary — the most foreign-trade-sensitive of all — tries all methods possible for a socialist country in order to rationally adjust herself to the world economy. That is why Hungary became a member of the International Monetary Fund and of the World Bank, in which the primary motive was not the possibility of taking out new credits at favourable terms — at least not in a medium term —,but opening towards the markets of the developing countries, since it is well known that only member countries can take part in investments financed by credits of the international financial institutes.

ПРОБЛЕМЫ ЛИКВИДНОСТИ И КОНСОЛИДАЦИЯ ЭКОНОМИКИ ВЕНГРИИ

Б. ЧИКОШ-НАДЬ

Автор прежде всего стремится выяснить то, какая программа экономической консолидации могла бы способствовать преодолению Венгрией экономических трудностей, возникших под влиянием двух «взрывов цен» на нефть. В частности, он констатирует, что опыт разработки плана на 1983 г. показывает, что даже незначительное сокращение внешней задолженности ведет к тяжелым конфликтам в распределении предназначенной для внутреннего использования национального дохода на 1,5% при сокращении реальных доходов населения на 2% и доли национального дохода, идущей на накопления, на 11%. Складывающаяся таким образом норма накопления значительно ниже предусмотренной 5-летним планом. Поэтому при разработке программы консолидации в центр следует поставить проблему обеспеченности капиталом и базировать процесс консолидацаии на планировании платежного баланса, рассчитываемого как в рублях, так и не в рублях.

В тесной связи с этим представляется важной постановка на новую основу деловых связей Восток-Запад. Задолженность при высоких процентных ставках банковских кредитов представляет непосильное бремя в период определенных конъюнктурных циклов. Такая форма импорта капитала односторонне возлагает риск на получателя капитала. Необходимо хотя бы изучить возможность основания крупных предприятий на основе совместного риска и участия в прибылях.

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T. BÁCSKAI – É. VÁRHEGYI

MONETIZATION OF THE HUNGARIAN ECONOMY

During the last decade losses due to deterioration in the terms of trade, mitigated to an inadequate degree by a belated and relatively slow adjustment to the new requirements of the world market, have led to a slowdown of economic growth and external disequilibrium in Hungary. An adequate and fast reaction to the – preponderantly monetary – information communicated from Hungary's economic environment requires that the economic control and regulation of the activities of her enterprises manifests itself in monetary forms, too. As expected conditions of the world economy in the eighties promise only limited possibilities in international markets and – for the time being – for raising net external resources, it is imperative to create domestic resources for development to a larger extent than hitherto through a more profitable utilization of resources fostered by a higher capital and labour mobility. This presupposes an improvement of the economic mechanism with a view to enhancing the capability of Hungarian enterprises of perceiving and reacting swiftly to both external and internal market impulses. Such a type of enterprise emerges only in a monetized system of economic control.

To meet the requirements of the world-economic conditions and of the unfavourable processes observed in the Hungarian economy in the last decade, – like the considerable deterioration of the income-producing capacity,* or the instability of the external equilibrium – the only possibility is to create conditions for a more efficient management of the existing resources by increasing the efficiency and mobility of social labour and capital in order to serve the improvement of competitiveness. It is, therefore, of fundamental significance to indentify and develop (or remove the obstacles hampering the development of) interest mechanisms and forms of movement permitting and obliging economic units to perform their economic activity more profitably than hitherto. This requires a new "division of labour" between the state control of the economy and the enterprises, promoting the unfolding to entrepreneurship as well as the mobilization of all forms of organization, capital allocation, etc. which are compatible with society's interests and increase the efficiency of social capital. We agree with the view that qualitative changes can be achieved primarily by giving green light to enterprises promoting the microsphere's responsive capacity, its ability to adjust to the real market and not by reallocating income and capital to the innovation centres identified by the government. [1] We are convinced that enterprises of such type can be called into being by a *monetized economic-management environment* only.

The development of an efficient economy capable of adjustment presupposes that the functions, goals and ramifications of state control shall be subordinated to the above requirements. For this purpose the state's economic role must be restricted to issues of a fundamentally macroeconomic nature. State control should

*The share of national income in Hungarian gross output decreased from 40.4 percent in 1970 to 34.2 percent in 1981. (Calculated from data published in the Yearbooks of the Central Statistical Office.)

regulate the whole economic process and not the individual enterprises; it must bring about such conditions of economic activity and "rules of the game" which enterprises continuously to improve their management. No true enterprise autonomy can be achieved without separating from each other the functions of ownership, management and official authority within economic control.

Economic control should set out from the idea that it is the market *automatisms* that represent the economic coercion which forces the economic units to increase efficiency. These automatisms may, however, be limited within a certain scope if their consequences are socially unbearable or undesirable.

The *state* should adjust its economic goals to the effective demand which it can create by reducing the overall domestic demand of other income-earners through taxes and by borrowing part of the savings. Taxation and government bond issues, however, should not deprive promising economic actions and agents of the sources necessary for their development, should not impair their income and cost-sensitivity, and credit resources should not be drawn away from the economy without serious reasons. This may be achieved at present only through a reduction of budget expenditure i.e. of government tasks.

The state administration should achieve its economic goals and fulfil its tasks with the aid of monetary type instruments compatible with the market. Market-conform instruments of using budget revenues for economic, supply or employment purposes are government purchases, investment tenders and budgetary contribution to enterprise investments.

Orders placed by the government may promote the sustenance or redressing of short-term market equilibrium. They may be employed in cases where it is necessary to parry or mitigate the unfavourable effects of transitory cyclical situations.

In the areas beyond the non-producing infrastructure, the government could influence the dynamics of development processes by capital allocation instead of large-scale projects, state subventions and central programmes. This form of the flow of funds — in which the state participates with equity and has a share in income in the form of dividend — is the only method by which it is possible to shift the development policy from a physical to a value basis, to aid with government capital the faster development of such enterprises, undertakings and actions which have already proved their profitability in the market.

In settling losses the principle should be a grant enabling the enterprise to escape durably from the danger-zone or to initiate some structural transformation making the latter possible and not to grant exceptional treatment. All this makes it necessary to value the stock of enterprise assets on a realistic basis according to the capitalized profit and not on the basis of book-values.

Requirements to be met by the system of regulators

Beside letting enterprise autonomy to assert itself, it is up to the system of regulators to transmit market conditions towards the producing units, and either to create the possibilities of development or to bring about a reduction of activities.

It is borne out by experience — remarkably analysed by János *Kornai* [2] — that, despite the declared intentions, the changes effected in the system of regulators in the years 1979 to 1982 could not make the financial constraints of enterprise management essentially harder.

The establishment of *prices with an upper limit* (i.e. set by liquidity and competition) is a key issue for the functioning of the whole mechanism; this will render the puchasers of materials interested in cheaper procurements and will set strong limits to passing on costs to customers.

The limitation of producers' prices from the demand side is an issue of liquidity when viewed from the aspect of the general price level, and an issue of excess supply and competition in respect of the price of the individual products. These have a retroactive impact on costs, on the supply side. The rise of the price level may make itself felt in the sales receipts if the enterprises maintain liquidity, have money for paying that rise to their suppliers. Consequently, there is a close correlation between the producers' price level and the money on the bank accounts.

A hard demand constraint may be applied to producers' prices by setting an annual money-supply target figure for the economy, (relating to the annual change in the bank account money). By using attractive interest-rates on deposits on the demand side and such lending rates on the supply side, the central bank would avoid the transgression of that target-figure. Within the overall target figure, in individual lending operations an important role should be given to the so-called "lending price", the rice at which the banks value inventory elements serving as a coverage for a loan.

The aforementioned measures are insufficient in themselves for attaining the target-figure for money-supply. It is a complementary factor of paramount importance to preserve our long-held principle in the application that the budget has to borrow directly from enterprise savings to finance its deficit and, at the same time, to reduce the deficit by diminishing expenditure and government tasks in the economy. Rigour has to be increased in scrutinizing credit applications of state and cooperative enterprises, especially in respect of advances on working capital. This requires a consistent application of the criteria of creditworthiness with an impact on the volume of enterprise activities and on their access to the material and human factors of production.

These limitations imposed on the general and enterprise levels of effective demand render the passing on of price increases difficult and may set off cost reduction tendencies. A proper regulation, and limitation of effective demand is also suitable for bringing about a slight excess supply over demand which — paradoxically — is also a condition of the functional effectiveness of the above-mentioned constraints. As a matter of fact, enterprises with high fixed costs cannot carry on

endlessly the business strategy of responding to the decrease of their customers' effective demand by lowering the exploitation of their capacities.

Without going into the details of the deficiencies of the current Hungarian price system, mention should be made of the unsolved issue of the formation of energy and material prices caused by the difference between the domestic prices and the prevailing world market prices. When the latter sink below the domestic prices, the Hungarian manufactures are unable to compete on external markets.

Domestic competition owing to excess supply should also be supported by institutional instruments (establishment of new enterprises, splitting of existing ones, etc.). It should, however, be realized that – as a consequence of Hungary's size – no serious competition may be created for big Hungarian enterprises without import competition, since that small and medium-sized enterprises are in competition with each other and not with the big ones, as was pointed out by György *Varga*. [3] It would be worthwhile undertaking in the near future such sacrifice of foreign exchange by means of which an import competition would be achieved, at least at the strategic points, *vis-à-vis* the most monopolized organizations.

The investment-related effective demand may be controlled – in the framework of the outlined system – through market-conform monetary means, by changing the rate of interest, by modifying the proportions of credit-resources versus self-financing funds within the enterprise, etc. In this case no resource would be necessary to a specific income-regulation for this purpose alone, or – as proposed by László *Antal* [4] – to an anti-cyclical tax levied on investment outlays.

It becomes necessary, at the same time, to rely on the market return for covering depreciation costs and to modify the extent to which it is up to the enterprise to handle the latter. Depreciation must be covered (or left uncovered) depending on the market sales receipts. If depreciation is not recovered, this should involve a diminution of fixed assets. If, however, it is made possible by the market, an accelerated writing-off should be made possible in areas of higher profitability. This mechanism has an impact on enterprise behaviour, only if the enterprise has full control over the depreciation fund. This process provides solution for the control of the sum-total of investment plus replacement-related effective demand, while altering its composition, both in the sphere of enterprises (between the two sources of development, i.e. the capital-formation fund, made up of depreciation allowance and the after-tax profit) and in the relationship of the enterprises to the budget (as a reduction of revenues stemming from the levy on depreciation is being partly offset by the decrease of budgetary outlays on economic development). Under such circumstances worrying about the decrease of the role of profit in capital formation owing to the elimination of the levy on depreciation and the increase of the relative weight of depreciation within this set of conditions will reflect efficiency, too.

The same set of conditions makes it possible to merge wage-management organically with the general cost management of the companies. Profit-motivated, cost-sensitive companies with limited possibilities to shift price increases onto their customers have to make efforts to diminish their unit costs, unit labour costs included. This pressure on costs exercised by the market cannot be substituted

even by the most sophisticated regulation. A differentiated allocation of given wage costs among people employed contributes to a rise in efficiency, not to inflationary pressures.* An income-tax levied on the basis of per capita family income could mitigate income differentials considered inacceptable by society.

Within the frameworks outlined for the control of economic management and the system of regulators the possibility offers itself for the creation of an entrepreneurial-type economic management sphere, including an expansion of more venturesome behaviour, greater autonomy for the enterprise's capital and labour management, an improvement of the mechanism of capital allocation, and an unfolding of a suitable system of enterprise-organization.

In the competitive sphere it is indispensable for the operation of a monetized economy subordinated to economic efficiency to have a single "success indicator" a single objective-function for the economic units, namely the *increase of assets* and particularly of *liquid assets*. This also coincides with the requirements of long-term profit increase and the optimum utilization of profits. In want of this, the expansionary efforts of enterprises remain limited to investments within the given enterprise, which are not necessarily the most efficient ones. At the same time, endeavours emerge to establish "self-financing" prices, i.e. prices making less efficient investment profitable. In circumstances of extremely limited competition such prices are possible to establish.

Because of a shortage of liquid assets with the enterprises, no adequate liquid capital formation occurs. Consequently, the budget is the primary vehicle of capital reallocation; the inter-enterprise flow of funds for development is insignificant and is not motivated by profitability; and bank credits with their strict maturity and high interest terms may possibly drive towards price-raising endeavours.

All this motivates a novel solution of capital allocation and re-allocation. But if this occurs without separation of capital ownership from capital management functions the hazard exists that even enterprises interested in increasing their liquid assets prefer investments within their company, foregoing higher yields in other companies, or monopolistic endeavours could assert themselves. That is why separation of the two functions seems desirable.

For the development of the organizational system of state-owned enterprises an ample set of different propositions are already available. [6], [7], [8]. Without going into details we should like to emphasize that, with a view to the economy's capacity of generating income it is necessary to mobilize all the forms of ownership proposed and holding out any realistic hope of this, and to interlink them on a motivation basis. This paper touches upon this issue *from the aspects of efficient capital allocation* only. From this aspect it is desirable that proprietary organizations come into being which do not specialize in different branches and are interested

*We agree with the statement of A. Bródy: "As long as wage-regulation exists, the illusion exists, too, that we thereby also regulate effective demand..." [5]

solely in maximizing income, which are in competition with one another, and feature only proprietary licences (and are excluded from operational interventions with day-to-day management). These would rely on the auction principle when acquiring the assets of enterprises valued on the basis of capitalized yield and would concern themselves with its reallocation. Capital may be withdrawn by changing the field of activities in the economic organizations, by slowing down or liquidation on the basis of the proprietor's decision or in the course of the economic process. *Capital may be allocated* in the form of budget loans or underwriting bonds by the proprietary organization, by inter-enterprise transfer of funds, by establishing a new enterprise, by issuing company bonds, by granting capital-substituting long-term credits.

It would be desirable that proprietary organizations interested in efficient capital allocation and re-allocation emerged on the initiative of autonomous enterprises, right from the grassroots, and not from above.

The banking system should be developed in such manner that the micro-economic constraint on lending, i.e. the liquidity of the banks should assert itself as well as that of profitability of credit-backed ventures. These criteria cannot manifest themselves in the present single-level banking system wherein commercial and central banking functions are merged to a great extent in the National Bank of Hungary. Investment lending is constrained by administrative limits, short-term lending is carried out through money-creation (issue) and money-extinction (repayment). A reconsideration of the banking system is called for which would unambiguously separate commercial banking from central banking by creating profit-motivated commercial banks active without being constrained to branches of the economy, partly out of existing banks, partly by free foundation of banks by economic units with adequate assets.

Ideas for initial steps

Restrictive measures of a transitory character necessitated by our current difficulties can only ease but not eliminate the tensions. Therefore, what we need is a programme, organically integrated in the system of medium and long-term goals.

It is a serious problem for the measures designed to ease the transition tensions that a curbing of domestic demand does not improve the external equilibrium in every domain. What Hungary needs is, owing to the high costs, a moderation of productive consumption and a promotion of the income generating capacity. If this materializes, it will be less necessary to go the way of curbing domestic end uses (consumption, investment), a road pregnant with tensions. The fact is that in the last decade, the national income content of the gross output in Hungary has been decreasing parallel to an increase in the share of current material inputs.*

* Between 1970-1981 the depreciation of fixed assets grew 2.7 times, current material inputs three times, gross remunerations of labour 2.2 times. (Calculated from data of Yearbooks of the Central Statistical Office.)

This is, consequently, the neuralgic point; and its moderation or an increase in the degree of processing of materials, in the value added is the most significant reserve. Thus it will be necessary in the near future to make endeavours at increasing the efficacy of capital investments and at orienting the capital-substituting loans towards such investments. A way of increasing the efficacy of capital is mobilization of the unutilized or poorly utilized capacities (through leasing or transfer), the modes of which are already taking shape.

The investments designed to improve performance when capacities are left unutilized or there is a shortage of investment sources, the labour sphere is the best place for investments (a stimulating wage system, retraining, subsidies promoting regional mobility). In industrially advanced countries it was high real wages which earlier supplanted the labour on jobs of low efficiency or transferred them to developing countries thanks to the then relatively cheap capital. A reversal of the cost ratio of labour and capital should lead to a reversed process with a probably lasting effect. The earlier process led to a situation where the product generated in an hour increased to a greater extent than the GDP. In Hungary where real wages are relatively low and unit wage costs relatively high this method is to be resorted to. And the wage costs are high because of "indoor" unemployment. While sustaining full employment on the national level, this "indor" unemployment may be eliminated by socially acknowledging and rewarding the reallocation of a definite part of the labour force (retraining and extension training) in accordance with the requirements of structural transformation, in the hope of higher future income. Another factor is that part of the additional income generated by the increase in productivity may be used for increasing social benefits and for releasing from production part of the labour force that participates in production only for reasons of livelihood and whose employment implies considerable social costs, and for engaging it in part-time employment or in home-based gainful employment.

We are aware of the fact that the high proportion of inventories held by companies processing the materials concerned (instead of their producers or wholesale trade) is due to shortage phenomena. Yet we think that through asserting legal norms of economic behaviour, the respect for and discipline in living up to contractual obligations in inter-company relations and by improving the supply of standard components inventories may be considerably decreased.

Enterprise investments may be channelled with tax deferments and reductions as well as loans towards input-reducing first of all import-reducing investment, towards producing higher value added and towards those eliminating bottlenecks within existing fixed assets. Central investment projects could indirectly improve productivity and efficiency through developing the infrastructure.

An important element of external economic equilibrium and of surplus supply in the domestic market is to increase savings by enterprises and by households. According to computations based on the 1979 national input-output table a 100 Forint saving by enterprises entails a 17 Forint reduction in imports paid for in convertible currency and a 100 Forint household saving a 15 Forint saving in the latter. If we reckon with interest rates, too, the corresponding reductions amount

to 18.7 and 17 percent. To achieve this end, it is worth while to introduce a 2-3 percent real interest rate.

It is necessary to orient the enterprise investment sources through various grants and credits towards objectives requiring lower input, primarily lower imported input (savings in energy, alternative energy sources, secondary uses of materials); generation of higher value added (use-value suitable for higher sales receipts); minor complementary investments (designed e.g. to eliminate bottlenecks), ensuring a better utilization of the capital value invested; and to orient the central investments toward infrastructure increasing productivity, improving efficiency indirectly (e.g. waterworks, telecommunication, etc.).

An important role may be played by the measures enhancing capital efficiency by leasing out or selling unutilized capacities; by minimizing the inventories through enforcing the observation of economic norms and contractual engagements in inter-enterprise relations and improving the supply of standardized parts and coupling elements.

The new path of the national economy is a resultant of a great variety of courses followed by the enterprises. The commensurability of courses, the possibility of choice cannot be realized without a further monetization of economic management. Under such income and price conditions the administrative import restrictions may be eased essentially. The regulatory system must be fully monetized in order to permit such reasonable processes to develop within the enterprise sphere like changes in supply, new combinations of factors of production, inter-enterprise transfer of assets and better management of inputs, of which increased capital efficiency, a reduction of the cost level, and a rise of net income may be expected.

The shaping of supply, the combination of factors of production and decisions on the allocation of accumulated liquid enterprise assets for replacement or development purposes within or beyond the company (also in the form of affiliations or mixed companies) should be an organic and important part of enterprise activities. These — coupled with the choice of products and technologies — determine the scope of microeconomic activity. Within this scope, input and cost-management have rather large possibilities. Maximation of liquid company income coincides with the macroeconomic optimum only if resources are valued by the price and wage-systems with respect to both costs and relative scarcities. An optimum combination of the latter is possible if the utilization of resources is guided solely by their relative costs and not by other constraints (like administrative limits imposed, average-wage ceilings, etc.). A strive for optimation emerges if there is an individual and company share in results achieved and an individual and company risk in failures. In a monetized system of economic control international and national conditions of management as well as its efficiency standards become generalized in money-terms; this is, indeed, the manifestation of a normative approach to the economic process. Enterprises adjust to these value-norms by their decisions on the physical combinations of inputs optimizing under the given, local circumstances.

Hence, regulation's task is to centralize a part of net income in a manner conducive to a minimum redistribution among companies attributable to artificial

price-distortions. Every user of resources should bear the social costs of those resources and enjoy the fruits of their efficient utilization. At the same time, regulation should promote the inter-company flows of capital in order to maximize national income. All this has to be carried out in a way increasing the cost-sensitivity of the companies. This requires a diversification of budget-revenues among titles, i.e. a decrease of the profit tax-burden. This deconcentration of revenues is justified by other economic considerations, too. Thus, the stronger motivation of intermediary suppliers to export deliveries requires a VAT-system (with the tax refunded in are of export), a greater income differentiation calls for the increase of the weight of the personal income tax, etc. Parallel to this process, consumers' subsidies have to be reduced. We cannot arrive at a rational and socially equitable consumption pattern unless — with few exceptions — the consumer pays the social costs of the product consumed. This implies monetizing the regulation of consumption, the manifestation of subsidies in nominal income increases.

Regulation must be unambiguous and relatively stable. A manager grappling with problems posed by the market and technology should not be burdened with bulky and complicated regulation.

Deficiencies of the price-system, of resource-valuation and an even today extensive recourse to setting targets in physical terms are the reasons of the anomalies of regulation. Monetization of the economy is a precondition for an unambiguous orientation for decision-making in the economy.

Hence, requirements of the transitory period coincide with our long-range goals and serve the maintenance of continuity.

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МОНЕТИЗАЦИЯ ВЕНГЕРСКОЙ ЭКОНОМИКИ

Т. БАЧКАИ—Е. ВАРХЕДИ

В течение последнего десятилетия потери, возникшие из-за ухудшения условий международной торговли в недостаточной мере восполненные относительно медленным приспособлением венгерской экономики к новым требованиям мирового рынка, привели к снижению темпа экономического развития и нарушению внешнеэкономического равновесия. Целенаправленное и быстрое реагирование венгерских предприятий на — преимущественно финансово-денежные — информации, поступающие из окружающей хозяйственной среды предполагает, чтобы и венгерское народнохозяйственное управление и регулирование оперировало главным образом рычагами денежного характера. Поскольку ожидаемые в 80-ые годы условия мирового хозяйства представят лишь ограниченные возможности для экспансии международных рынков, включая и рынок капиталов, ресурсы экономического развития следует обеспечить в первую очередь внутри народного хозяйства путем их более рентабельного использования усилением мобильности капитала и рабочей силы. Это предполагает развитие экономического механизма в интересах повышения его чувствительности и способности к быстрому реагированию на новые импульсы внешнего и внутреннего рынка. Такой тип предприятий может сформироваться только в условиях монетизированной системы экономического управления.

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GY. HAJPÁL

VALUATION OF THE ECONOMIC ROLE OF THE HUMAN FACTOR

The study deals with human role in particular stages of social reproduction and with the methodological questions of its valuation. After having expounded the basic theoretical questions the author discusses in detail the methodological problems connected with numerical analyses. He points to the possibilities for the improvement of economic analyses provided by the computational result. In the author's opinion the theoretical and methodological questions connected with the role of mankind have been cleared up in the analyses performed till now to such an extent that there is a possibility for the numerical evaluation of people's economic role.

Human role in the complicated circular process of modern economy has developed as a result of a long historical evolution. When examining this role we may see that people fulfil various tasks in the particular stages of this circular process. In the production stage goods are produced by making use of human labour power. In the turnover stage of the reproduction process products are delivered to consumers by means of human work and this means the end of the production process. In the consumption stage the goods produced are used up, which means the realization of the final goal of social economic activity and thus the process of reproduction is completed. At the same time also human labour power is reproduced and thus it is ready to participate in the next stage.

In the present study we are dealing with the analysis and evaluation of the different roles people play in the reproduction process. Human role should be evaluated as a production factor but, at the same time, also an evaluation of this role in the consumption sphere is necessary. Namely, it cannot be doubted that smooth realization of the economic process may take place only if man fulfils his task properly in all stages. The importance of the role as consumer becomes palpable especially in case of an unfavourable economic situation when troubles arise first of all in the sphere of consumption. Economic progress increases the role of a person as consumer.

Results of the historical development of human economic activity are accumulated in materialized production factors, in the last resort in the stock of productive national wealth, and permanently increase it. Means of production available in larger amount and better quality, i.e. improvement of the technological equipment of human labour creates continuously improving material conditions for the productive work of man.

Improvement of the technological equipment and organizational conditions of human labour has an effect on the development of human labour power, too. Namely, the development of more favourable working conditions also brings about rising requirements towards live labour. The development taking place at

present at an accelerating rate in the quality – qualification – of human labour power before our very eyes can be explained by this fact. This development results in a rising qualitative level of human labour power and in a continuous transformation of the qualitative structure of the labour force. No doubt these qualitative changes decisively influence also the productivity of human labour power.

The development of the human factor of social economic activity is, of course, not free from problems. These problems were recognized by economic literature about 20-30 years ago. Examinations led to the recognition that traditional manpower statistics do not provide adequate information that could properly represent human labour power in economic computations. The attention of specialists was drawn first of all to costs connected with the raising of the qualitative level – the training – of manpower which may be regarded after all as economic investment. The problem of human capital has been raised and thoroughly analyzed. It is sure, however, that in the given situation several other issues of similar character and importance also arise in connection with the economic role of human labour. In the following we shall discuss questions connected with the further development of manpower statistics according to this broader topic.

Human role in the reproduction process

In the course of examining the economic role of human labour power most varied demands should be met.

For economic analyses such data should be provided on the stock of labour force which express the economic importance of this production factor according to the present situation. [1] Staff data of traditional labour statistics cannot meet this requirement. In available data the qualitative development of the labour force – first of all the rise in the level of vocational qualification – is not expressed. Therefore, such further development of manpower statistics is needed which provides the possibility of taking also qualitative development into account beside numerical changes. This can be attained by using such weighting method for the determination of labour staff where weights express the qualitative factor of labour power. [2]

The valuation of human labour power in terms of money is an important task. Through this method such data may be obtained which amount to taking into account human labour power with a method applied to the materialized means of production-fixed and circulating assets. By using such data in national economic computations the two most important production factors may be included in identical units of measurement in economic computations and this allows a better interpretation of the contribution of production factors.

Despite these problems of manpower statistics we have to state thet the necessity of valuing human labour power has come to the fore in the economic literature of our days not because of the need to further develop manpower statistics but first of all as an issue of national economic investment, thus, in the *national wealth approach.* No doubt costs connected with the supply of labour of adequate

quality – qualification – are accumulated in the personal factor of production (man) in the form of a wealth that constitutes a production factor in the same way, and thus is a part of national wealth as the value of materialized production factors. It follows that the valuation of human labour power should be dealt with in such an approach, i.e. also as a task belonging to the sphere of national wealth computations. [3]

The valuation of human labour power in the interest of the further development of labour statistics and that required by the national wealth approach is in several respects the same task, yet these two approaches may not be regarded as fully identical. Examinations in the national wealth approach encompass a wider sphere of problems. In this case even a clarification of basic questions of principle of the computations is more complicated and the elaboration of the computation method is also more difficult. In the framework of our examinations problems connected with the expression of human labour power in terms of money will be dealt with according to the requirements of both approaches.

In economic literature various notions of investment into human labour – in a narrower or more comprehensive sense – may be met. In the last resort, the difference between them – apart from some questions of principle mostly of lesser importance – is whether they cover a narrower or wider sphere of costs of bringing up and education of children connected with the creation of the labour force. In our examinations we take this situation into consideration and strive after the elaboration of such computation methods which provide the possibility of obtaining a result corresponding to several notions. This problem of concept arises both with computations of labour statistics and in the national wealth approach, though in a somewhat deviating form. [4]

A further task is the determination at macroeconomic level of *production costs* connected with the participation of human labour power in the reproduction process as a production factor. Costs of labour taken in this sense include beside wages paid to the workers also other costs connected with labour supply. Therefore, the task in this case is the complete consideration in a national economic approach of production costs connected with human labour. Among the costs of labour interpreted in this way also costs arising in the enterprises in connection with the mobilization of labour, their preparation for participation in work, etc. should be taken into consideration. In this approach also the depreciation of investments aimed at the creation of the labour force is a part of current costs of labour interpreted in this way provide information in the course of the macroeconomic examination of the reproduction process.

We deem necessary to analyse also the role of a person in the consumption stage of the reproduction process. This is required because the realization of the reproduction process is largely influenced by human behaviour in the consumption sphere. In investigations with such a purpose the starting points may be the principles and methodological results of works on social consumption. It should be emphasized, however, that in the framework of such an analysis the task is not covered by research into consumer's demand, the so-called effective demand. The perspectivic consumption should also be examined which is determined on the one hand by the development of consumption habits and biological (health) and

social needs of the population and, on the other hand, by the expected development of production. Therefore, in this case the task is, in the final analysis, to make estimates concerning the expected development of consumption in the nearest future. With such investigations, beside the determination of the volume of consumption at national economic level, also the expected development of the consumption structure should be analyzed. Results of these investigations may provide help in determining development trends of the national economy and production goals properly. Examination of the consumer value of man is made necessary and useful in a socialist planned economy first of all by the possibility of utilizing it for such a purpose. [5]

Methodological problems

It may be stated from the foregoing that many methodological problems have to be clarified in connection with the investigations. In the framework of the present study only the most important problems of methodology serving for practical computations can be dealt with but it is obvious that they have a decisive part in the determination of computation results.

Data of traditional labour (manpower) statistics — as it is well known — do not provide adequate information on the continuous development in the qualitative level of the labour force. This deficiency may be eliminated by the application of a *weighting method* in the course of accounting that expresses the effect of deviations in the quality of workers, — more precisely in their qualification level — employed in various jobs on the result of production. Namely, qualification — more precisely vocational qualification — is the factor more and more determining the productivity of the individual in present-dav economy. By the application of weighting the further development of labour (manpower) statistics into the desirable direction becomes possible [6].

The simplest weighting method may be elaborated by considering the time of education spent on obtaining a certain qualification. In this case the standpoint is accepted that there is a connection between the duration of education and the level of qualification obtained.

The elaboration of another weighting method is enabled by the consideration of educational costs. In these costs also the quality (intensity) of education is expressed beside the time of education, thus they better represent the level of qualification than the duration of education.

In principle it is a possible weighting method, too, when qualitative differences between labourers of different qualification level are determined by considering the role of the given labourer in production, that is of his returns, and on this basis their weights are also defined.

The above-mentioned solutions move within the range of notions of traditional labour statistics and mean the accounting of human labour power in natural units of measurement, i.e. in staff-numbers. The data thus obtained are not in full harmony with the data included in national economic computations on another im-

portant production factor of the reproduction process, the material means of production which are expressed in terms of money.

From the viewpoint of the information demands of economic computations the idea of valuing human labour in terms of money arises with the purpose of ensuring this harmony. The final goal is also in this case the further development of labour statistics in a direction that they contain also qualitative development beside quantitative changes. No doubts, for a simultaneous expression of quantitative and qualitative criteria data accounted in terms of money are most suitable.

The valuation of human labour power in terms of money should be made at two price levels. Results of computation at current prices may be used for analysing the effective processes of social reproduction. Data computed at unchanged prices form the weighted volume data of the human labour force. These data ensure in case of an analysis of national economic processes at unchanged prices that — similarly to materialized production factors — also the human labour power may be taken into account with so-called value volume data.

It has already been mentioned in the foregoing that the accounting of the value of wealth created through the replacement of human labour power is considered as an especially important task. This computation belongs, however, no more to the subject of labour statistics, but to that of national wealth computations.

In Hungarian economic literature there are several rather important works dealing with questions of the valuation of human capital. In these works some basic questions of the subject human capital have already been clarified. The most important researches in this direction agree in the recognition that the replacement of human labour power may be considered as investment with economic purpose, since without it the growth of the national economy at a desired rate cannot be imagined. The methodological endeavours aimed at a numerical statement of the volume of human capital result from this circumstance.

For the evaluation of human labour power in terms of money two methods may be applied in principle, similarly to examination of the value of production factors in general:

a) valuation on the basis of taking into account the costs of creation, i.e. investments,

b) valuation on the basis of the capitalization of returns. [7]

In principle the application of both methods is correct and, undoubtedly, a more complete picture will be obtained if results of both valuation methods are available. However, under present circumstances only the conditions of valuation on the basis of (investment) costs of the creation of human labour power are given to the extent that quantification could be practically carried out. Using the method of capitalization of returns for the valuation of human capital still requires the clarification of several problems of principle and methodology. Precisely on this account we shall deal here only with the method relying on the consideration of investment (creation) costs in detail.

In economic literature dealing with the valuation of human labour power there has developed a view among experts in connection with various definitions of this concept that even several concepts may provide useful information. Therefore, computations should be carried out on the basis of various concepts in several

variants parallelly. Adopting this concept we shall set out from a wide-range analysis of costs arising in connections with the creation of human capital. Such a comprehensive costs analysis allows an adequate valuation of human capital according to all concepts that may be interpreted either in principle or in the practice.

Human capital will be created in the process of bringing up children and in that of education when the following costs arise:

Labour input in physical terms

Work of parents connected with the bringing up of children

Inputs appearing in the form of spending money

Costs of subsistence nature incurred in the bringing up of children

Costs of education of children

Primary education

Vocational education (training) at medium level

Extension training of adults

National income foregone, that is, the potential amount of national income that was not produced because of the extension training (attending school) of youth in the working age.

These inputs are jointly borne by families, the state, other public agencies and enterprises, while their contribution is of deviating proportion by kind of costs.

In connection with the use of these costs items for the accounting of human capital two tasks should be solved yet. The first one is elaboration of the method of accounting for the individual costs items, while the other task is to decide according to which costs concepts the computations are required through a corresponding grouping (cosideration or neglect) of the individual costs items.

When accounting the individual costs items the following methodological principles may be applied.

In the creation of human labour power (human capital after all) parents' work in the bringing up of children has a decisive part. The importance of this input is shown by the fact that — with very rough estimation - the labour input spent on the bringing up of a child may be estimated at about 10-15 thousand hours, which correspond to at least 150-200 thousand forints in terms of wages.

It should be noted, however, that parents do not feel the burden of this labour input so much as the order of magnitude expressed in terms of money would indicate. Namely, the bringing up of children is a natural occupation closely connected with the satisfaction of the race-preserving instinct of man and organically integrated in his way of life. This occupation is undoubtedly a kind of work, but at the same time may be a source of the greatest possible joy in a person's life. The concept according to which parents' work should not be taken into consideration among costs connected with the creation of human labour power can be explained by that. Though this argumentation is justified, nevertheless we are of the opinion that in the framework of a comprehensive examination also this computation should be ranked among tasks to be solved yet, regardless of the fact whether this item will be taken into consideration in the global value of human labour power or not. [8]

When accounting costs of the bringing up and education of children arising in cash computations corresponding to the following concepts of human capital may be said correct.

In case accounting is made according to the wider concept all costs of the bringing up and education of children arising in money should be taken into consideration. This means adoption of the view that the entire amount of costs serves for the preparation of children growing up for work.

Accounting on the basis of the narrower concept represents the standpoint that only those costs of the bringing up and education of children may be considered investments with economic objective, which arise explicitly in the interest of preparing the youth for economic productive work. Therefore, this kind of computation necessitates a division of costs of bringing up and education of children from this viewpoint. The accuracy of this division may be only of estimation character, since in some cases it may be disputed whether the given costs arose in the interest of preparation for economic tasks or can be regarded as general costs of bringing up and education. Nevertheless, we deem the carrying out of computations useful, since in this way such amounts of investment into human capital may be determined which directly influence scientific an technological progress and thus have an extraordinarily important part in economic growth.

In case we account human capital on the basis of the above concepts the following sources and methodological principles may be relied on when determining the individual cost items.

When accounting the work of parents performed in the interest of bringing up their children the first task is to determine the amount of time spent on this. For these estimations results of examinations referring to the utilization of time of families — time budgets — may render help.*

In the valuation of the work performed in connection with the bringing up of children we can start form methods of computations dealing with the accounting of household work. [10] Since also the work of bringing up of children is mostly performed by women, woman's wages should be taken for basis when making computations. Since this work is performed by women with different wages and income, it is a logical procedure to apply average woman's wages (hourly rates) here. A different solution could be justified as well, thus, for example, taking the lowest woman's wages into consideration may also be an acceptable solution. Whatever solution we apply, results of the computations may only be regarded as an estimation of the order of magnitude of the value looked for.

For the determination of the family costs of bringing up children the analysis of household expenses of families may be taken into consideration. As data source household-budget statistics are available, whose data enable — with adequate processing — the determination of these costs with a reassuring accuracy as regards order of magnitude.

*Such investigations were also made by the Hungarian Central Statistical Office. Cf. [9]

Household-budget statistics as data source may also be used for the determination of educational costs paid by the family.*

For the accounting of costs of bringing up and education borne by public institutions, first of all by the state accounting reports or budgets of these latter may be used. Out of the costs covered by public agencies those money benefits – e.g. family allowance – should not be taken into consideration here, which are included among the money receipts of families. These appear, namely, among expenses of the family budget. Here such costs resulting from public sources have to be taken into account which are enjoyed by families in the form of allowances (benefits) obtained in kind. Out of costs of the bringing up of children contributions to the maintenance of nurseries and kindergartens, state subsidization of the prices of meals at these institutions and schools, etc. may be considered as such ones.

A considerable part of costs connected with education are borne by public agencies since education is free of charge in Hungary. On the basis of expense items of public accounts, first of all of the state budget, these costs should be taken into consideration in a breakdown according to types of school providing various levels of qualification. In this way costs connected with the obtaining of various degrees of qualification may be separately stated.

Because of the fast scientific and technological progress the importance of extension training of already active adult labourers in the production process has increased nowadays. No doubt, also this form of education raises the level of qualification of labourers and thus also the value of the human factor as a force of production is increased. Therefore, costs of such education should be regarded as investments increasing human capital. These costs are borne in an overwhelming part by the enterprises, thus they may be determined on the basis of enterprise accounts. For obtaining the necessary data the method of sample survey seems to be appropriate.

Costs of the extension training of adults borne by public agencies may be determined on the basis of public accounts.

In connection with the education of human labour of higher qualitative level, when the duration of education is so long that already persons in working age are trained, the question may be raised whether the national income lost should not be taken into consideration among the costs of training. It may not be disputed that in such a case the replacement of labour will result in a decrease of national income. In the total value of human capital taken in a broad sense this lost income, too, may be accounted as a costs item connected with the creation of human labour power.

*Computations referring to costs of the bringing up of children are made by the Hungarian Central Statistical Office on the basis of household budget statistics. Results are published in special publications entitled "Életszínvonal-kutatások" (Researches on living standards).

The computations made with the above method allow the determination of per capita average costs arising in connection with the bringing up and education of members of the population with different qualifications. In this way it may be determined, therefore, which costs were caused by the bringing up and education of the individual members of the population, or, from another aspect, what their value in human capital is if the costs of creation are considered identical with the investment value of man as a production factor. Thus we can obtain the factor of valuation (unit value) required for the determination of human capital. These value data should be determined for such groups of the population according to which we wish to determine the size of human capital.

Data on the number of population are another factor of investigations in this direction. These data should be determined in the following breakdown with regard to the final objective of computations:

a) age groups of youth in the bringing up and educational age by form of training,

b) population in working age performing productive work in a distribution according to national economic branches and qualification.

c) population in working age not performing productive work in a distribution according to persons displaying some useful activity or not,

d) population over working age (in pensionable age) in a breakdown by persons performing productive work and by those not performing any productive work.

In case human capital is valued in a breakdown according to the above groups of the population the following major methodological problems will arise.

Youth belonging to group a) is in a state of preparation for productive work, nevertheless, is not yet suitable for effective work. [11] In connection with the bringing up and education of this group of population all costs arising in the period from the date of birth to that of the computation may be considered as the stock of unfinished investment into human capital. If full-range computations should be made concerning the human capital value of the population of the country, then the youth in the state of preparation for work should be taken into consideration in the computations under this title.

From the viewpoint of the human capital value of the population, the population belonging to group b) is the most important one from the above groups. Namely, those age groups of the population belong here, which participate in the production process as human labour force, therefore, they form the working staff of the national economy and represent its labour power capacity.*

In the framework of the valuation a classification of the productive population according to national economic branches and within them according to the level of qualification should be made in our view. With the classification according

*The notion of production is interpreted in this case according to the broader concept used in the system of national economic balances (accounts) of the Hungarian Central Statistical Office.

to qualification the usual grouping (unskilled worker, semi-skilled worker, skilled worker, etc.) should be applied, though in the practice a classification deviating from this may also become necessary.

The part of the population in working age not performing any productive work, that still displays some useful activity should be considered, in our opinion, as a part of human capital, its valuation is thus also justified. In this group the primary task is to value the labour power of women attending to household duties.

The part of the population in working age not performing productive work, nor displaying any useful activity should not be valued within human capital. The cost spent on the bringing up and education of such persons should be regarded as a mistaken (wrong) investment that should be written off as unusable.

The population over working age belonging to group d) consists of persons who have already worked the prescribed working time in the sense of labour laws in force. However, several such persons belong to this groups who still are capable of doing some work and a considerable part of them does even participate in productive work, while another part can be considered as a labour reserve. Therefore, an examination of the ability to work with persons belonging to this group and also a corresponding valuation seems to be justified. [12]

For the sake of completeness we would mention also the method according to which not the costs connected with the creation of labour power, but the returns attained through work (that is performance) from the basis of valuation. In this case we should start from the returns of the work of the individual when valuing individual labourers separately (i.e. when determining the value factor of human capital). The value of a labourer as a production factor interpreted in this way can be obtained by the capitalization of net returns. However, the difficulties of economic analyses arising in connection with the division of joint returns among the factors participating in production will be faced also here. Defining the rate of interest applied for the capitalization of returns is a further problem that may be clarified in principle only with difficulty. [13]

The method of capitalization of returns may be applied, naturally, only for those categories of the population which participate in productive work. Therefore, this method could be applied first of all to the population belonging to group b).

By means of the above method the gross value of human labour power, i.e. human capital may be determined. This is the initial value man as a production factor is disposing of at the end of the bringing up of children and education, i.e. at the time of entering work, when the entire working age is before him. With the passing of time the working age left is diminishing with the aging of men and that also reduces the value of man as a production factor. The value of human capital proportionate to time, which is in the usual terminology its net value, can be determined in this way.

However, the net value of a person as a production factor is influenced by several factors with contradictory effects — as distinct from materialized production factors. Aging is taken into consideration as a value depreciating factor even

for two reasons. On the one hand, the working age left is reduced by it and on the other hand, it brings about a decline in human labour power, which may be well determined especially in case of manual work. At the same time, however, aging means also longer practice in work and thus increases the working capacity of man. [14] The net value of human labour power may be determined with the joint consideration (summarization) of these factors working in opposite directions.

The next task is to analyse *labour costs* connected with the participation of human labour power in the reproduction process. With such computations meaning the accounting of labour costs at national economic level the following costs items should be stated and summarized:

a) wages paid in cash to labourers and other allowances (benefits) given in kind;

b) costs borne by the individual enterprises in connection with the availability of labour;

c) depreciation of costs (investments) connected with the creation of human labour power.

The sum of these costs determined with the consideration of these items means the accounting of all costs connected with the participation of the labour force in the production process in the broadest sense. Since this notion of labour costs is determined in a macro-economic approach, the results of these computations may provide useful information for comprehensive national economic investigations. These labour costs mean the accounting of costs connected with the utilization of human labour power and of the materialized means of production (fixed assets) with the same method. This methodological identity makes the examination and weighing of the role of the individual factors in production undoubtedly easier in national economic computations.

In connection with investigations referring to a person's role as *consumer* several problems need to be solved yet. In the course of this work we shall start from various world-wide investigations carried out concerning human consumption, more precisely, solvent (effective) demand.

For the examination of consumption according to solvent demand, that is of the consumption capacity of population advanced methods have developed in economic literature. However, computations with such purposes are usually not made according to comprehensive economic viewpoints. They are all aimed at determining the demand for some product or a narrower product group and thus at providing proper data for the business policy of producing enterprises.

In the scope of our subject consumption corresponding to the solvent demand of population should not be dealt with according to such micro-economic viewpoints. The task is a full-range survey of solvent demand, that is, analyses at a macroeconomic level are required. Therefore, such computations should be aimed at determining the consumption capacity of the entire population as well as

volume and structure. These data may be accepted as indicators of the consumption value of a person or, on a social scale, as that of the population.

Economic statistics put two data sources at the disposal of such computations.

One well usable data source is household statistics which reflects processes of the micro-economic sphere of the national economy and providing information on the consumption of the population on the basis of an examination of the consumption of families. Data of household statistics allow the determination of the per capita average consumption in a breakdown according to various criteria of the population (age, sex, occupation, etc.). Starting from these per capita averages and taking the number of population into consideration the consumption of the entire population, that is, data of consumption at national economic level may be obtained.

Another rich data source is the system of national economic balances (accounts) drawn up in the framework of national economic computations. These data provide information about the consumption of the population relying on the analysis at national economic level of results of social economic activity. On the basis of this source first of all comprehensive data – referring to the entire population – may be determined. Data detailed according to various groups of the population can be obtained in this case only for larger consumer groups. These data provide information on the consumer role of the population in some period already over, therefore, they mean an ex-post determination of the consumer value of the population.

On the basis of the two data sources in principle identical results should be obtained for the consumption corresponding to the purchasing power of the population. Therefore, making both computations parallelly also allows a verification of results obtained.

Another possible method of examination of the consumption of the population is determination of development of consumption expected in the nearest future on the basis of forecasts. In a dynamically growing economy such data are also needed for the comprehensive valuation of the consumer role of the population. In case of computations with such purposes concrete data sources may only be partly used. Forecasting and estimating methods usually applied in drawing up plans should be used with the consideration of factors influencing the desired (planned) development of consumption. Out of these factors consumption habits, viewpoints of health and social development are the most important ones. With these computations development possibilities of production should be naturally taken into consideration as constraints. With such a method the expected consumer value of the population may be determined that may render help in computating growth trends of the economy and first of all of production.

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In the present paper we have summarized major results of our studies on the economic role of a person with the aim of drawing attention to the necessity of improving the information system referring to the human factor of the national economy. No doubt, from the viewpoint of the further development of national economic computations clarification of questions to be answered in this field belongs to most important tasks. We feel that an extension of investigations dealing with the human role in the economy problems suggested by us may provide help in recognizing more thoroughly relationships between the human factor and economic growth.

We are well aware of the fact that our earlier researches cannot mean but a modest contribution to the solution of the problems raised and the clarification of details requires further efforts yet. Certain questions of principle and first of all of methodology will arise and may be clarified only in the framework of paractical computations. Nevertheless, we are of the opinion that basic questions connected with the economic role of the human factor may already be considered as clarified to such an extent that numerical examinations in this regard should be kept in evidence among the next tasks of national economic computations.

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ОЦЕНКА ЭКОНОМИЧЕСКОЙ РОЛИ ЧЕЛОВЕЧЕСКОГО ФАКТОРА

Д. ХАЙПАЛ

Автор рассматривает роль человека на отдельных стадиях общественного воспроизводства и методологические вопросы, возникающие в связи с ее оценкой.

По выяснению основных принципиальных вопросов, автор рассматривает также методологические вопросы, связанные с количественными интерпретациями. Далее он указывает на возможности, открываемые результатами расчетов для последующего развития экономических анализов.

Согласно мнению автора, в проведенных до сих пор исследованиях принципиальные и методологические вопросы, связанные с ролью человека выяснены настолько, что теперь уже возможна количественная оценка экономической роли человека.

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A. BRÓDY

ABOUT INVESTMENT CYCLES AND THEIR ATTENUATION

By accepting M. *Kalecki*'s approach [1], yet rejecting the postulated equality of saving and investment one can describe the business cycle in a fairly realistic and also logically satisfactory manner. This will be done in the first part. The second part inquires into the fluctuation of investment activities exhibiting cycles of similar duration in planned economies. Later on these cycles are connected some facts of the existing economic mechanism in Hungary and the closing part proposes a prescription to attenuate the amplitudes of oscillations.

The business cycle proper

Saving, investment and rate of interest are logically interconnected in the following ways:

a) Saving increases the supply of loanable money, therefore, it decreases the rate of interest.

b) Investment increases the demand for loanable money (or decreases its supply) and, therefore, it increases the rate of interest.

Of course, the real and not the nominal rate of interest is considered here – net of changes in the purchasing power of money.

The rate of interest influences saving and investment. We will call the interest "high" if its rate is above and "low" if it is below its average level, computing this average through one or more cycles. This middle level can be considered also as an "equilibrium" rate, not changing either saving, or investment habits. We may suppose that

c) a high interest encourages saving and discourages investment,

d) a low interest discourages saving and encourages investment.

From postulates a) to d) it follows:

I. If saving and investment balance each other and the rate of interest happens to be at its average value then the economic system may continue on its equilibrium path, presuming it is not disturbed by any other outside force or shock.

Otherwise it has to proceed in a cyclic manner through four consecutive phases, each representing a particular pattern or configuration of the variables considered and leading necessarily to the next phase. So we may start without loss of generality by any one of the possible disequilibrium patterns.

II. Let us assume a balanced saving and investment but a high rate of interest. Then

1. A *slowdown* of investment is unavoidable. High interest discourages investment. Therefore, investment activities are curbed. Saving grows – encouraged by the high rate – and so it will increase the supply of loanable money. Thus

the rate of interest will be pushed down towards its equilibrium position, but by the time it arrives to this level saving will already surpass investment.

2. *The trough* will be thus reached, where — initially — the rate of interest is in equilibrium, but saving exceeds investment. This unavoidably pushes down interest rates even further. A low rate of interest, of course, helps to restore the balance of saving and investment, curbing the former and boosting the latter, but as long as this equilibrium is not reached the rate of interest must drop further according to our postulates and thus reaches its nadir.

3. We arrived at a pattern skew-symmetrical to that under 1, namely to *acceleration* with saving and investment balanced but the rate of interest sitting on its lowest point during the cycle. Therefore, investment will be encouraged, saving discouraged, triggering the interest rate to move upward and to reach sooner or later its equilibrium level.

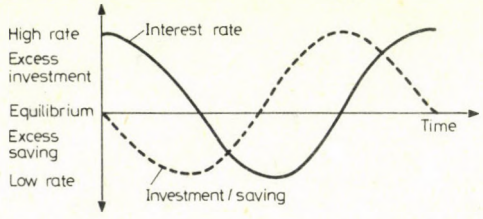

Fig. 1. The cyclic motion

4. This now is the mirror image of 2, the *peak,* where — initially — interest is in equilibrium, yet investment surpasses current saving. This configuration inescapable leads back to position 1. because the rate of interest, being pressed upward, restores the equilibrium of saving and interest, but by the time this balance is reached, the rate of interest also reaches its zenith.

The continuous motion, the successive configurations are depicted in *Figure 1.* The imbalance of the interest rate explains the change of the investment (saving ratio, and the imbalance of saving and investment explains the change of the interest rate.

The duration of the full cycle will, of course, depend on the time required for all the adaptive and adjustment processes. Investments require a gestation period to ripen (this gestation period plays a crucial role in the Kaleckian cycle model) and investment being irreversible, the duration of the capital so invested, the turnover and life-times of the different kinds of stocks, will also play their role as already stressed by Marx when discussing the business cycle.

Yet we need not occupy ourselves here with all the various mathematical models that can be derived from these lags, fairly well measurable and characteristic of the individual economic processes. Our task here is more qualitative: to unravel those deeper movements that are only reflected in the described changes of loanable funds and in the fluctuation of the rate of interest.

The explanation, namely, as developed above may lead to the rash conjecture: cycles are *caused* by the movement of the rate of interest and, therefore, may be remedied by subjecting this rate to a harsh, yet paternal and wise regime. But nothing could be more imprudent. K. *Marx* apparently anticipated these false hopes when writing: "The superficiality of Political Economy shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere symptom of the periodic changes of the industrial cycle, as their cause. As the heavenly bodies, once thrown into a certain definite motion, always repeat this, so is it with social production as soon as it is once thrown into this movement of alternate expansion and contraction. Effects, in their turn, become causes, and the varying accidents of the whole process, which always reproduces its own conditions, take on the form of periodicity." [2].

Why and how do these "heavenly bodies", the real volumes of production, behave in a periodic manner — what is the movement of the real substance, reflected in the cyclic motion of interest rate? What are the physical conditions of the expansion or contraction of credits? Let us look behind monetary and credit relations and investigate the actual motion of products tied up in the process of investment.

If the change of interest rate reflects the motion of supply and demand of loanable funds then the level of this rate, its actual, present, value (as created by the past history of supply and demand) must contain important information about the mass of loanable funds actually applied. But this "money capital" (as K. Marx would have it) represents very objective physical means of production. Additional funds were needed to purchase additional "productive capital" to be put to use in additional, extended production. Marx describes this clearly: "To set the productive capital in motion requires more or less money — capital, depending on the length of the period of turnover... On the basis of socialized production the scale must be ascertained, on which these operations — which withdraw labour-power and means of production for a long time without supplying any product as a useful effect in the interim — can be carried on without injuring branches of production which not only withdraw labour-power and means of production continually, or several times a year, but also supply means of subsistence and of production." [3]

The movement of loanable funds, therefore, reflects but the withdrawal of products (investment goods) and labour for the sake of investment; they will be tied up in the investment process during the gestation period.

Investment cycles in planned economies

Economists bacame aware of these difficulties pervading also planning practice when trying to determine and secure the funds required for investments. Until now no planned economy has been able to find a smooth, non-cyclic growth path.*

* The first author to report on this was probably J. *Goldmann* [4]. We now possess a splendid and thorough monography describing all the individual cycles in most of the planned economics. See [5].

What may be the theoretical reason, what is the difficulty (or perhaps unsurmountable obstacle) which — over and above the practical inefficiencies, myopies and political prejudices of planning — disallows smooth growth perhaps even in principle and blindly triggers ever new cycles?

Let us start by collecting mentally all the data, at least according their respective units of measurement and orders of magnitude, that are required to plan the growth process in a contemporary economy.

It is the units of measurement that need close attention, because it will turn out that beside two already well known units, measuring *flows* and *stocks,* a third one emerges, less well known, rather neglected or simply mixed up with the others and so disregarded. Stocks and flows also needed some disentangling as the history of economic thought attest to it, because — both stated in monetary terms — they were easily confounded in the not so remote past. But slowly it dawned on economists that they are of different *dimensionality:* stocks are value, as such, and flows are value per time. Therefore, the correct dimension (or unit of measurement) for stocks will be [V], with V standing for value — say pound sterlings or silver dollars — whereas flows carry a dimension $[VT^{-1}]$, with T standing for time — say a year, or a month, or a day. The third something, still lacking a definite economic name*, is a stock tied up for a definite length of time. Its proper dimension therefore is [VT], value *multiplied* by time. To mix up these three units amounts to the same mistake as, for instance, confounding the units for cubic content, surface and legth. They all derive from the meter — but what a difference whether it is m, m^2 or m^3.

Already K. Marx analysed in detail the *magnitude* of the required capital *and* the *length* of time for which it has to be advanced in Vol. II of Capital, and stressed the fact that the withdrawal of investment funds from the usual business of production is in no way affected by what means of money medium or through what form of production they are withdrawn "without equivalent", [6] that is, without simultaneously releasing — as current production does — any product. The end of the investment process is not a product but a capacity to produce which will then, later, yield additional product if operated in the ordinary way.

What is important here is the *double* determination, these funds tied up in the investment process are of a certain *amount* and are advanced for a certain period of *time.* In a market economy these two dimensions are somewhat asymmetrical because of the intervention of interest: one $ for two years is more expensive than two $ for one year. This will — *ceteris paribus* — speed up investment processes. But the tied up funds, the unfinished investments do have a double measure in both systems. They possess a certain total, represent a given value that is tied up for a certain amount of time — they are not simply "stocks" but express a more complex concept, stocks advanced for a given stretch of time.

Now let us look at the quantitative aspect of these categories in a growing economy. Let us assume the total product. the sum of all sales as a flow of yearly

* The lack ot a generally accepted economic term also indicates the heedless indifference toward something actually causing the problems with the cycle, and still without a cognomen. It might be called an advance or a hoard.

100 units. The means of production used up in producing these commodities during the year may be roughly 50 units, the remainder will yield 50 units of net product. Of this about 40 units will be wages and salaries and will be thus consumed and only 10 units will serve accumulation, constitute saving.

If the average capital/output ratio is 3 years, that is, if one unit of yearly production requires three units of stock, then the total product of 100 units must have been turned out by 300 units of stock. If we would simply add our saving to this stock, those ten units would furnish us with a 10/300 = 3 1/3 percent increase, and indeed this is the growth rate indicated by growth theory and habitually computed in planning exercises.

Yet this computation is but approximate and valid only for a smooth growth process. The 10 units of saving, namely, do not instantly transform into new productive capacities (buildings, equipment, increase of inventories). They have to be invested and investment takes time, a gestation period must elapse before new capacities are finished. If this period takes two years, then the saving of 10 units lingers two years in the investment process and its proper magnitude is 20 "unit-years". During this process it hardly yields profits for the investor, it is not his stock, but a hoard, transitorily fallow, idle, inactive.

After the dormant period is over, the exact growth rate occasioned must be less than 3 1/3 percent, because in the meantime (we presupposed a smooth growth) the capital of 300 units kept growing.*

So far so good — for smoothly growing systems. Yet it is now evident that in real life all these 20 unit-years of tied up advances, incorporated as they are in unfinished investments, goods in process, inventory increases *in statu nascendi*, will seldom grow smoothly. The average gestation period elapsing between investment decisions and finished work will be an average over multifarious activities. A dam or an atomic plant may require 7 to 10 years for construction, a ship may be ready in 1-2 years, a house in 6 months' time. The installation of a new machine may take only a couple of months, the additional inventories needed to, say, speed up the pace of an assembly line can be secured in a couple of days, perhaps only hours. Even if individual gestation periods stay constant, the particular assortment in the pipeline of gestation may vary considerably. A small country does not build a dam or a bridge every year.

It is moreover characteristic that the orders of magnitude enumerated above: 50 units of net product per year, 10 units of saving per year, 300 units of stock, 20 unit-year of hoards, are successively less and less accurate quantities. This want of precision has to be understood in a double sense. First the habitual errors of statistical measurement increase along the line: net product may be measured with a ± 1 percent tolerance, the measurement of stocks may easily carry a tenfold imprecision, at least a ± 10 percent relative error must be expected, finally the order of magnitude of the "hoards", tied up stocks remains very questionable and hazy for reasons we will explain below in more detail. But this mounting uncertitude will

* The exact rate to 5 decimal places will be 0.03134 instead of 0.0333. The difference is small enough to be practically neglected: statistical measurement is stricken with much wider tolerances. But the theoretical difference is too important to ignore.

be true in a second sense just as well: these quantities fluctuate through time with characteristically different amplitudes. The change in net product from one year to another will not surpass ± 10 percent, savings easily double or are wiped out by next year and the movement of committed stocks is probably even more violent.

The latter fluctuation escapes proper measurement for a very particular reason. As with an iceberg we can only see its tip, the committed funds themselves are largely unknown: what we see and measure is only the amount of unfinished investment and we hardly know what additional funds must be spent in the future to finish them, and how fast this process will take place in the future.

When we took 20 unit-years' commitment as a starting point we presumed a two-year gestation period in the hope of investing next year the required additional 10 units of savings to finish whatever we started in the previous year. But we might end up next year with only 5 units of saving – and thus have to lengthen the gestation period to 3 years, by 50 percent. In this case we will have 10 units of stock fallow for 2.5 years + 5 units for 1.5 years + 5 units for a half year = 35 unit-years, which means the committed funds, reckoned as it should be as value × time almost doubled. There is an important element of chance creeping into the reckoning: we only know the gestation periods of *past* investments, but never exactly know how much time and money those activities will consume in the *future*.

Just to give a glimpse of the range of uncertainty: in Hungary we know by experience that the actual cost of projects surpasses their planned costs by 20 to 50 percent. They usually take 50 to 100 percent more time to finish and reach their planned output (capacity) 70 to 90 percent in the first years. (It is better not to mention how the planned and actual profitability of such projects compare.) Yet the situation is analogous in market economies, too: let us refer just to planned and actual cost, gestation times and efficiency of atomic reactors. We can not "measure" the future – we only work with probabilities.

The investment process is, therefore, a very special domain of reproduction. In market economies some semblance of order and a certain motivation against laggardness is secured by the banks, the conditions of credit, the rate of interest – but we already showed this orderliness to be shaky and prone to fluctuations. Now it has become evident: those fluctuations are not *caused* by the rate of interest. A high and increasing rate of interest merely indicates the inadequacy of saving in relation to the mounting commitments, nay, overcommitments – and this is a phenomenon a planned economy must also endure if it pulled away too much manpower and too many means of production from current production activities. If it immobilizes itself then it must endanger the usual pace of growth, perhaps growth itself. This may happen, also without the intervention of high interest rates, even if no interest payment is asked for. (Interest is not levied on investment funds in most of the planned economies.)

The high rate of interest is only a signal of something untoward, something amiss, deep in the relations of production: the imbalance of overcommitment.*

* Of course, a high rate of interest may be caused by other monetary activities, not only by overinvestment.

Whether it is the high rate of interest or the tight situation, caused by the overcommitment — a readjustment must follow, consisting of a brake on investment activities and a concomitant slowdown of growth. Once the bottom is reached, it again amounts to the same whether it will be the low rate of interest or the slack in the situation which gives a green light to the new upsurge. In a planned economy the slack will become conspicuous in the relaxation of material balances, copious foreign exchange funds, idle capacities in construction, and a "ripe" state of unfinished investments.

Why is a planned economy unable to control investment better, why is its actual control inferior to that exerted by the rate of interest?

One may control only observable variables. The actual commitment by the investments started, the total load on the economy are not directly observable, as the temperature of a room or the speed of a car. The imbalance is never evident in itself and comes to our notice only when accumulated with a considerable delay. The current load on the economy may be ascertained only after all the presently started investment projects are finished, that is, with a delay of 2 to 10 years.

The time lags elapsing between the imbalance and its accumulation and between the decision to adjust and its actual effect are basically similar in planned and market economies and depend rather on gestation periods an capital/output ratios, not mere behavioural parameters. Therefore, it is no surprise to find in both systems the same pattern of cycles in the time series of production or investment. Just by looking at the graphs traced by the respective economies there is no way of making a distinction between market and plan-control.

Cycle and economic mechanism

Is there an economic mechanism that could generate a smooth, acyclic growth? Our present knowlegde disallows a clear answer. The Keynesian prescriptions, as already hinted at, fell short of the hopes and did lead to inflation. New research into economic control theory* seems to indicate that even stable and asymptotically stable control processes do exhibit cyclic fluctuations.

Yet one has to face the problem theoretically, and perhaps less than *Maxwell's* Demon is required to solve it. An equilibrium solution, namely, can always be computed, given the data of the system. Therefore, the theoretical existence of a satisfactory algorithm, driving the economy towards its equilibrium cannot be denied. Yet an aggregated model reflects the economy only approximately and an algorithm working on a computer may ask for operations not feasible in everyday practice. For instance the repricing of an Input-Output table is rendered very easy on a computer, in actual life a price reform is an arduous task, consuming a lot of time and money.

How then can we go ahead in practice, if we have to brake overheated investment processes or accelerate a lethargical economy? Considering the interest rate

* Perhaps *Kornai-Martos* [7] has to be mentioned foremost.

— saving — investment interdependence one easily succumbs to the illusion that skilled manipulation of the rate of interest will do the job. If at the zenith or nadir of the interest rate we have saving and investment equal then, by pushing the rate to its normal or middling position (which can be done nowadays, the banking system on a leash, by a government fiat), the treble equilibrium is insured.

On second thoughts this action proves to be unsound. The commitment or overcommitment being maximal (as signaled by the high rate, or by the tight balances) life has to do something also about the root causes. Suppressing the symptoms hardly cures a malady. And if the market or the plan does not relax the pressure — life must act, notwithstanding government preferences.

Immobilization itself will slow down the growth process, the excessive invetsment demand causing a price hike of investment goods (though only in market economies) and legthening delivery times (in all kinds of economies). The overheated process stumbles into physical barriers where a slowdown, triggering further deceleration becomes unavoidable. Manipulation of the rate of interst may bring only very superficial results.*

The regulation of investment therefore proves to be the stumbling block of all hitherto known economic systems and mechanisms. All the known methods tend to overshoot, all the known economic development is cyclic.

The Hungarian experience with planning compels me to add some further strokes to this dim picture. Braking investments (or accelerating them in an upswing) consists, namely, of two different operations, and though the ultimate effect of these two is dissimilar, the distinction is seldom made (or known) in practice. Curbing investment activities may mean fewer investment starts or starting investments of a lesser volume than in the past. (In periods of great stress this may include a complete interdiction of new starts.) In this case the investment activities will be concentrated and finishing operations will actually be speeded up. Gestation times will be shortened and thus the tied up stock, as measured in unit-years, must diminish starkly. Yet curbing investment may also mean simply spending lesser sums on them, without actually reducing (or even increasing) new starts and thus adding to commitments. This leads to a deconcentration of projects: ever more projects are launched but are carried on more and more sluggishly. Gestation times lengthen and the tied up stock measured in unit-years may increase indeed very sharply. This second kind of curbing investment activities instead of alleviating the circumstances will aggravate them even further. To my best knowledge it has been only M. *Lackó* who tried to make this dilemma explicit in a mathematical model. [8] Yet even interdiction of new starts might, under special circumstances, lead to lengthened gestation periods, if work is concentrated on shorter projects to the detriment of those of a longer duration.

Both types of interference will strongly bias the structure of the investment process, shaky and prone to unevennes also if not meddled with, and generate

* The renovation of one of Budapest's main concert halls took about 25 years and — to quote a macroeconomic indicator — unfinished investment, whose value has been one fifth of the yearly investment in the fifties, is now nearly on par with the latter. Actually this implies an eightfold 4:0.5 = 8 increase in *average* gestation time: from 0.5 years to about 4 years according to more detailed computations.

future pretexts for new interference. If we want to avoid this sort of continuous tinkering in a fog then we need a much greater discipline and caution in starting investments and a more circumspect handling of the load on the economy.

A certain sort of discipline is secured in market economies by the banking system with its detailed credit conditions, interest rates and penalties. In the existing mechanism of planning I could not find such a control. The forces and motivations to the contrary are known too well, leading to underplanning of costs, irresponsible starts, laggardness, deconcentration.*

The reform of our economic mechanisms in 1968 brought forward a widespread decentralization of investment decisions. In itself this has been a much sought-after measure, dramatically improving the efficiency of investment decisions, now taken at those levels where the technological competence is greater. Yet to our chagrin it is leading to a further deconcentration of resources, not unknown in market economies.

To indicate just one of the problem spots: though we know that because of the slowdown we do not need any new capacities for the generation of electric energy up to the nineties, still all the four competing technologies (based, respectively on coal, gas, atomic and hydroenergy) started their own pet new projects. The funds required and immobilized are considerable in themselves and anticipating the overlong gestation periods which will ensue (first because this branch has one of the longest gestation periods in itself, second because we will not need those capacities for a long time to come, third because of the competition) this amounts to a load our economy will hardly be able to endure.

This brings us to a crucial question: how to balance the needed decentralization of investment decisions with the equally coveted concentration of resources?

This question in itself has an uneasy history: in all the major downswings of our economy the authorities exhibited a strong tendency toward centralization and with good reason. As already explained: simple fiscal measures in curbing investment may act adversely and cause further deconcentration and aggravation of the situation. Sooner or later a period comes when the cancelling of specific projects and a most direct intervention cannot be avoided, with all the increasing centralization such actions imply. At the same time it is usually in a downswing when economists and public opinion exhibit a strong yearning for decentralization to render the system more efficient and flexible to cope with the mounting difficulties.

But perhaps this antinomy of centralization and decentralization is misleading. If one ponders the situation in 1956 when the idea of a reform first came up** there has already been a welter of problems needing central decisions. Yet those decisions were never taken, either because of overlooking the problems or being

* To which we must add here the observation: the rate of interest affects all the money, circulating and accumulated, present in an economy. It is only a fraction, perhaps 1/10 or less, that is engaged by the transactions we want to regulate. The bulk will be found in places and channels Professor *Tobin* started to chart lately: speculation, hoarding, transacting non-produced resources etc. The effect on and of this neglected 9/10 may play havoc with whatever we wanted to do with the 1/10 we had in mind.

** Two important books heralded it: Gy. *Péter* [9] and J. *Kornai* [10]

divided on them, or because of lack of the means and ways to accomplish certain types of decisions. To mention just two important domains in the context of our study: 1. In the 35 years of planning, elapsed since its inception, we have never possessed a well sought out and manifest economic and investment strategy, based on the comparative advantages of our country and anticipating the world—wide technological trends, that could have been compared with, say, the skilled policy pursued by Japan — though the latter country we consider to belong the "anarchic" market systems. 2. Though our investment cycles had an amplitude grossly surpassing the fluctuations observed in contemporary market economies we never contemplated establishing an anticyclic policy and did not investigate the means, at our disposal, to attenuate the fluctuations.

As I see now the problem, at least as connected with investments, a need for further decentralization can be just as well substantiated as urgent measures for centralization. These two seemingly contradictory tendencies may still be reconciled if we look a little deeper and distinguish among all the facets of investment decisions, some of which need clearly further democratization, while others rather beg for more concerted action. An investment project requires a lot of decisions about what capacities are needed, what technology to choose, when to start, etc. These decisions should be taken by those who are the most competent. Yet a person or body most knowledgeable to decide on the, say technological variants to be considered is not necessarily the person or body to decide on finances, and the latter is not equivalent to market experts, and so on.

In proposing a change in mechanism that could possibly reduce the fluctuation of investment activities I will try to separate one particular fact, namely the decision to *start* a certain number of projects, and will argue for a peculiar form of centralization but only in this respect.

About attenuating the cycle

If the above reasoning was sound, if investment cycles are intrinsically similar in market and planned economies then their root causes must lie outside of the motivational and behavioural mechanisms of the two systems because these mechanisms are strikingly dissimilar. Therefore, some remedy might be found outside also, it must be possible to diminish the amplitudes without a general modification of those mechanisms.

Looking at the question as a purely theoretical one, we may overcome or attenuate the cycles if we can correct not the tension or overcommitment itself — as described above, this sort of control leads necessarily to the next phase of the cycle — but by avoiding to generate such tensions. It is too late to redress decisions when a glaring imbalance is already present, one has to interfere the moment such an imbalance threatens. In plain words it is the new investment starts which have to be kept in order.

This proposal is not novel at all. Already in 1975 P. *Havas*, the general manager of the Hungarian State Investment Bank proposed to start no more projects in

any given year than the sum total of the presently finished projects plus the increase of investments planned for the average gestation time. [11]

His proposal was originally meant to stabilize gestation times because their tendency to lengthen was felt as a grave danger. The stabilization of gestation times would be indeed of utmost importance, and the proposal does render this stabilization possible but by no means renders it inevitable. If the present motivation of the agents is not altered, then their interest will dictate a further lengthening of the gestation periods. In our present system every enterprise (not only construction companies) is deeply motivated to carry a heavy backlog of unfinished business*, and in the case of construction companies this will be best accomplished by procrastinating on all the jobs. As the crowded waiting room of a physician serves the easy flow of his work so the backlog of orders, the sheer number of unfinished jobs facilitate the success of a construction manager.

The proposal nevertheless could help to smooth the fluctuation of investment at the very moment such an interference is feasible, because — as P. Havas with his considerable experience sees it —:"with the act of starting an investment a process is initiated which then *hardly can be influenced* from the outside for a series of years."

On second thoughts one finds a hidden catch in the proposal: it will keep investment starts smoothly growing only if they have been kept smoothly growing in the past. If they happened to fluctuate, then the volume of presently finished projects will also be off balance, and so the proposal will only propagate past cycles into the future. In its original form, therefore, the proposal is logically sound and may maintain and continue a smooth equilibrium but not potent enough to restore a balance once it has been lost for whatever reason.

Could we find a better solution? Can we initiate for the sake of equilibrium, a *lesser* amount of investments than presently finished? This seems to be cumbersome because it will reduce the obligation of construction companies and inventors. Such an action will be loathsome to companies and planners alike, it is at loggerheads with our present practice and policy trying to utilize "fully" all the existing capacities.

There seems to be no way out: even if we know all too well the process going astray, all the corrective action runs against a wall, against the ingrained habits of our economic agents. The best we can do in such a situation is not to aggravate tensions further: to start new projects at a sum total equal only to presently finished ones, without adding any anticipated growth. But even this requires strict discipline, because — as any other enterprise — construction companies want to "grow" and to deny them this possibility is asking for trouble.

* I believe this is the ultimate cause of the well-known scarcities. In the plan-bargain between the enterprise and its supervising authority the strongest argument for privileged treatment (higher wage fund, subsidy, investment, foreign exchange allocation) will always be the yet unsatisfied demand. An enterprise satisfying the demand for its output acts very imprudently because at the next round of plan-bargains it will have no leverage whatever. This is a simple reflection of the fact that a manager has to heed his superiors and not his customers. To solve this problem much deeper changes are needed than considered here.

Yet there is a hidden contingency in the process, not considered in practice but theoretically unravelled above. The commitment has not only a value but a time dimension, too. The start of an investment activity commits funds not only of a given value (and this is the dimension construction companies are mostly interested in) but also for a planned period of time. And this seems to be the domain where manoeuvring may be if not easy but at least feasible.

If we are off balance and, say, construction companies covet and press for further over-average starts, it may be feasible to start rather those investments with under-average gestation times, thus feeding the beast without adding unduly to the load of the economy. This would be just the opposite of present practice where investments with the longest gestation periods are started when investment activities are already overheated. Through a skillful manipulation of the two dimensions, playing on value *versus* time and *vice versa* we have, at least, a hope to tilt the process toward its equilibrium.

The question now arises, where should we place the responsibility of such a control operation? Being a macroeconomic problem, requiring aggregated data, trying to balance averages, it can not be entrusted to enterprises themselves working always with limited information. Only some central authority may carry on with such tasks. Here then we have Planning Office, the Ministry of Finances and the Banks that may undertake such functions and may be held responsible for restoring and maintaining a proper balance.

Such a shrewd and laborious equilibrating procedure requires authentic and trustworthy information. Presently our Statistical Office collects and publishes only three kinds of data: yearly investment, finished investment and unfinished investment at the end of year. This clearly is insufficient to grasp the process and we would need at least two further sets of data: investment starts (with the anticipated full commitment they imply), and the amount and time considered necessary to finish unfinished investment projects.

With both proposed sets the basic problem consists in having to ascertain not facts *(ex post)*, but planned quantities *(ex ante)*. This may be the cause why the Statistical Office presently avoids to collect them, their management is clearly unwieldy with all the future changes and modifications they entail; moreover they will never match exactly, being, in last instance, not data sets but probabilities. Yet without having some idea about their magnitudes we will be unable to comprehend what is going on and will be stranded when trying to influence them, prodding the process toward equilibrium.

The dire necessity to obtain such data, and possibly in their best and least biased form leads now to the idea to entrust the Banks* with the function of control. First of all, because the Banks habitually maintain a double-entry bookkeeping system, not found with other authorities and are, therefore, on a higher level of administrative civilization. The Bank is at the same time that special authority which will be the least misinformed by the investing enterprises and construction companies because "it does not pay to mislead your bank".

* I would like to avoid here the ongoing discussion how far the decentralization of banking functions should be carried.

Nevertheless, it is probable that if the Bank is empowered to undertake an anticyclic policy, and is permitted to tell the customer: "not now", "later", "faster" or "slower" then it may trigger some manoeuvring on the side of the latter to contravene uncomfortable directives. The well known and general arsenal of company warfare is the concealment and distortion of information. Should a company resort to such disinformation it is again the Bank that has means at its disposal to punish it dearly, turning disinformation into a losing business. There are no like instruments in the hand of either the Planning Office or the Ministry of Finances, or at least they are not the normal tools of everyday business as they are in the trade with credits. Therefore, if the best information is needed from the enterprises it will only be the Banks that can obtain and protect it.

The activity of the Bank, influencing through its anticyclic credit terms finally also the aggregate demand of the economy will elicit a constant stream of criticism directed toward the Banks and coming from enterprises, economists, policy makers and politicians. It may defend itself by the utmost openness of its operations, by keeping the public steadily well informed. I believe such a situation would be preferable to the present one: it would create a center and meeting point for discussing some of the most important tactical questions of economic policy which nowadays are hiding in the penumbra of government corridors and catch light usually only when already late to do something about them, not to mention to start debating them.

My argument — and I have to emphasize this — is not to "take away" responsibility for anticyclic policy from the Planning Office or the Ministry of Finances or the Council of Ministers or Any Most Important and High Authority that can be suspected presently to decide on such points. A believe during the description it has become clear enough: no authority is in command and it did not dawn on either of them that something special has to be done at all. This again does not mean that decisions influencing, attenuating or aggravating the cycle are not taken in all the institutions enumerated above, and in quite a few other places not mentioned. But those decisions are taken *without the slightest notion* of the cyclic process influenced by them (we do not have clear data), without sizing up whether they influence the cycle (we do not have a clear theory) and without knowing how they will modify the cyclic path (we lack experience and know-how).

It may happen, and probably fairly often does happen, that decisions, impinging heavily on the cycle, are taken somewhere far away from central authorities. Such decisions may take place at the peripheries of economic life, perhaps in connection with entirely non — economic aims — and only years later do we become alerted to the fact that somewhere something has been misdecided and now we have to face the consequences. To indicate just one but fairly deep mishap: at the start of the fifties abortion has been outlawed.* The resulting very crowded generation entering child-bearing age in the early seventies over-reacted by giving birth to an under-average number of babies. Therefore, it was sought proficient to raise child-bearing benefits and transfer payments to families with a higher number of children. These two hardly economic decisions, acting on the same age group,

* This strict regulation became later much liberalized.

have led to an imbalance of the age structure of the population so severe that we now have to build busily school-rooms which we know will be empty in the nineties. It is high time to look for an authority which at least in principle could be held responsible for tactical and strategic smoothing of performance.

Will Banks be able to undertake such a seemingly huge task? We know that a part of investment activities (not a very great — but a hopefully increasing — part) is carried out without the intervention of Banks, the enterprises being entitled to use their funds more liberally. This makes the Bank seemingly helpless in such instances. Yet we know that fluctuation of investment activity is very pervasive: all the activities, small or big, seem to go up and down in unison. Therefore, the control of the bulk or the most important part of investment seems to be enough to influence the remainder. A car is steered by its front wheels: no need to turn all four of them, the back will follow the front anyhow.* With a control firmly set on the main stream of investment perhaps the whole bulk could be steered closer to equilibrium.

All in all the proposition seems to me to have a fair chance to succeed if seriously tried. It certainly will not and can not hurt the economy.

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* This is of course a question that has to be watched with great attention: investments are not as solidly coupled as automobiles.

ОБ ИНВЕСТИЦИОННЫХ ЦИКЛАХ И ИХ СМЯГЧЕНИИ

А. БРОДИ

Если принять концепцию М. Калецкого, однако отказаться от предполагаемого равенства накоплений и инвестиций, экономические циклы можно описать весьма реалистично, а также удовлетворительно с точки зрения логики. Это делается в первой части статьи. Вторая часть анализирует колебания инвестиционной деятельности, отмечая циклы сходной продолжительности в плановой экономике. Затем эти циклы связываются с некоторыми особенностями функционирования хозяйственного механизма в Венгрии, а в заключение вносятся предложения по смягчению амплитуды колебаний циклов.

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A. SIPOS

RELATIONS BETWEEN ENTERPRISES IN THE AGRO-INDUSTRIAL SPHERE IN HUNGARY

The author examines the various forms of relations between farming, industrial and trading enterprises, as well as the possibilities for making these relations more efficient. The analysis extend to the relations between enterprises in the supply sphere, first of all to the concrete problems of the supply of agricultural enterprises with machinery, further to the question of industrialized production systems, association relations, as well as to the different forms of foreign trade enterprise relations. The author emphasizes the diversity of possible forms in the further development of these relations and the importance of harmonizing the enterprise interests.

The relations between economic units functioning as real enterprises are mediated also in socialism by money and commodity (market) relations. For a long time, commodity relations had been allowed to develop only gradually, not infrequently considered rather as a temporary "concession". As long as market relations could not evolve satisfactorily, relations between enterprises could not be else than centrally organized and prescribed. Therefore, they could not always correspond to the interests of each economic unit.

In fact, relations between enterprises can be really beneficial only if they are chosen and maintained so as to satisfy enterprise interests. A great forward step was made — though not without contradictions — also in this respect by the comprehensive reform of the economic mechanism, started in Hungary fifteen years ago, that is, in 1968.

The increased role of market relations among enterprises is most conspicuous in agriculture and its environment, which I shall call in the following *agro-industrial sphere.* In the further development of Hungarian food production a fast and flexible adjustment to the dynamically changing home and foreign demand is growing increasingly important. *In an industrialized agriculture commodity relations multiply on both the input and output sides; agricultural production is increasingly dependent on the purchases and sales markets.*

In the Hungarian agro-industrial sphere — and within it particularly in agriculture — a peculiar economic mechanism, different from that in other fields of the economy, has been functioning lately. The examination of this mechanism, and within it the relations of enterprises, may lead also to *general conclusions* reaching beyond this particular field.

At the same time *agricultural markets have,* by their nature, *certain particularities in comparison with industrial mass production.*

In food production the objects of work are living organisms with a limited tolerance for mass handling, and a biological rhythm of their own, which can only

partially be influenced. It is a fundamental requirement to take into account and incorporate these factors into the process of production and sales. Beside reducing risk, this may also lead to a better utilization of the potentialities of food production and distribution.

The industrialization of agriculture entails a suddenly increased importance of embodied labour, and within it of expensive techniques. Mass production, modern technologies, as well as the transport links on the path of the product from raw material to finished product make demands on the relations between enterprises. Disturbances in these relations may cause serious losses.

During the last two decades the Hungarian food market has changed fundamentally: it has become, though not without some contradictions, essentially a buyers' market. *On a market becoming increasingly overstocked (saturated)* — also if it is the food market — *what is determinant is the users' need.* The internal structure of a high-level food consumption is characterized by a diminishing share of basic foodstuffs, and a slowing down of the growth rate of consumption of basic materials of the food industry. Beside other factors, the unbroken rise in living standards through a long period, the increasing rate of female employment, the spread of refrigerators in households have played an important role in changing consumers' demand. The consumption of traditional and cheap foodstuffs has diminished, while that of more valuable food-products has been fast increasing. Better processed products and of a higher quality have become more important. In consumers' needs emphasis shifts towards quality, food consumption acquires other functions than the mere satisfaction of biological needs, and thus a new kind of market organization has become necessary.

Under the above-mentioned conditions changes in buyers' demand occur at shorter intervals, the number of product properties offered is growing at a fast rate, the speed at which needs emerge and become saturated has grown. Fast changes in the period of industrializing agriculture demand flexibility and disposability of supply, especially if the high export intensity of the Hungarian food economy* is taken into consideration.

The growth prospects of food production are also shifting towards improving the *quality* of foodstuffs produced. The rising demands on quality require at the same time a more efficient cooperation of the producers concerned. If their relations are not well organized, the particular requirement cannot be asserted, and the interests of the partners may become divided. The mutual relationships of the partners have a considerable influence also on the efficiency of the vertical stages of production. Obviously, a competitive processed product of high quality can be obtained first of all by carefully processing high-quality agricultural primary materials. Material costs represent, by the way, a very high ratio in the production costs of finished food-products.** In fact, the processing of agricultural raw materials of good quality also involves material and energy savings, and there is, further, an interrelation between quality and the import intensity of food processing.

* In Hungarian terminology: agriculture plus the food industry. (Ed. note)

** On the weight of net material costs in the total food industry see information in László *Németi*'s book [1].

As it is clear from the preceding, *the mutual dependence of producers is increasing not only because of the natural and technological factors, but also on account of the market, that is marketing.* The basic production factor of agriculture: soil, is widely convertible (at least as regards plant production), which allows, in principle, a wide scope for adjustment to the market demand. Yet the consumer market has a direct impact only on the economic units producing the end-products, and merely an indirect one on those farther away from it in space, time, and as regards activities. In order that agriculture might become sufficiently responsive not only in regard of products going directly into consumption but also in regard of those to be processed, the agricultural enterprises must develop good relations with the processors — beside attaining real independence —, and coordination of production in this way also implies the organization of market relations. In a system of relations of this kind the producer (incl. the agricultural producer) may become sensitive to market demands, while also the market can be made interested in the products offered.

In the following, centering my attention on the Hungarian large-scale agricultural production I shall discuss enterprise relations, in the first place the main tendencies of the fifteen years since 1968 and, within them, primarily the factors that have been prevailing from the mid-1970s. I cannot treat in the present article, though it is very important, the system of relations of small-scale production. As for the interenterprise relations of the large-scale production sphere, I shall make the following points:

1. Relations between enterprises in the supply sphere
2. Contractual relationships in marketing the products
3. Industrialized production systems
4. Partnerships
5. Inter-enterprise relation systems in the foreign trade in agricultural produces

Relations between enterprises in the supply sphere

In agriculture undergoing industrialization the weight of productive consumption of non-agricultural origin has suddenly grown. This also holds for the Hungarian agriculture *(Table 1* supplies information on the subject). Under such circumstances the success and even continuity of the agricultural production is much dependent on the supply sphere, that is, on its functioning.

It is, therefore, a fundamental question, *through what kind of a system of relations the needs of agriculture as user reach the manufacturer, that is, the various industrial enterprises, and whether this system of relations changes and shifts these needs in time or conveys them synchronously.* At the same time, the production standards of the Hungarian agriculture are strongly differentiated by sectors and establishments: industrially organized production, partially industrial production, and traditional production are pursued parallel to each other. What agriculture needs is, therefore, not a uniform supply, but means and materials adequately adjusted to differentiated demands, in respect of both quantity and assortment.

Table 1
Value of output and of productive consumption in the Hungarian agriculture between 1970 and 1981 at 1976 prices (1970 = 100)

	1975	1977	1978	1979	1980	1981
Gross output	125.5	134.8	137.4	135.9	141.7	143.2
Productive consumption of which:	137.2	150.2	157.2	158.9	164.0	168.2
of agricultural origin	114.7	122.8	121.4	121.4	125.4	122.6
of non-agricultural origin	157.8	168.5	182.9	184.0	187.2	198.2
Depreciation	161.7	194.9	209.0	225.0	236.8	243.9
Agricultural service charges	129.2	294.7	319.8	326.1	403.3	417.8
Net output	111.7	116.4	113.8	108.5	115.3	113.5

Source: Mezőgazdasági Statisztikai Évkönyv (Agricultural Statistical Yearbook) Budapest, 1981. p. 13.

Let us examine the relations within the supply sphere through the example of the supply with agricultural machines. When collectivization had ended, the need for machines grew suddenly in the Hungarian agriculture, and the higher need persisted in the period of modernization and industrialization. The sudden increase of demand for machines, the multitude of types, and the necessity of profitable manufacture went beyond the country's potentials, and the share of imports began to grow in the supply with agricultural machines. Yet the supply of agricultural machines lagged behind demand. *Insufficiency of both quality and quantity led to a one-sided dependence of users on manufacturers and traders.*

Under such circumstances the machine repair stations, and later also several agricultural enterprises started to construct and manufacture, first spare parts, then simple agricultural machines, and later on more complicated machinery as well. Although these reactions on the consumers' part were not free from forced elements (forced substitution of missing potential), *they created,* on the whole, *a peculiar new source of machine supply to agriculture.*

As for the supply side, however, an essential change took place when (in the early 1970s) the increasing quantity and higher quality of the imported machines began to put up competition with home manufacturers on the domestic market. Western machine imports were intended to satisfy primarily the demand of the production systems, but their effect reached farther both in agriculture and in agricultural machine production.

Yet the potential competition — also stimulated cooperation with Western firms for manufacture in Hungary — soon came to an end by distributing the lines of production among the Hungarian manufacturers, and by a forced reduction of Western imports. All this was further supported by the organization into a trust of the Hungarian agricultural machine building activity.

The problems of the CMEA cooperation also put obstacles in the way of creating a market supply that would best satisfy purchasers' demands. With the

rising level of production and technology in the Hungarian agriculture, the demands by the domestic and socialist markets beagan to differ as regards quality: the common range of the demands of the Hungrian market and of those of the socialist market began to decrease. The latter market has the greater weight, and adjustment to it constrained the possibilities for a flexible adjustment to higher demands on quality in Hungary, from the outset. During the last years, interstate trade agreements and quotas have often been made so as to conform to the foreign purchasing capacities instead of the Hungarian users' need.

It was one of the important objectives of the comprehensive reform of the economic mechanism to develop a so-called multichannel marketing system also in respect of the means of production. And yet, in the field of agricultural machinery supply, *it was for a long time a monopolistic organization more of a distributive than of a trading character:* AGROTRÖSZT, that distributed the imported machinery according to needs summed up in the central plans. Although in the course of the 1970s machinery imports by the production systems masters were of growing importance, practically even these machines also reached the users through AGROTRÖSZT. Spare parts were sold, beside the Trust, also by another monopoly organization the MEGÉV. The above-mentioned monopolistic distributive organization was practically not in a position to change or influence supply or demand, to create new demands, or to make different constructions compete. It played in fact a passive mediating role between users and manufacturers.

The case was similar or worse with the "AGROKER"-s.* But it was the users, the agricultural enterprises that were in the worst situation, though it is fundamental for economical production that agricultural enterprises should always use an optimum combination of the production factors, adjusting themselves to natural as well as economic conditions. Beside the legal and financial independence of the farms, a further condition of this is *the possibility of acquiring the input combinations available in an adequate quantity.* Under such conditions, the different informal relationships were bound to become extremely important.

In 1981-1982 important organizational changes took place (AGROTRÖSZT and MEGÉV were wound up; the county AGROKER enterprises became independent, and an import firm the AGROTEK was established, etc.). These changes aimed in the first place at stopping the monopolistic trade and at replacing it by *multi-channel trading activities.* The new trading system is theoretically multichannel on the Hungarian market, since the AGROKERs and other traders (primarily the production systems masters) can purchase Hungarian machines and instruments directly from the manufacturer, and imported machinery from AGROTEK.

This trading system may bring favourable changes into the relations between Hungarian manufacturers and consumers. The question is, whether the manufacturers can and will adapt themselves to the agricultural users' needs becoming directly palpable, or even anticipate their demand for certain products, and create a real buyers' market. Among the independent AGROKER enterprises competition

* The county enterprises belonging to the AGROTRÖSZT (Ed.-note).

may develop, but only if they do not offer the same thing, for the same price, and at the same (often disadvantageous) terms. This organizational set-up alone cannot resolve the quantitative, qualitative and financial restrictions on imports, or shorten delivery deadlines. For this a further development of the whole economic mechanism can provide an adequate framework.

Contractual relationships in marketing the products

Owing to the liquidation of the compulsory delivery system, and also to the sweeping reform of the economic mechanism, the basic form of market relations is the system of contracts based on the equality of the producers concerned also in the agro-industrial sphere. As commodity relations expand and become institutionalized, the role of contracts is growing, and contractual relationships aimed at building up an organized trade in agricultural products become increasingly important. This tendency is also expressed in the legal institution of the sales contracts of agricultural produceres. These are to a certain extent similar to the typical sales contracts used in the trade of industrial products, and have to be completed in certain cases, in view of the contracts incorporating shared interests, with elements borrowed from the law on association. In the following, without aspiring to completeness, I shall discuss a few problems concerning the produce sales contracts.

a) As a result of the economic reform, the earlier typical forced path in the trade in products became exceptional. Today, in principle, *the typical thing is the multichannel trade in agricultural produces.* However, this tendency has not yet fully developed, and the purchasing (procurement) agencies, more or less in a monopolistic position, have lost only a little of their share in trade. The promotion of multichannel trade is a central question also of the development of the organizational system. Free selection of the trade channel partners would allow the producer to adjust himself more flexibly to market conditions, even at officially fixed prices.

b) In the past period the essentially *trust organization* of state procurement entailed a lot of problems. The large-scale national purchasing organizations did not always adjust themselves to the specific features of agricultural production, partly because of their monopolistic position, and partly because their regulatory system oriented them otherwise. Lacking adequate storing capacities, the processing enterprises have difficulties in adapting themselves to the fluctuations in the production of agricultural raw materials, and they incur further difficulties if, in a year of high yields, their stocks are carried over to the next year, which may lead to the taxing away of their profits.

What is more, enterprises within the trust which came into direct contact with agricultural enterprises had a rather limited independence. This became obvious in many cases already when concluding the contracts: the prescriptions on the part of the trusts were strongly binding, and the county and regional enterprises had only a minimum scope for deviation from the draft contracts. The main risk in standardized contracts is their abuse of the situation of the economically weaker, and legally less well-versed party. *The economic weight of the monopolistic organization issuing the form with the standard contract text has been great in compari-*

son with the partners; the considerable difference in economic weight involves the risk of asserting superiority.

The intention of a one-sided assertion of interests on the part of the procuring organizations has been shown, among other things, by determining the place of delivery in a manner disadvantageous for the producer, a one-sided shifting of risks, statement of the value of the producer's services in a way disregarding rising costs and at a lower level than inputs (for example in the case of transport charges), one-sidedness of standard prescriptions, an all too detailed and oversecure description of the purchaser's requirements with minimum responsibility placed on the purchaser, and a superficial statement or neglect of the cases and extent of compenzation charging the purchaser, etc.

Development of the organizational system of the food industry offers, in principle, better conditions for coordinating deviating interests. There are signs today, however, that the enterprises of the liquidated trust organizations try to save for themselves their earlier positions against the agricultural enterprises (for example, by using the old contract terms and forms, etc.).

c) The contract form assuring one-sided advantages is today even legally contestable, but an even more important thing is to develop *social control, and new channels for the reconciliation of interests.* The organs safeguarding the interests of the agricultural cooperatives play today an important role in this field, yet further special institutions are conceivable (such as the organization of a kind of coordination bureau; the establishment of a common organization with the right to settle issues, etc.).

d) In Hungary, the contractual procurement system was a great step forward in comparison with the obligatory delivery system of produce. And today certain signs indicate that the traditional procurement (based originally on the scarcity of products) has taken a turn towards *relationships of a commercial nature.* This tendency of development could be further strengthened, in addition to the emergence of realistic possibilities of a multichannel trade, by an increased independence and risk-taking ability of the commercial units and even of shops.

e) Through the contractual relationships, with a view to promote more favourable sales, *purchasing organizations often perform services to further production and sales* (for example, supply with fodder and seeds, consulting, the shared use of vehicles, etc.). Preprocessing, machine borrowing, and contract work undertaken by the producer are spreading. And these are all elements of integration, especially if they are complemented by further elements of incentive and finances (for example, transfer of development funds, investment of working capital, profit sharing in proportion to quality improvements, etc.). I think that a better harmony among the different product paths can be achieved not only by a spectacular reorganization, but *also through flexible contractual relationships based on fair business interests.* This depends, of course, largely on the development of the general economic conditions, as well as on the further development of the economic mechanism.

f) In the long run, the spreading of contracts covering a period of several years may reveal a number of new possibilities. As yet, they have not become the

typical types of contract in the mass trade in agricultural produce.* The contracts formally made for several years are poor in contents and usually declare only the intention of signing a contract, but do not go into the actual terms. Certainly, in view of the specific character of agricultural production, the security of sales is highly important, this can be increased, in principle, by a contract concluded for several years. On the other side, it is also true that without a sharing of risks and lacking adequate funds, pressing for making contracts for several years is not based on firm economic grounds. A further basic condition is a relative stability of the regulatory system, since a signed contract may prove later disadvantageous, if changes take place too often. It has to be mentioned as well that, in addition to the security of sales, it may be important for producers to exploit market changes, while their duties under a contract of several years may hinder them in doing so.

That is one more reason why it would be wrong to administratively support contracts covering several years. Obviously, the right thing is if the enterprises concerned can decide, among other things, also on the period to be covered by their contract, considering their own interests and risk taking ability. The spreading of contracts, covering several years, depends, beside risk sharing, to no small extent on the processing and storing capacities. Several years' contracts will be worth making probably also in the long run for such agricultural products, from the production process of which the natural factors can be partially or entirely eliminated.

The industrialized production systems

The most characteristic promoters of the industrialization processes of Hungarian agriculture have been the production systems which have provided an adequate organizational framework for the coordination of the various potential elements of production. The production systems have not been just participants, but in certain sectors (first of all in cropland production) even deteminants of the results achieved.

This is based on the fact that the industrialized production method became possible at different rates, not only in the different agricultural production sectors, but also in each agricultural enterprise. Yet not each enterprise need go through all phases of experimentation and technological development, since a developed industrial technology can be bought and taken over. The typical form of spreading, transferring, and putting into effect a developed and safe large-scale technology, that is, of the *diffusion of industrial methods*, is the production system.

The production system as an economic institution is a specific element of the Hungarian agricultural mechanism; it is not known, at least not in this form, in the agricultural production of other countries. It has reached its spectacular results in no small part by filling the gaps in the existing institutional system. *In its beginnings and development an important role was played by economic independence and enterprise initiative.* The achievements of the production systems attracted the attention also of foreign countries.

* Contracts covering several years are analysed by I. *Sárándi* [2].

The industrialized production system as an economic category can be institutionalized in various forms. The two main groups of these forms are the individual contracts, and the different kinds of *partnerships* (economic association or joint company).

In the present article, again without aiming at completeness, I shall discuss the following important problems of the systems:

a) As for the economic nature of the production systems, it can be stated that the horizontal relationships are or can be complemented in them with *elements of a vertical integration* (such as the nature of the division of labour within the system; in some cases the processor acting as systems master; the need for processing a large mass of raw materials of homogeneous quality; etc.). Thus the commonplace approach becomes questionable, according to which the systems represent a horizontal form and are opposed as such to the vertical development tendency. This would imply, namely, that vertical relations could only be spread in basically different kinds of organizational systems. Vertical expansion of the systems is not hindered by the organizational form, but by the general economic conditions (shortage of capital, the low profitability of processing, etc.). These conditions would affect adversely also the development of forms basically different from the systems.

b) A certain contradiction may develop between the production system oriented in many cases towards a single product and the activities of the agricultural farm functioning within a multisectoral and complicated system of relations. I think that the solution may be the *combination of branches of production.* The Hungarian specialists' opinion has for a long time been divided over the question of combining of branches. Many were afraid, and not without reason, of losing the advantages of specialization. They believed that a simultaneous development of several branches by the systems centre could only be accomplished at the price of concessions on quality. Others approached the question from the side of capacity utilization and the efficient use of resources and judged a reasonable combination of branches to be a realistic alternative.

Then the combination of branches gained ground increasingly in practical farming, first of all in the cropland production systems, in which – with a view to a better utilization of machines and instruments – such plants were associated in the production of which some of the technological elements were identical or the processes closely related. (For example, the machine park of corn (maize) production enabled, beside wheat, the association of sugar beet, sunflower, soybean and other plants.) The largest systems associated 9 to 11 plants in 1981, smaller ones 6 to 8, and it was mainly the systems integrating sectors with special needs that did not avail themselves of the possibility of associating branches.* it is, however, important to point out that the production systems are, by their original nature, not destined for managing the enterprised, but for promoting their functioning. Therefore, combining branches does not mean at

* Animal breeding systems and horticultural systems are usually oriented, as it followed from their nature, on one biologically and technically homogeneous product or product group. In the animal breeding systems a few useful initiatives have been made during the last years to associate fodder production and fodder processing (which is, at the same time, a vertical development), and in some cases different breeds.

all that the system would take it on itself to determine the production structure of each enterprise. On the contrary, it would also further be determined by the basic forms of production, i.e. by the agricultural enterprises in a manner corresponding to their potentialities and interests.

c) At the same time, the *fast and extensive* spreading of the systems during the late 1970s is remarkable. (Sizes of the areas integrated by the cropland systems are summed up in *Table 2.*) Parallel with a fast quantitative growth, a halt or even decline was often found in quality, while the difficulties of the production systems became more conspicuous (unsatisfactory technological discipline; problems in local adaptation, mainly in areas with poor natural conditions; in a few sectors lack of technologically and economically grounded system; disturbances in supply with materials and technology; certain economic regulators; etc.).

Table 2

Cropland and grassland integrated by production systems (1971-1981)

Year	No. of plant production systems	Cropland		Grassland	
		Area			
		1000 hectares	in percentage of the large-scale collective farmland	1000 hectares	in percentage of the large-scale collective farmland
1971	1	39	1	–	–
1972	3	85	2	–	–
1973	5	267	7	–	–
1974	15	532	13	12	1
1975	18	854	21	23	2
1976	20	1159	28	45	4
1977	21	1368	33	53	5
1978	22	1906	46	107	9
1979	22	2175	52	154	14
1980	21	2484	59	151	13
1981	21	2487	60	111	10

Source: A termelési rendszerek főbb ágazatainak költség- és jövedelemviszonyai 1981-ben (Cost and income relations of the main sectors of the production systems in 1981.) Budapest, 1982. MÉM STAGEK.

The main reason for a fast expansion of the systems was not that it was made inevitable by the development of the industrialized production systems in the agricultural enterprises. It was promoted, beside the special interests of the systems centres, also by *the efforts of the management organs.* These systems enabled management to regulate production, and first of all *to allocate the scarce production resources.*

The production systems enjoyed regular advantages in the supply with machines, equipment, and biological and chemical materials. A number of agricultural enterprises feel that they must enter a production system not for acquiring professional advantages, but in order to ease shortage situations. Quite a number of enterprise executives consider the charges of the systems simply as the price to be paid for eliminating shortages.

But material and technical supply could not keep pace with the development of the production systems. In general, machine supply has deteriorated and the development and replacement of the machinery meets with difficulties in almost every production system. It is increasingly difficult to bring the different types of machines and technical elements into harmony. *Because of the difficulties in the supply with materials and technology, the production systems are increasingly forced to compromise between high ambitions and realities.*

In the 1970s many were worried about the "proliferation" of production systems in Hungary and they pressed for state intervention. Some held the opinion that, with a view to a "reasonable regional specialisation" of the systems, competition among them should be eliminated. Luckily, competition was not eliminated by administrative methods, but a state qualification of the systems started in order to sort out systems without adequate grounds. Without questioning the professional standards of this qualification, it is quite obvious that this is *basically an administrative intervention.* An inter-enterprise form based on real interests is *evaluated by* the enterprises *themselves.* An enterprise qualifies a production system by entering it or leaving it, especially if it has a real free choice.

d) The central question of the interest relations of the system is the *distribution of the additional income* earned through application of the latest scientific and technical results, and utilization of the best purchase and sales possibilities. The systems master can choose, in principle, to charge high fees for its services. This kind of siphoning away of income is, however, often not a feasible way for the systems master (for example, some of the farms would join other systems at more favourable conditions, etc.). Another choice is to increase the land area or the number of livestock integrated by the system. (Beside efforts at management, this specific interest may have been behind the above mentioned expansion process.)

Real common interests among the participants of the systems have still not developed in the past years. The biggest share, almost the whole, of the income of the systems masters came for a long time from the contributions of the member farms (minimum charge, and supplementary charges upon additional production).* At the same time, however, the increase of the average yield is advantageous only as long as it corresponds to its interest in profit. On the other side, the systems master was interested in increasing the average yield, which led by no means to increasing profits in every case, first of all because of the price proportions between

* In one of the best known cropland systems the member farms' contribution amounted to more than 98 percent of the income in 1974, and to 73.4 percent in 1976 (the supplementary payment on the additional yield amounted to 12.2 percent of the total income). In 1981 the member farms' contributions amounted to 60 percent of the income, and the payment on the additional yield was only 2 percent of the total income).

the additional contributions and the additional yield. The lack of common interests gave room to technological gaps, since member enterprises sometimes distrusted the recommended, in some cases highly expensive, technologies.

The changes brought by the 1970s – among them a rise in the price of the industrial means of production at a much faster rate than that in the agricultural procurement prices – made an economic approach more important beside the agronomical and technological aspects. The aim of increasing yields is asserted in subordination to the criterion of profit. *It is a central question of the future development of the systems that the member enterprise and the systems centre have a common interest in profit.* (The fact must be mentioned that an increasing part of the income of the systems centres comes from without the system, for example, from sales activities. Thus the system master's interest in the member enterprises' contributions has lessened during the last years.)

e) Because of the above-mentioned halts, *there has been much talk* in Hungary in recent years *about the necessity of renewing the systems.* Beside strengthening common interests and risk taking, it is desirable that *alternative subsystems* be elaborated within each system, which could then be adjusted to the special character of the farms working under different conditions. (This problem is only partially solved by the fact that several systems are functioning within a branch.) In the future, those systems will prove viable, which can provide differentiated and many-sided services, according to the requirements of the partners. The establishment of more favourable purchasing conditions would further promote the need for renewal of the systems.

A *dynamic approach* is very important in judging the systems. On the one side, production may be up-to-date and successful also outside a system. On the other hand, such situation may develop that the system, having raised the production standards of the enterprise to the highest possible point, cannot renew anything more. It cannot be in contradiction with industrialized production if in such case development proceeds along the enterprise way.

Partnerships (associations) in the agro-industrial sphere

Collectivization in the Hungarian agriculture was soon followed by different partnerships (first primarily inter-cooperative ones). It was mainly the moderate sizes and resources of the cooperatives at that time that encouraged partnership ambitions. Later, as the economic management reform was emerging, the number of partnerships increased in which agricultural enterprises, first of all cooperatives, took part.

The special conditions in the agro-industrial sphere, thus the large number of enterprises, their increased relative independence, and the awareness of interdependence created favourable grounds for prospective partnership efforts. The importance of partnerships is well illustrated by the fact that in 1981 982 of the about 1000 partnerships functioning in the Hungarian national economy were working with the participation of agricultural, food industrial, and forestry enterprises, mainly cooperatives. 80-85 percent of the partnerships pursued basically agricultural or re-

lated (building industrial, food industrial, engineering, commercial, etc.) activities. In 1981 an agricultural enterprise participated on average in six partnerships.

One more reason why *partnerships* deserve special attention is that *they can promote an efficient organization of production and sales without risking the independence of the participating enterprises.* Partnerships are mobile elements of the enterprise structure, which are formed or cease through enterprise decisions and not through administrative orders.

The regulation of partnerships had, however, quite a number of problems for some time. The diminishing number of partnerships functioning as legal entities is partly due to this fact. An important forward step was made in 1978 by the *uniform regulation of partnerships.* The regulation did not wipe out the diversity of partnership forms: the freedom of choosing the form has remained a basic principle. The separate handling of the cooperative partnerships ceased, and other organizations (for example, research institutes) may also join the partnerships beside the economic organizations. The new regulation also tried to assert the principle of economic independence and risk taking.

The typical legal forms of partnerships in the agro-industrial sphere are the joint companies, economic associations and, to a smaller extent, unions. The *joint company* is a legal entity pursuing joint economic activities. (Another legal entity is the limited partnership, which did not spread, however, because of its special regulation.) In the *economic associations* which are not legal entities profit is distributed among the members. The *unions** functioning as legal entities, basically organized for coordination purposes, are maintained by the members who account its operation costs among their own expenses.

The above-mentioned uniform partnership regulation produced favourable results in several respects. And yet the number of partnerships functioning as legal entities continued to decrease, while their performance was growing: thus their net returns from sales rose from Ft 22 641 million in 1978 to Ft 37 204 million (164.3 percent) by 1981, and their financial results grew in the same years form Ft 1 219 million to Ft 1 697 million, which amounts to a 139.2 percent increase. [4] The joint companies wound up were usually the smallest ones, which continue their activities in other partnerships or cooperatives.

It has also been found, however, that the activities of units (for example, animal breeding farms) established from common resources and functioning under a partnership totally separated from the founders may be less successful. In agriculture, a well proved and widespread form of joint economic activities in the *economic association.* Such associations may promote several economic functions, the form or framework of their operation is not rigidly determined, and when they have fulfilled their task they are easy to liquidate. It is no more an accident that this form is the most widespread one. The improving performance of these associations is illustrated by their net return from sales growing to almost threefold between 1975 and 1981 (from Ft 13.023 million to Ft 38.699 million), and their profit to more than fourfold (from Ft 505 million to Ft 2.049 million). As regards

* At this point I shall not discuss the specific features of the agro-industrial unions. For these problems see L. *Bethlendi*'s book [3].

dimensions and performance, the associations without legal entity show wide dispersion: they range from small-scale servicing organizations to countrywide production systems.

In the following I only wish to indicate *a few important aspects in the further development of the partnerships.*

I think that the most important task today is to render the work of the existing associations more successful. As for the expansion of partnership relations, it is important that it should take place exclusively on the basis of enterprise interests. If partnerships were organized in a campaign style, it would only divert attention from the necessity of rendering enterprise activities more efficient and of mobilizing enterprise reserves.

The *distribution* of partnerships *among branches is uneven:* the number of food industrial partnerships is especially low: it fell from 59 to 15 from the mid-1970s to 1980. The solution of this problem is conceivable only under better incentive conditions.

Special and novel forms of partnerships are the common organizations of *strong and weak enterprises* (mostly cooperatives), which may bring mutual advantages. Today it is not much we know of these novel kinds of partnerships, yet it is already felt that, beside the actual economic interests, other, informal efforts may be present with them.

Another novel form is the *"small regional integration"* connecting the activities of agricultural enterprises in some region. These cooperations can develop the agricultural enterprises of a region and coordinate their activities without amalgamating organizations, that is, without creating mammoth enterprises too difficult to manage. The cooperation of nearby agricultural enterprises may entail economic advantages, but it is not wise to impose limits on them from above, which would reduce the scope of movement and flexibility of the enterprises. [5] One more reason why one should beware of opinions one-sidedly favouring the regional principle is that this principle of organisation originally belongs to the directive economic control system.

In the future, an increasing role may be played by the basically *coordinative partnerships* without merging capital. These can successfully promote inter-enterprise relations even with modest development resources.

Inter-enterprise relation systems in the foreign trade of agricultural produces

The Hungarian national economy is an economy with an open structure, and one of its most open fields is agricultural production. To finish my article, I wish to discuss this important field in the context of inter-enterprise relations.

A more organic linking of production and foreign trade was already among the most important objectives of the comprehensive reform of the economic control and management. In food production oriented increasingly towards exports this requirement is particularly strong. Progress has been made in this field in

several respects, particularly in comparison with the practice of earlier years. But we cannot be content with the inter-enterprise relations in this sphere. The basic problems are the following (without aiming at completeness):

The organization of Hungarian foreign trade still *consists mainly of enterprises with a special line each, enjoying monopolistic rights in the given field.* The specialized foreign trade companies have by all means certain potential advantages: they turn over large volumes and have a certain weight in international relations. They may be apt to maintain a large network abroad, as well as to work in certain special forms of foreign business; they are also well versed in the special marketing of the given group of products, etc. At the same time, however, this organizational structure entails some *serious disadvantages* as well. First of all, it is a rigid structure, and it may be concomitant with asserting its monopolistic potentials. The large-scale specialized foreign trade companies are interested primarily in large-volume business, while they lack the energy and incentive for smaller transactions, and their market sensitivity is low below a certain size. At the same time, these foreign trade companies usually undertake only a slight risk. This also holds for the forms serving in principle common interests. "In the foreign trade enterprise results as laid down so far in pool contracts, the profit earned through efficient marketing activities represents a smaller share than the profit accumulated through trade commissions. The changing of these ratios would spur foreign trade companies to more efficient activities." [6]

A further problem is the relatively small amount of information received from export markets. Thus, for example, the requirements of the export market are conveyed by the nationally uniform quality prescriptions of the purchasing organizations, which seem to represent a "standardized" level, and this does not always correspond to the real needs of the real market. In consequence of insufficient information and interest, also the production of the export goods is irregular, which makes it more difficult to organize sales circumspectly. The previous organizational system of the food industry also caused considerable difficulties.

Several measures have been taken during recent years which may help overcome the above-mentioned difficulties.

Foreign trade companies of a general line have been established, which can compete with the specialized foreign trade companies. The mere existence of the new enterprises may exert a useful effect on inter-enterprise relations. The position of the agricultural producer has changed for the better, and the specialized foreign trade companies now make greater effort to establish closer contacts.

However, the appearance of the new foreign trade companies did not basically shake the monopolistic position of the old ones. First, an enterprise with a "general" line also exports only the products licensed. If, in order to broaden their range of products, they ask for new export licenses, it may cost them a lot of trouble to obtain these and even then with restrictions. Second, they have to adjust their prices as well as their terms to those of the foreign trade companies specialized in the product in question. In other words, they cannot underbid the prices of the said companies, nor can they offer more advantageous terms of sale. This obligation of adjustment leads to frictions, and it seems that the old foreign trade companies have their way to frustrate the business of the rivalling enterprises.

Elimination of this regulation marring competition would probably have a beneficial effect on inter-enterprise relations. I also think, that in the course of further developing the economic mechanism and within it the organizational system, *the question of eliminating the established special lines as well as the forced consignment business in foreign trade should be considered,* between certain limits.

Also, it should be made possible to found *new foreign trade companies,* for example as joint companies of the producers, or in some other form. Where it is justified, *the independent foreign trade right* of producer enterprises may also intensify foreign trade orientation. It will not be superfluous, however, to point out that it is not worth using an independent foreign trade right unless the necessary conditions exist. And this means, beside adequate volumes of production and exports, also a sufficient risk-bearing ability, as well as organizational and staff requirements. It is a feasible and desirable way also in the long run that an enterprise specialized in foreign trade should transact the trade, however, it should do it so as to make the producer interested. There exist many examples of *relations based on common interests* (consignment agreement, pool, joint account business, foreign trade association). It is also true, however, that the application of any of these forms is in itself no guarantee for the development of genuine common interest. (For example, it is an interesting phenomenon that, when commission fees were lowered by the price authority, association contracts between foreign trade companies and producers suddenly started to proliferate. And these differ from the earlier consignment agreements stipulating higher commissions frequently only in their name.) Common interest could be furthered also by higher risk taking, for example, in the form of price risk funds.

Market competition, and the activation of commodity and money relations could accelerate the innovation process, the continuous enlargement of the foreign market and the acquisition of new markets. In this way, Hungarian foreign trade in agricultural products could also become more efficient.

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МЕЖПРОИЗВОДСТВЕННЫЕ СВЯЗИ АГРОПРОМЫШЛЕННОЙ СФЕРЫ В ВЕНГРИИ

А. ШИПОШ

Автор анализирует различные формы связей между аграрными, промышленными и торговыми предприятиями, результативность этих связей, положительный и отрицательный опыт, а также возможность повышения их эффективности. Анализ распространяется на межпроизводственные связи в сфере снабжения, прежде всего на конкретные проблемы снабжения сельскохозяйственных предприятий машинами и оборудованием, а также на договорные связи по сбыту продукции, вопросы промышленных производственных систем и объединений, а также на различные формы связей между производственными и внешнеторговыми предприятиями. Автор подчеркивает многообразие возможных форм развития связей между предприятиями, а также важность взаимного согласования интересов предприятий.

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I. GÖNCZI

DIVISION OF LABOUR AND WORK ORGANIZATION IN THE HUNGARIAN LARGE-SCALE AGRICULTURAL PRODUCTION

Although the last ten years were the most dynamic period in the history of Hungarian agriculture, the general social progress and the present economic situation demand changes in many fields. As regards the division of labour, instead of the further specialization of jobs and trades it seems expedient rather to merge the fragmented jobs in the basic activities of agriculture. The possible greatest identification with the job can only be attained in this manner. The organization of work within the enterprise also needs improvement. Wider job descriptions can secure that workers use their worktime better. The sense of ownership of cooperative members can only be increased if they are paid more for more, better and more efficient work. If the practice of withholding earnings continues farmers will be increasingly interested in the work done in their household plots, where work and its result are in direct connection with earnings.

In the past decade the Hungarian agriculture experienced the most dynamic period of its history. Besides the surge over domestic standards, its yields, equipment and labour productivity also merited broad recognition by international comparison. The path of the decade before us will, however, be inevitably more difficult and tough because of the energy crisis, the continually rising prices of the means of production and materials, and the more and more rigorous market conditions. Also the less favourable economic environment *raises a challenge to the Hungarian agriculture.* With all its successes it must be recognized that its path needs to be adjusted in a number of respects because *it needs new solutions to successfully adjust itself to a less favourable environment* and to maintain its competitivity from the point of view of quantity and, now more and more pronouncedly, of quality and efficiency.

Paradoxically, *the glorification of good results exaggerates the viability of agriculture*, abstracting from actual problems and realities and sometimes even claiming that this sector can withstand any test of strength. This approach gives ground to regard any analysis of the problems of the Hungarian agriculture as defeatism. It also provides a pretext for narrowing resources that are vital for the agriculture.

This practical economic-political dilemma, similarly to the study* of the socialist enterprise, induces in-depth exploration into the *inherent reserves of agricultural enterprise potentials.* The enhanced efficiency of human labour is one of the most enormous reserves of development. But how should the enterprise business and farming system be developed in order that workers can produce greater

* This paper was written in the framework of a study into a perspectivic micro-model of socialist agriculture. From the complex subject it only discusses the single line relating to the efficiency of human labour, and even that without aiming at completeness.

use value and more net product? All their importance from the point of view of this subject notwithstanding, the impacts of enterprise behaviour and autonomy, technological and organizational decisions or abilities and methods of management on raising productivity will not be discussed here. The problems that will be highlighted are first of all those of internal organization an division of labour that are, like in the case of industrial enterprises, suitable for improving or impeding the efficiency of human labour, the exploitation of working time, the performance per time unit, the quality of work, the worker's disposition to and identification with work, and so forth.

Economics has recently paid increasing attention to the "personal forces of production", to the subjective individual, worker or consumer, his physiological and psychological attitude, group behaviour and responses. This was a strongly emphatical trend also at the 6th World Congress of Economists (Cf. [6], [21]).

Marxist economics has always cast an eminent role to the *human factor.* The applied economic analyses, however, were dominated for a long time by more easily quantifiable factors while cooperation between economics and sociology in some fields, the spreading of *an interdisciplinary approach and method* reckoning with the human factor in economic analyses not only as a quantitative factor (e.g. numbers and movements of the workforce and its different groups) but also appreciating the impacts of human response promoting or braking economic development and the direction in which it deflects decisions taken on quantitative grounds, have been observable only in recent years.

The changes that took place during the past 15 years in Hungary put the problems of interest, business management technology and economy into the foreground of agrarian economics and *sociological problems relating* to agricultural work were less cultivated. This was due to the changes in the size and technical equipment of cooperatives and mainly in its nature, to the subordination of work organization to technology and to a certain, though undesirable, fading of cooperative traits. The sociological analysis of human relations and interactions of the organization of production and work with special respect to the new circumstances of up-to-date mechanized production is incomplete and random.*

Our relative backwardness in this field will be apparent from the findings of Hungarian industrial-sociological researches into the new phenomena of interactions between technology and the division of labour.** Many of its aspects can be revealing for the agriculture as well if they are adapted to the characteristics of this sector. We must pay attention to these papers all the more as in the advanced industrial countries, because of the numerical predominance of family farming, there has not developed any plant sociology with a large-scale approach. The demand is nevertheless indicated by the treatises and books published on agrarian

* Cooperative membership conditions, rights to intervene and decide, and relations between management and staff were treated in several papers (See for example publications of the Szövetkezeti Kutató Intézet (Research Institute for Cooperatives) and the Termelőszövetkezetek Országos Tanácsa (The National Council of Cooperatives [20] and [25]).

** See in this respect especially the papers of Lajos *Héthy* and Csaba *Makó.*

production or work sociology in several Western countries which, naturally, study the conditions of family farming.*

Socialist agricultural economics in Hungary was marked by a social and humane approach already in its early stages.** This was attributable partly to the fact that the main path of large-scale development was the cooperative and the primary problems of the cooperative form were the members' rights, their "having a say", the relations between common and individual interests, etc. This theoretical line was extremely sensitive and responsive to human relations, although it did not treat them exactly with the terminology and methodical apparatus of sociology.

A great many papers were published on this subject, not as reports on sociological research work but rather as literary elaborations, sociographies, or parts from agroeconomic papers, or reports on practical initiatives of a cooperative farm or a state farm. Most of the works on "general organization" published in recent years are based one-sidedly on industrial experience and pay little or no attention to the constructive practical experience and publications about the theory of organization of large-scale agriculture.

When tackling problems of agricultural enterprise one gets more and more convinced that a correct assessing of the phenomena of the new and ever changing world and satisfactory recommendations for the future are not possible without becoming engaged in the *labour sociological aspects* of economic, technical, biotechnical and organizational problems, along with the latter, but in an integrated systems context with them.

From this enormous field this paper will touch (within its limits set also in terms of length) upon some aspects of *intra-enterprise relations of organization and division of labour* which, in a new interpretation, should be suitable to enhance the efficiency of agricultural production.

Development of the division of labour and of work organization in agriculture

In the various stages of the Hungarian agrarian history through the past decades, *different facets of social conditions were accentuated:* in the 1960s the socialist reorganization of agriculture, i.e., the alternative of private peasant *vs.* cooperative ownership, then in the 1970s (in recurring cycles) the alternative of state *vs.* cooperative ownership. As the discussions about the forms of ownership have about

* Agrarian production and work sociology enlivened in Europe mainly in the French-speaking area so much that notable agricultural economists (like J. *Chombard de Lauwe* and M. *Cépède*) published agrarian-sociological books. This is probably inseparable from the theoretical results of French production and labour sociology (see e.g. the works of *Touraine* and *Delamotte*) nor from the trend "Jeune Patron" trying to adjust the approach of the American *human relations* school to West European agricultural conditions.

** Ferenc *Erdei* wrote already in the mid-sixties: "Agricultural economics must not be a bare »exact theoretical-mathematical science« but must be first of all a social science". [3] (pp. 18-19).

settled, the emphasis of theoretical and practical concern appears to be shifted to the conditions *of the division of labour.**

This time and from the point of view of this subject only the intra-enterprise division of labour will be regarded with special respect to the direction of its development. It is, of course, correlated with social conditions in the broader sense, but it is attached more strongly to the given forces of production and is, therefore, also differentiated by activities and technologies.

We have to set out from the following: *in the framework of an enterprise workers do or may get into relations of subordination, superordination or horizontal coordination.*

In peasant family farms the internal division of labour is absolutely missing or very primitive. Normally the farmer performs every activity in plant production or animal husbandry as well as numerous auxiliary activities (e.g. transportation, simple maintenance etc.) alone or perhaps with the help of his family, moreover, he usually looks after business management, book-keeping and business relations himself.

The emergence of the socialist large-scale system of agriculture made it possible and at the same time necessary to develop an intra-enterprise division of labour and to specialize in different jobs, operations and even professions. Different posts of leadership, men doing work in animal breeding and in plant production, carters, then tractor and vehicle drivers and still later on other specialists (e.g. plant protectors) separated. *On a higher stage of the division of labour* certain activities separated from the agricultural enterprise and are performed by separate organizations (as in Hungary e.g. aircraft plant protection and in the GDR total chemization organized by the so called agrochemical centres).

Animal husbandry shows a similar process: animal breeding is no longer a general category, the breeders of cattle, sheep and poultry are separated. Moreover, specialization has taken place within a given *branch* too: a division of labour has developed between the feeding of cattle and the breeding of calves, furthermore, in a cattle farm the jobs of machine milking, tendering, fodder transportation, etc. are separated.

The technical equipment of up-to-date production requires maintenance and servicing and especially fitters, electricians, locksmiths an other specialists. (The demand for professionals in processing and other industrial and service etc. activities beyond the basic activities is not considered here.) So in the last 15 years the *international division of labour of the large-scale agriculture has certainly developed towards the specialization of activities and the fragmentation of jobs.* This has entailed a growing demand of the different jobs for professional knowledge and an increasing *share of skilled jobs.* This is not merely an objective outcome of development and modernization but also a trend declared in the framework of the theory of industrialization in agriculture. At the same time and in interaction therewith, the *agricultural enterprise* and mainly the *organization of work* in the cooperative farm have also *changed.*

* Naturally, the division of labour may evolve on different levels in agriculture too: among sectors and activities in a country, among different levels of management or intra-enterprise leadership; among production of regions; among enterprises and organizations, etc.

The organization of work is the organizational framework for performing the work processes and as such it is the "lowest step" in the organization of enterprise management. It follows that *the organization of work is an integral component of that cohesion which binds detached human and physical resources into an integrated and functioning enterprise system.**

At the same time the organization of work is oriented not only from the top (by enterprise management) but also from below (by the workers) as it is actually an organized system of human relations and the quality of these relations (that is, of the individuals involved), their harmony or conflicts that affect the success of the work process and the value of the physical and economic parameters.

The division of labour and the organization of work cannot be static either in the industry or in the agriculture, time must not stop over them. Their content equally depends on the changes in the forces of production and the conditions of lroduction, the changes in technology, the changes of the macro-environment (including that of economic control) and, last but not least, the changes occurring in the mind, behaviour and response of the working individual.**

The question to be asked about large-scale agriculture is: In what direction and to what extent should the division of labour develop? Is it right to keep on specializing the different activities and jobs, to keep fragmenting the work into still more numerous and smaller parts, that is, to consider the straight carrying on of the development of the last fifteen years as the line to be pursued in future? What interrelation should form between the division of labour, the organization of work and the internal enterprise management for the sake of better production and business efficiency?

Without aiming at completeness, I attempt to answer the above questions by considering the real situation in agriculture and its experiences.

Productive use of the division of labour and the working time (man-hours) available

Hungary possesses neither considerable natural resources nor latent capital goods. Therefore, in this country the main source of economic growth clearly is the *enhanced efficiency of human work both* in the intellectual and in the physical sense. It is possible to compensate for the limited material resources even in the process of work through diligence, know-how and concentrated work. *The productive use of the available man-hours must be increased* in every field of the economy, or as Marx put it, the "pores" of working time must be filled up. The degree of doing so is naturally not only up to the worker but it also depends on technological and organizational conditions.

* The notion of the organization of work is related by the theory of industrial organizations to the volume of production (batch size), the continuous or intermittent type of production, the level of technical equipment and the job structure of the process, etc. ([12], [13], [18].)

** A more detailed presentation of the duality of enterprise organization is given in [10].

The agriculture is in a somewhat particular position in this field: *work* adjusted to the rhythm of living organisms and to the determinations of the natural environment *cannot be performed as continuously* as in most branches of the manufacturing industry. *The intensity* of labour in plant production strongly varies by months and even within one month. Several, quite long, periods of time in plant production need absolutely no human effort. Moreover, the time required for the same operation may be also different according to the weather, the soil, the species, etc. In animal husbandry the tasks — with a few exceptions e.g. massive farrowing — are periodically recurring while labour intensity in one working day is changing.

The length of the working day varies through the different seasons of the year in both basic agricultural activities and especially in plant production. It needs special care to *engage* the workers continuously, a task that goes far beyond the scope of operative work organization and is associated with aspects of business economy, technological development, education, ideology, etc.

Mechanized operations keep spreading in the branches of plant production, making the tractor driver a key figure in agricultural production. His importance keeps increasing, for, along with the growing performance of tractors and the order of magnitude of machine groups, *the land area to be worked by one driver increases.* The surging yields of recent years are at the same time connected in Hungary to technologies in which certain critical operations must be accomplished in a much shorter time than before (e.g. maize used to be sown in about 3 weeks, now it has to be done in 8 to 10 days). Agricultural work thus becomes more and more seasonal and *the number of days available for working in one sector or operation decreases.* At present the *employment* anomaly is already apparent not only outside the time of vegetation (from late Autumn till early Spring) but also during the time of vegetation, in the intervals between the different operations and especially in the first half of the year.*

The specialization of jobs developed through the last two or three decades in agricultural production undoubtedly hinders the smoothness in time of working and especially the continuous engagement of tractor drivers and machine operators. The job of the tractor driver developed in the Hungarian agriculture, like in other socialist countries as follows: employed by machine stations set up after the war as mechanical service enterprises, their interests were not in close connection with production, they were only concerned with *doing certain operations.* Nearly two decades have elapsed since the winding-up of the machine stations, the equipment has been taken over by the cooperative farms long ago (state farms worked with their own ones from the start), *yet the tractor driver thinks in terms of the long outdated division of labour.* That is, not with the mind of a master skilled worker of agriculture who knows about engineering but rather as a "chauffeur" who operates

* Seasonal employment of the workforce can be decreased through an adequate association (combination) of plants. The opportunities offered in this field have mostly been exploited, moreover, the designing of plant combinations must also bear in mind numerous other interests (e.g. profitability, crop rotation system). Lately more and more farms *have combined agricultural production with other activities, also for the purpose of eliminating seasonality of work* (e.g. through seasonal industrial activities).

the tools. Owing to his traditions and training as well as financial incentives, his attachment to the equipment is stronger than to the land or to production.*

The symptom we are facing also manifests itself in practice: *The number of man-days available for working in plant production decreases* – while the tractor driver must be well provided for to become a solid worker of the farm, a condition that is impossible to satisfy without finding a *way to keep him productively busy for a longer time than presently.*

How does the tractor driver react to such idle periods? It would be logical that he should get off the tractor and join the next turn of agricultural activity. However, in most cases he is not inclined to do so because the prestige of his work and his status make him refrain from doing so. On the other hand he occasionally expects *to be compensated for missed earnings via ascribing to him fictive outputs.* Here, like in other areas of the national economy, the labour in short supply tends to get excessively uprated – indeed, farming would be paralysed if the best tractor drivers quitted.

It is a strange contradiction that most tractor drivers do gardening and animal breeding in their own household plots but the customary division of labour keeps them away from such activity in the collective farm. Several large-scale farms are known to have made *efforts in order to relieve this "ingrained" habit which hinders employment.* For example in the Agricultural plant of Bábolna, in idle periods of mechanical work tractor drivers do fitting work for export projects and in several farms of the horticultural line (e.g. the State Farm of Balatonboglár) they do the pruning of orchards and the dressing of vine in Spring. These ventures, however, are only sporadical and socially not quite accepted.

The tractor driver's job shows still another kind of strain. The more sophisticated the equipment he operates the higher the engineering knowledge he needs. Still the driver is excluded from the maintenance of equipment in many farms because fitters can do that job with greater competence and, therefore, the engaging of drivers in winter is a problem. Moreover, with the spreading of maintenance done in the so-called service system, the tractor driver is excluded even from this technically simpler activity. It follows from this to narrow interpretation of the division of labour that while technical impacts work against the tractor driver's developing a producer's attitude, he is also removed from a growing number of technical tasks.

The farmer of Western countries uses more and more sophisticated tools, he learns how to operate and maintain them and even how to do simpler repairs, and at the same time he does other agricultural activities. Why couldn't our tractor driver do the same, since, as a matter of fact, he possesses the necessary professional qualification and farming experience? Most tractor drivers actually do that in their own household farms and many of them fix, mount and repair equipment for other people.

* I already raised the problem of disagreement between large-scale requirements and the nature of the work of the tractor driver at several places during the past years. See for example [7], [8], [9], [11].

Anomalies of the division of labour are similarly present in some branches of *animal husbandry*. Owing to the separation of jobs people work in a big variety of jobs at an up-to-date cattle-farm, for example there are machine milkers, animal tenders, men in charge of fodder, material handling, heating, cleaning, there are night guards, at several plants even clerks, mechanicians, electricians, and so forth. *It is not their fault that the utilization of their working time is often poor.* Working time is scheduled according to the traditional order of work (with pause of 4 or 5 hrs at noontime) which younger generations do not tolerate well, therefore, two shifts were introduced at many places, adding another portion to working time when the worker has nothing productive to do.* Although many attempts have been made at relieving this problem through organizational and biotechnical ways (e.g. the prolonging of milking time), these solutions are not yet perfect.

Here again, the opportunity is given partly *to combine certain jobs* and to extend and broaden the range of activities of a given worker, and partly to coordinate the working schedules of different branches of animal husbandry. There would be less of unfilled "pores of time" if a farm worker could do more than one kind of operation: when for example machine milking does not fill his working time he could attend to other tasks. One must, of course, expect objections such as that the different task require special professional knowledge, are of higher prestige and also better paid. Plenty of foreign examples can be quoted to prove that the knowledge actually needed is not necessarily learned through specialized training. In North America, many dairy farmers work with up-to-date milking machines and at the same time do many other tasks as well. Lately milking machines have been used also in Hungarian household-plot farms without being considered a task necessitating any special professional skill.

The share of productive working time could also be improved by *letting a team of workers inside a farm work alternatively in operations of two activities that are successive in time* (e.g. breeding of calves and cattle feeding). The *maintenance workers* who are employed by more and more farms are in part a reflection of the poor service offered by the manufacturers of equipment and the subsequent transfer of this task to agriculture. From the point of view of labour management, however, it cannot be accepted that at some farms several separate jobs are created for skilled workers with technical qualifications, whose work is often not required for several days, and this is even a happy state of affairs showing that the equipment work perfectly. Part of the tasks belonging to these jobs, i.e., simpler maintenance, could be undertaken by animal husbandry workers (improving the utilization of their working time also in this way) and another part could be done by travelling service shops. Once again reference is made to the Bábolna Farm where experts with technical qualification (or veterinaries) are assigned to lead the animal breeding establishments. By the way, it is sure that most people working in animal husbandry can solve simpler technical tasks by themselves in the household-plot farm.

* An opposite tendency was also observed! It was revealed in a study made of seven up-to-date cattle farms that the machine milking time was excessively long (14 to 17 hrs!) at several places. After 4 or 5 hours of monotonous working, both the performance and the quality of work drops. (v. [24]).

The quickness of improving the utilization of working time via the extension of spheres of jobs depends not only on the farms: this would require the amendment of numerous regulations (of employment, safety, education) and routine. Also some investment concepts ought to be changed, for example the one that can only imagine an up-to-date industrialized animal farm as one *specialized for a single branch of production.* Last but not least, the ingrained habits should be altered, not only in the ranks of the physical workers concerned, but also at all stages of control. This is the way towards making the best of human resources.

Division of labour and interest in production and business

The efficiency of human work depends not only on making productive use of working time, not only on whether *the person is merely present or is actually and productively working during any length of the working time.* It also depends on the intensity, devotion and competence with which he does his work in a time unit, how much he performs and in what quality, how he treats the values assigned to him, how much input he spares, and so on. The above depend upon several factors (e.g. the equipment, professional knowledge and conditions of work), but now we are only going to study the aspects related to the division of labour and, at the same time, to the incentives.

It is normally typical of production in the *manufacturing* industry that at the end of each process of work a semi-product is turned out whose quality is controlled and will be passed for use in the next process according to the result of this control. But in the basic agricultural activities no product appears at the end of the different stages of work (except for the harvest), the technological quality of the different operations (the depth of ploughing, the accuracy of sowing or of spraying chemicals etc.) do not lend themselves to precise checking after being completed. Therefore the person who can control the quality of work is the one in charge of doing it (or, sometimes, his direct boss if he happens to be present when the work is done). The *quality of any one operation will be seen* in most of the cases only *at the end of the complete process of production,* when the crop is harvested and when it is no longer possible to rectify mistakes.

Workers in up-to-date mechanized plant production are *interested in the duty performance (or in that of the shift)* in the first place and are not much or absolutely not interested in the quantity and quality of the end product which naturally also depend on factors beyond their influence (like species, or the weather). On the other hand, the more labour is divided in plant production and the more kinds of equipment groups and, consequently, the more men do different operations in a field, *the more difficult it will be to identify responsibility for and interest in the end product* at the end of the production process. In a family farm the persons doing the operations are directly interested in the end product and thus in the quality of their work — while a specialized tractor driver is preoccupied with performance.

Some farms experimented with combining many-sided incentive and responsibility. For example at the Bábolna Plant the names of persons working on a

given strip of land are recorded. The so-called end product incentive, when the tractor driver is paid also after the crop in addition to his task wage is a method known since 15 years and it has been implemented in production at several places. Still it has not become widely used because the amount of money is insignificant compared to the wage and, therefore, it does not impart any real incentive, whereas a complementary pay of a higher amount induces tension with workers in other jobs, since the tractor driver belongs to a fairly high income class already by his task wage.

Looking at another facet of the problem, the established form of the division of labour *makes the line of the tractor driver as a technical skilled worker more and more emphatic;* he is oriented in the same way also by his basic and further training, and technical prestige. Machines do keep breaking down, the technological requirements of maintenance are growing and the repair costs are also higher and higher. The above are correlated with factors like the quality of equipment, the shortcomings of the supply with spare parts, etc. Still the technical condition of the equipment and of technical supply depend to a great extent on the human factor, on how the operator handles his machine and how the maintains it. In spite of the incentive wage combined of a variety of components, no consistent *"proprietary" attitude has developed in this job* whereby the tractor driver would be made clearly responsible for and interested in the end product as well as in economizing on the equipment and on materials, beyond his daily working performance.

A similar phenomenon appears in some sectors of animal breeding. With the fragmentation of jobs *the responsibility of the individual worker diminishes* in production and this is inconsistent with the interests of production and farming. This problem is especially acute in the reproductive phases of cow farms and other sectors (e.g. farrowing) where decreased responsibility may cause irreparable damages in no time.

There is no equipment or automation that could replace human care during mating, pregnancy and parturition or in the noticing and curing of diseases. (This problem is not so bad in branches of mass production like poultry and egg production.) Experience and statistical analyses equally prove that for pig farms working with *the same* species and technology, with the same kind of building and equipment and with identical fodder mix, the indicators of piglet mortality, utilization of fodder and weight gained per day are scattered over a wide range.* What else could be the reason but the performance of people working at these farms?

The problem of the future can be formulated as follows: How could up-to-date and from the investment and energy points of view rational livestock farms develop towards *more clear-cut responsibility and financial interest* concerning the activities to be done in the keeping of livestock? Even if these sectors are assumed to apply up-to-date technologies, one cannot expect eminent results in production and business unless *product orientation is enhanced* through a broadening of the tasks involved by the job as well as of responsibility spheres, unless we expect a *vo-*

* Reference is made here to the study of György *Engel* and his team of the Állattenyésztési és Takarmányozási Kutató Központ Állattenyésztési Kutató Intézete (Research Centre for Animal Breeding and Nutrition, Research Institute for Animal Breeding) at Herceghalom.

luntary prolongation of working time in critical periods when the interests of production so require, and unless the workers' attentive and honest work, their identification with the task and their devotion to the activity in general are increased. Fair remuneration for work can play a great part in attaining these goals. There have been a number of favourable experiences in this field, yet the *current regulation of earnings powerfully limits* a consistent assertion of the principle of better pay for better work and achievement.

Trends in division of labour and organization of work

Industrial organization and industrial sociology have devoted more and more attention lately to the *"conversion" of the industrial organization.* The ever newer schools and practice of work organization that developed at the end of the past century did not really change the basic concept, i.e., that up-to-date factory organization actually implied production on-the-line (mostly conveyor belt), that is, *a fragmentation of tasks and monotony,* and even the partial introduction of automation did not much change this situation. Even O. *Lange* thought, analysing the relations between Marxist economics and modern technology, that "the order of operation is determined by the technology with which the object of work is transformed with the given equipment" ([16] p. 52).

The so-called *autonomous team organization of work* started from the Volvo and Saab in Sweden and has already turned into practice in several countries. Above a certain level workers could no longer tolerate fragmented monotonous work and, consequently, the productivity of labour decreased. Therefore, an organization was applied, first tentatively and then more and more widely, where *people can do several kinds of work in one team,* can exchange activities among themselves, and the team organizes its work within the bounds of the technology and the specified rate of production. It was found that per unit performance increased in these organizations, absences decreased and the workers were more satisfied with their jobs.* That is, owing to growing requirements toward the creativity of work, it is occasionally necessary to adjust the *mechanized technology to the human factor.*

After Soviet examples, a movement started in the early 1960s also in the large scale agricultural production to set up and run so-called autonomous brigades of tractor drivers. After the models of the Búzakalász Cooperative of Bátaszék and the State Farm of Szekszárd, such complex teams were formed at several places in the country.** They received a given area of the field from the farm together with the necessary equipment (including means of transport and travelling workshops) and the technologies of the different operations were specified. The team was absolutely free to organize and divide the tasks, i.e., the internal cooperation. The pay-

* This subject has already been treated in the Hungarian literature at considerable length. See for example [1], [12], [15], [17], [22].

** Several papers treated the functioning of the complex teams of tractor drivers. See for example [14], [23].

ment of the work consisted partly of a monthly advance and the rest depended on the harvest yields of individual plants. In this way the members of the teams were interested not only in the daily performance but also in doing work in due time and in good quality.

It is shown by the experiences of numerous such teams working for several years that *the responsibility and autonomy of the individual workers increased* in this organization, and they overcame difficulties, compensated for time missed because of the weather or for technical reasons and sometimes even for absences more promptly. (For example the foreman of the team also drove on such occasions!).

The earnings of the team members were by 50 to 100 percent higher than the average – they actually worked harder and more carefully – and the technical state of the machines was better, the repair costs lower and, a very important factor: the disposition and inventiveness of the workers were excellent.

The *organization of the complex teams* in its original form *ceased everywhere.* Besides other (technical, accounting) reasons the main cause was the income tension. Such ventures have returned sporadically in recent years and in other socialist countries like the GDR and the Soviet Union, similar ones were organized ([19], [26]).

As far as I can see it, such endeavours deserve more public support. Naturally, I do not mean rigid directives especially as the right way of solution may be different by farms and branches of agriculture and may be differentiated also by the technology applied. An animal breeding farm with a limited area of land or field plant production of a heterogeneous pattern or horticultural and viticultural production require different solutions.*

It is shown by the available examples that these organizations are apt to become humanized socialist communities not only providing a pleasant working atmosphere but also affecting the manysided development and collectivist thinking of their members. This advantage is also attributable to the simpler feasibility of small-team incentive ** in these organizations and that individual incentive develops only in its context.

Group (team) incentive is advantageous also from the point of view of simpler accounting. Moreover, in certain cases, a host of quantitative indicators (of cost saving and energy rationalization, profitability etc.) can be expressed with a single synthetic indicator (e.g. profit) and this way the incentive will be more easy to understand.

* Recently the Ministry of Agriculture and Food, Department for Cooperative Farming Business Administration set up a working committee to study the autonomous units of work organization at cooperative farms.

** Similarly in the industry, "...there is a growing number of work processes where the performance of the individual worker depends directly on that of his fellows and the result of his work is inseparable from that of the others... In this case one must not insist on payment after individual output but differentation should be made between groups and teams, according to the actual differences of performance. In this case total performance will not gain from individual competition or from giving ground to extraordinary individual performance but first of all from teamwork and from more helpful cooperation." ([5] p. 45).

Finally also the desirable *relations among the autonomous units in the internal enterprise organization* must be clarified. Can these autonomous units fit into the organization and if they can, how?

The organization of the big farms underwent many changes and improvements during the past one and a half decade, mainly in connection with greater enterprise autonomy and rising technological standards. Beside the basic decision and administrative functions the organization is in charge of more and more functions (finances, marketing, investment, technology, development, legal affairs, etc.) and corresponding *organizations of various degrees of accomplishment were developed by enterprises.* To these are added the organizations controlling the non-agricultural activities. It is not only agriculture's problem to find the way of simplifying the internal enterprise organization and to reduce the full-time staff as well as the number of stages of control and information.

From the point of view of this subject only one line of this large sphere of ideas will be studied, namely, the relations between the internal organization and the autonomous units. No autonomy can be imagined without a proper incentive, nor without a bigger scope of authority than before. That is, when the independence of the units of the work organization increases, *the scope of decision-making "travels downwards" in the hierarchy* of decision-making. It is a question how much the organization or the top management tolerates that.

Occasionally it should be considered whether it *needs an independent post to direct an autonomous unit or this function can be discharged beside physical work,* naturally for extra remuneration.

The shaping of *the mode of financial incentive* is another peremptory point: this may show a variety by branches and technology. However, the main problem is the *conflict between outstanding earnings and the rules of the game of wage payment,* not only in the statutory sense but also from the point of view of mentality. *If the reward for work in accordance with performance* (quality, economic efficiency) *is not implemented then the organization of autonomous teams (brigades), will not produce the result* anticipated from it because members will concentrate their efforts and attention mainly on the household-plot farm where this expectation is more consistently met.

Naturally, the relative autonomy of the units must not mean isolation from the complex enterprise activity, it must not be an objective to form "minicompanies"* that do not participate in internal cooperation or do not accept instructions referring to higher enterprise interests. The autonomous unit should function with the highest permissible degree of independence but at the same time the enterprise as a whole should be sufficiently coordinated and integrated.

* This means that the autonomous unit of the organization is not a small enterprise, it will always work within the enterprise organization; that is, it must not be identified with initiatives like the "small cooperative" or the private "undertaking" of certain operations of large-scale production or the ventures concerning the transfer of public resources for the purpose of private enterprise (the initiative of Tibor *Liska* et. al. (cf. Acta Oeconomica Vol. 28, Nos 3-4, pp. 422-455)

Some conclusions

1. General social development and the current economic situation equally necessitate *improvement of the terms of the division of labour* of workers in the large-scale agriculture and a change in the nature of the workforce. Instead of going on specializing jobs and professions it will be reasonable in the basic agricultural activities to combine the fragemented jobs (with a few exceptions), to extend the scope of jobs and to achieve the best possible identification with work.

2. *The internal work organization of the enterprise* needs to be developed in accordance with this. Individual faculties can unfold in expanded jobs provided that the organization gives a chance for such activity and even for changes in activities – while it also promotes the assertion of autonomy and authority with respect to organizing one's own job. Thus it is desirable fo form autonomous units of work organization adjusted to the specific features of the given branch or technology.

3. The organizational experiences of large-scale industry have been used by large-scale agriculture in many respects, adapted to its own conditions. However, it would not serve the development of agriculture if it pursued a way of enterprise organization which has already proven to be *outdated even in the large-scale industry.*

4. Such changes will bear fruit and a substantial improvement in the "proprietary attitude" of workers and cooperative members may be expected only *if harder, better and more successful work is really paid as it deserves to be.* By carrying on the practice of withholding earnings a dispreference will be created in the large-scale sphere as against household-plot farming where work and result are in direct relationship with earnings.

5. Progress in this field depends, of course, not only on the remuneration for work. It also requires *the changing of some ingrained habits,* not only at different levels of management but also among the workers. Some forms of education as well as legal, supervisory and employment rules must also be changed; public thinking and the attitude popularized by the media must also be altered in many respects. The above *go beyond the opportunities of a single enterprise* and cannot be achieved but on the level of society (and only gradually).

6. These changes, upwards from below, may provide the starting point for *the Hungarian agricultural enterprise model and for the further development of a practice based thereupon.* This plaper only touches upon the changes to be carried out in the "lower" levels of the enterprise, i.e., the ones closest to the work processes. *A number of improvements of another nature are desirable* from the point of view of enterprise conduct, organization, systems of management, integrations, self-financing relations and between proportions of agricultural and other activities, etc. The changes indicated in this paper *should be concerted with and integrated in other enterprise aspects* in order to contribute to the forming of the long-range model for agricultural enterprises and to a gradual and versatile implementation of the model.

The relevant ideas formulated by Ferenc *Erdei* seem to be both prophetic and rational. He wrote in 1961 that with a size increased by orders of magnitude the agricultural enterprise *would not be able any longer to tackle the proprietary atti-*

tude, decision and control in the old way. Then it would be necessary to increase the autonomy of its units and to concentrate the internal enterprise function chiefly on coordinating the activities of autonomous business units ([2] p.24). Now our international competitivity is at the stake — having accepted the challenge of the economic environment, we must develop our theoretical approach and practice along this line more deliberately and in a diversified manner.

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РАЗДЕЛЕНИЕ И ОРГАНИЗАЦИЯ ТРУДА НА КРУПНЫХ СЕЛЬСКОХОЗЯЙСТВЕННЫХ ПРЕДПРИЯТИЯХ В ВЕНГРИИ

И. ГЕНЦИ

Хотя в минувшее десятилетие венгерское сельское хозяйство пережило самый динамичный этап своей истории, общее развитие общества и нынешнее экономическое положение требует изменений во многих областях. Что касается разделения труда, то в основных сферах сельскохозяйственной деятельности представляется более целесообразным — вместо дальнейшей специализации сфер деятельности и дробления профессии — слияние раздробленных работ. Только таким путем можно достичь большей идентификации работника с исполняемым им трудом.

Надо развивать дальше также и организацию труда внутри предприятия. С расширением границ различных сфер деятельности можно обеспечить лучшее использование трудящимися их рабочего времени.

У членов кооперативов можно усилить хозяйское поведение только в том случае, если они получают большее вознаграждение за большую и лучшую, а также более успешную работу. Если же и в дальнейшем сохранится практика торможения роста доходов, то работники все более станут заинтересованными в подсобном (приусадебном) хозяйстве, где работа и ее результаты непосредственно связаны с получаемым доходом.

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PUBLIC HOUSING, PERSONAL INCOME AND CENTRAL REDISTRIBUTION IN HUNGARY

In consequence of the lasting housing shortage differences in dwelling circumstances have become one of the most important differentiating factors of contemporary Hungarian society. Inequalities in dwelling circumstances and in the allocation of state-owned rented flats indicate that a considerable redistribution takes place through flats as compared to the distribution of original money incomes. In the article the redistributive effects of the allocation of rented flats on social groups and strata are measured and evaluated.

It is stated that this form of allocation in physical terms increases so-called vertical and horizontal inequalities within society contrary to the original objectives. The "chaos" in the distribution of high subsidies included in rents after all weakens economic stimulation through incomes and simultaneously hurts social justice to be enforced in social policy.

As a consequence of the permanent housing shortage, differences in dwelling conditions have become one of the most important differentiating factors in contemporary Hungarian society. Computations have proved that inequalities are greater in the distribution of dwellings than in money incomes; and the inequality present in housing expenses is considerably higher than that in housing conditions. A computation of 1976 relying on household statistics* covering 8500 households showed that the ratio of per head incomes between the extreme domains, i.e. the highest and lowest deciles (10 percent) of the households under examination, was 1 to 4.48 (it is known that the taking into account of concealed incomes would bear out a higher inequality: Tamás *Kolosi* estimates this ratio to be about 1 to 6); with the housing supply indicator taking into account the number of rooms as well as the quality of the dwelling**, this ratio was 1 to 12.5; the ratio of per head housing expenses was 1 to 23.3.

The inequality demonstrated in housing conditions and housing expenses indicates that a far-reaching redistribution takes place through the different chances and financial conditions of acquiring a flat, as well as through the different extents of the running expenses. The redistribution among the different classes and groups of society is a result partly of deliberate central intervention and partly of spontaneous processes.

State redistribution modifies the distribution of primary incomes earned through work. Statistical observations distinguish two main forms of the redistribution process taking place through the budget:

* The subject of inequality is treated in more detail in my earlier work [3]. Computations of the present article also rely on the 1976 household statistics of the Central Statistical Office.

** This indicator will be interpreted later on in this article: with the explanation of *Table 3.*

a) *Social grants (benefits) in money,* serving primarily social security. Pensions, family allowances, sick-pay, and rent allowance in the field of housing come under this category in statistics.

b) *Allowances (benefits) in kind,* which do not add to the financial resources available to the individual, but allow — free or at a nominal cost — a certain share in goods and services. They include, among other things, education, health services, and the supply of rented flats.

Upon the basis of the 1972 and 1977 income statistics of the Central Statistical Office the redistributive effect of the types a) and b) on the inequality of income distribution was examined. The officially used index-number measures inequality in the so-called *vertical* distribution (between income brackets one above the other). The indicator is computed by dividing the average income level of those in the higher-than-average income brackets by the average income level of those in the below-the-average income brackets.

Table 1 shows that with the given methods of statistical observation central redistribution *reduced* the vertical inequality among social groups.

Table 1
Redistribution effects

Subject	Date of observation	
	1972	1977
Inequality of primary income distribution (earned through work)	2.47	2.54
Inequality of personal disposable incomes after redistribution of type a)	1.96	1.84
Inequality of income distribution after redistribution of types a) and b)	1.84	1.75

Source: Központi Statisztikai Hivatal (Central Statistical Office) [1].

However, other, more detailed investigations have already called attention to the fact that the effect of central redistribution may be different from the one shown above. In discussing the distribution of allowances (benefits) in kind, Zsuzsa *Ferge* [5, 6] pointed out that the distribution of some of them among the social groups is even more uneven than that of incomes earned through work. Central redistribution may be interpreted also in a wider sense than above: a third i.e. c) type of intervention can be considered, the diverting of the consumer price proportions from cost proportions. In other words, the differentiation of the net income content or subsidy content of the consumer price. Evaluating the effect also of this c) type of intervention, János *Ladányi* [11] made the statement that the consumer price system was disfunctional from the social policy aspect: it only increased the inequality among the social groups.

Now, if we confine ourselves to examine the redistribution effects only in respect of our own subject, it is found that the above-mentioned principal types of central intervention are present also in the housing policy. We shall review them in *Table 2* and qualify the according to four different aspects. Column 1 of the

Table 2

Main types and characteristics of central redistribution related to flats modifying the primary distribution of incomes

Subject	1. Grant or tax?	2. Open or concealed redistribution?	3. Intervention addressed to household?	4. Intervention depending on social considerations?	5. Taken into account in the redistribution statistics?
a) *Monetary transactions*					
1. Rent subsidies	grant	open	yes	yes	yes
2. Welfare allowance for children	grant	open	yes	yes	yes
3. Cash allowance for home building	grant	open	yes	partly	no
4. Allowance on interests	grant	hidden	partly	partly	no
5. Take-over cost	tax	open	yes	yes	no
6. House-tax	tax	open	no	no	no
7. Transfer duty	tax	open	no	no	no
8. Legacy duty	tax	open	no	no	no
b) *Allowances (benefits) in kind*					
9. State-owned rented flat	grant	hidden	partly	partly	yes
10. Official quarters	grant	open	no	no	no
11. Granting ground-plot, free or at reduced price	grant	hidden	yes	partly	no
12. Investment in public utilities, free or at reduced prices	grant	hidden	no	no	no
c) *Price supports and taxes through consumer prices*					
13. Building materials and fixtures	grant and/or tax	concealed	no	no	no
14. Home-building services?	grant and/or tax	concealed	no	no	no

Table does not need any explanation. In Column 2 the forms of subsidies or taxes are qualified "open" which have clearly formulated conditions and usually take the form of money. As for the latter criterion, an exception is made by the official quarters which, though not expressed in terms of money, are tied to the job and are officially recognized as a wage supplement. Their availability is theoretically restrained by labour law. The "concealed" allowance is realized through the consumption of some goods or services, so that their money value is not known directly to the customer.* Column 3 of the Table refers to a serious problem of redistribution: whether the allowance or tax is "addressed" to the *flat* or to the *household* actually living in the flat. In the latter case the individual circumstances of the household may be considered, in the former they may not. In Column 4 the question is examined, whether the housing policy intervention makes the allowance (benefit) or tax dependent on the social position of the household. Finally, Column 5 shows whether the type of intervention in question is taken into account by the abovementioned statistical indicators.

To quantify every item of *Table 2* would be an extremely difficult task, which we cannot undertake. In the present article item 9 of *Table 2* will be exclusively discussed. Yet, before going into this discussion, I shall set forth a few comprehensive data for illustration. Items 1, 2, 3, 4, 9, 11 and 12 are recorded in the budget as allowances for flats. Taking such expenses of the 6th Five-Year Plan (1981-1985) as 100 percent, the ratios of financial supports an social grants are the following. Sum of items 1, 2 and 3: financial support (open) 32.5 percent; item 4: financial support (concealed) 3.7 percent; sum of items 9,11 and 12: allowance in kind (concealed) 64.8 percent. In the following the redistribution effect of the largest item in the budget: the allowances in kind granted through rented flats is examined.

Characteristics of the distribution of dwellings

The redistribution effect is examined in comparison with the incomes earned through work i.e. with the distribution of incomes increased by monetary supplements, which means that in first approximation households of the economically inactive age are excluded. In *Table 3* the data of households in the economically active age are presented according to the size of the family and ownership of dwelling. The indicators are known from statistics, the only one to be explained is that of the *quality number of rooms.* This is namely a constructed indicator, intended to describe the combined quality properties of a dwelling which is possible in reality only through several parameters. The indicator expresses quality as an "additional number of rooms", in a way that the room of a dwelling with a bathroom is valued twice as high as a flat without bathroom, and modern heating is worth a further half-room in our computations. Thus, if a household of two persons lives in a one-room flat without bathroom and with traditional heating, the room number indicator will be 0.5/person and the "quality number of rooms" will be the same. In case

* See [7]

Table 3

Main characteristics of economically active households according to size of family and ownership of dwelling

Subject	Childless household			Household with one or two children			Household with three or more children		
	Owner occupied dwelling	In rented flat	No independent dwelling	Owner occupied dwelling	In rented flat	No independent dwelling	Owner occupied dwelling	In rented flat	No independent dwelling
Number of households									
In the economically active age, total = 100 percent	27.0	11.2	2.7	35.0	12.2	5.2	5.0	1.2	0.5
Average annual income forint/head	28 751	33 846	32 877	21 433	23 596	20 149	14 830	14 789	13 657
Average number of rooms pc/head	0.79	0.77	0.67	0.55	0.53	0.38	0.35	0.34	0.20
Average quality number of rooms pc/head	1.46	1.84	1.24	1.17	1.35	0.72	0.64	0.86	0.29
Average annual rent forint/head	–	1 132	1 220	–	842	493	–	486	82
Average annual amount spent on the building of one's own home and/or on its maintenance	3 269	1 139	2 136	2 767	1 527	2 839	1 660	398	2 111

of a modern one-room flat the data of a household of two persons will be the following: the room number indicator remains 0.5, but the "quality room number" changes: it rises to 1.5 ($0.5 \times 2 \times 1.5$). Quality differences between dwellings will be expressed in the following with the aid of these imaginary additional rooms.

It is clear from *Table 3* that the holding of a rented flat is not explained by social factors (comparatively low per head income, or a larger than average family size), but by other reasons. Not those or not only those live in their own homes built at high costs who can afford it, but a large number of households are forced to do so, in spite of financial difficulties. 60 percent of those living in their own home have a per head income lower than the average Ft 23 542 of economically active households, and the number of their children is higher than the average number.

Besides, the households with no dwelling of their own must be also taken into account: considering their average, they spend high amounts on home-building. From this it can be inferred that many of them seek the building of their own home as the only realistic way of acquiring a home, and are therefore ready to make heavy financial sacrifices. In view of the foregoing, the approach is justly questioned in which the rented flat is qualified as a "social support".*

Housing rents

According to data of the national census of 1980, state-owned flats made up a quarter of the total housing stock. Those living today in state-owned flats and especially those who live in *high-quality* state-owned flats receive, indirectly, considerable allowances from the state. The rent they pay does not cover the simple reproduction costs of the flats — not even the maintenance costs. The budget amply subsidises the continuous running of the housing sector and finances the building of rented flats.

In the following it will be examined, what measure of government subsidy is received, with the present nominal rent level, by the households living in rented flats. Three versions based on hypothetical computations are going to be examined:

Version 1. Rents cover item A): the running expenses of the existing housing stock, and the usual costs of cleaning, maintenance, and other permanent renewal.

Version 2. Rents cover the above-mentioned item A), as well as the following item B): replacement of the assumed capital stock to an extent corresponding to the depreciation of the existing housing stock.

Version 3. Rents cover the above-mentioned items A) and B), as well as an item C): the profit made by the state housing sector. This is by no means large, but enough to become a source of expansion of the housing sector.

According to the above, Version 1 does not produce the financial cover even of simple reproduction; Version 2 provides for the financial cover of simple reproduction; Version 3 provides at least partially for enlarged reproduction.

* From the literature on the social problem and effect of housing distribution see further György *Konrád* — Iván *Szelényi* [8], and G. János *Dávid* [4].

All three versions of the assumed rents need to be much further differentiated, according to the quality of flats. In our computations, this differentiation is made only according to the quality degree of the flats (their supply with conveniences) covered by the investigation. Rent versions upon which computations were made are the following:

Table 4
Hypothetical housing rents (percent)

	Present rents	Rents according to version		
		1	2	3
With all modern conveniences	100	250	540	600
With conveniences	100	220	430	500
With minor conveniences	100	180	350	380
Without conveniences	100	100	220	280

I wish to stress that the rents in the Table are hypothetical, worked out for the purpose of redistribution computations, and not recommended for introduction. The theoretical basis of comparison is provided by the costs of building and maintaining one's own home; the rents in Column 3 approximately correspond to the so-called "imputed" rent of a privately owned home. *The actual changing of the housing rent system, that is, the acceptance of any of the versions based on different principles would necessitate a thorough reconsideration of the related welfare policy measures and of changes in consumer prices and wages* — independent of ownership and covering all households. I do not discuss these questions in my article. I do not discuss the extremely important point either, that, in case of an actual raising of rents, the servicing enterprises will have to provide high-quality services against the increased rents.

Redistribution effects in the vertical distribution

Using the data of the 1976 household-budget statistics we calculated, what rent would be paid by the households living in rented flats if the rent level developed according to Versions 1, 2, or 3. The difference between the calculated rents and the present, actually paid rent represents the indirect subsidy which the households living in rented flats receive in the course of redistribution.*

The tenants of rented flats *receive an indirect income supplement* corresponding to 6.3 percent of their per head income through the government subsidy granted only to the cost item A) of the housing sector, that is, to the maintenance costs.

* Further analyses contain the data of economically active and inactive households living in rented flats. I avail myself of this opportunity to thank Gábor *Spiegel* for doing the computations.

Table 5
Subsidy received by households living in rented flats

Subject	Forint/person	Subsidy in percentage of income
Average annual incomes	25 581	
Actual annual housing rent	953	
Computed annual subsidy		
According to Version 1	1 627	6.3
According to Version 2	3 703	14.5
According to Version 3	4 290	16.8

It can be added that the replacement costs of the housing stock [item B)] and those of its enlargement [item C)] are also covered by the budget. Thus it is obvious that this form of government subsidy amounts to 14.5 and 16.8 percent, respectively, of the average per head income of tenants.

Let us now examine, what share the households living in rented flats, grouped according to income brackets, receive of this subsidy. Since the examination of all three rent versions showed identical tendencies, our further analysis will be presented only upon the basis of Version 2.

The data of *Table 6* clearly show that the redistribution is not in favour of households with low income, big family, and/or living under poor housing conditions. In the two lower income brackets where the average number of persons in a room is three and flats are of the lowest degree of quality, the 11.5 percent subsidy

Table 6
Extent of subsidy according to income brackets

Income bracket (per head annual income) Ft/person	Average number of children	Average quality number of rooms	Actual annual rent Ft/person	Annual subsidy according to Version 2 Ft/person	Subsidy in percentage of income
under 12 000	2.50	0.62	308	945	9.6
12 001-16 800	1.80	1.00	594	2045	13.7
16 801-21 600	1.30	1.30	781	2922	15.2
21 601-24 000	1.10	1.45	930	3570	15.6
24 001-26 400	1.00	1.46	903	3580	14.2
26 401-31 200	0.57	1.77	1129	4450	15.5
31 201-36 000	0.53	1.83	1114	4491	13.4
36 001-45 000	0.36	2.20	1392	5642	14.2
45 001-55 000	0.14	2.58	1727	7162	14.6
above 55 001	0.05	2.90	2042	8600	13.0
Total	*1.04*	*1.53*	*953*	*3703*	*14.5*

remains below the 14.5 percent enjoyed by the average of those living in rented flats. As against this, the families with high incomes – this category including the two highest income brackets covering 8 percent of the households – receive a subsidy amounting to 13-15 percent of their income *in addition* to their housing conditions well above the average as for number of rooms and quality.

It is worth taking a look at the last but one column showing the absolute amount of the subsidy. It grows monotonically in percentage of incomes. Even if the first and last figures are disregarded (in the two extreme domains data are usually uncertain), the gap is very wide. A family with an annual per head income of Ft 45–55 000 receives three and a half times as much subsidy as the family with a Ft 12–16 800 annual per head income.

With these subsidies taken into account, it can be calculated, in which way the redistribution taking place through having a rented flat affects vertical inequality. With the aid of the statistical indicators the following result is obtained, using the sample of household-budget statistics.

Table 7
Redistributive effect of the distribution of rented flats

Subject	Households living in rented flats	All households
Inequality of personal disposable incomes after redistribution type a)	1.60	1.53
Inequality of income distribution after redistribution of type a) and redistribution of type b) taking place *through flats*	1.72	1.60

Summing up, it can be stated that *the rented flat as an allowance in kind does not reduce vertical inequality within society, as it should under the declared original intentions, on the contrary, it augments it.* The increase of the vertical inequality can be considered as valid not only for the households living in rented flats, but for the full sample representing the whole of society.

Redistribution effects in the horizontal distribution

As has been mentioned, vertical inequality means in literature the inequality between income brackets. Horizontal inequality is the term used when relations between groups (strata) of society are examined, that is, which groups win and which lose through distribution, in our case, redistribution.

Horizontal distribution is examined according to three criteria: 1. ownership of dwellings; 2. family size; 3. social groups (strata).

The inequality *in the ownership* of dwellings was already discussed in connection with *Table 3.* Here we only wish to stress the point that the chances of get-

ting a rented flat, and the possession of a flat can already be interpreted as a differentiating factor – if only through the redistributive effect of the subsidy. If, therefore, rented flats were obtained in the first place by households with low income and big families or households in any other way in a disadvantageous position, the allocation of flats would reduce horizontal inequality. Yet computations have shown that the households living in homes of their own have a lower average income and a higher average number of children than the households living in rented flats. *Therefore, distribution according to ownership increases horizontal inequality.*

The redistributive effect shown according to *family size* is summed up in *Table 8.*

Table 8

Redistributive effect according to family size

Subject	Households without children	Households with one or two children	Households with three or more children
Average annual income Ft/person	33 846	23 596	14 789
Annual subsidy according to version 2 Ft/person	4 421	3 340	1 915
Subsidy in percentage of income	13.1	14.2	13.0

The computations confirm our earlier statements, at least as far as big-family households living in rented flats are concerned. These households receive less subsidy than other groups of society, both in absolute and relative terms, measured in percentage of their per head income, since their housing conditions are worse than the average. *It can be stated, therefore, that the distribution of flats according to family size also increases horizontal inequality, that is, the number of children is to be considered as one of the most important factor in the differentiation between the housing conditions of families.*

Finally, we shall examine the effect of the subsidy through flats on the different social groups (strata) upon the basis of *Table 9.*

It is clear from the Table how strong the differentiating effect exerted by ownership on the different social strata is. Cooperative farmers, double income earners, and workers living in rented flats receive subsidies below the average, while the subsidy granted to intellectuals and inactive households is above the average.

As for the factors accounting for the inequality between the social groups, the determinant role of the settlement must be called to attention with particular emphasis. Cooperative farmers and those earning double income live almost exclusively in villages, 45 percent of the working class are also village dwellers. Rented flats make up merely 7 percent of the village housing stock, nearly half of which are of low quality (with minimum or without any comfort). If, therefore,

Table 9
Redistributive effects according to social groups (strata)

Subject	Workers	Cooperative farmers	Double income earners*	Intellectuals	Inactive
Average annual income Ft/person	23 819	19 230	22 471	30 792	22 148
Average number of rooms pc/person	0.52	0.39	0.35	0.74	0.88
Average quality number of rooms pc/person	1.21	0.70	0.66	1.99	1.92
Average annual housing rent Ft/person	745	364	328	1 244	1 234
Annual subsidy according to Version 2 Ft/person	2 802	1 206	1 080	5 150	4 524
Subsidy in percentage of income	11.8	6.3	3.8	16.7	20.4

* Having incomes from both industrial and agricultural activity (Ed. note).

the share in the redistribution depends on the chance of obtaining a rented flat or on the quality of the stock of the flats, it is obvious that *all social groups (strata) the majority of which live in villages are excluded from a considerable part of social allowances from the outset.* Thus the subsidy of the rented flat sector increases the inequality between social groups (strata). In this context, it is worth reflecting whether the above-the-average subsidy to the inactive group is justly considered a factor increasing inequality.

Rearrangements as compared to the distribution of money income

The following part of the analysis is based on a theoretical computation. Let us assume that the distribution of dwellings depends exclusively on per head income. If, therefore, the per head money income of household A is the double of that of household B, the housing conditions of household A are also twice as good as those of household B. This kind of distribution will be called in this article *distribution of dwellings adjusted to money incomes.*

This distribution is not considered either as economically feasible, or as by all means desirable. On the one hand, in case of a satisfactory housing supply, the Engel effect would make itself felt: the price elasticity of demand for housing would be above 1. This means that household A would demand a larger and higher-quality flat than what would correspond to the twofold of the housing supply indicator of household B. On the other hand, social policy may make efforts at levelling,that is, in our example, at bringing the housing conditions of households A and B nearer to each other. Otherwise, penetrating further into the problem, it is also an open issue to what extent the actual distribution of money in-

comes in the Hungarian national economy corresponds to the principles of socialist distribution and to the practical demands of incentive.* But, even if we avoid all these questions in this article, it is in itself useful to know, *into which direction* the actual distribution of dwellings deviates from the hypothetical distribution adjusted to money incomes. *The differences between the hypothetical and actual distribution throw some light on the question, which households win and which lose through the redistribution:*

We made computations down to the smallest details i.e. households. In the present article, however, we shall only set forth a few results of aggregate computations.

The computation will be reviewed first in respect of aggregates according to *ownership of dwellings* and then according to *occupational groups and settlements.*

Table 10 examines households in respect of ownership, and then according to three income brackets.

Table 10

Rearrangements in comparison with the distribution according to money incomes

Ownership	Income bracket	"Winners"			"Losers"		
		Number of households	Average annual income (forint)	"Gain" (measured in "quality number of rooms")	Number of households	Average annual income (forint)	"Loss" (measured in "quality" number of rooms)
Owner occupied dwelling	I	945	16 421	0.60	1 124	16 087	−0.37
	II	688	24 768	0.70	742	24 771	−0.56
	III	549	35 723	0.91	702	37 403	−0.83
Total	I-III	*2 182*	*22 812*	*0.69*	*2 668*	*22 715*	*−0.51*
Rented flat	I	279	16 420	0.64	260	16 398	−0.43
	II	286	25 022	0.75	233	24 860	−0.58
	III	363	37 067	0.91	365	39 062	−0.73
Total	I-III	*928*	*25 673*	*0.76*	*858*	*26 664*	*−0.58*
No independent dwelling	I-III	120	21 926	0.59	484	22 475	−0.57
Grand total	I-III	*3 230*	*23 609*	*0.71*	*4 010*	*23 319*	*−0.53*

* In my article treating the principles of the allocation of dwellings [2] I named priciple A the "pure" assertion of distribution according to work, and principle D that aid has to be granted to those in a disadvantageous position. It may be assumed that the actual distribution of money income approaches, more or less, a combination of those two principles. Therefore, the hypothetical distribution of dwellings upon which our computation is based can be interpreted also as an approximative description of a distribution asserting the principles A + D. Although just a very rough approach, it can present a basis for examining the question: *into what direction does actual distribution deviate from applying the principles of distribution according to work and from those of aiding the needy?*

Considering the total number of active household, 44.6 percent come under the "winners" and 55.4 under the "losers". The actual housing conditions of the winners are on average by 0.71 quality rooms better than what would be their "due" and the losers have on average by 0.53 rooms less. The first look at the Table already makes it clear that *neither* the Engel effect, *nor* the deliberate welfare policy intervention can account for the direction and extent of the redistribution. In each form of ownership and in them in each income bracket winners and losers are present. It is at most the relative ratio of winners and losers within the group and the size of their "gain" or "loss" that change under the effect of the spontaneous processes emerging in the wake of housing shortage.*

Among the households living in their own dwellings the ratio of losers is higher than that among those living in rented flats (55 and 48 percent respectively), but the average size of loss is bigger with rented flat dwellers (−0.58 quality rooms as against 0.51). Differences are great within the loser groups. In the said groups the indicator of variance is constantly higher: it fluctuates between 55 and 85 percent.

It is striking that the ratio of losers is higher in all income brackets of those living in their own dwelling. This may indicate that those who are compelled to build a home if they want a roof above their heads do not always strive after a size and quality in proportion with their income level. The two extreme income categories dominating as for the ratio of losers offer considerably different pictures of the size of "loss". The size of "loss" is −0.87 with those in the lower income brackets. It is worth mentioning that in the highest income bracket the income level of winners is higher by 5 percent than that of losers; their average "gain" amounts to 0.91 quality rooms. All this leads to the conclusion that chronic shortage curbs a steady assertion of the Engel-effect even within this form of ownership.

More than half of the households living in rented flats are among winners. In the income brackets I and II the ratio of winners is higher; in the bracket III representing those with the highest incomes winners and losers are found in equal ratios. It is conspicuous that in the third group *the income level of winners remains below that of losers by 6 percent, while their per head quality room indicator is twice as high.* The flat-"loss" of losers would be −0.73, if their housing conditions were in proportion to their income. If, however, the Engel-effect is taken into account, the income elasticity of housing demand, assumed to be well above 1 with such high incomes, would infer much better housing conditions. The flat-"loss" indicator can be interpreted also as a kind of shortage indicator showing at least the lower limit of unsatisfied demand for dwellings.

Active households are recorded in statistics divided into nine groups of occupation making up four strata. Of the nine occupational groups covered by the computations we have included in *Table 11* — because of limited space — only the six most characteristic ones.

* The categories of "gain" and "loss" presented in *Tables 10, 11* and *12* are to be considered as approximations of the general theoretical categories of "consumer surplus" and "consumer loss" that appear as a consequence of shortage, nominal prices and the rationing scheme. For these categories see *Kornai* [10] p. 420.

Table 11

Rearrangements in comparison with the distribution according to money incomes — by groups of occupation

Social groups (strata)	Income bracket	"Winners"		"Losers"	
		Average annual income (forint)	"Gain" (measured in "quality number of rooms") Ft	Average annual income (forint)	"Loss" (measured in "quality number of room ") Ft
Skilled and semi-skilled workers	I	16 835	0.60	16 445	−0.39
	II	24 632	0.64	24 660	−0.56
	III	35 397	0.95	36 641	−0.85
Unskilled workers	I	15 057	0.45	14 663	−0.39
	II	25 033	0.94	24 941	−0.60
	III	33 979	0.85	35 407	−0.88
Cooperative farmers	I	14 138	0.56	15 548	−0.37
	II	24 644	0.71	24 668	−0.62
	III	35 219	0.94	37 438	−1.01
Workers with double income	I	17 496	0.48	16 774	−0.40
	II	24 239	0.72	24 794	−0.56
	III	32 289	0.59	36 310	−0.93
Leading intellectuals	I	18 210	0.89	18 705	−0.25
	II	24 950	0.85	25 230	−0.41
	III	37 843	0.87	44 832	−0.55
Other intellectuals	I	18 076	0.70	18 230	−0.33
	II	25 126	0.78	25 203	−0.49
	III	37 483	0.90	39 206	−0.63

Examining the ratios of winners and losers *within occupational groups* it is found that the ratio of losers is highest among the households of *workers with double incomes* where it amounts to 75 percent on average. The ratio of losers is increasing parallel with the increase of incomes, as is also the size of their relative "loss". In the income bracket III which is the highest, the loss reaches −0.96 quality rooms. As against this loss indicator, the winners of income bracket III can only call a value of 0.59 their own. The ratio of losers is similarly high in the households of *cooperative farmers and of skilled workers.* It can be observed with all the three occupational groups that positive and negative deviations are not too great within an income bracket, while those between the households are quite big: they reach a variance of 88 percent.

The ratio of losers is higher than that of winners also in the group of *skilled and semi-skilled workers:* it amounts to 55.5 percent. It is the highest in the income bracket III. There the size of "loss" is −0.85.

Of the occupational groups, the households of the *leading and other intellectuals* are in the best position, both in absolute and relative terms. In both groups the

ratio of winners amounts to 65 percent on average, and the size of "gain" fluctuates between 0.76 and 0.90 quality rooms. It should be mentioned that the statement holds for all income brackets of these two occupational groups, according to which the income level of losers surpasses that of winners. With the occupational groups discussed above, this phenomenon was found only in the case of households in the income bracket III. This observation seems to confirm the assumption that the "loss" indicator is to be interpreted as a shortage indicator. With the two groups in question, namely, the hypothesis has also to be considered as a factor affecting the demand for dwellings — beside incomes — that higher education is concomitant with higher demands on housing, in other words, if supply were satisfactory, these households would buy themselves better dwellings than the average of others with the same income.

The size of "gain", as it has been mentioned, is relatively very high in the households of leading intellectuals and of those having other intellectual occupations. From this it can be inferred that the chance of obtaining a flat was better than the average with both groups; inherited conditions — either the inherited physical goods or higher demands "handed down" through education — were more important than in other occupational groups. Differences between the winner households are quite considerable in each income bracket; this statement holds particularly for the income bracket III of those of other intellectual occupation, in which the variance indicator is 80 percent.

Table 12

Rearrangements in comparison with the distribution according to money incomes — by types of settlement

Settlement	Income bracket	"Winners"			"Losers"		
		Number of households	Average annual income (forint)	"Gain" (measured in "quality number of rooms")	Number of households	Average annual income (forint)	"Loss" (measured in "quality number of rooms")
Budapest	I.	172	17 607	0.72	128	17 802	−0.44
	II.	246	25 096	0.75	168	24 982	−0.58
	III.	362	37 551	0.96	330	39 237	−0.74
	I-III.	780	27 289	0.82	626	29 482	−0.62
Country town	I.	402	17 138	0.63	380	16 698	−0.38
	II.	377	24 957	0.72	260	24 841	−0.52
	III.	312	35 891	0.87	289	38 676	−0.75
	I-III.	1091	23 867	0.71	929	24 550	−0.51
Village	I.	706	16 072	0.55	1 203	15 866	−0.38
	II.	384	24 543	0.68	675	24 743	−0.60
	III.	269	35 173	0.89	577	36 709	−0.86
	I-III.	1359	21 333	0.64	2 455	21 801	−0.52
Grand total	*I-III.*	*3230*	*23 609*	*0.71*	*4 010*	*23 519*	*0.53*

To the preceding I would add: in the two foregoing comparisions differences according to ownership and occupational groups have been examined and explained. However, the differentiating factor behind the figures, discussed earlier, has not been treated: the effect of differences between town and village apparent in redistribution. In the quality dwelling indicator the state of the infrastructure is indirectly present, as an important factor of concealed redistribution. *Table 12* divides the households winning or losing through redistribution according to types of settlement. While more than half of the households in Budapest and in other cities are among the winners, 65 percent of the village households are to be considered losers through redistribution. Their "loss" comes mainly from the backward state of the gas-, water- and sewage network, which we try to make clear in *Table 13.*

Table 13
Relative size of the infrastructural loss

	Budapest	Country town	Village
1. Average number of rooms pc/person	0.65	0.60	0.57
2. Hypothetical quality number of rooms* in case of first-degree quality pc/person	1.95	1.80	1.71
3. Actual quality number of rooms pc/person	1.66	1.41	1.00
4. Extent of loss on quality (3.-2.) pc/person	−0.29	−0.39	−0.71

Table 13 confirms that 64 percent of the village households are losers among other things because, for lack of infrastructure, they are from the outset deprived of a change to create for themselves housing conditions which are in proportion to their income.

Summary conclusions

I shall sum up my statements under the following three points:

1. The housing conditions of households are *partly* dependent on their money income. However, in comparison with the money incomes, a far-reaching redistribution is effected by the existing mechanism of acquiring a dwelling. On the one hand, the size and quality of the dwelling do not depend solely on the

* The hypothetical quality number of rooms was computed as follows: the indicator of the pler head number of rooms accepted, it was assumed that the flat was of first-degree quality (supplied with every modern convenience), that is, the number of rooms of row 1 was multiplied by (2.0×1.5). The loss is shown by row 4, that is, the difference between the actual quality of the flat and the hypothetical flat of first-degree quality.

money income of the household and on its demand influenced by the money income, but on a lot of other factors as well. E.g. on inherited conditions; or on whether the dwelling is in a town or a village, and so on. On the other hand, it amounts to a far-reaching redistribution in comparison with the original money income, whether the household receives the "national present" of the high subsidy included in the housing rents. All these effects do not point into one direction; it cannot be clearly stated, which groups (strata) of society, occupation or income bracket are favourably and which disadvantageously affected. They cut through all the distributive principles, everywhere and, it can be said, indiscriminately, be it the principle of distribution according to work, or that of aiding the needy. There are, it is true, some social groups (strata) in which the ratio of winners and their "gain" are higher than those in other groups. That is why the statement can be made that *the "chaos" of the prevailing practice weakens in fact economic incentive through incomes, and at the same time impairs social justice to be asserted in social policy.*

2. *The redistribution asserted in the allocation of flats and in the subsidy to the state-owned rented flat sector is not a levelling one. On the contrary: it increases inequality.*

3. Any transformation that may take place in consequence of government measures in the future will have far-reaching redistributive effects. *These will have to be weighed most carefully and with due foresight,* so that the rearrangement that will take place should strengthen the economic stimulation of socially useful activities and help assert more consistently the principles of just distribution.

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НАЕМНЫЕ КВАРТИРЫ, ЛИЧНЫЕ ДОХОДЫ, ГОСУДАРСТВЕННЫЕ ПЕРЕРАСПРЕДЕЛЕНИЯ В ВЕНГРИИ

Ж. ДАНИЕЛЬ

Из-за хронического недостатка жилья различия жилищных условий становятся одним из наиболее важных дифференцирующих факторов современного венгерского общества. Неравенство жилищных условий и расходов на жилье означает, что через жилье осуществляется значительное перераспределение доходов, по сравнению с первичным распределением. Автор измеряет и оценивает влияние наемного жилища как фактора перераспределения доходов на общественные группы и слои.

Она констатирует, что данная форма натуральной дотации — вопреки своей первоначальной цели — усиливает т. н. вертикальное и горизонтальное неравенство внутри общества. Неупорядоченность распределения значительных дотаций, предоставляемые в квартирной плате, в конечном итоге ослабляет экономическую стимулирующую роль доходов, а также нарушает общественную справедливость, которую призвана выражать социальная политика.

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P. KNIRSCH

POLITICAL AND ECONOMIC DETERMINANTS OF EAST–WEST ECONOMIC RELATIONS

This paper attempts to assess the significance of political and economic factors which influence East-West economic relations. While emphasizing the great importance of the political relationship between East and West for economic relations, the author ultimately attributes greater concrete significance to economic influences – which presently include, in particular, the economic situation in Western countries and the indebtedness of the CMEA nations in the West. A more positive development of East-West economic relations would, in his opinion, require greater allowances for the economic needs and possibilities of both sides.

East-West economic relations are generally regarded as a special form of international economic relations. The purpose of this essay is to examine more closely the special features characterizing these relations. As far as possible, we shall make a systematic presentation of these special features and analyse their significance for the practice and further development of "intersystemary" economic relations.

Causes of special features in East-West economic relations

In speaking of East-West economic relations, we shall here be referring to the relations between the European members of the CMEA* on the one hand and the Western industrialized nations which cooperate in the OECD** on the other. According to the generally held view, the special features of these economic relations are due above all to the fact that they are *intersystemary economic relations,* that is, foreign economic relations among countries whose political, social and economic systems differ fundamentally. At the root of these differences we find divergent philosophical and ideological concepts of the development of the world and of the value and goal systems of society.

There can be no doubt that these systemic differences among the economic partners in East and West are diverse and fundamental, and it seems obvious to explain problems in East-West economic relations above all by referring to these differences. Having spent much time studying this subject, however, I believe such

* "Council for Mutual Economic Assistance"; our study is concerned with the European members of the CMEA: Bulgaria, Hungary, Czechoslovakia, German Democratic Republic, Poland, Romania and the Soviet Union. This study also uses the terms "socialist countries" and "the East" to designate the European CMEA countries.

** "Organization for Economic Cooperation and Development"; for the most part, our study is specifically concerned with the European members of the OECD, in particular the countries of the "European Communities", as well as the USA, Canada and Japan. We also refer to these countries as "developed capitalist countries" and "the West".

an explanation to be in some ways superficial, and inadequate as an explanation of the present unsatisfactory state of East-West economic relations.

In fact, the very concept "East-West economic relations" or (the most important element in these relations) "East-West trade" is in a certain sense misleading: As in the relevant statistics, subsuming all the countries concerned under the heading "East" and "West" creates the impression that the economic relations exist between these two political blocs. The designation conceals the fact that there is absolutely no interbloc trade of this kind, and that it is only individual countries belonging to the one bloc or the other which maintain economic relations with each other. True, these individual countries are also influenced by the systems which prevail there. But beside this factor, each country's geographical situation, its endowment with natural resources, its history and the stage of cultural and economic development it has reached are of equal significance for its foreign economic relations. Beside considering systemic influences, it is necessary to take into account the significance of these *nonsystemic influences* on East-West economic relations, and it is even possible that a greater influence is exerted by nonsystemic than by systemic factors. Thus, the preconditions for relatively intensive economic relations — for example, between Hungary and Austria, or between the two German states (which are separated by very considerable differences in their political and economic systems) — are evidently more favourable, despite the differences between their systems, then the preconditions for trade between some "Western" countries, e.g. between New Zealand and Iceland. This example is of course very extreme; it is merely intended to demonstrate that we should not be too quick to explain the difficulties of East-West economic relations by reference to systemic influences alone.

The influence of political factors on East-West economic relations

Among the systemic influences on East-West economic relations, *political factors* are generally seen as having a decisive influence. A journalistic formulation of this leads to catchphrases such as: "East-West trade is political trade".

From the experience of East-West economic relations since World War II, a considerable number of occasions can be cited as examples of political influence on East-West trade. Since 1947/48, the USA's attempts to prevent a direct strengthening of the Soviet Union's military potential by restricting the delivery of "strategic goods" have been very important. The US embargo rapidly led to the founding of the CMEA in 1949 and for many years, at least until the end of the 1950s, it brought about a sharp decline in East-West economic relations. Taking into account the limited number of goods affected by the US embargo and the fact that the West European allies of the United States often only gave lukewarm support to this embargo owing to their more intense interest in trade with the East and, in addition, the fact that goods affected by the embargo generally reached Eastern Europe through third countries (although this was perhaps more complicated and expensive than direct trade), [1], [2] then the severing of almost all economic

relations with the West by the CMEA states appears to be an "overreaction" which in turn can only be explained politically: The USA's attempt to influence Soviet foreign policy through economic sanctions, although in reality it had little effect, was seen as a political affront, to which the CMEA contries responded by breaking off trade with the West to an extent which was undoubtedly contrary to their own economic interests.

The damage done to East-West economic relations through the US embargo around 1950 has even today not been fully repaired – the CMEA countries' *mistrust* of trade with the West was still evident during the rapid development of East-West economic relations in the 1970s, specifically in efforts to prevent a one-sided dependence of the East on trade with the West. A person with a fondness for slogans might say: "East-West economic relations suffer from political mistrust." If he were to make a deeper analysis, however, he would have to add that this political mistrust essentially emanated from the two dominant powers, the United States and the Soviet Union. As fate will have it, these two states only participate in intersystemary economic relations to a comparatively small extent (this is particularly true of the United States); thus, it is relatively easy for them to jeopardize these economic relations for political reasons.

Trade promotion and protectionism by Western governments

On balance, political influence on intersystemary economic relations between East and West have been (and are) certainly nagative, and one could cite further examples, such as the relationship between the EEC and the CMEA. However, one should not overlook the fact that these political influences have not been *purely* negative. East-West trade began to increase again in the mid-1950's; from the mid-60s until the mid-70s the growth in East-West trade was quite rapid, above all in the years 1971-75.

It is clear that this development cannot be explained simply by pointing to the business zeal of Western businessmen or the economic insight of foreign trade functionaries in the CMEA countries – in addition, such efforts were directly supported by the states concerned. All the more important Western industrialized countries – some at a relatively early stage – have tried to create various instruments to facilitate trade with the CMEA countries and thus to compensate to a certain extent for the special political difficulties. [3] In the main, this has not been done through price subsidies, but rather through subsidising or insuring risks* associated with loans to finance Western export deliveries to the CMEA countries. Attempts to standardize these forms of promotion for Western exports have met

* Government reinsurance of export loans, such as is offered by Hermes in the Federal Republic of Germany, does not represent a direct subsidy, since there is a charge to the exporters who take advantage of this insurance to be protected against risk. Only in the case where insured claims on Eastern debtors are not settled must the governmental loan insurance step in, whereby it may be necessary to draw on public budgets.

with little success; in the 1960s and early 70s there was sometimes strong competition among Western countries promoting their own exports, which took the form of a mutual underbidding of loan conditions for business with the East. [4]

Altogether less important, but still not without significance, were other forms of *state promotion of trade,* such as trade agreements among the governments of the partner countries in East and West, the setting up of commercial agencies, and the switch from bilateral to multilateral clearing (to be more exact, to settlement of accounts in convertible currency). Trade with the CMEA countries is also supported by the West through governmental support for participation in fairs and exhibitions, the setting-up of mixed commissions, and similar measures.

It is true that, in all this, the *promotion of Western exports* was the main concern. However, it should not be overlooked that the economic effect of these political measures taken by Western governments also brought benefits to the CMEA countries, in that they made it possible for them to increase their imports from the West or to import under more favourable conditions. Alongside these measures, there is the common complaint by the CMEA countries of *protectionist barriers to trade,* discrimination on the part of the Western industrialized nations against imports from the CMEA countries. Undoubtedly, the Western industrialized nations did and do adopt a protectionist attitude towards imports; however, this is by no means restricted to imports from the socialist countries. Such measures can take the form of differing import duties or of quantitative restrictions on imports, or of bureaucratic barriers in the handling of imports (regulations on technical standards, packaging, etc.).

In some Western countries industrial branches which saw themselves confronted with competition from *low-priced imports* from the CMEA countries have clamoured for the use of such protectionist measures against CMEA imports – we shall return to this problem when we consider the economic determinants of East-West trade. As long as the majority of the CMEA countries were not members of GATT, there were also no formal barriers to the use of such protectionst practices. Because of the CMEA countries' utterly different foreign trade system and the different function of prices and import duties there, it was hardly possible for them to take "retaliatory measures"; moreover, such measures would have contradicted the East's interest in imports from the West.

Taken as a whole, the protectionist attitude of Western industrial nations towards imports from the CMEA countries did and does still represent a real problem with respect to the balance of payments between these countries. [5] There have certainly been cases where these protectionist measures were taken for strictly political reasons – the most recent example being the USA's suspension of Poland's most-favoured nation status in the autumn of 1982. However, if we judge rightly, economic motives were on the whole dominant in this area. The political component of East-West economic relations rather had the effect in the long term that, despite this national economic egoism, it was possible to considerably reduce restrictions on trade through bilateral negotiations in the 1960s.* Particular prob-

* For the Federal Republic of Germany's view on this question see [6].

lems – especially in the trade in agricultural products – were caused by the fact that foreign trade sovereignty has passed from the EEC members to the Commission, which – independent of East-West political differences – takes an extremely protectionistic position with regard to agricultural products.

This review of the Western industrial countries' protectionist practices towards imports from the CMEA countries has clarified a point which we regard as important: the political indfluences on East-West economic relations which undoubtedly exist are often very closely connected with economic factors. In principle this is also true of embargo measures, whose origin was much more strongly influenced by political considerations: the trade interests of the smaller Western European countries led first to attempts by the private sector to avoid the embargo regulations. Later the governments of these countries advocated an end to the embargo or tried to reduce its effects through measures to promote trade. The close connection between political and economic determinants have become particularly clear in recent years when the USA, again for political reasons, has sought to tighten the embargo measures against the Soviet Union, starting in 1980. The Western European states were not prepared to follow the USA's plans, essentially for economic reasons, and in one particularly spectacular case, that of the natural gas pipeline deal with the Soviet Union, this led to a great strain on the Western alliance.

Non-systemic trade barriers

If we try to reach a more discriminating and more realistic understanding of the significance of the political factors affecting East-West economic relations, we should also be aware of another important factor; not only East-West economic relations, but *all* foreign economic relations, are subject to political influences. Even between states with the same or similarly structured systems, even between allied or friendly states, political conflicts can arise in foreign economic relations, and these relations are certainly also dependent on political influences exerted by the governments of the states concerned.

As far as the economic relations among the Western industrialized countries are concerned, there is a wealth of examples for this – from the "chicken war" or the "steel war" between the USA and the EEC* to the French farmers' "self-help" (which would be almost inconceivable without toleration on the part of the government) against Spanish fruit, vegetable and wine imports and transportation, to the attempts which have been made for years to stem the competition of Japanese products (in particular electronic equipment of all kinds, motor cars, shipbuilding) on West European markets, all forms of protectionism are used, and national economic egoism leads the national governments to adopt positions which are at least as rigid as those they take up with respect to economic relations with the East.

*The readiness of journalists to use the word "war" in this context is disturbing.

It must not be overlooked, however, that in intrasystemary economic relations, the motives for these governmental measures are almost exclusively* economic, while similar measures against the socialist countries are also — in some cases exclusively — politically motivated. This difference is not irrelevant; nevertheless, one should recognise that protectionist interference by governments is not only a problem for East-West economic relations, but is rather associated with foreign economic relations of all kinds. The notion of free international trade is at present — or to be more exact, it has been since the First World War — a fiction that we should abandon.

It is difficult for an outside observer to judge the extent to which national economic egoism is translated into political measures also in connection with economic relations within the CMEA. Given the differing foreign trade systems, political interference within the CMEA would take a different form — essentially, it would play a part in negotiations on deliveries and prices, or in delivery delays or refusals. The relevant literature gives little evidence of such practices** However, it is unlikely that they do not exist.

Strengths and weaknesses of the political determinants

Our reflections on the political determinants may be summarized as follows:

1. East-West economic relations are relations between countries with widely differing systemic structures. Basically, we must proceed from the unfortunate fact that these systemic differences (together with historic causes) give rise to *animosity* between East and West. Past experience has shown us that this animosity can be more or less pronounced; in the period of the "Cold War" it was greater than in the period of "détente", and the attitudes of individual governments and politicians to East-West relations also differ considerably. Yet it has not been possible to end this animosity.

2. The major systemic differences and the political animosity resulting from them are a burden on the intersystemary economic relations, above all in that they prevent the growth of *trust* necessary for stable and intensive economic relations. This is shown above all in both sides' fear of becoming *dependent* on the respective intersystemary economic partner and thus of possibly being restricted in the own political room for manoeuvre.*** Specifically, this means that both sides regard overly intensive economic relations as not being opportune.

*In transatlantic relations between the USA and Western Europe, it may be presumed that political motives too have been behind restrictions on trade, at lest in the last few years (1981 and 1982). The USA's ability to push through trade restrictions has occasionally been regarded as a test of its political strength within the Western alliance.

** There are indications of this at various points in [7] and [8].

*** On the Western side, this fear of dependence on the Soviet Union was apparent in connection with the natural gas-pipeline deal and the prolonged debate about the ratio of Soviet natural gas im-

own political room for manoeuvre.* Specifically, this means that both sides regard overly intensive economic relations as not being opportune.

3. A further (historically understandable) factor also prevents the necessary trust from arising: both sides *fear political interference* with these relations and do not really believe in their stability. This attitude also tends to operate against the establishment of intensive economic relations between East and West.

4. Past experiences, such as those cited as historical examples above, may explain the political influences formulated in 2. and 3. above. These influences, however, are softened by the fact that, despite highly unfavourable political conditions, the economic desire or the *economic need* to maintain intersystemary trade, which clearly exists on both sides, has again and again asserted itself. The timespan in which this experience has been made – 35 years – is not very long; on the other hand, there were various changes in political East-West relations during this period. Even in very unfavourable political circumstances, East-West economic relations were either maintained or it was possible to develop them anew after a phase in which they had declined. The fact that East-West economic relations were able to assert themselves in the face of such political conditions reveals clearly that they correspond to a very strong economic need on both sides.

5. East-West economic relations are politically burdened not only by these various fears, but also by overly high political *expectations.* Politicians, economic practitioners and scholars committed to the development of East-West economic relations are to be found on both sides. Strongly idealistic, their political goal is to bring about a reduction of the antagonism between the systems and thus to overcome the "animosity" mentioned above.

If we bear in mind that the East-West conflict represents the most serious threat to world peace in our time, all efforts to overcome this conflict are worthy of our respect and our support. Nevertheless, we believe that if such hopes are placed on the development of East-West economic relations, they are bound to be disappointed. The decisive factor is that such concepts overestimate the significance of these relations. We ended the previous section by observing that East-West economic relations correspond to a strong economic need – they were able to assert themselves again and again in the face of politically motivated attempts to distort them. But they were apparently not important enough to be used effectively as a means of exerting political pressure.

In earlier studies, I coined the phrase "politically limited dependence" [9] to describe this state of affairs. This phrase applies, not only in the negative sense, but also with reference to the suitability of East-West economic relations as an *instrument to secure peace.* This is certainly not to deny that more intensive economic relations between East and West lead to more contact between the various peoples and thus make a certain contribution to the process of getting to know each other

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ports to the total energy balance of the participating Western countries; it was expected that this ratio would be too high. Above all in the Federal Republic of Germany, this dependence was the main argument of those opposing the natural gas-pipeline deal.

and possibly also contribute to a lessening of prejudice.* The road leading from such (possible) positive effect to an alteration in the basic attitudes in East and West is long – so long, that one cannot attach great hopes to these political developments resulting from East-West trade. This is even more true of the notion which vas occasionally put forward in the West at the beginning of the period of détente, that intensifying East-West economic relations would lead to a change in the system prevailing in the socialist countries – the slogan "change through trade" rests on a very naive conception of the stability of the systems.

6. If we abandon these far-reaching expectations and adopt a more pragmatic approach, then it seems to me that one can distinguish a positive influence of East-West economic relations: in spite of the politically-motivated fear of dependence on "the other side", the intensification of East-West economic relations which took place above all from 1965-75 did lead to an *economic dependence* on these relations. The positive aspect of this dependence lay in the fact that it was of significance for both sides, that is, it represented *mutual dependence*, relations of interdependence.

The experience of the years 1980-1982 shows clearly that this mutual economic dependence was not important enough to prevent political conflicts between East and West or to lead to a prompt end to such conflicts. But there are indications that, on both sides, economic interests have raised the threshold of political conflict or that, when conflict arises, these interests ensure that it takes relatively moderate forms. Of course, it is highly probable that other factors, above all, the fear of nuclear war, have had more weight than the wish to prevent these economic relations, built up with considerable difficulty, from being interfered with or destroyed. But we would still ascribe a certain influence to the intersystemary economic relations.

On the Western side at least, there is evidence in support of this assumption: the fact that the West European states were only willing to cooperate with the USA to a very limited extent in imposing economic sanctions on the Soviet Union (1980-82). At the time, this unwillingness to cooperate represented a great strain on the Western alliance, and it is only to be explained by the fact that these states viewed their economic relations with the East as being rather important in comparison with political factors.

Economic determinants of East-West economic relations

Our relatively detailed consideration of political determinants was necessary because, on the one hand, they really are important for East-West economic relations but, on the other hand, their significance should not be overestimated, as is often done by writers on this subject. Despite all the differences between the sys-

* That better acquaintance need not necessarily lead to friendly relations is unfortunately not only true for individuals: In this respect, experiences with international mass tourism have been as mixed as those with large numbers of foreign workers living in Western Europe.

tems, East-West economic relations are first of all just that – *economic* relations; many of the difficulties they entail are characteristic of foreign trade relations in general and are not necessarily due to East-West differences.

The discussion of mutual advantage

Mutual advantage, as it in theory results from the international division of labour* also represents the economic motivation for East-West economic relations. The advantage may be that certain goods necessary to a national economy and not available within the country itself can only be obtained through foreign trade. If we assume unity within the respective political alliances in East and West, then the possibility of obtaining such goods must be extended to the entire bloc of nations in question - goods not obtainable in one bloc, or at least not in sufficient amounts or of adequate quality, can then be imported from the other bloc within the framework of East-West economic relations. This elementary advantage resulting from intersystemary economic relations can become an absolute necessity in the case of specific goods – considerations of possible dependence are most likely to arise when such a situation develops.

The necessity of procuring certain goods from other countries or from countries which are members of another bloc of nations can arise because raw materials are needed that are not available in a country's own territory due to the natural distribution of resources. However, this necessity may also result from an economic and technical state of development which does not provide the country in question with the knowledge, skills, or facilities for producing certain goods. Furthermore, natural occurrences (climatic influences, natural catastrophes) or human error (mismanagement on a macroeconomic scale) at specific points in time can also result in temporary but acute shortages of individual commodities which then have to be imported. When we examine structural problems in East-West economic relations, we will see that such *basic needs* play a relatively important role in East-West relations.

In addition to making it possible to meet basic needs through foreign trade, East-West economic relations offer the advantage that certain economic goods may be procured more cheaply through foreign trade than they could be produced by the importing country. This theory of *comparative cost* has, of course, been around for a long time (it was already proposed by *Ricardo*) – and, despite all the changes in theories of foreign trade which have taken place, with regard to East-West economic relations we can proceed from the assumption that foreign trade, in its intersystemary form as well, contributes to national welfare on both sides. Moreover, as is generally known, it is not necessary for both sides to derive the same advantage from foreign trade in terms of value – the decisive point is that,

* Cf [10]. A comprehensive survey of Western foreign trade theories is given by Jochen *Schumann* [11].

even in the case of a nonequivalent exchange,* both sides profit more than they would have *without* engaging in foreign trade.

For many observers, this economic theory conflicts with the political determinants of intersystemary economic relations. With regard to East-West economic relations, the question of whether these relations provide "the other side" with greater advantages and strengthen the "enemy" is discussed again and again.** As far as we can determine from the literature on the subject, this question about East-West economic relations is only discussed in the West. This could be because, in a subjective sense, the West feels more threatened or that, in view of the animosity inherent in East-West political relations, it does not want to jeopardise its superior economic potential; however, it could also be due simply to different publication practices in East and West.

Any discussion of this question is highly complicated. The answer of economic theorists that both sides profit from these economic relations and strengthen their economic potential through the *increased prosperity* resulting from economic relations is unsatisfactory to the extent that, in fact, the absolute profit made by each side usually is different. there are only very limited possibilities for reaching conclusions based on empirical evidence, because the absolute profit resulting from intersystemary trade cannot be calculated with any exactness for either side, not to mention comparing the profits of both sides. For the Western countries the profit consists of that made privately by the companies manufacturing and marketing the export products in question as well as by their suppliers; on an empirical basis, it is not possible to arrive at a single figure for all these profits. Nor is it possible to calculate the profit that results from importing goods from the East instead of buying them elsewhere or producing them domestically.***

While for the Western nations we at least have market-based export and import prices which can be compared with domestic prices, in the socialist countries with their different foreign trade systems there is usually no direct or consistent relationship between foreign trade and domestic prices, so that right from the outset no empirical solution to the problem seems possible. Except for imports of goods which are completely unobtainable in a CMEA country for natural or technical reasons and whose significance for the national economy may in some cases be evident (though, naturally, still not subject to exact calculation), it is probably not possible to assess the value of imports or exports for the national economy of a CMEA country. In this respect we do not have much faith in the various calculation methods developed during the past 15 to 20 years with regard to the effectiveness of foreign trade either — they may give some indication of whether it is more advantageous for a socialist country to import and export certain goods in-

* Cf. Günther *Kohlmey* [12]. The concept of nonequivalent exchange does not exist in non-Marxist economic theory.

** In the West, Lenin's apocryphal phrase — "the capitalists give us the rope with which we shall hang them" — is often quoted in this connection, Peter J.D. *Whiles* [13], reflects on the technology transfer from West to East in a more scholarly fashion, but he is not able to eliminate all doubts.

*** Even attempts to calculate only the employment effects of production for export to Eastern Europe have brought little in the way of unequivocal results. For the Federal Republic of Germany, cf. [14], [15].

stead of others, but they provide no information at all about the absolute advantage accruing to a CMEA country compared to its Western trading partner.

In this situation, all that we can do is to make an — unsatisfactory — attempt to provide some *general impressions* on the subject of mutual advantage. [16] Thus it is clear that, as a rule, the Western countries occupy a more favourable *market position* in East-West transactions: Because of commodity structure, which will be discussed later, the exports the Western nations can offer the East are more sophisticated, and as a rule there are no alternative suppliers for these goods. Although there is usually spirited competition among potential Western suppliers for orders from CMEA countries, even a very low-priced offer will (with rare exceptions) still result in a profit for private business. If the market economy principle still more or less corresponds to reality in the Western world, then this must be equivalent to increased prosperity for the economy as a whole.

For a good part of the goods they can offer, the market position of the CMEA countries vis-à-vis the Western industrial nations is relatively weak: substitutes for their exports can almost always be found on the Western world market, and sales of their exports can, therefore, only be ensured if they are offered at favourable prices.* In addition, due to their quality or packaging, or sometimes just because of their image, the goods offered by the CMEA states can for the most part be sold in the West only at relatively low prices.

The commodity structure prevailing in East-West trade thus makes it seem that the Western side is more likely to enjoy a relatively greater *trade advantage.* This tendency may be strengthened by bureaucratic obstacles in the foreign trade apparatus of the socialist countries. The Western view that the East enjoys a one-sided advantage fails to take into account these special distortions of price relationships in East-West trade; instead, it is assumed in the West that the modern technology it supplies, usually in the form of capital goods or licenses, saves high development costs for the CMEA countries and, therefore, is of much greater (macroeconomic) value than its purchase price in the West.

This argument is obviously based in the assumption that market price formation on the world market is defective in some ways — at least for political adversaries these market prices are felt to be "wrong". Usually the next step is a demand that the delivery of such (in a very broad sense) "strategic" goods be completely prohibited by an embarago. But let us concentrate on the question of advantage: It is clear that *mutual advantage takes a very different form for each side.* The advantage gained by the West from trade with the East is selling the goods it produces, fuller utilisation of its production facilities, a higher level of employment, and increased business profits. The East receives plants an productive equipment which it is not presently able to produce in this quantity and quality and by means of which it can achieve the economic growth it desires faster than without imports from the West. To the extent that the thesis of the weaker market position occupied by the CMEA states proposed above is basically correct, this "advantage" is reduced, since the CMEA countries have to supply relatively large amounts of their own products,

* This is only the general tendency. The fuel and other raw materials delivered to the West, in particular by the Soviet Union, were of course affected by the worldwide price increases in the 1970s.

certainly more than if their market position were equally strong, in order to obtain these technological imports – and this is detrimental to their growth and national prosperity. However, the East clearly does not view this disadvantage as outweighing its need for Western technology – otherwise it would not try to obtain these imports from the West.

Nevertheless, the question remains whether this assessment is correct. The CMEA states have a very strong ideological commitment to rapid industrial growth, and efforts to import modern Western technology can easily result in importing "at any price", i.e. without taking economic efficiency into consideration. As we attempted to explain briefly above, the socialist countries cannot really calculate the economic effect of their foreign trade, which naturally is also true of technology imports. Furthermore, the economic system in the CMEA countries by no means guarantees that there will be optimal utilization of possibly very expensive imports of Western technology – on the contrary, there have been quite a few cases where the plants and equipment imported were only put to use after a long delay and even then were employed much less effectively than technically possible. At the worst, it can happen that such plants and equipment are not used at all because additional components (buildings, ancillary supplies) are lacking. There is at any rate an impressive example of the possible negative results which may follow rather large imports of Western technology – during the first half of the 1970s Poland tried to speed up its industrialisation on this basis and thereby ended in an economic crisis.

It would be quite ironic if, on the basis of completely different considerations and ways of thinking, both Western opponents of trade with the East and also East European economic strategists were to overestimate the advantages of technology transfer from the West to the CMEA countries.

As has been stated already, we are simply presenting some ideas which are no more subject to proof than any calculation of the "advantages" to be gained from East-West trade. Our line of reasoning is only intended to point out the dubiousness of common assumptions about economic advantages accruing to one side only. Even though it is somewhat naive from a scientific point of view, in the final analysis it is probably more sensible, as in the case of all international economic relations, to proceed from the assumption that East-West trade brings advantages for both sides. This can be seen more clearly with regard to the West because of its market price system, but it would be absurd to assume that the socialist countries would try too hard to establish economic relations which are of no benefit to them, although they have practised such relations for decades. However, these countries should not be seen as benefiting solely from imports of technology – they also import a number of other products which are urgently needed to keep their economies functioning. And technology imports are certainly important, even though there are probably a number of *misunderstandings* on each side. The only certainty is that the advantages which both sides derive from East-West trade cannot be computed and then weighed against each other. For this reason these advantages should also not be used in political debates about these economic relations – at the very least, it should be realised that any arguments of this sort are very poorly founded.

Structural problems

During the last decades the general public, but also politicians and specialists, have become convinced that Western exports to the socialist countries consist primarily of finished industrial products, a large part of these being capital goods (SITC 7), while the CMEA countries are believed to export mainly raw materials and energy to the West. We should note that, with reference to the past few years, *this no longer holds true:* At the present time (only figures for 1981 and earlier are available)* the largest share of Western exports to the CMEA countries is represented by industrial materials (including raw materials, fuels and chemical products, i.e. SITC 2, 3, 5 and 6, about 45 percent of all Western exports to the CMEA in 1981); the largest single item, 27 percent, is agricultural products and foodstuffs (SITC 0, 1, 4), with grain alone amounting to 17 percent. Among Western exports to the East, capital goods (SITC 7) are only in third place (25.2 percent)**, while other finished goods (industrial consumer goods, SITC 8, 4.7 percent) play only a minor role. Thus, during the past years the share represented by finished industrial goods has dropped (in 1977 SITC 7 still accounted for 38 percent of Western exports to the CMEA countries), while the primary gain has been in the group of foodstuffs (19.5 percent in 1977), but also in industrial materials (43.8 percent in 1977) — it is clear that, during the past few years, meeting food requirements and current production needs represented a higher priority for the CMEA as a whole than the import of capital goods from the West. If this development continues, Western concern about technology transfer to the East should actually become less acute.

Changes in the structure of East European exports to the OECD nations have not been as great: In the case of the Soviet Union, in 1981 about 75 percent of its exports to the West consisted of primary energy, mainly oil and increasingly, natural gas. Another 20 percent of its exports were made up of other raw materials and industrial materials, while only 4 percent were finished industrial goods. In the case of the smaller East European CMEA countries, in 1981 just under 60 percent of their exports to the West consisted of industrial materials, 29 percent were finished goods (most of these being consumer goods), and 12 percent were agricultural products. The Soviet Union's very one-sided export structure, and also the structure of exports from the other CMEA countries to the West, mean that their exports are rather heavily dependent on fluctuations in the Western world market.

However, with regard to structural problems, the *domestic market situation* on both sides should also be considered — its influence on foreign trade relations is usually overlooked. In the West there is usually a large supply of goods for sale in relation to actual demand, though this relationship is naturally affected to some extent by the state of the economy. Production capacity is often not fully utilised or can be expanded fairly fast. By contrast, in the CMEA countries the supply of

* The figures are taken from Jan Stankovsky [17], [18].

** This still includes 4.5 percent means of transport, which are not usually regarded as belonging to the categories "investment goods" or "technology transfer".

many products is not adequate to satisfy the demand for them so that, at present levels of production, some potential demand is not met.

These *different domestic market conditions* definitely are of significance for foreign trade: The Western industrial nations, to be more exact the business enterprises in these countries, are generally happy (if the economic situation is poor, only too happy) to sell their products to anyone who can pay for them. This is why Western businessmen were always opposed to political trade barriers being set up against the CMEA states, and business influence has certainly contributed to lifting such restictions. With regard to payment for the goods they supply, Western businessmen have also constantly searched for solutions which would make it possible to sell their goods in the first place — be it by providing credits themselves or through Western banks, be it by agreeing (usually less willingly) to market Eastern products in the West after receiving them through compensation transactions.

On the other hand, the CMEA countries represent a potentially most *receptive market* for a great many products. This receptivity is limited economically only by the necessity of financing the imports, politically by the fear that a one-sided dependence could develop through becoming accustomed to overly extensive imports from the West. Furthermore, unsatisfied domestic demand in the CMEA countries also means that they would like to import but tend to be unwilling to export, since the exported goods could also (often more easily) be sold on the domestic market.

This competition with the domestic markets not only directly detracts from the ability of the CMEA states to export to the Western world market, but also indirectly: Because of the prevailing market disequilibrium, domestic markets in the East are clearly *sellers' markets* for a great many products; due to unsatisfied demand, buyers' standards are rather low, and the corresponding efforts of producers to achieve high quality, a high level of technology — even good design or attractive packaging — are not very intensive.

On the Western world market the situation is reversed in the case of most products — supply exceeds effective demand, and there are *buyers' markets* with high consumer standards for the products offered. For the socialist countries it is difficult to effectively adapt their export efforts to these different market conditions. Probably the instruments most frequently used are a corresponding setting of priorities when planning export production and/or special material incentives for this production. As a rule, these do not suffice to change the traditional and deeply rooted lack of concern shown by producers towards consumers. Ultimately, the domestic market situation in the CMEA countries means that, at least on the level of the producing enterprises, the desire to export is usually not very intense, because producers shy away from the extra effort. The quality of export production is often below that required for the world market, with the result that CMEA products often are difficult to sell in Western industrial countries or can only be sold there at low prices. In addition, occasionally domestic market conditions make it impossible for the CMEA countries to export many products which would sell well on the world market, or these conditions at least keep them from delivering on schedule because domestic demand is too pressing.

At first sight the Western industrial nations and the socialist countries appear to be *ideal trading partners* — surplus production in the West and surplus demand in the East seem to complement each other perfectly. Unfortunately, this picture is quite deceptive — excess demand in the East greatly limits the ability of these countries to export, so that as a result East-West economic relations must remain at a relatively low level unless other possibilities for financing can be found.

Financing problems

The problem discussed above is by no means a new one, and financing problems have always been associated with East-West economic relations. We have also already stated that Western businesses always tried hard to make export transactions possible by helping arrange for loans to finance them. Until the end of the 1960s the CMEA nations were careful to *limit borrowing* in the West as much as possible — probably in the fear that otherwise they could become economically dependent on the West in a politically significant way. When it was decided to greatly expand enonomic relations with the Western industrial nations an thereby take advantage of the international division of labour to spur CMEA economic growth, this *policy of caution* was abandoned. At the same time, the policy of détente resulted in an easing of tensions between East and West, and Western banks were now prepared to grant rather extensive credit to the CMEA states. Their credit standing was good and, due to the economic slowdown in the West, after 1972 at the latest Western capital was readily available.

During the first half of the 1970s, most of the CMEA states took advantage of the opportunity to *expand* their *import opportunities by borrowing* in the West, and East-West trade grew rapidly, especially between 1972 and 1975. However, after a fairly short time the limits of this development became apparent: To the extent that imports from the West did even consist of capital goods, such imports, which were financed by Western loans, by no means resulted in increased exports to the West, as had been expected (in Poland, at least, explicitly). The 1974-76 recession in the West made it harder to sell exports there while, on the other hand, the quality of Eastern export production by no means improved as rapidly by employing Western technology as had been expected (and as was necessary in order to sell on the world market).

At the same time, for many CMEA countries the loans they had taken out became a real *burden* on their economic relations with the hard currency countries: Regular debt service was not possible in view of mostly negative trade balances *vis-à-vis* the hard currency countries, so that new loans from the West and the conversion of short-term loans to medium-term ones represented the only way out. The burden of indebtedness increased still more due to a partly market- and partly risk-induced worsening of credit terms. To put it rather dramatically, during the second half of the 1970s Western loans were no longer the driving force behind East -West trade but rather became a hindrance to it — the rapidly decreasing possibilities for taking our new loans limited any expansion of trade relations, and the burden on the balance of payments imposed by debt service tended to

compel reduction of imports from the West and intensification of efforts to increase exports to the hard currency countries.

Since the mid-1970s, in other words long before political East-West relations began to worsen starting in 1980, there has been at least a *stagnation of East-West trade* in real terms, sometimes even an absolute *decline*. The relatively rapid growth during the first half of the 1970s had been possible mainly on the basis of intensified borrowing by the CMEA countries. Encouraging foreign trade in this way is a perfectly normal procedure in world trade — the fact that this approach could only produce a very short phase of expansion for East-West economic relations was probably mostly due to the basic structural imbalances between these two economic areas which we have described above. In addition, the *economic situation* in the West limited market opportunities to sell exports from East Europe and thus made it more difficult for the East to make regular payments on its debts. Another reason that the expansion of East-West trade by means of Western credits lasted for only a limited period of time was probably that Poland and Romania made use of this opportunity without sufficient economic calculation to the point of in effect defaulting, which had long-lasting nagative effects on the initially strong confidence of the Western creditor banks. With certain nuances, this crisis of confidence also affected the other CMEA states — only the Soviet Union, because of her much greater economic potential has, currently relatively free access to Western money and capital markets.

Forms of economic interdependence

In the treatment of East-West economic relations the problem of mutual dependence is discussed frequently, and it was already mentioned here in relation to the political determinants, so that our comments at this point can be brief.* First of all, it is easy to see that in this area the overlapping of economic and political determinants is most obvious — strictly speaking, the economic dependence which arises from East-West economic relations is only of interest to the extent that it provides opportunities to exercise *political influence* on the conduct of the other side. Fear of economically-based political dependence is present on both sides: In the East the first prominent mention of this can be found in the CMEA Founding Communiqué of 1949; [23] in the West, the question of dependence recently dominated debates about the natural gas pipeline transaction with the Soviet Union.

We have already discussed significant aspects of economic dependence with reference to structural and financing problems. The fundamental argument underlying this discussion remains to be added: For both sides, East-West economic relations are only of *limited significance*, which has been *decreasing during the past years*. In 1981, only 3.4 percent of total OECD exports went to the CMEA countries (in 1977, 4.0 percent),** while the share of OECD imports from East Europe

* I have presented my own views on this on many occasions in the past few years. [19], [20], [21], [22].

** Cf. [17], [18]

remained unchanged at 2.9 percent. In 1981 the Federal Republic of Germany sent 5.7 percent of its exports to the CMEA countries and received 6.2 percent of its imports from there; these represent the highest shares of trade with the East among the larger Western industrial nations. US participation in East-West trade was very low — 1.9 percent of US exports and 0.6 percent of US imports.

There can be no doubt that these differences reflect economic *interests of varying intensity* with regard to maintaining or further developing East-West economic relations, as could be seen in the political differences of opinion that have arisen between the United States and its Western European allies during the past years. Regardless of these differences, it is true of all larger Western industrial countries that their economic relations with the CMEA nations represent only a small share of their overall foreign trade and that, as can be seen from these quantitative data, economic dependence cannot by any means be particularly great.

The CMEA states are *more closely linked* to the developed industrial nations of the West, trade with the West representing between 16 percent and 37 percent of their total foreign trade turnover in 1980. [24] Seen in this broad context, their dependence on trade with the West is greater than it is for the Western nations. However, since the foreign trade intensity* and share of overall trade done with the West vary widely for each CMEA country, it is difficult to make a general statement on this subject.

Even if these overall trade shares seem to imply asymmetric trade relations in favour of the West, it should not be concluded that dependence is only one-sided: Instead, East-West economic relations have led to — on the whole rather moderate — *mutual* dependence. Characteristic of this *interdependence* is that it is structured differently on the two sides — for the West probably the effect of exports to the CMEA area on employment is most important, while for the East supplementary supplies of foodstuffs and industrial materials as well as Western technology probably play the greatest role. It is obvious that the concrete significance of these types of dependence is strongly affected by the state of the economy or the supply situation at a specific point in time.

The reciprocal nature of existing dependence becomes especially clear if we look at credit relations between East and West. There are financing desires and requirements for East-West trade on both sides: In view of existing indebtedness, both Western creditors and Eastern debtors are equally concerned with avoiding default by individual debtors and are instead interested in creating conditions that allow for a reduction of indebtedness to an economically justifiable level by means of sensible debt management. In this situation it would be quite unrealistic to assume any sort of one-sided dependence, and it is precisely a highly sensitive matter like this which shows for both sides that opportunities to exercise political influence can be very limited — in the current situation of indebtedness, economic factors are clearly quite significant.

* The Western discussion of dependence has been influenced by the difficulties of calculating the foreign trade intensities (ratio of foreign trade to national income) of the CMEA countries; these difficulties result from the separation of domestic and foreign trade prices. [25]

A crisis in East-West economic relations?

After a comparatively rapid expansion of East-West economic relations in the years 1970-75, in 1976 *stagnation* set in, and there is still no indication that this will be overcome. The present situation is characterised by a combination of unfavourable economic and political factors. In the *economic sphere*, markets in the Western industrial countries are only able to absorb goods from the CMEA area to a limited extent, owing to a decline of economic activity in the West. In the East, the transition from extensive to intensive economic development (which is being attempted but has by no means been completed in all CMEA countries) has led to a slowdown and in some cases to stagnation of economic growth. While this makes economic relations with the West urgently necessary, it also limits the East's ability to export. Because of the East's indebtedness and the difficulties which repayment has caused in some cases, compensating for these discrepancies by taking out loans to finance the potentially existing balance-of-payments deficit is either not possible at all or is only possible to a very limited extent.

As we understand the situation, the economic problems we have very briefly sketched here are sufficient to explain the stagnation in East-West trade. These difficulties are exacerbated by the fact that, since 1980 at the latest, grave doubts as to whether the policy of détente is in touch with reality have led to a considerable worsening of the *political relations* between East and West, and this in turn has led the USA to adopt a negative attitude towards East-West trade. Thus, East-West economic relations, which have been considerably weakened by economic factors, are presently also subjected to negative political influences.

If one takes a realistic approach, it is rather difficult to forecast the future development of East-West economic relations. As far as political influences are concerned, it does not appear unrealistic to hope that relations will improve in the longer term. But even if one postulates such a scenario, the difficulties of East-West trade will still be great: an improvement of the economic situation is to be expected, but it seems questionable whether this will lead to a longer, extensive period of recovery — opportunities to sell on Western markets will probably not change radically in the near future. It is conceivable that, in the medium and longer term, the indebtedness of Eastern countries can be reduced to an acceptable level, but in future it will probably not be possible to solve the problem of market imbalance between East an West by granting large new loans. So far as we can judge, necessary changes in the economic structure of the CMEA countries are also proceeding so slowly that we cannot expect them to provide any essential impulses for East-West trade in the short term.

Altogether, the present prospects for East-West economic relations should not be viewed with to much optimism. Simply maintaining the nexus of economic relations between East and West should probably be regarded as a success. This goal would appear to be realistic, above all if we think of difficult situations which have arisen in the past: on both sides, there has been and still is a strong interest in maintaining these relations.

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ПОЛИТИЧЕСКИЕ И ЭКОНОМИЧЕСКИЕ УСЛОВИЯ, ОПРЕДЕЛЯЮЩИЕ РАЗВИТИЕ ЭКОНОМИЧЕСКИХ ОТНОШЕНИЙ ВОСТОК-ЗАПАД

П. КНИРШ

В политических и научных дискуссиях неудовлетворительное состояние экономических отношений Восток-Запад в настоящее время часто объясняется как результат политических предпосылок: антагонизм между двумя политическими и идеологическими системами рассматривается как наиболее важная причина трудностей и неравномерного развития экономических отношений между Востоком и Западом.

Более детальный анализ этих политических эффектов приводит автора к выводу, что в прошлом они действительно неоднократно влияли на экономические отношения между двумя системами. Однако помимо отрицательных эффектов, обычно подчеркиваемых, можно также четко выявить и некоторые положительные эффекты, т. е. политические импульсы расширения экономических связей Восток-Запад.

Однако решающим фактором нынешних трудностей экономических отношений Восток-Занад и их перспективного развития являются экономические условия, на которых базируются эти отношения. Несмотря на политическое воздействие, истинными предпосылками для дальнейшего развития экономических отношений Восток-Запад являются взаимные экономические интересы и взаимная выгода. Одной из проблем в этой является то, что почти невозможно с достоверной точностью определить выгоды, получаемые каждой стороной. Политические аргументы, согласно которым другая сторона получает большие выгоды от торговли между различными системами, являются весьма сомнительными. Экономическая зависимость, проистекающая из экономических отношений Восток-Запад, также должна пониматься как взаимная зависимость, поэтому возможности использовать экономические отношения Восток-Запад для достижения политических целей весьма ограничены. Боязнь слишком большой зависимости от противной стороны, выражаемая иногда противниками торговли Восток-Запад с обеих сторон, не представляются обоснованной в свете опыта прошлого.

В настоящее время экономические отношения Восток-Запад страдают от структурного неравновесия. Улучшение конкурентоспособности промышленной продукции, которую страны СЭВ желают продавать западным промышленно развитым странам, послужило бы важным условием достижения более сбалансированной структуры товарооборота. К тому же задолженность некоторых стран СЭВ Западу является препятствием для развития экономических отношений Восток-Запад, т. к. в настоящее время это затрудняет беспрепятственное финансирование торговли. Эти проблеми в настоящее время усугубляются экономическим спадом в западных странах, что затрудняет сбыт продукции стран СЭВ на мировом рынке. Несмотря на эти неблагоприятные экономические условия, не следует недооценивать существенные интересы обеих сторон в сохранении и развитии торговли Восток-Запад.

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COMMENTS AND CRITICISMS

A. KÖVES

"IMPLICIT SUBSIDIES" AND SOME ISSUES OF ECONOMIC RELATIONS WITHIN THE CMEA
(Remarks on the analyses made by Michael Marrese and Jan Vaňous*)

It is a fact of basic importance for the East-European CMEA countries that not only their world economic surrounding taken in the broadest sense has changed since 1973, but also the conditions of narrower – intraregional – cooperation within the framework of the CMEA have become considerably modified. It is understandable, therefore, that the attention of Western researchers analyzing the economic situation and foreign economic relations of CMEA countries has also turned to the changing conditions of CMEA cooperation and, similarly to their East-European – e.g. Hungarian – colleagues, they wish to demonstrate that several ideas about economic relations within the CMEA qualified as commonplace previously, are outdated and do not correspond to recent facts and trends developing during the last decade.

It is understandable, too, that while Hungarian economic literature examines the changing conditions, among them the economic consequences of aggravating physical limits to purchases and the continuous deterioration of purchasing conditions within the CMEA as well as the resulting economic policy pressures first of all from a Hungarian viewpoint, others – e.g. researchers working in the United States – wish to demonstrate first of all what these changing conditions have brought for the USSR.

* Marrese, M. – Vaňous, J.: *Soviet subsidization of trade with Eastern Europe: a Soviet perspective.* Berkeley, 1983. University of California. Institute of International Studies. XXVIII + 254 p.

Marrese, M. – Vaňous, J. [1982]: *Soviet policy options in trade relations with Eastern Europe.* In the Joint Economic Committee (US Congress) Compendium. *Soviet economy in the 1980's: problems and prospects.* December 31, 1982. pp. 102-116.

The nature of subsidization

Two American researchers, Michael *Marrese,* Professor at the Northwestern University, and Jan *Vaňous,* Senior Economist of the Wharton Econometric Forecasting Associates examined trade within the CMEA from this latter viewpoint. According to their computations the USSR have granted rapidly growing *implicit subsidies* to East-European countries during the last years, i.e. delivered raw materials and fuel to them more cheaply than the prices to be attained on the world market, while they bought industrial articles (mainly machines) at higher prices than at which products of *similar* quality and modernity could have been purchased from the West. According to their data Soviet subsidies granted to the six smaller European CMEA countries have been rapidly growing since 1973, but especially following the second oil price explosion; in 1971-1972 they had not yet reached 1,000 million dollars per year, in 1973 they amounted to 1,600 million dollars, while between 1974 and 1979 they reached yearly 5-6 thousand million dollars. By 1979 they rose to 10.4, by 1980 to 17.5 and by 1981 to 18.6 thousand million dollars and amounted even in 1982 to 15 thousand million dollars. The total of implicit subsidies granted by the USSR between 1973 and 1981 several times exceeds the cumulated deficits in the balance of trade of the other CMEA countries with the West.

The essence of "implicit" subsidization lies — according to their explanation — in that the Soviet terms of trade in the turnover within the CMEA are more unfavourable than in her trade with the West. The reason for this is that the USSR is willing to export more of hard products than to import and to import more of soft products than to export in the trade within the CMEA. Thus, the "implicit subsidy" is a burden of "opportunity cost" nature, that is, it is the price the USSR pays because it transacts a part of her foreign trade with the six smaller European CMEA countries not at world market prices, but at contractual prices fixed within the CMEA.

The implicit subsidy is, therefore, equal to the amount by which the value of Soviet exports to the six countries computed at world market prices (used in East-West trade) exceeds the value of the same exports measured at CMEA prices, plus the amount by which the value of imports from the six countries computed at world market prices is smaller than the import value computed at contractual CMEA prices. It is possible in this way that while, according to official statistical data, the foreign trade of the USSR with the six countries showed only a small surplus in the 1970s, the balance of trade computed at hypothetical, world market prices indicates an enormous surplus, i.e. a hidden or implicit subsidy.

Of course, this does not mean much more than quantification of the well-known fact, using a large statistical and econometrical apparatus, that, should they have been forced to buy raw materials and fuel at world market prices against dollars an to sell the industrial goods produced by them in the West, the six smaller European CMEA countries would have faced even more serious economic difficulties than they have been in reality. The measure of implicit subsidies indicated by Marrese an Vaňous and especially their sudden increase in recent years gave an opportunity for further conclusions among American economists: according to

them the economic dependence of small CMEA countries on the USSR suddenly increased. Namely, the greater the difference between CMEA and world market prices in favour of the former, the more expensive and burdensome the development of relations with the external world for these smaller countries will be, and the stronger reasons will speak in favour of solving their economic problems to the greatest possible extent within the framework of cooperation within the CMEA.

From the viewpoint of American politics this is a very interesting issue: to the extent the unavoidability of turning inward becomes true, will also the concept of differentiation, having a very important role in contemporary US politics concerning socialist countries, become senseless. Why should any distinction be made among countries which can not follow deviating policies themselves?

The computations performed by Marrese and Vaňous attracted great attention and provoked fierce discussion among American researchers dealing with socialist countries. Discussion was going on both about questions of principle connected with the interpretation of the notion of implicit subsidies and about the computations. For example, Paul *Marer*, Professor at Bloomington, is, similarly to several others of his Western colleagues, of the opinion that the authors considerably overestimate the measure of subsidization of trade in industrial goods within the CMEA. This is not a negligible objection, because, according to the computations of Marrese and Vaňous, for example between 1975 and 1979 at least 44 percent of all subsidies were every year created in the trade in industrial goods.

"Implicit subsidies" and economic advantages

How should implicit subsidies be interpreted? Marrese and Vaňous definitely warn against an extended interpretation of their results of the analysis. "Implicit subsidies ... do *not* constitute a quantitative judgement of the extent to which individual CMEA countries are better off owing to CMEA association with the Soviet Union." This viewpoint cannot be emphasized enough. Not only because Marrese and Vaňous examine only "implicit subsidies" arising in Soviet-East-European trade and do not deal with the fact that East-European countries themselves, too, may grant "implicit" or explicit subsidies in other relations also owing to their association with the CMEA. A more important viewpoint than this is that dynamic advantages and disadvantages resulting from economic relations should not be judged only on the basis of foreign trade prices. No doubt, it was very advantageous to buy oil from the USSR at half of world market prices – and against rouble payment –, but if this oil is used for example as the fuel of trucks whose specific consumption is about double of the average international consumption level, then this advantage will disappear. Of course, it is also true that in the short run the trucks available in a country should be filled with the possible cheapest fuel. But, in the longer run trucks with high fuel consumption (in general terms a less efficient energy consumption and a too energy-intensive economic structure) are a consequence of the same system of economic relations that enabled buying oil cheaper than on the world market.

The fact that smaller CMEA countries cover the decisive part of their raw material imports from Soviet deliveries was not some independent decision on "raw material policy", but an inseparable part of an entire economic policy concept of more than 30 years and of the system of relations within the CMEA. This policy and system wished to solve the problem of economic growth, technological development, modernization and the raising of living standards not through an active participation in the world economic division of labour, but by setting the target that member countries produce themselves as great a part of goods required for their community as possible. This concept — resulting from the very beginning in the fact that trading with each other meant a decisive part of the total foreign trade of the CMEA countries — had several consequences inseparable from each other. The fact, that the six smaller CMEA countries buy the decisive part of their imported raw materials required from the USSR and deliver a considerable part of their export manufactures to the USSR, too, is part and consequence of the same process that determined the development of the economic structure in the individual countries, their efficiency level, major trends of technological development, the saleability of manufactured industrial goods on the world market, etc.

Thus for a proper judgement of advantages and disadvantages of relations within the CMEA a much more complex system of criteria is suitable than the mere comparison of internal and world market prices. Of course, the criteria themselves may change depending on economic policy priorities of the individual countries. In the long period when the most important endeavour of East-European countries had been fast economic growth, it was justified to consider relations within the CMEA first of all as growth impulses. Fixing mutual delivery estimates for the long run could be an important factor in the powerful and balanced growth of the individual countries as long as dynamic export expansion to the large and safe CMEA market could rely on the fast expansion of imports, and until purchasing conditions did not change, or even if they did, this could be foreseen for a longer run. It could be said with good reason that the security of supply and sales constituting a basic precondition of fast internal growth was a very positive feature of CMEA cooperation for the smaller countries. It is a different question that the development policy was aimed not at intensifying world economic relations, but at import-substitution at regional (CMEA) level and this effort pushed the raising of efficiency to the background despite all opposite declarations.

For example, the security of sales within the CMEA was only one consequence of a process which, on the other side, — on markets outside the CMEA — became a source of considerable uncertainty of sales. Namely, it is well known that development oriented to CMEA markets required a different economic (sectoral and product) structure than increasing exports to the world market (and thus the latter as a development policy goal was neglected). *It raised different requirements towards quality and the assortment of goods as well as towards marketing and — which is perhaps the most important — therefore, other economic mechanisms, relations between economic control agencies and enterprises, different enterprise and individual behaviour,* what is more, in many respects even other social policy priorities, science and educational policies were required and developed than those which could

have served for successful activity on Western markets and for safe and profitable sales there.

The importance of all these considerations grew especially when – from the mid-1970s on – the growth-maintaining role of CMEA cooperation diminished in East-European countries (see later), and the major concern of these countries was to manage their debt stock in convertible currency and to increase their exports to the world market, respectively.

Examining the entire issue from the viewpoint of these latter concerns, advantages and disadvantages of CMEA cooperation may be discussed in two approaches. On the one hand the issue may be analyzed how the statistically measurable *real processes* taking place in the trade between CMEA countries affect in their totality the possibilities of East-European countries in the trade realized in hard currencies. As will be seen in later parts of this article also in detail, the author of the present paper holds the view that in this respect the changes that have occurred in recent years in CMEA cooperation have had mainly unfavourable effects – despite the advantageous deviation between CMEA and world market prices. On the other hand, the *system of cooperation* may also be examined from the viewpoint whether it promotes, and to what extent, an improvement of the export capacity to the world market of member countries (or, meaning the same, the ability of economical import-substitution). In this connection a categorical statement should be made: in the situation of serious indebtedness of the CMEA countries towards the West it is especially unfavourable that the reform proposals of the 1960s aimed at the strengthening of commodity (market) and monetary relations in the CMEA cooperation were not implemented, what is more, in the last decade rather opposite development processes took place within the CMEA.

Mentioning only one generally known example: in the system of trade within the CMEA relying on bilateral inter-state agreements the drawing up of commodity lists and the fixing of quantities of goods to be delivered precede price agreements both logically and historically. In the complicated system of "linked" buying this means from the very beginning that a certain commodity is not qualified by its own properties, but by the fact *what concrete goods may be obtained against it,* or – in other words – the import of which product would become impossible if a given commodity were deleted from the export list. Therefore, the fact whether a given product is exported or not does not depend on the price that may be attained, nor on the profitability of the given export deal (which alone may not even be interpreted), but on national economic considerations or, more precisely, on the particular logic of the given system of bilateral relations. It is understandable that this practice renders the modernization of the production pattern highly difficult, and may preserve outdated, inefficient structures. Therefore, prices and relative prices included in inter-state agreements concluded in this way are influenced mainly by the requirement of bilateral equilibrium and not by properties of the goods. Thus they do not even properly reflect nor make comparable performances materialized in various goods (what is more, prices of the same product may be deviating by countries as a consequence of bilateralism), that will not necessarily remunerate better and more up-to-date products, nor sanction

weaker and outdated ones. All this strongly limits the motivation of exporters (and also their endeavour) to increase their receipts through better performance, new products or by raising the technological level of the given product, by better quality, etc.

Therefore, this mechanism largely impedes efficiency-oriented development, so important from the viewpoint of world market relations, that could be realized only by continuously changing existing production patterns on the basis of international demand and cost relations. Besides, the non-market character of CMEA cooperation has a double negative effect on exports to the West also directly. On the one hand, products manufactured for socialist export may mostly not at all be sold also on the world market or only with considerable modifications. The problem of qualitative discounts mentioned in the book by Marrese and Vaňous is connected with this. On the other hand – and we consider this to be even more serious – with the manufacturing of products unsaleable on Western markets in increasing quantities *micro-economic* adjustment to changing world economic conditions becomes extraordinarily difficult. Namely, this adjustment would require such enterprise development and production policies, the development of such forms of behaviour, of interestedness and forced mechanisms as well as of abilities, etc. that radically deviate from those usual in CMEA cooperation.

On the interpretation of CMEA price trends after 1973

Implicit subsidies do not contain, therefore, any value judgement on dynamic advantages and disadvantages of cooperation within the CMEA according to the authors, but they indicate "what amount the Soviet Union is willing to transfer to the six CMEA countries in order to ensure the continued receipt of non-market benefits from Eastern Europe". Here the authors think, naturally, of the defense, political and other advantages which are also called "non-conventional commercial benefits".

What causes more problems here is the formulation of the issue as the "willingness" of the Soviet Union. As it is indicated also by Marrese and Vaňous, a considerable part of implicit subsidies after 1973 did not result from Soviet determination, but was a consequence of price increases by the OPEC, thus they make a distinction between desired and undesired subsidies. World market oil prices increased so rapidly that even the change-over to a sliding price basis in 1975 could not prevent the difference between world market and CMEA oil prices from growing between 1979 and 1982, though this change-over was precisely aimed at adjusting CMEA prices to those prevailing on the world market more rapidly than previously, i.e. at relatively rapidly eliminating or at least not increasing too much the "implicit subsidies."

The fact that this new pricing mechanism could not attain its goal is due exclusively to the OPEC and was not connected with any intra-CMEA development. Of course, in principle the finding of a pricing formula could have been imagined that would have even more accelerated the process of adjustment to world market prices. The fact that no such development took place is, in the opinion of Marrese

and Vaňous, one of the most important evidences that the increase of implicit subsidies is not only a fortuitous consequence of the pricing system for intra-CMEA trade, but also a deliberate decision made by the USSR. In this statement it is also remarkable that the authors speak about a Soviet decision and not about the result of a bargaining process, though they interpret "implicit subsidies" not as some kind of assistance, but as an element of a complicated system of relations based on various interests, where the USSR grants commercial advantages ("implicit subsidies") against non-conventional benefits from trade. As a matter of fact, this concept precisely means that the Soviet Union has no possibility to decide *freely* whether to deliver her exportable commodity funds to CMEA countries paying in roubles or to the West where payment is made in dollars. Therefore, the determination of commercial terms (in other words, of the measure of "implicit subsidies") is obviously the result of a mutual bargaining process.

But, independently of the mechanism of price decisions in the CMEA, a repeated revision of the price system – precisely amidst the second oil price explosion – could have hardly been justified. Namely, the increase of "implicit subsidies" had nothing to do with whether the exportation of oil to CMEA countries would have meant more costs, effective burdens or sacrifice for the Soviet Union. On the contrary: while "implicit subsidies" increased, also CMEA prices were raised continuously and significantly. "Implicit subsidy" does only mean that CMEA exports bring less income as compared with export to other – Western – countries. However considerable losses of income were, revenues from oil exports were enormously growing in the meantime, both in convertible currencies and transferable roubles.

In such a situation the fact that price increases were not accelerated to a greater extent than it followed from the pricing mechanism valid since 1975 did not result at all from some intention of granting subsidies, but may have simply been an indicator of a realistic evaluation of the given situation. What could have been the consequences of additional oil price increases within the CMEA? It could have hardly been expected that importing countries would have reduced for price reasons the amount of oil purchased and thus the USSR could have increased her oil exports to the West. (For the regrouping of export commodity funds – when it became inevitable resulting from her foreign exchange situation – it was not necessary for her anyway to stimulate importers for saving through a price increase). Therefore, the only sense of a price increase would have been that oil importing countries ought to have increased their exports to the Soviet Union at a faster rate in order to compensate for more expensive oil. However, owing to the deterioration in their terms of trade the quantitative increase of their exports to the Soviet Union considerably exceeded that of imports anyway. Their burdens were increased also because in recent years the Soviet endeavours aimed at a "hardening" of their deliveries have become much stronger. Let us only think of "investment contributions" or of the fact that on Soviet part demands are formulated more and more definitely that these countries should transform their export structure in a way that would necessitate not only a greater increase of the dollar import contents of their deliveries to the Soviet Union than previously, but also result in a pushing into background of several such sectors which have been

developed dynamically up to now precisely according to Soviet demands. Resulting from all this it is more than doubtful how far smaller CMEA countries could have been able – if at all – to accelerate additionally their exports under circumstances of a slower (stagnating) economic growth and indebtedness towards the West, especially in branches whose products are demanded first of all by the Soviet Union. Thus, the raising of the oil price would have only led to an increasing indebtedness of importing countries towards the Soviet Union which is not a preferential objective of the Soviet Union in views of the cooperation mechanism within the CMEA.

Another way to reduce implicit subsidies is a quantitative reduction of deliveries themselves. In this context it should be emphasized not only that in 1982 also this occurred in connection with the most important raw material, namely oil, but that – at least from the mid–1970s on – intra-CMEA trade has been characterized precisely by the *limitation of Soviet deliveries of hard goods* (in some cases by stagnation or reduction, while in others by a decreasing rate of growth.*

In other words: if Soviet-East-European economic relations of the last decade are examined, then – using the terminology of Marrese and Vaňous – Soviet endeavours aimed at the limitation of implicit subsidies should be considered most characteristic. And, what the authors call willingness to grant subsidies – especially in respect of oil and raw material prices – is nothing else but that the *process of hardening terms of delivery has not accelerated to the same extent as world market oil prices "exploded".*** Our most important remark concerning Marrese's and Vaňous' statements is the following: the numerical result reflecting effects of the price explosion on the world market diverts attention from the fact that in intra-CMEA economic relations precisely a process opposite to the one in the centre of their investigations has been taking place from the mid-1970s on.

Soviet raw material exports and economic relations within the CMEA

It is another question that the limitation of Soviet deliveries of hard goods raises several complicated problems also from the Soviet viewpoint. According to the aforementioned theorem of Marrese and Vaňous the source of implicit subsidies is that the USSR "has been willing to export more hard goods to Eastern Europe than it imports from Eastern Europe and to import more soft goods from Eastern Europe than it exports to Eastern Europe." This statement in itself naturally holds. But what may be the explanation for this willingness? In other words, how can it be explained that the paricular structure of trade between the Soviet Union and Eastern Europe, developed at the very beginning, has been maintained

* On the limits to and the deteriorating conditions of purchases within the CMEA see [1].

** When writing this paper – in spring 1983 – we already know that oil prices may move also downward. Thus it may be also imagined that a slower adjustment of oil prices to world market ones will now become a stabilizing factor for the exporting economy.

ever since then that may be characterized among others by the circumstance that USSR has undertaken the role of raw material exporter — partly against deliveries of industrial goods by the other countries?

Judging from frequent Soviet manifestations this depended by no means on Soviet intentions and concepts. As Marrese and Vañous write, this structure had already been judged disadvantageous by the Soviet party even in the 1950s. And, from the late 1960s and early 1970s on Soviet researchers have been declaring that economic relations within the CMEA could not properly develop in the future if the main field of trade remained the exchange of Soviet raw materials for East-European industrial goods also further on. Only mutual trade in industrial goods may be a dynamizing factor of the turnover. Looking back to recent developments there is no doubt that their warning has been justified: the slowing down of the growth of Soviet raw material production — despite all efforts of importers — has led to a gradual slowing down of the quantitative growth of Soviet raw material exports to CMEA countries, then to stagnation, what is more, to setbacks in several fields.

However, this slowing down has not been accompanied by an increased importance of Soviet industrial exports. The increase of Soviet industrial exports to CMEA countries had traditionally not depended primarily on the purchasing intentions or willingness of importers, but on the Soviet export supply: namely, whether it proved to be quantitatively enough and to what extent it corresponded to the changing needs of importers as regards its structure and up-to-dateness, assortment, terms of delivery, etc. The difficulties were largely similar — at least in their character — to those impeding also the development of Soviet exports of industrial products to the West.*

This situation has not changed considerably even after 1973, though, because of their increasing indebtedness, East-European countries tried to replace the imports of industrial goods from the West by those coming from the CMEA and thus looked even more intensively for possibilities of increasing purchases from the Soviet Union. The failure of this endeavour may be explained partly by reasons inherent in the commodity pattern and by those resulting from the mechanism. Namely, first of all intermediate products would have been needed, but, for reasons lying in the cooperation mechanism of the CMEA, the trade in intermediate products is the most backward part of the overall CMEA trade. On the other hand,

* The question may be raised why these difficulties in the trade within the CMEA impeded the delivery of industrial goods by the Soviet Union to a greater extent than that of Eastern European countries despite a more or less identical level of their industrial development? The answer may be found not so much in deviating sizes of absorptive markets, but rather in the fact that while industrial development in the East-European countries has been going on in the last more than thirty years first of all on the basis of Soviet demands and taking the possibilities of the Soviet absorptive market largely into consideration with regard to sectoral structure and commodity pattern, the technological standards and quality of export goods and the lot size of production, too, Soviet industrial development has been mostly motivated by the satisfaction of domestic needs. It results from this fact alone that while certain up-to-date products and equipments are not manufactured in the Soviet Union, others may not be obtained from there not because they are not manufactured, but because they are not manufactured in a quantity that would also enable exports; thus the structure of Soviet export supply considerably deviates from that of the imports of smaller countries.

the situation of Soviet-East-European trade as developed by the turn of the decade was not favourable for the coming to the fore of Soviet exports of industrial goods either. Approaching the issue from the side of Soviet priorities it may be stated that the importance of increasing the export of industrial goods has diminished in the development of the balance of trade (with CMEA countries) owing to the shift in the relative export prices of the USSR in favour of raw materials and fuel prices. Rising export prices of raw materials resulted in such additional income even with stagnating export volume that made the increase of income to be attained through the quantitative growth of industrial goods export seem insignificant. Because of the limited export capacity of East-European countries it was no use forcing Soviet exports of industrial goods. This — similarly to a raising of oil prices at a faster rate (see above) — would presumably have only led to an increased indebtedness towards the Soviet Union and not to an acceleration of imports from Eastern Europe. What is more, this increase of Soviet exports would have been much more difficult even than previously, since the growth of industrial production has slowed down in the USSR since the mid-1970-s — and especially considerably since 1978 —, technological development has slowed down and domestic economic tensions increased.

If we add to all this that Soviet food exports to the CMEA countries, previously of a considerable volume, have fallen to a minimum in the 1970s, then the Soviet "willingness" to maintain a permanently positive balance in the trade in hard goods within the CMEA (and a permanently negative one in the trade in soft goods) can be put in another light. It turns out that this in not primarily an indicator of willingness to grant "implicit subsidies", but the only real alternative to avoid a setback of trade within the CMEA. Even so, intra-CMEA trade has been disadvantageously affected by the effective slowing down and stagnation of Soviet raw material exports. A more radical reduction of this — under the slogan of more balanced trade in hard and soft goods — would have endangered the maintenance of the material basis on which Soviet-East-European economic cooperation is built and would have led to a considerable setback of this trade and that is obviously contrary to Soviet intentions and endeavours.

Consequences for foreign economic policy

As it has already been mentioned, Western authors consider the size of implicit subsidies — beside indebtedness and forced economic restriction — as an important argument to support the forecast according to which the economy of CMEA countries will develop in the spirit of considerable turning inward of regional dimensions in the decade to come.

The fact that arguments for turning inward — or, more precisely, those emphasizing the difficulties of an extroversive policy opening towards the world economy — are rather weighty may hardly be disputed.* Smaller CMEA countries are seriously indebted anyway and they are, therefore, forced to restrict their im-

* Concerning these arguments and counter-arguments see more details in [2], [3].

ports from countries with convertible currencies, meaning that only the most necessary goods will be imported from outside the CMEA (or even these will not). Another argument in favour of the restriction of these imports, what is more, of their replacement by CMEA imports as much as possible is that there is an enormous difference between the prices of the two markets.

If oil within the CMEA costs only half of that on the world market (moreover, it may be paid for with roubles that may be relatively easily produced), then there will be nobody making a decision that oil should be nevertheless be bought for example, instead of the USSR from Saudi Arabia, (partly or entirely) at world market price. Even if price differences are much smaller than in this example – as in the case of most other raw materials –, there can be no doubt that cheaper CMEA goods will be favoured. What is more: even if prices within the CMEA are nominally identical with world market ones, rather purchases from the CMEA countries will be chosen until terms of payment and compensation are more favourable here.

If, however, the price difference is insignificant, then "implicit subsidy" as an argument necessitating turning inward loses much of its importance. It is important, therefore, that the sudden increase in the value of "implicit subsidies" after 1979 proves to be only temporary in all probability. Reduction in the world market price of oil may eventually lead to a situation already in the nearest future when, with the contemporary mechanism of price determination, oil prices within the CMEA would exceed world market ones. Therefore, the issue of "implicit subsidy" and the connected necessity of turning inward, respectively, would be taken off the agenda.

However, our main objection to the system of arguments in question is not connected with the problem how world market prices will develop in the future, but with the interpretation of economic processes taking place within the CMEA. The logic of argumentation is the following: The enormous extent of "implicit subsidy" makes Western imports expensive relative to purchasing from CMEA countries. This price difference has a prohibiting effect. There is no possibility to *choose* Western imports instead of (or beside) the Soviet ones. No other *decision* can be made than that in favour of the Soviet import. Any other decision would lead to unfeasibility in the given economic situation.

However, this argumentation simplifies processes taking place in economic relations within the CMEA to an exaggerated extent. It considers the development of "implicit subsidies" as by far the most important process which determines alone trends of possible decisions on foreign economic policy for the importing countries. In fact, however, the limits and possibilities of action of the latter are jointly determined by several processes simultaneously taking place in CMEA relations: first of all by the restriction of import possibilities and the considerable increase of import prices (by the deterioration of their terms of trade), to which implicit subsidies may be added as a complementary viewpoint.

In the context of our topic it may be said that the fact and extent of "implicit subsidy" is no proper argument for introversion, because, however it may follow from price differences that it is expedient to choose CMEA imports and not Western ones, such a choice does not exist at all for the economic policy of CMEA

countries: they cannot make any decision which could really influence (slow down or stop) the limitation of purchasing possibilities within the CMEA due to reasons beyond their control, and especially not with regard to hard goods important from the viewpoint of "implicit subsidies". This is one of the most important lessons of the last decade for them, since all of them have tried to widen their purchasing possibilities, or at least to avoid their narrowing and to maximize imports of goods necessary for them from CMEA countries.

What is more, precisely the limitations of purchasing possibilities necessitate forced decisions on their part. However, they have to and can decide not on how to choose between CMEA and Western imports, but on their choice of action if CMEA imports become more expensive (with hardening terms) and it is impossible to increase them, what is more, even some reduction may be reckoned with. What should they choose: Western imports, domestic restriction, rationalization (mostly also connected with Western imports), eventually something else or some combination of all these possibilities (usually happening in practice). Truly, it is becoming more and more difficult to choose Western imports (or anything with Western import consequences) in some countries even impossible in the given payments situation, *but not because of implicit subsidies*, since Western and CMEA imports may not compete with each other.

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BOOK REVIEWS

KORNAI, J. – MARTOS, B. (eds): *Non-price control.*
Budapest, 1981. Akadémiai Kiadó. 334 p.

KORNAI, J.: *Növekedés, hiány és hatékonyság* (Growth, shortages and efficiency.) Budapest, 1982. Közgazdasági és Jogi Könyvkiadó. 155 p.

These two books contain the latest results of a research programme evoking great interest. The basic principles of the research programme are laid down in János *Kornai*'s book entitled "Anti-equilibrium", setting as its aim the "dethronization" of the theoretical school of general equilibrium and the establishment of an well-founded economic theory unobjectionable also mathematically. Kornai and several of his colleagues have been working on the implementation of this scientific programme with exemplary persistency since the late 1960s and this required a two-fold activity. On the one hand, certain conceptual and methodological clarification was required and on the other, the interpretation of theoretical results already available in a wide range, the explanation of real phenomena by means of theses and concepts of theory. Because of this endeavour both books to be reviewed are closely connected with János Kornai's work entitled "Economics of shortage". The reader may meet several such ideas and models when reading the above two books which he could have already found in the "Economics of shortage". As regards the entire research programme the volume of studies "Non-price control" contains mainly papers preceding the "Economics of shortage" in time and founding it, thus providing so-to-say a mathematical, methodological "technical" background. However, "Growth, shortages and efficiency" is a further development and a discussion from another aspects of the central problems of the "Economics of shortage".

Beside thematic connections both books are characterized also by close methodological and mathematical links. This is natural, since expounding some theory cannot be independent of the mathematical model or system of models aimed at its description. It is obvious that the verbal formulation of theory predestines the mathematical model. On the other hand, however, the mathematical model also reacts upon the verbal side of theory, since the "apparatus" raises several problems, reveals many deficiencies and stimulates further reasearch. A verbal theory and its mathematical "guise" will become inseparable after a certain time and it is almost impossible to determine where economics and where mathematics begin. A good example for that is the "marriage" of the theory of general equilibrium and of convex analysis whose result is a great part of contemporary mathematical economics. The union of the two theories was so much fortunate that the bright mathematical apparatus is able to hide eventual deficiencies of the economic side of the theory, while from another aspect the series of pure mathematical theorems may be interpreted by notions of the equilibrium theory (for example, conceiving the dual solution as shadow price).

A part of the mathematical explanations to be found in both books – mainly in the first one – may seem clumsy for readers not well versed in mathematics. The authors often emphasize that the formal building up of the theory may by far not be regarded as finished, what is more, they are practically making only the initial steps. The mathematical formulation of a theory is not a simple task at all, several attempts are needed until the final form that may be regarded "classic" is obtained. The equilibrium theory needed almost 80 years for finding the adequate mathematical apparatus, even though excellent mathematicians dealt with the solution of the problem (*Neumann, Wald,* etc.).

Mathematical reflections of the basic concept of both books will be dealt with also later on; I would only note here that the majority of models described tries to use the classical apparatus of technical control theory in the field of economics. In my judgement by expanding the apparatus and drawing modern chapters of systems theory into the work there would be perhaps some possibility for a more significant methodological breakthrough. The modern theory of dynamic systems, e.g. theorems connected with structural stability would be especially useful in my opinion.

Beside close connections resulting from the common start there are also several deviations between the two books. The most obvious one may be found in the form of the two books. While the "Non-price control" is a volume of studies containing papers written by several authors (András *Bródy*, István *Dancs*, László *Hunyadi*, Zsuzsa *Kapitány*, János *Kornai*, Béla *Martos*, András *Simonovits*, József *Sivák*) at various dates, and then integrated by editors, "Growth, shortages and efficiency" is the work of a single author and contains a single model. This latter may be recommended to anybody without special mathematical knowledge, while the reader of the former may find occasionally also more abstract and complicated mathematical explanations.

The most important difference is, however, that while "Growth, shortage and efficiency" shows socialist growth at macro-level by means of aggregate variables, models of the other volume are usually independent of the capitalist or socialist character of the surrounding economic environment and give models for general rules of quantitative adjustment taking place in economic units.

It is already a commonplace to state that the task of scientific theories is an explanations of phenomena observed. When an economic theory – however indirectly – begins with the explanation of phenomena, it is forced to answer either implicitly or explicitly the question why phenomena may be observed at all. Why can a certain stability be experienced in each society? If external, drastic effects – whose role and importance it would be a mistake to underestimate – are disregarded, then the most important experience of an economist examining the economy and wishing to explain it is the temporary stability of the structure of the economy. At this point two remarks should be made. On the one hand, this "structural stability" should not be mixed up with the notion "well functioning in a stable manner". The notion of stability includes also the notion of an economy functioning badly or only partly satisfactorily in a stable manner. On the other hand, it is important to emphasize the time horizon of stability. Measured on a historical scale, economic phenomena may obviously change drastically. Revolutions and wars may radically change the character of a society. Measured on a human scale, however, phenomena of the economy are not changing too rapidly. In an economy where the instability of luck is far too obvious and the circumstances are changing extremely rapidly, all kinds of economic activity will soon cease.

The answer of the equilibrium theory to the above phenomenon of stability is well-known: equilibrium will be attained both at micro and macrolevels as a resultant of the joint activity of a large number of *homines oeconomici* acting in the economy. The main tools of the development of equilibrium are market and prices.

Since Kornai rejects the conceptual system of the equilibrium school, he obviously cannot accept the above answer. Kornai chooses the above stability as a starting point for his entire theory. The reason for the "stability" of economic systems (and thus a basic component of economic processes) is the "vegetative" functioning of these systems. A fundamental way of manifestation of vegetative funtioning is adjustment to norms. Norm and stability! These two closely connected notions link the two books, subject to the present review, inseparably together. The close relationship between these two notions provides the basis and pillar of the entire concept.

Any property of the economy existing over a long time will sooner or later become permanent and a norm of action or behaviour, independent of whether it is good or bad, efficient, profitable or uneconomical. On the other hand, however, any norm is necessarily stable – precisely because it is a confirmed behavioural rule. Any deviation from the norm will generate, through a negative feedback, forces acting in the direction of the norm and direct the system toward the norm. Norm is, therefore, a dynamic-notion and characterizes dynamic features of economic systems. The state of equilibrium is – as against the normal state – a static notion and does not reflect dynamic features of the system. But, a normal state – as regards its origin – may be imagined only in a dynamic system. If the system is not dynamic, stability will lose its sense and thus also the category of normal state becomes meaningless.

The dynamic character of Kornai's concept implies the mathematical apparatus of modelling in a natural way. Each of the models of the authors presents the economic processes by means of differential or difference equations. Because of easier mathematical handling most of the equations are linear. The equations may be divided into two groups: those describing the movement of the real sphere and of the control sphere, respectively. Equations of the real sphere are usually simple balance equations representing direct relationship between the variables. The hard core of the system is the control sphere reflecting behavioural rules of economic persons. The most important component of the equations is the negative feedback term describing the return to the norm.)

Investigations connected with the equations may be divided into two groups: feasibility investigations ensuring the solution of equations, on the one hand, and the determination of constraints ensuring the stability of normal state on the other. (András *Simonovits*'s paper deals with the close connection of the two notions and their particular dualism, according to which, if we wish to improve the stability properties of a system, then this may be done sooner or later only at the expense of its viability. The complementarity of the two notions gives a fundamental qualitative information on the natur of control by norm.)

The basic concept – the criticism of the equilibrium theory – appears at each level of model building. It is especially striking in the selection of variables to be examined. In most models categories of value character are either not included at all or their role is apparently only secondary. All the variables in the focus of models (stocks, shortage) are either unknown in the equilibrium theory or their role is negligible. Let us consider as an example the first model of the volume "Non-price control" whose authors are János *Kornai* and Béla *Martos*.

The central variables of the model are stocks. Their movement and changes determine the dynamics of other variables. This alone means a complete break with the view of the equilibrium theory handling stocks only by the way. This contrast is especially striking if we take into consideration that not simply stocks are included in the models, but input and output stocks are handled separately. This distinction of input and output stocks is completely alien to the equilibrium approach, since there resources and products of production are simply only factors of demand and supply. This schematic handling of stocks overshadows the fundamental role of stocks in the life of enterprises.

The way of modelling consumption also results from the deviation from the basic principles of the equilibrium theory. Most of the models of the equilibrium theory concentrate their investigations on the development of consumer demand. The majority of mathematical difficulties result precisely from the modelling of consumer behaviour. In a sharp contrast to this the role of consumption is secondary in this model and also other models of the volume do not at all model the consumer sector or consider its role immaterial.

The model has two forms, the so-called KM-1 and KM-2 models which deviate from each other only in the control sphere.

Differential equations describing the real sphere describe the development of output stocks, input stocks and consumer stock, respectively, in the form of simple balance equations. For example, changes in the output stocks of the producer may be obtained if consumption and purchases of other enterprises are deducted from production, or changes in the input stocks may be obtained if the input demand of current production is deducted from purchases.

Equations of the control sphere describe the development of production as well as of enterprise and consumer purchases. I believe that an exact understanding of the contents of these equations may largely contribute to the understanding of the entire theory. Equations of the control sphere show the principle of vegetative control in a pure form – expressed in mathematical language. Let us consider, for example, the equation describing production! Changes in production will equal to the sum of changes in enterprise and consumer purchases – being practically identical with the changes in market demand – plus the term describing changes in the output stocks (while emphasis should be placed on this plus). If the term representing changes in stocks is disregarded, then a trivial identity of the equilibrium theory will be obtained: demand is equal to supply. All the novelty may be found in the term reflecting changes in output stocks which indicates the principle of negative feedback. The norm of output stocks is given, it is an external constant. If the actual level of stocks is higher than the normal level, then this prompts to a decrease of production, while if the actual level of stocks is lower than the normal one, then this prompts to an increase of production.

I used the word "prompts" deliberately.

The level of stocks does not affect production directly. But through processes taking place in the heads of economic participants. (This is why it is in the control and not in the real sphere.) The worry of the "storekeeper" because of the lower than usual level of stocks will be realized and becomes a factor increasing production. It should be repeatedly emphasized, however, that the first term of the equation is an identity reflecting the equality of demand and supply. If, for example, the storekeeper is not worrying about the development of stock level, then the negative feedback term does not exist at all and the equation may be found not in the control, but in the real sphere. This remark also refers to other equations of the control sphere. If equations do not contain a negative feedback term, that is, if the development of certain variables, their deviation from the normal value realized by the people do not induce material processes, then all equations of the control sphere will get into the real sphere and the remaining model will consist of simple balance equations.

The model KM-2 and that of *Dancs, Hunyadi* and *Sivák* examine the control sphere somewhat more generally and allow that the development of the level of stocks does have an effect on production, too. That is, if, for example, the level of stocks is decreasing, then this induces the increase of production. The stability properties of the model complemented in this way are a little better and since the entire principle of vegetative control is based on the stability of the normal state, it has a great importance. The role of these damping factors is especially striking in the latter study. This model differs from the KM-2 model only in that while KM-2 describes the economy by means of differential equations, the model of Dancs, Hunyadi and Sivák does so by means of difference equations and thus also lags are taken into consideration. An uninformed reader is inclined to pass over the difference in thinking that this difference is merely a technical, and not an essential one. However, one of the illuminating results of the volume is precisely the realization that this difference is of fundamental importance, since it alters the stability properties of the model. The seemingly formal rewriting completely changes the model as the structure of the flow of information is thus changed.

It may be shown that there are many superfluous equations and variables in models KM-1 and KM-2, respectively, and the equations may be reduced to simple equations of second order and the reduced equations may be given simple physical interpretations. The role and importance of physical interpretations as well as their part in economic thinking were often emphasized by Kornai also in the "Economics of shortage".

The models of András *Bródy* and Béla *Martos* are also connected with the models KM-1 and KM-2. The original model is complemented and compared, respectively, with models where not only quantitative, but also monetary variables influence the behaviour of enterprises.

The book "growth, shortages and efficiency" by *Kornai* is also built on the principle of control by norm and nagative feedback. The model described it in deals with several explicitly topical economic problems. I would like to mention only one of them: examination of the intensive and extensive stages of development as well as a comparison of both kinds of growth. There are even several reasons for this selection. On the one hand, this is the most important of the tasks socialist economies are face with, problems of the change-over to intensive development are the most topical, and, on the other hand, also from theoretical viewpoint it is this problem around which the most significant new observations may be grouped.

The principle of control by norm and the model based on it are relying on the explicitly given, fixed character of norms. If the norm of behaviour is given, then the economy will behave itself accordingly. But how do norms develop? What is the role of norms at the beginning of a new era? I think that the topicality of these questions may not be queried!

In Kornai's presentation the socialist economy accompanied by permanent shortage phenomena will sooner or later knock against the ceiling of full employment in the course of its growth. This is absolutely necessary and results from immanent properties of the system. The investment drive, the almost never satisfied demand for investment goods, related shortage phenomena and the lack of efficiency will sooner or later lead to the full absorption of labour reserves. Lasting shortage phenomena may be experienced in the economy accompanied by similarly lasting under-utilization of capacities. These two phenomena, shortage and slack belong together and mean two sides of the same phenomenon. The system tries to break out from the "efficiency paradox of shortage economy" through permanent growth, but in vain, since it always falls back into the same trap and is unable to leave its own normal path. Until labour reserves are abundantly available and

there are no special obstacles to growth it may be realized at an even rate along the normal path. As a matter of fact, problems are never solved and the normal value of shortage is growing parallel with the economy. The author emphasizes several times that also the economic policy is part and parcel of the mechanism and is separately interlinked with the latter. The whole line of reasoning is permeated by the emphasis on the fact that each step of the mechanism reproducing shortage is organically built on the other, no link may changed in the chain and no characteristic feature of the economy may be examined separately from other phenomena. The magic circle "shortage → quantitative drive → even greater demand for production inputs → more intensive shortage" is stabilizing itself. The system knocking against the ceiling of full employment is subject to shocks just as in the Harrod-Domar system. Shocks will sooner or later provoke the reaction of the system. In the long run the system is unable to reduce the growth rate, since it is a characteristic feature and a reflection of the entire economy. Only a radical or continuous changing of norms can relieve the economy of shocks. Any endeavour wishing to remedy problems without changing the norms will have an opposite effect – precisely owing to the stable character of norms.

We may get acquainted with a new, very important particularity of control by norm. The system is able to insist on its norms (and is likely to do so) until it does not "burn up" the resources ensuring its existence that may be found in its evironment. Following this it is forced to modify the norms and change over to a new normal path.

The central variable of the model, the macroindex of shortage is "an unconventional variable" – as Kornai notes – since it may not be directly observed, but is a so-called hidden parameter. It is an important methodological observation that in economic models hidden parameters should be taken into consideration more frequently, though the notion of hidden parameter is very relative and, as a matter of fact, we may not even speak about a hidden parameter. What we are observing is simply a matter of decision. The notion of national income may not be observed at least to the same extent as the macro-index of shortage, none of them is directly given for experience, but both are determined by complex statistical methods. Similar remarks refer practically to all economic categories. Whether a parameter is hidden depends on the theory! In mechanics velocity and mass may be directly observed, while energy is a hidden parameter, which influences the movement of the system, but may not be observed directly. In thermodynamics, when measuring the temperature of a body, the energy is measured directly, while the velocity of movement of atoms may not be observed, it is therefore, a hidden parameter.

Out of the many interesting ideas dealt with in the book the statement characterizing normal paths is also worth mentioning. All of the variables of the model have normal values. The distinguished path of development is the normal one. On this path the actual value of variables is equalto their normal value. The most surprising statement to me was that normal path is necessarily a Neumann-path in the model, that is, a path where the economy is expanding at a steady rate. Neumann's model is an often examined model of the equilibrium theory which at the first sight has nothing to do with the model discussed in this volume, and though the surprising formal identity conceals substantial differences of principle, it is still worth remembering.

In my review I have by far not mentioned all relevant ideas. Beside several less important tricks of modelling even such important research results were not mentioned as, for example, the role of investments in the economy, the effect mechanism of investment decisions. Important thoughts concerning the classical issues of centralization and decentralization were not dealt with either. I have fully omitted the presentation of mathematical properties of the models, or the comparison of enterprises producing for stocks and on order, respectively furthermore papers examining the relationship between growth and buffer stocks. All this is left to the reader who should get acquainted with these parts himself.

P. MEDVEGYEV

BEREND, T. I.: *Gazdasági útkeresés 1956-65. A szocialista gazdaság magyarországi modelljének története* (Seeking new economic ways 1956-1965. The history of the Hungarian model of a socialist economy.) Budapest, 1983. Magvető Könyvkiadó. 464 p.

The reader shares the author's excitement as the latter, inspired by the possibility of exploring at last the archives recently released – kept strictly secret before – throws himself into

studying the records of establishing a new economic policy, a new economic management, and the different views and controversies following the collapse of 1956 in Hungary. It is indeed interesting to get acquainted with the documents now released, presented in the book, of different origin (internal preparatory materials for party and state decisions reports, records and opinions of responsible leaders and economic experts, etc.). They add more detail to and thus render clearer the picture drawn by the contemporary publications about seeking new ways and in some cases about finding them, or in quite a few cases only about ways supposed to be found. And, of course, the subject is itself exciting: the period of economic history that is removed from us by almost a full generation — the emergence of a fast and successful consolidation, unexpected by the leaders, actors and opponents alike, the prudent and realistic behaviour of the leaders as well as of the people, wanting and also able to learn from past mistakes, and the well-known unfavourable phenomena and harmful tendencies, still asserting themselves frequently in spite of such behaviour. Finally, in going through the book, the reader is bound to recognise the fact that the period evoked by the economic historian from a 20-30 years' past is, as the author says, an organic part of our present.

Not only because the present bears the marks of yesterday, but even more because the economic problems, difficulties and open issues of the early 1960s and 1980s coincide almost fatally in Hungary. The showing up of the many dimensions of this interesting meeting with past and present may perhaps be closed with a commonplace statement: Iván T. *Berend*'s new essay-like work is more exciting than a detective story, and not only for professional economists and historians, but for everybody interested in the history and economic history of the recent past of Hungary, and sensitive to present problems.

Berend's book discusses the economic policy and economic processes of the ten years under examination, arranged according to some important points. He dedicates a full chapter to the contradictions between the living standards policy — enjoying priority because of lessons taught by the past — and the taut accumulation-growth policy; to the agricultural policy facing and solving the dual task of collectivization and production growth; and to the industrial development, forever making new starts, and unable to rid itself of its extensive character.

It is quite clear from the internal archives that Hungarian leaders, and especially economic policy-makers have learnt their lesson from 1956, which is that socialism can claim (or regain) people's confidence only if it proves year by year, and does not voice it just as a slogan, that this system is *for* the people and is apt to provide for a balanced and continuous increase of the living standards. At the beginning of the decade under examination: in 1956-1957 a very high, at some places even 20 percent, increase of real wages and real incomes was effectuated, in anticipation of the expected consolidation (admitting that this anticipation was a necessity). This could not be realized otherwise than with emergency aids received from the socialist countries, first of all from the Soviet Union. And it becomes apparent that towards the end of the period in question a continuous and palpable increase of real wages i.e. of the living standards could be maintained under the given circumstances only in a way that the debts of the country gradually accumulated: in 1962 Western debts already surpassed the value of one year's exports to the Western market. (One need not be a professional economist to reveal the similarity also in this respect, between the phenomena of the early 1960s and those of the mid-1970s.)

Berend particularly emphasizes the contradictions between the taut growth orientation and the realistic living standards policy. He cites the international examples of preparing for a "big economic leap", among them the 21st Congress of the Communist Party of the Soviet Union, announcing, in early 1959, the Programme of catching up with the most advanced capitalist economies. It was in reflexion of this effect, and wishing to support the taut objectives of production increase with investments that the planners of 20-year-programmes developed the idea according to which, by the turn of the 1980s, the rate of accumulation would exceed one-third of the national income. Although pragmatism prevented the economy and society from arriving again at the self-generating idle cycle of "accumulation for production and production for accumulation", gravely deforming the living standards policy, in the course of the period in question the ghost of a less efficient, self-contained production and accumulation for its own sake, assuming the form of an irrational stock increase repeatedly appeared.

The line of the agricultural policy was not free from contradictions, either. After the elimination of the compulsory delivery, in 1957 an agrarian policy was accepted which placed the complete transition of agriculture into the

cooperative form in a perspective of 15 to 20 years — in itself a reasonable idea. The economic attitude of the peasantry, watching with a keen historical sense the processes taking their course in the neighbouring countries, and the pulling power of the "big economic leap" led to a change at the turn of 1958/1959, and the cooperative transformation of the Hungarian agriculture, centred on the middle peasantry became accomplished between 1958 and 1961, if not without force, but mostly without unlawful acts and humiliation of masses of people. And, what had no precedent: the organization of cooperatives and their consolidation was accompanied by rising production outputs. Following the further way of the agricultural development, Berend describes the process which led to the development of the "Hungarian agricultural model"; the symbiosis of the large-scale collective and the small-scale household production. Of course, this process was not free from détours, either. It is a pity that only a very rough picture is drawn in the book about the fights and losses accompanying the gradual emergence of the Hungarian model, for example, the recurring attempts to suppress the household-plots, or how the dogmatism of the leadership was always surmounted by prudent corrections-sinsisting on realities.

In describing the principles and practice of the industrialization policy, Berend's book leads to four recurring and interdependent problems which are in many respects still timely. The first one is that the geological conditions of the country and the irrationally high fuel and raw material needs of the economy — within it mainly of industrial development and of economic growth — entail the development of domestic extracting industries, not profitable enough, and absorbing enormous amounts of investment resources. On the other hand, industry cannot provide for a profitable compensation for the necessary imports. The second problem is that industrialization i.e. industrial development created too many mass production capacities, representing low or medium-level work and organizational culture (such as metallurgy, or the heavy chemical industry), while projects sufficiently utilising qualified work are extremely rare. The third problem is that adequate selection had never preceded industrial development; this is apparent in the fact that the product pattern is outdated, the share of new and up-to-date products is very low, and industrial reconstructions are not so much oriented toward modernization, rather toward expansion. Finally, the fourth recurrent problem is that no system of international division of labour could be established with the natural partners within the CMEA that could become a really efficient driving force. Iván T. Berend sums up the facts of the Hungarian industrialization policy by stating that the Hungarian industry was unable to break out of the vicious circle created by the constantly increasing energy and raw material needs rooted in the development trend of the second phase of the import substituting industrial development (preferring the home manufacture of industrial basic materials and investment goods), and compelling economic policy from time to time to subordinate other economic fields to these needs, which further intensify their futility. Iván T. Berend makes it perfectly clear that he attributes the vicious circle to the way in which our economy is actually functioning, in other words, to the enonomic mechanism inherited, or rather revitalized from the past.

The analysis of the questions concerned with the enonomic mechanism justly spans the whole book and for the attentive reader the real phases of the changing tendencies soon become clear. Treating also the preliminaries, the book presents the conceptions aimed at a radical reform of the economic mechanism, the work of the committee headed by Professor István *Varga* and István *Antos* in 1957 aiming at an actual reform conception, and the results which were very much in conformity with the 1966 party decision on the reform of the economic mechanism. Also, another conception developed, parallel with the surprisingly fast consolidation, which advocated the necessity of preserving the directive planning system and refused the specialalloy of central control and market influence. A veritable ideological-political fight began. Opponents branded the ideals of the radical reform as revisionism. Then, in the autumn of 1957, the radical reform programme was taken off the agenda, without having been discussed by those having commissioned it, i.e. by the government. From that time on, for another ten years, economic mechanism was determined by the classical compulsory plan directives, with the exception of agriculture.

Of course, the regenerated plan directive system was not exactly the same as for example in 1955 or in early 1956. As Berend explains at length, several attempts were made to rationalize the system. The industrial reorganization of 1962 to 1964, which, similarly to several other CMEA countries, put into effect a large-scale enterprise centralization, first of all with a view to simplify the plan directive management is to be

considered as the most important one of these attempts. The rationalization of the plan directive system, and within it the industrial reorganization itself could not, however, change the characteristic features of the functioning and effectual mechanism of that system. The book gives an idea of the equilibrium disturbances and tensions (some of them have just been mentioned), which arose from the way of functioning of the directive planning system, and the intensification of which rendered the turning toward a radical reform timely again at the end of the period under examination: in the mid-1960s.

As I have mentioned, the attentive reader will clearly discern the separate phases as they follow one upon the other: the first outlines of the real reform programme (end of 1956, early 1957), the counterattack and victory of the restoration of plan directives (second and third quarter of 1957); the establishment and prevalence of the "improved" directive planning system (1958-1964); the sharpening of its contradictions (1963-1965); the second outlining of the real reform programme (1964-1966). At the same time, however, something else can also be gathered from the book and this is what I wish to make an important point in my criticism. It makes the impression as if a kind of reform had been carried through starting at the end of 1957. This idea is conveyed to the reader for example by the chapter entitled "Continuing on the way of mechanism corrections between 1958 and 1964", and even more so by the expression "pursuing the correction reform line" applied at several places for the same period. Of course, also the directive planning system can be corrected. But a reform that discards what is old and creates something new instead is quite a different thing. It is a pity to mix up things already because, as it was experienced in Hungary also according to this book, the so-called "correction reform line" did not produce other effectual mechanisms and behavioural patterns than the old ones. Upon this ground, I disagree with the statement according to which the industrial reorganization of 1962-1964 was, in whichever form, a preparation of the 1966 or 1968 reform. Of course, references are at hand: responsible politicians as well as experts in high positions said and wrote that the industrial centralization had been a step toward the introduction of the reform. Let us, however, put ourselves into the given situation: the industrial reorganization (organizational centralization) — a perfection of the directive system planning — had hardly been finished, through a lot of troubles and compromises, and the preparation of the reform — a negation of the directive planning system — already started. In such a case, is it possible for a responsible politician or leader to declare that the reorganization, implemented through so much trouble, had been unnecessary? Otherwise, the same experts as well as others — as it can be read in the book — judged the artificial monopolistic position of the giant enterprises organized in the course of the industrial centralization unjustified by the relatively small domestic market and incompatible with the reform of the economic mechanism.

This criticism, however, does not change the reviewer's best conviction in which he recommends I.T. Berend's book to the reader.

G. RÉVÉSZ

INZELT, A.: *Versenyképesség és az ipari struktúra változásai* (Competitiveness and changes in the industrial structure) Budapest, 1981. Közgazdasági és Jogi Könyvkiadó. 305 p.

Annamária *Inzelt* concentrated her investigations on the competitiveness of the Hungarian industry. The importance of this subject in the present situation of the Hungarian economy neech no special proof. The deterioration of the terms of trade as well as the upsetting of the balance of foreign trade may be explained by the decreasing competitiveness of end products. That the improvement of competitiveness should be a key issue of economic management is also proven by the fact that the most frequently emphasized enterprise and industrial policy objectives of today (e.g. acceleration of the transformation of the product pattern, increasing the efficiency of production, improving quality) have certain common deficiencies. They all are concentrating mainly on the direct production process while fully or partially disregarding such factors over and beyond the production process taken in a narrow sense as, for example, technological development, marketing and sales activities, elasticity of deliveries, servicing activity. As against these objectives competitiveness raises requirements towards real performance taking the entire activity of the enterprise into consideration in an integrated way, on the basis of effectively existing circumstances (strong market competition, rivals following conscious business policies, several factors within and outside the enterprise influencing performance). The basic feature of a competitiveness-centred view is that factors directly influencing produc-

tion as well as preceding and subsequent technological development, transport, sales, marketing and service activities are considered and handled as a whole.

Marketing approach means practically the designation of a group of buyers characterized by a particular group of requirements and coordination of the features and the realization of the given products according to these requirements. The author correctly states as a reflection of all this that "the intensity of challenge of the individual markets and the required standards are different, the same product (service) may usually not obtain the same recognition on various markets." (p. 36)

In the book first of all empirical experiences are summarized. In doing so the author relies decisively on results of simple surveys concerning the opinion of enterprises, regularly made at the Institute for Economic Research and covering about 800 industrial enterprises, as well as on her own researches made with 10 enterprises, of the manufacturing industry. From the system of conditions of structural transformation three groups of factors of key-importance are pointed out: market circumstances of enterprises, the functioning of the sphere of intermediary products as well as the organizational and size structure of the industry.

In *Chapter One* possible strategies of adaptation to world economy and viewpoints of choosing among them are analyzed. The importance of this question is best proved by the fact that the problem of adaptation has been put on the agenda in each country which is forced too accomodate itself to world economic changes owing to its small size and/or medium technological level and foreign economic openness. At the same time, the possible most organic participation in the international division of labour has become the most dynamic factor in economic development. The author makes a distinction between foreign economic orientation and the view aimed at the permanent increase of exports with good reason. Her statement is correct that for socialist countries "the export policy toward capitalist countries – that could be called mostly foreign trade with 'buffer' role – does not contain real export orientation". (p. 22.) This is why she advocates the cause of formulating such a foreign-economy-oriented industrial policy that is aimed at a conscious and active participation in the international division of labour.

The basic issue of the industrial policy promoting and forcing adjustment is whether the main attention is focussed on the transformation of the micro-structure or on that of the macro-structure. In recent decades central development projects have been the main tools of industrial management in the structural development of Hungary. These were mainly aimed at transforming the macro-structure. As a result, however, such "closed blocks" and "development islands" have come into being which did not properly promote, what is more, in certain cases explicity impeded adaptation to world economy. Therefore, the author takes a stand for the catalyzation of microstructural changes, yet, the evaluation of results of central development programmes with the aim of supporting this is relatively rough-and ready.

In *Chapter Two* the situation of enterprises as sellers is analyzed as a factor influencing structural changes. The author starts from the assumption that the introduction of new products is decisively a consequence of market impulses. Particularities of the markets of Hungarian products are examined from this viewpoint. According to her statement "the most intensive effect on development is exercised by the capitalist market representing only a small share in the total of products of the manufacturing industry". On the basis of her concrete experiences she approaches to the notion of competitiveness in a novel way – so to say dynamizing it. She does not interpret it merely as a concept at product level. She points out that lasting market success may only be achieved by releasing ever new products permanently; furthermore that, competitiveness is "not a notion attached to a certain product, but an ability of action and as such the capability of permanent renewal, a concept affecting the essence of the entire activity of economic units and of the whole economy". (p. 43).

In this chapter changes in the product pattern and production structure of the Hungarian industry are thoroughly analyzed. Though the information obtained is not full-range, it still is to be considered as representative and it provides a rather disappointing picture of the rate of change in the product pattern. Despite masses of resolutions and measures taken during the last decade, related data indicate that "the share of products whose elimination is planned is about 3 percent as compared to the yearly net receipts of enterprises, while that of new products is somewhat higher" (pp. 65-66). Of course, there are several reasons for this, but the most important of them is that the overwhelming part of Hungarian enterprises decide on entering into interna-

tional competition not on the basis of market impulses, but – with the author's words – on that of instructions and "expectations".

Chapter Three deals with the structure of the sphere of intermediary as products and its effect on competitiveness. The importance of the questions is given by the fact that following World War II specialization and mass production suddenly increased under the impact of accelerated technological and economic development. As a consequence, "world trade realizes not only the exchange of raw materials and industrial articles any more, but to an increasing extent also that of products of the intermediary sphere" (p. 149) This increased role is also supported by Hungarian statistical data, since the share of industrial materials and semi-finished products is determinant in the production of state industry, exceeding the joint share of investment goods and industrial consumer goods. At the same time, according to a general statement, the basic obstacle to the competitiveness of the Hungarian economy is that the "background industry" is lagging behind the industry manufacturing finished products.

The reasons are divergent, but the main point is the lack of motivation, "The profitability of additional investments and inputs aimed at improving the quality of materials, spare parts and intermediary products does not appear with producing enterprises in many cases, but only with user-enterprises, what is more, sometimes only with end users". (p. 177) It may be seen through concrete enterprise examples that enterprises are developing their products without having developed the technology of the background industry accordingly. The lack of this led to a surprising result. The author compared the cooperation level of the ten enterprises thoroughly examined by her with that of West-European rivals. As against all expectations she found that foreign firms were working with considerably fewer cooperation partners than Hungarian enterprises. The explanation is, however, very simple. "Hungarian enterprises are usually forced to cooperate with several enterprises, cooperatives, eventually artisans even when purchasing the same products, since they have no such partner that could continuously supply them with the required quantity, in adequate assortment, etc." (p. 205)

An important reason for the relative backwardness of the sphere of intermediary products and, as a consequence, for the weakness of cooperation relations is the Hungarian price system. (In the book circumstances of the late 1970s are described, but this problem has not fundamentally changed ever since then.) Enterprise opinions cited by the author unambiguously confirm that "prices in the productive sphere are not suitable for the distribution of profits among enterprises cooperating or requiring cooperation relations." Therefore, the conclusion drawn from this should be agreed with that "a development of cooperation relations, freer from obstacles, may be founded only by a price system that allows the price bargain between enterprises in a considerable part of the productive sphere." (p. 210)

In *Chapter Four* of the book the organizational structure of the Hungarian industry and its changes are examined. The authoress deals with this problem coming more and more to the fore in the right approach. She states that "as against the elements of structural changes in respect of contacts as sales markets, sphere of intermediary products) organizational frameworks are the formal elements of changes. As such they are usually not determinant factors of development: they only delimit the scope of movement narrowing down or widening possibilities of action." (p. 229)

The data of the book convincingly prove that comparing Hungary to capitalist and socialist countries with similar potentialities the concentration of enterprises is very high in the manufacturing industry. The Hungarian economy is made up of enterprises mostly located at several places, lacking inner integration, in which economic units are not linked through technological and economic division of labour. There are only a few small and medium-sized specialized enterprises. At the same time the enterprises, big and modern also by international comparison, are missing that could act as pulling power. It is generally admitted that this over-centralized industrial organization is not favourable for the improvement of efficiency and innovation, works against the development of competitive situations and thus against the strengthening of market-orientation.

The authoress points out that development of the organizational system of the industry was determined decisively by the demand of state administration that enforcement of the central will should be improved in harmony with the prevailing management system. Accordingly, quite up to recently the organizational system has not been formed by market effects or competition between enterprises. Changes have always taken place as a process initiated and controlled from above. However, while in the early 1960s amalgamations with administrative and centralizing character had been determinant, in the 1970s the

centralization process was characterized by mergers. With the enterprises examined by the author between 1969 and 1976 "there were no organizational changes in two enterprises, but there were even several ones in eight enterprises. As regards their direction it is characteristic that on the average there were 2.4 merged units falling to an enterprise." (p. 238)

The most important reason for mergers was the endeavour to eliminate deficient cooperation relations and to mitigate labour supply problems. However, while with the amalgamating enterprise problems are eased – even if only temporarily – at the level of the national economy contradictions will only become sharper precisely as a result of this process. Namely, these organizational changes have a double consequence. On the one hand, the number of small and medium-sized enterprises is diminishing due to amalgamations, while, precisely as a consequence of this process, many enterprises secure monopolistic situations. Changing this distorted structure as related to our economic and technical development level is an important element of the improvement of competitiveness of the Hungarian industry. However, the authoress's warning should be kept in view at any rate: "It is essential that changes do not take place in a uniform way and like a campaign. Big enterprises have an important part in the industry of each country, but their pulling role is based on the existence of technological, personnel, as well as inner and external organizational conditions – among them of the network of small and medium-sized enterprises." (p. 276)

Annamária Inzelt's book is a "competitive product" of economic literature. It is a significant contribution to the clarification of important issues in the centre of attention of Hungarian economic control and management. It is a useful summary not only for researchers interested in theoretical problems, but also for enterprise specialists faced with practical aspects of these problems day after day.

GY. MAROSÁN JR.

GYÖNGYÖSSY, I.: *A mai nemzetközi pénzrendszer működése* (Functioning of the contemporary international monetary system.) Budapest, 1982. Közgazdasági és Jogi Könyvkiadó. 278 p.

It may be stated from the first sentence of the book that Hungary's joining the International Monetary Fund makes a more thorough review of the international monetary system of our age very topical. True, the functioning of the international monetary system and its institutions was not indifferent for the foreign economic, commercial and financial relations of Hungary previously either, since various regulations also affected Hungary: in the course of her foreign economic relations with industrial and developing countries – covering nearly half of her total foreign trade turnover – she had contacts with countries which had already been members of the Intenational Monetary Fund for a longer or shorter time. This is natural, since almost all countries of the world participate in this monetary cooperation. By joining it, Hungary has become already the 146th member of this international monetary institution. The author grouped the particularities of the contemporary monetary system as well as the system of economic and political conditions of its functional mechanism into six proportionate chapters. This approach enables a parallel consideration of the system of conditions of Hungary's membership in the IMF and the World Bank, too.

The author helps the reader to obtain adequate information with a brief, but indispensable historical review. At the end of World War II a monetary conference of the United and Associate Nations took place in Bretton-Woods (USA) where the International Monetary Fund (IMF) was called into being. This institution set as its aim the reorganization of the international monetary system that would create the conditions of smooth payments between countries while ensuring the greatest possible monetary stability. István *Gyöngyössy* deems it important to emphasize that the regulations relying on the Bretton Woods agreement involved, beside the system of exchange rates and the settlement process of balances of payments, also several other elements indispensable from the viewpoint of international monetary cooperation. Thus, the choice of the reserve assets of the monetary system, the particular connection between gold and the US dollar becoming a key-currency had already carried in themselves later problems of the monetary system that had become known as the gold-exchange standard. In the post-war decades US economic hegemony diminished little if at all and this had a very special influence both on the relationship of the United States to member countries of the IMF and – as is shown in various chapters of the book – on the system of relations of member countries between each other. The author emphasizes the "deeply unjust" character of the Bretton Woods system

at several places, insofar as the institution made it possible for the USA to pay her partners with inconvertible dollars in the interest of her own national economy. However, the spectacular flow of American capital was by far not free from disturbances and risks. It was disturbing namely, that "the penetration of American capital, the buying of companies by Americans, etc. were practically paid for by those countries (to not a small extent also by developed capitalist countries), at whose expense this penetration took place, and since the dollar amounts obtained as a countervalue were kept, these countries financed the lasting deficits of the American balance of payments resulting partly from these purchases." The risk mentioned was no less than that the system of international monetary institutions and "the permanent abuse of the possibilities provided by it on the part of the United States carried in themselves the germs of collapse".

By the early 1970s it had become clear that the increasing deficits in the balance of payments of the United States reduced more and more the international confidence in the national currency of the United States. A concatenation of international economic, monetary and, last but not least, political events contributed to the fact that the monetary system of Bretton Woods was shaken to its foundations and became disrupted by mistakes lying in its own mechanism and the "abuse of the exceptional role of dollar".

Therefore, a long-lasting reform process has begun called "reformulation" of the Bretton Woods system by the author. Reform elements of the system of international monetary institutions were formulated in the 1976 Jamaica agreements. These resolutions entered into force with April 1, 1978 following their ratification by the member-countries according to the sophisticated laws of the IMF.

István Gyöngyössy deals with the reform of the individual elements of the international monetary system and their effect mechanism in detail. He pays special attention to agreements on exchange rates probably for at least two reasons. On the one hand, because the previous system of fixed exchange rates of the Bretton Woods institution that had meant one of the solid bases of economic and monetary relations reorganized at the end of World War II has unambiguously become disrupted. On the other hand, it may be assumed that this subject is worthy of special attention if only because of its disputableness which is well illustrated by the fact that the sharpest conflicts connected with the reform emerged in regard of the practice to be followed in the new exchange rate system. *Theoretical* discussions on fixed or floating exchange rates were based naturally mainly on the assumptions concerning the advantages and disadvantages of one or another type of exchange rate. These benefits or disadvantages may already have also domestic economic and political consequences through the monetary practice of the individual national economies. It is, therefore, understandable that neither the supporters nor the opponents of any exchange rate type emerged as winners unambiguously following fierce clashings of arguments and counter-arguments.

This spectacular non-solution seems to be verfied by the formulation "stable but adjustable" of paragraph IV, containing agreements on exchange rates (sic). The author tries to define the character of the new practice of exchange rates as follows: "I think that the settlement deemed desirable by the Jamaica resolutions could be still ranked as an application of fixed exchange rates, though the text of chapter IV carefully avoids using the expression "fixed" when speaking about "stable but adjustable" exchange rates. The mistake lies in my opinion precisely here. Namely, fixed may be conceived also as attached to something, but stability is much more unambiguous, meaning the remaining of exchange rates near to the original parity. However, though this may occur with very wide deviation ranges, too, when even the fixing point itself is moving, but it does not follow automatically from the system itself by any means."

In connection with rates of exchange István Gyöngyössy repeatedly draws attention to the most important task of IMF, the creation of monetary stability. From the viewpoint of this goal the quality of parities is indifferent after all, since they may function only as an efficient *tool*, but may not be an independent objective of the system.

While the international monetary system was subject to a transformation by far not undisturbed, almost parallel with it a new form of international monetary cooperation was coming to being. Perhaps the most exciting part of István Gyöngyössy's book is the comparative analysis of the development of the European Monetary System (EMS). In connection with integration and the various forms of its further development theoretical questions of sequence and those of economic and monetary cooperation relying on each other may arise with good reason. It is difficult to take an unambiguous decision or even a

standpoint in the debate whether monetary integration should precede the economic one precisely in order that the latter may be realized, or on the contrary, the realization of economic integration is of primary importance whose summit may be monetary integration built on it.

While discussing the interrelation between economic and monetary policies as well as their system of conditions the author reviews, in an enjoyably polemic style, the specific formation of the West-European monetary system developing within the international monetary system. We may learn which European countries were in favour or against the monetary institution of economic integration. Partly with an aim of moving away from the USA the European Monetary System was born with the intention of creating also a Fund with similar name. The birth of the currency union of the Common Market is the result of long debates, draft resolutions and meetings lasting nearly a decade. The final goal would be, of course, the establishment of an issuing bank of the Common Market in the future that postulates a monetary union of the member countries of the integration. Tasks and objectives of the monetary union of the EEC just as the reasons of its establishment raised such questions towards the participants and procreators which are difficult to unambiguously answer even at present. István Gyöngyössy recalls this debate reminding among others also of the international conference on the EEC monetary union, in connection with which the question was put even at that time: "Monetary Union — with what purpose?" At the same conference a British professor, P. M. Oppenheimer gave an answer in a similar mood: Really, why? It seems that the debate is going on even after more than a decade.

In his introductory sentence already mentioned the author referred to the increased topicality of his investigations: Hungary joined the International Monetary Fund and the World Bank in May 1982. It would have been good to read also about the expected effects of this important economic policy measure, the resulting benefits or eventual disadvantages. The closing date of the book — indicated by the author presumably deliberately with emphasis — was the summer of 1982. Thus, in the knowledge of the dates our dissatisfaction changes into expectation to see further elaboration by the author.

With István Gyöngyössy's new book a qualified reader may find a long needed study on international finances. The author deals with all relevant fields of contemporary international finances including socialist monetary economy. All this is done with thoroughness and the reader, familiar with the subject, often feels: whatever is not contained in the book need not even be known about international finances.

M. BRÜLL

MACHLUP, F.: *Knowledge: its creation, distribution, and economic significance.* Volume I. *Knowledge and knowledge production.* Princeton, 1980. Princeton University Press. 272 p.

This is a work comprising eight volumes: the first one was published by Princeton University Press in 1980. The author reverted to his old subject, about which he published the book "The production and distribution of knowledge in the United States in 1962. Now, we may say, he strove after completeness in examining the subject in all its details. Volume I, which we are going to review, lays down the conceptual foundations. Of course, the basic conceptions contain, in a rudimentary form, all of the author's views, which he is going to explain later in detail.

Unfortunately, this cannot happen any more. The long industrious life of Prof. *Machlup* came to its end in 1983 and the work has remained incomplete — at least as regards his own contribution. He may have felt it and perhaps this is why he first wrote this volume, providing a guideline for the possible continuation.

This volume is so rich in information that it should be studied by all means in itself. It is true, though, that the reader will not have the feeling after reading through the volume that he has become acquainted with an accomplished research work, or, an opininon summed up in consequences.

In the Chapter "The story of this work" — preceding the Introduction — the author informs the reader about how this series began, how his interest in the subject developed from 1933, beginning with "Monopolistic or imperfect competition", through "patent production" to studying the R and D activities, then further on to education, books, periodicals, and later to the world of non-printed information, information services and computers.

When he began writing his first book on the subject, he himself would not have believed that the aggregate knowledge production in the U.S.A. would reach 29 percent of the (adjusted) gross national product in 1958, that in the preced-

ing decade its growth rate had been the 2.5-fold of that of the GNP, and that 31.6 percent of the civilian labour force were engaged in the knowledge industry.

In 1972 the author felt a moral obligation to up-date the statistical analysis of his book published in 1962, based on data from before 1958. However, in the course of this work, it became clear that the knowledge industry wants a new and thorough analysis in several fields, as well as the reconsideration of certain widely spread views. Thus the 1962 undertaking has grown to eightfold by the 1980s. Here are the titles of the volumes planned by the author:

II. The branches of learning, information sciences, and human capital
III. Education
IV. Research and new knowledge, cognitive and artistic
V. Media of communication
VI. Information services and information machines
VII. Knowledge production: its size and growth
VIII. Knowledge occupations and the knowledgeable society.

In the Introduction of Volume I the author states that knowledge will not be treated as an exogenous independent variable, but as an endogenous variable dependent on input. Although this is nothing new, in the sense that similar passages are found also in the classics; and yet it is new, since in our age the study of economic growth and development has become the centre of interest for economic investigation "and thus it is not surprising that there is now such a burst of activity in studying the productivity of investment in knowledge" (p.5).

Most of the researchers are engaged in examining education, basic research, and applied sciences, that is to say, such kinds of knowledge production activities which seem clearly to improve productivity, and thus their functions in economic growth are analogous to those of investments. There are, however, other types of knowledge production as well. For example, such as simply cause pleasure or enjoyment, and society heavily spends on these, too. This is, however, not the only reason why the author extends his elamination also to the latter kind. And not only owing to an intellectual curiosity. If he wanted to examine only the type fulfilling investment functions, it would be hardly possible to separate it from the other types: "... because ever so often they are joint products. What is taught at school, printed in books, magazines and newspapers, broadcast over the radio, or produced on television is knowledge of many sorts – and to study one is to analyze all". (p.6).

In conformity with the broad and interdisciplinary approach of the author, the interpretation of knowledge – the central concept and subject of the book – is not delimited with a view to economic utilisation. "...we may designate as 'knowledge' anything that is known by somebody and as 'production of knowledge' any activity by which someone learns of something he or she has not known before, even if others have." (p.7) "In other words, 'producing' knowledge will mean, in this book, not only discovering, inventing, designing, and planning but also disseminating and communicating. This applies to *how-to* knowledge as well as to knowledge *of* something and knowledge *about* something. To know *what* and to know *that* are neither less nor more important than to know *how*." (pp.7-8)

Types of knowledge

Part I contains three chapters discussing the types of knowledge. It explains that the concept of knowledge will be used in the book in two different senses: "The one is knowledge as *that which is known*, the other is knowledge as the *state of knowing*."(p.27) In the everyday language, the word is used in both senses. Within this usage, it covers several kinds of knowledge. Man needs different kinds of knowledge depending on the situation. Knowledge production is to satisfy all demands for the various levels and kinds of knowledge, and the goal of the work is to cover them all. A chapter is dedicated to drawing the line between the contents of everyday, scientific, humanistic, artistic, and finally, wordless knowledge (pictures, music, emotions) and to the attached technologies. Another chapter attempts to arrange the types of knowledge from another aspect. Its subject-matter is "... basic *versus* applied knowledge; general-abstract *versus* historical knowledge; general-abstract *versus* particular-concrete knowledge; analytical *versus* empirical knowledge; knowledge of enduring interest *versus* knowledge of transitory or ephemeral interest; knowledge for many *versus* knowledge for only a few; and instrumental *versus* intellectual *versus* spiritual knowledge." (p.101)

After discussing the preliminary concepts, Part III, containing seven chapters, lays more emphasis on an analysis from the economic

aspect. The author describes in the following words the aim of this Part: "... we are now ready to look at knowledge as a product, as a result of economic activity. This examination is not a full-fledged essay either on the economics of knowledge or on the economics of information; but it is prerequisite to." (p.153)

The first question that is asked: who decides, what amount and what kind of knowledge should be produced; whether a market mechanism based on demand is working. If users pay the full price for the carrier of knowledge, the market model can be used. However, this is the case only in a fraction of the production and distribution of knowledge. For example, such important knowledge producing institutions as schools are mostly sponsored from public funds.

The following question approaching an economic analysis is concerned with the possibilities of measuring knowledge: measuring the quantity of both the stock and flow of knowledge. Stock is present in two different forms: recorded and in brains. Of course, the measuring of only the former can be attempted. For the most part, it is the growth rates of flow that can give orientation. Even there, however, it is very difficult, what is more, impossible, to aggregate the carriers of the different kinds of knowledge. The only common measure seems to be money – but a great part of the flow is not mediated by money. Such is, for example, the knowledge produced by thinking, which ranges from the highest level of creative activities (artistic creation, the establishment of new scientific theorems) through business decisions to the important or less important recognitions and decisions of everyday life.

It imposes a limit to the measurement of knowledge that several important types of its production and transmission do not fit into the economic theory definition running as follows: "production implies that 'valuable input' is allocated to the bringing forth of 'valuable output'." (p.193) The measurable or appreciable production of knowledge may appear in the national product accounts in two different forms: measured by the amount paid for it, or by the production cost.

Chapter 13 undertakes a task of clarification. As the author says: "This chapter owes its existence to a sense of frustration about some very hardy misconceptions on the part of information scientists, management consultants, educators, librarians, engineers, R and D specialists, inventors and many other producers of knowledge." (p.202)

The "sense of frustration" comes from the fact that those who produce knowledge or render information services apply measurement methods that often overrate their activities. "A few enterprising ones have actually embarked on such research and have come up with "findings" quite flattering to those who have had a part in producing knowledge or rendering information services. Unfortunately, most of these proposals, let alone the findings, are rather ill conceived, unsound, or even fantastic." (p.202)

The worst obstacle to seeing clear in the matter is that no adequate distinction is made between information and message (that is, the knowledge contained). And the value of information as a conveying act is entirely independent of the value conveyed. The difference between the conveyance of information and the use of the message is best seen if the meaning of the different phases in the case of a letter are considered each in turn: a/ the addressee receives the letter and thus has the possibility to read it; b/ he reads it; c/ he understands it; d/ accepts its contents; e/ uses it for a decision; f/ acts upon it. While speaking of a/ and b/, it is information and then we have entered the sphere of knowledge. It is because as long as we have not reached understanding, no conveyance of knowledge has taken place, in other words, there has been no knowledge production. The confusion and the overrating of information comes mainly from the fact that in the U.S. most information scientists wish to sell information systems, therefore, they overrate their own activities, and that is why they include also the value of decision into the concept of value. As a matter of fact, the performance of the information systems does not depend on the benefit or harm of decisions. One more reason why decision cannot be a value criterion is that the most important information systems: primary and secondary shools are not at all decision-orientated. The biggest business transactions of the information trade are, however, made with the decision-oriented organizations: the business world and military organs, and thus the views of most of those who publish works on this subject are determined by this fact.

Arriving at the central subject of the economics of education: the private and social value of education, the author refers to subsequent volumes. The volume in hand dedicates only a few pages to these questions, underlying the problems which are considered to be easy in

literature, which they are not at all. Accordingly, the author explains that the distinction between the private and social value of education lies on highly dubious grounds, since it is impossible to determine all the effects of education, or even to estimate its positive or negative consequences in the long run. And, it is justly assumed that the indirect effects, making themselves felt in the long run, and not measurable at all in terms of money, are the most important ones: the moral standard, political maturity, life style, etc.

It seems to be somewhat easier to measure the effects on the career of students. However, non-pecuniary effects are important there, too, and they resist all attempts at quantification. And even the pecuniary effects are not so simple. Although a correlation is found between the number of school years and the size of income, this correlation can come about not only along the line of education as cause and income as effect. The author's doubts are summed up in the following: "Many factors may determine actual differences in earnings, and some of these factors are interrelated and also connected with the length of time the students devote to school attendance." (p. 212)

All these questions are highly important and not in the least theoretical. The government has, namely, to make decisions, and make them without the orientation of a market price, and the demand that develops in its wake. That is why the cost-benefit analysis, using scientific methods, is resorted to. And yet decisions often rely on "feelings" in several aspects, on the one hand, because the monetary evaluation produces uncertain results, and on the other, because non-pecuniary effects are obviously important.

Finally, in the last chapter the book discusses the knowledge production role of the economy, approaching the subject from two sides: by assessing the knowledge industries and the knowledge occupations. Says the author: "I define a knowledge industry as a group of establishments – firms, institutions, organizations, and departments, or teams within them, but also in some instances, individuals and households – that produce knowlege, information services or information goods, either for their own use or for use by others. (p.228) It is very difficult to assess statistically the industries, since a great part of knowledge production is not pursued within producer enterprises and not always even in separate departments. The author then continues: "I define a knowledge occupation as one that involves activities, gainful or costly, that are designed chiefly to aid in the generation, transmission, or reception of knowledge of any type, sort, or quality, including giving, directly or through instruments, visual, aural, or otherwise sensible signals, and ranging from carrying messages to creating new knovledge." (pp.228-229) Two kinds of meassurement may be applied in the case of the occupation approach: the staff number might be considered, and/or the wages paid in these occupations. An essential difference between the occupation and the industry approach is that the former measures inputs, and the latter outputs.

*

Having come to the end of the book, we put it down with a curiosity as intensive – but of another nature – as we have taken it in hand. For example, we do not know, of what size the knowledge industry is in the U.S. – according to the concept of knowledge as defined by Machlup. The subsequent volumes will have to answer this question. For the time being, we have made acquaintance wirth the concepts. This has been in itself exciting: a number of traditional definitions have had to be reconsidered and ingrained views modified, in most part because the author has made us recognise that reality is more complicated, and interrelations more complex than accepted by our thinking which prefers the simpler and easier explanations.

Although Volume I explaining the concepts is in itself valuable, it is better to postpone evaluation. The concepts and definitions will be tested, namely, by what will follow. In any case, it is already clear that a basic work has been started in this interdisciplinary subject, which must not be ignored. If those who will accomplish the work follow the author in handling the subject in an approach exceeding the limits of economy, they will be more successful in defining the place of economic aspects and effects than the scholars who move strictly within economic limits.

P. MÁNDI

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

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SIMILARITIES BETWEEN THE ECONOMIC THEORIES OF MARX AND KEYNES

A. MÁTYÁS

The article calls attention to similarities between certain ideas of the two thinkers of epochal significance. The similarities between the two theoreticians derive from the fact that both of them aimed at exploring the grave troubles of the capitalist economy and represented the standpoint that there existed no automatism that would cure the troubles. The study analyses a few problems – by confronting the Marxian and Keynesian standpoints – which play important roles in both teories: the problem of necessary unemployment, the market-creating role of investment, the Marxian and Keynesian standpoints relating to money and interest, as well as the conflict of individual and social interests. Both Marx and Keynes sharply separated the macroeconomic developments from the microeconomic ones. Both were of the opinion – against several contemporary economists – that the macroeconomic interrelations could not be understood by analysing the behaviour of the subjects of the economy. The study does not consider its task to confront the theoretical systems of Marx and Keynes with each other. The author's aim was to show that in some questions – setting out from a quite different theoretical basis – Keynes, with the intention to improve capitalism reached similar recognitions as did Marx who intented to prove the transitory character of the capitalist system and the inevitability of its fall.

This study is not intended to contrast with one another Marx's and Keynes's theoretical systems. Its objective is merely to demonstrate that there exist certain similarities between their views. These similarities arise from their common endeavour to disclose the serious problems of private capitalist economy, to show that there exist no automatisms by which to remedy them spontaneously. The incidence of similarity in certain issues does not, of course, make Keynes a Marxist, as it does not make Marx a Keynesian. Both Marx and Keynes approached the problems of capitalist economy on different considerations. Marx wanted to deduce from them the historical, temporary character of capitalism and the necessity of its fall, while Keynes's aim was to find a remedy for the troubles within the framework of the capitalist system.

Owing to the divergence of their objectives, they set out from different premises, used different systems of concepts and came to different conclusions. And since Marx was concerned with the historical fate of capitalism, his research encompassed a long period of time, and was intended to disclose the long-term trends of the movement of capitalist economy. By contrast, Keynes wished to remedy the present-day ills, as he recognized them, of the capitalist economy, and therefore his investigations were, primarily, of a short-term nature. All these facts make it rather difficult to compare the theoretical systems of the two thinkers. On the other hand, a comparison is made easier to a certain extent, by the fact that both carried out their investigations on the macro-level, and, though they analyzed the capitalist economy of different periods, the cycles they

examined were still of a classical character in both periods, the cyclical movement of the production of fixed capital being the carrier of the business cycles.

In what can, then, similarities be found in the ideas of the two economists so different from one another? They lie in their being concerned with similar problems of the economy (with different explanations, of course, of its ills disclosed), in their emphasizing, owing to a common macro-economic approach, the difference between macro- and micro-economic processes, in their recognizing certain mechanism elements of capitalist economy, in their attaching equal importance to a number of instances of economic life, in their presenting certain balance relationships, such as cannot be found in the works of other authors.

The present study attempts to carry out this comparison on the basis of the principal works of the two great thinkers, of "Capital" and of its continuation "Theories of Surplus Values" and of the "General Theory", respectively.

The problem of involuntary unemployment

A characteristic common to both thinkers is the fact that they regard involuntary unemployment as a typical phenomenon of private capitalist economy which no automatism whatsoever was able to eliminate spontaneously. A major deficiency of the economic order we live in – writes Keynes – is "its failure to provide for full employment. . ." [1] "Evidence indicates that full, or even approximately full, employment is a rare and short-lived occurrence." [2] Involuntary unemployment is the central issue of the "General Theory"

Keynes sees the cause of unemployment, as commonly known, in the insufficiency of effective demand, which in turn does not ensure as much adequate profitable investment as society, given full employment, wishes to save. If the aggregate supply price of output under full employment exceeds its aggregate demand price, entrepreneurs will cut production, and the total demand for, and the supply of, goods will come into equilibrium under unemployment. According to Keynes, the forcing down of money wages is not an appropriate means of ensuring equilibrium in the labour market because, among other things, money wages are not only production costs but, owing to their macro-economic interconnections, are also the main source of the demand for consumption goods. They would increase employment only if nominal total demand did not change, or at least did not fall to the same extent as nominal wages.

The existence of involuntary unemployment caused by the lack of demand and equilibrium in the commodity market under unemployment have been, up to this day, much debated questions in non-Marxian literature. Their recognition was regarded, especially in 1936, as a heretic statement.

Marx also holds the existence of involuntary unemployment to be a characteristic feature of capitalism of his time. In non-Marxian economics unemployment as used by Marx is characterized as technological unemployment. As a matter of fact, involuntary unemployment may in Marx also be due to the lack of demand.

In order to make a comparison with the Keynesian explanation, let us have a closer look at this question.

In explaining unemployment, Keynes took for given "...the existing skill and quantity of available equipment, the existing technique..." [3] Marx, however, examined the question of unemployment in a close relationship with the process of economic growth. Obviously, he wished to answer the question, raised by classical economists, whether the movement of wages ensures equilibrium between the rise in capital stock and in the number of workers.

Like classical economists, he held that as a result of accumulation the demand for labour increased. If there were no technical progress, the demand for labour would increase in proportion to capital, and accumulation would come up against the natural constraint of the working population. Working population would be the scarce factor impeding economic growth. Wages would rise, profit would fall, together with the rate of accumulation. "The mechanism of the process of capitalist production removes the very obstacles that it temporarily creates." [4]

What is, however, characteristic of advanced capitalist economy, is the unprecedented acceleration of technical progress. It is the interest of the capitalist engaged in chasing after profit to bring the individual value of his products below their social value so as to gain extra profit thereby. "The battle of competition is fought by cheapening of commodities," [5] that is, by the use of the achievements of technical progress.

And technical progress materializes in Marx through investment, or, to use an expression of today, is basically embodied in investment. "The intermediate pauses are shortened, in which accumulation works as a simple extension of production, on a given technical basis." [6] And this technical progress increases the productivity of labour. "... the degree of productivity of labour, in a given society, is expressed in the relative extent of the means of production that one labourer, during a given time, with the same tension of labour-power, turns into products." [7] Productivity of labour also increases in the manufacture of the means of production. Marx also refers to capital-saving technical progress as a result of which "in isolated cases the mass of the elements of constant capital may even increase, while its value remains the same, or falls." [8] But, referring to facts he regards it to be typical that, as a result of technical progress taking place in the manufacture of the means of production, "... the value of the constant capital does not increase in the same proportion as its material volume." [9] But it rises relative to variable capital, and thus the organic composition of capital increases. As a result, although the demand for labour increases together with the increase in total capital, "... but in a constantly diminishing proportion." [10]

But in Marx, not only the new investments but also the replacement of old capital goods by new ones are instruments of technical progress. It is in recognition of this fact that the new growth models are operating with gross rather than with net investment. But technical progress materialized by means of replacement turns away part of the workers already employed. Accumulation "... on the one hand, increases the demand for labour,

it increases, on the other, the supply of labourers by 'setting free' of them. . ." [11] Thus, the demand for, and the supply of labour are not two forces independent of one another. "The demand for labour is not identical with increase of capital, nor the supply of labour with increase of the working class. It is not a case of two independent forces working on one another" [12], says Marx in arguing with classical economists. "Capital works on both sides at the same time." [13] Employment increases in Marx if the number of workers per new jobs exceeds the labouring population ousted as a result of the replacement of old machines by new ones.

". . . a surplus labouring population is a necessary product of accumulation, or of the development of wealth on a capitalist basis. . ." [14] It is, at the same time, also a precondition for accumulation. The availability of new fields of investment presupposes that all of a sudden great masses of people can be used for their exploitation ". . . without injury to the scale of production in other spheres." [15] Thus, a precondition for the undisturbed operation of capitalist production is in Marx the existence of a reserve army of the unemployed, which makes the supply of labour independent of the natural growth of working population. There exists no automatism to clear the labour market, nor does the capitalist economy need one to ensure its successful operation.

The introduction of machinery increases in Marx the number of the unemployed on a social scale by a multiple of the working population ousted by it. In other words, Marx describes the employment multiplier. Let us have Marx speak himself: "The circumstance that they were 'freed' by the machinery (that is, those who were ousted by it from their jobs – *A. M.*) from the means of purchase, changed them from buyers into non-buyers." [16] The demand for consumer goods decreases and, as a result, ". . .there follows a discharge of workmen employed in the production of these commodities. . . The labourers employed in the production of necessary means of subsistence are in their turn 'freed' from a part of their wages. . . machinery throws workmen on the streets, not only in that branch of production in which it is introduced, but also in those branches in which it is not introduced." [17] This diffusion of unemployment resulting from the fall in the purchasing power of the workers directly affected and discharged by the introduction of machinery is already in Marx too, a consequence of the lack of demand.

How do the wages brought down under the pressure of the unemployed affect the labour market? In the classical theory of the labour market this stimulates the demand for, and decreases the supply of, labour and the labour market comes ultimately, at a certain low level of wages, into equilibrium.

In Marx, the fall in wages does not decrease, on the contrary, it increases the supply of labour: ". . . the lower the price of labour, the greater must be the quantity of labour, or the longer must be the working-day for the labourer to secure even a miserable average wages. The lowness of the price of labour acts here as a stimulus to the extension of the labour-time." [18]

On the other hand, we can occasionally come across in Marx statements purporting that a fall in wages acted against the growth of technological unemployment. He quotes a passage from John *Barton*'s work published in 1817, according to which "The facility of

finding employment stands... in inverse ratio to the rate of wages... If wages are low, then the demand for labour is great because it is then profitable for the employer to use much labour..." [19]

In connection with Barton's exposition, Marx remarks: "This is all, *cum grano salis*, correct so far as fully developed capitalist production is concerned." [20] In his *Capital*, he himself declares that the substitution of machinery for human labour "... is fixed by the difference between the value of the machine and the value of the labour-power replaced by it." [21] "... the fall of wages below the value of labour-power impedes the use of machinery..." [22]

But the fall of wages is in Marx not a means to raise employment. He recognizes the double role of wages: they represent production cost for the entrepreneur and are a source of demand for consumer goods. Thus he becomes aware of the macro-economic impact of the fall of wages upon the demand for commodities. On this he writes this: "Contradiction in the capitalist mode of production: the labourers as buyers of commodities are important for the market. But as sellers of their own commodity – labour-power – capitalist society tends to keep them down to the minimum price..." [23] The distinction of the double role of wages plays, as has already been referred to, an important role in Keynes' attack on the neoclassical economists of his time.

In connection with Marx's above-quoted idea Engels remarks that Marx wished to elaborate this problem in more detail later on. [24] But, unfortunately, this never came to be realized. Yet it follows from Marx's tentative remarks that, on the one hand, the fall of money wages need not counteract the replacement of labour by machinery. For by lowering the price level through the fall in demand, the fall of money wages also cuts down the price of machinery, and as a result, the relationship between the price of machinery and the wage sum of the labour replaced by it may not necessarily change. But it may also occur that the price of machinery will fall more than that of the labour discharged through it, and then the fall of money wages will, according to the Marxian train of thought, stimulate the replacement of labour by machinery. On the other hand, the fall of money wages will directly impede, through the decline of the total demand for commodities, the growth of employment.

The effect of technical progress taking place under capitalist circumstances on bringing about the reserve army of the unemployed as a necessary condition for the operation of capitalist economy is a concomitant of the long-term process of economic growth. The contraction or expansion of this reserve army, however, is already a consequence of the changes of the industrial cycle. Or, to put it differently, the short-term changes in employment are in Marx, too, dependent on the expansion or contraction of total demand. "... and the general movements of wages are exclusively regulated by the expansion and contraction of the industrial reserve army..." [25]

It is worth noting that already Marx criticizes the fiction to be found in the economic literature of his time which – though in a different context than in today's literature – "... confuses the laws that regulate the general movement of wages... with the laws that distribute the working population over the different spheres of production." [26]

A critique of Say's Law and the market-creating effect of investments

The critique of Say's Law, the rejection of the dogma according to which the automatisms of private capitalist economy ensure that total demand always increases in line with total demand, is also a common element in Marx and Keynes.

In the system of both thinkers, total demand rises basically as a result of investment.

Marx emphasizes that until it is not completed, investment withdraws commodities from, rather than supplies them to the market. "Since elements of productive capital are for ever being withdrawn from the market and only an equivalent in money is thrown on the market in their place, the effective demand rises, which, however, does not include any element of demand." [27]

In his market theory, Keynes also places emphasis on the demand-creating effect of investments. In his theory, too, the market expands, basically as a result of investments, by a multiple of their volume (multiplier effect). Investment also increases the market for consumer goods. ". . . an increase (or decrease) in the rate of investment will have to carry with it an increase (or decrease) in the rate of consumption. . . [28] as investment raises the source of consumer demand, i.e. incomes.

What does investment depend on in Keynes? On the expected net return of capital, on its marginal efficiency and on the rate of interest. In his view, investors have to face an uncertain future. The outstanding fact is the "extreme precariousness of the knowledge on which our estimates of prospective yield have to be made." [29] And since these estimates are impossible to control in the course of investments, they are extremely unstable. The long-term interest rate, however, is relatively stable. Now Keynes sums up the factors that prevent total demand from reaching the level necessary to realize full employment as follows: "The difficulties in the way of maintaining effective demand at a level high enough to provide full employment, which ensue from the association of conventional and fairly stable long-term rate of interest with a fickle and highly unstable marginal efficiency of capital, should be by now, obvious to the reader." [30] The working of Say's Law would require that the quantity of investment should be adjusted to the quantity of saving to be made at the all-time level of national income. Then aggregate demand price would equal aggregate supply price at all levels of national income. But, owing to the difficulties mentioned by Keynes, this is impossible to secure. If, however, at a given level of national income society should wish to save more than the quantity of investment, the incomes of the members of society would fall, they would decrease their savings and society would be able to save only as much as the magnitude of investment. Here it is again the difference between micro- and marco-approach that makes its appearance. In the micro-economy, ". . . when an individual saves, he increases his own wealth." [31] In the macro-economy, however, it must also be taken into account that ". . . an act of individual saving may react on someone else's saving and hence on someone else's wealth." [32] And Keynes also stresses that: "This is the vital difference between the theory of the economic behaviour of the aggregate and the theory of the behaviour of the

individual unit. . ." [33] The multiplier effect ensures then through changes in national income that not only the actual saving of society be equal to the magnitude of investment but that its intended saving should also be adjusted to the latter.

Let us see now what the magnitude of investment depends on in Marx's theory. Since the activity of capitalists is regulated in his system by the profit motive, it depends on profit. And since investment matures only in the future, it obviously depends on expected profit. At the same time, Marx also attaches importance to the role of the rate of interest in investment decisions. He points out that for the capitalist working with loan capital the product of capital is not profit, ". . . but profit minus interest, that portion of profit which remains to him after paying interest." [34] ". . . the low interest . . . increases that portion of the profit which is transformed into profit of enterprise." [35] ". . . the rate of enterprise profit is inversely proportionate to the level of the interest rate." [36]

The investors are faced in Marx, too, with an entirely uncertain market which is beyond their control, and thus they do not know what profit they can reckon with. The interconnections of the market, ". . . the conditions regulating them assume more and more the form of a natural law working independently of the producer, and become ever more uncontrollable." [37]

But in Marx, in contrast to Keynes, uncertainty does not restrict the investment decisions. For the capitalist class, accumulation remains, in his view, a law also under the circumstances of uncertainty, which is ". . . imposed by incessant revolutions in the methods of production themselves, by the depreciation of existing capital always bound up with them, by the general competitive struggle and the need to improve production and expand its scale merely as a means of self-preservation and under penalty of ruin." [38]

In the hunt after profit under the conditions of an uncertain market, overinvestment will sooner or later run, according to Marx, against the narrow constraints of the market. "Since the aim of capital is not to minister to certain wants, but to produce profit, and since it accomplishes this purpose by methods which adapt the mass of production to the scale of production, not *vice versa,* a rift must continually ensue between the limited dimensions of consumption under capitalism and a production which forever tends to exceed this immanent barrier." [39] In other words, capitalist enterprises are intended, in their hunt after profit, to increase production in such a way as if it were impeded merely by the development of the productive forces, while the market were restricted "by the consumer power based on antagonistic conditions of distribution, which reduce the consumption of the bulk of society to a minimum varying within more or less narrow limits." [40] As a result, ". . . market and production are two independent factors. . . the expansion of one does *not* correspond with the expansion of the other. . ." [41] This statement, containing the refutation of Say's Law, is formally analogous – though with entirely different content – with the Keynesian statement that in the course of changing production aggregate demand price and aggregate supply price carry out different movements.

The question may arise how investments can run into the narrow constraints of the market when it expands in Marx exactly as a result of investments. Hungarian

economists [42] interpret these lines of Marx by maintaining that in the process of their maturity productive investments increase productive capacity practically for the production of consumer goods. Their exploitation would presuppose a sizeable increase in real wages as labourers are the main buyers in the markets for consumer goods partly owing to their masses, partly beacuse the consumption of the capitalist class is relatively inelastic. But the rise in real wages diminishes real profit, discuorages investment. This may be the Marxian interpretation of Keynes's statement that "not only is the marginal propensity to consume weaker in a wealthy community, but, owing to its accumulation of capital being already larger, the opportunities for further investment are less attractive. . ." [43]

The unfavourable impact on investment of the narrowness of consumption is also formulated by the "General Theory". Unlike Marx, Keynes wishes to impute the relatively low level of consumption to general consumer behaviour: "The psychology of the community is such that when aggregate real income is increased, aggregate consumption is increased, but not so much as income." [44] But we can also find in Keynes references pointing out that an arbitrary and unjust wealth and income distribution in the existing economic order may also be responsible for the low level of the propensity to consume. He writes, for example, that ". . . measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital." [45]

In his book on business cycles published in 1950, [46] Hicks distinguishes between autonomous and induced investment. Essentially the same distinction can already be found in Harrod's growth theory published in 1948. [47] Autonomous investment is an independent variable of the model as it is brought about not by changes in national income, nor in aggregate demand as determined by Keynes, but by factors constituting, from the point of view of the model, exogenous facts. Hicks also classifies among autonomous investments the investments induced by technical progress together with long-term investments whose products mature only in the distant future. Thus the expectations with respect to future demand that entrepreneurs have in mind when making their investment decisions cannot be deduced from the demand or output as determined in the model for the period of the investment decision. Hence, a large part of investments as described by Marx and Keynes are autonomous investments in the Hicksian sense. But in both of them we can also find investments induced by current trade or current output, and, moreover, the accelerator effect also occurs in Marx.

He recognizes the following relationship between the growth of output and fixed capital production: "A continuous expansion of production in the branches of industry which use these machines is required in order to keep his capital (i.e. capital invested in machine production – *A. M.*) employed and merely to reproduce it annually. (An even greater expansion is required if he himself accumulates.) Thus *even the mere reproduction of the capital invested in this sphere* required continuous accumulation in the remaining spheres of production." [48]

From the fact that ". . . there cannot be a buyer without a seller, or a seller without a

buyer", [49] it follows in Marx that saving on the social level is possible only in the magnitude of investment. But in his reproduction theory, with productive workers and productive capitalists being the exclusive actors, saving is made for investment purposes only by the capitalist class. And from the two-department scheme it seems to follow that the two intentions always coincide as the capitalist class invests the total amount of its saving during the same production period. But in a subsequent passage of his reproduction theory Marx resolves this rigid assumption. He points out that the individual capitalists have to store up part of the surplus value designed to be invested in money form over several periods of the reproduction process until it reaches the necessary level. But surplus value not spent will decrease total demand. In Marx, it is the equilibrium condition of reproduction that those capitalists who, by virtue of their past savings, are on the point of actually expanding their capital stock, are able to invest an amount equal to that part of realized surplus value which other capitalists have set aside in money form. It is also on the basis of the equality of selling and buying that Marx declares that the investments made by certain capitalists enable others to store up part of realized surplus value in money form. "Money is withdrawn from circulation and stored up as a hoard by selling commodities without subsequent buying. If this operation is therefore conceived as a general process, it seems inexplicable where the buyers are to come from, since in that process everybody would want to sell in order to hoard, and none would want to buy. And it must be conceived generally, since every individual capital may be in the process of accumulation." [50] And Marx's answer is this: "Some are still in the stage of hoarding, and sell without buying; the others are on the point of actual expansion of reproduction, and buy without selling." [51]

The two intentions are not co-ordinated in Marx either. In the case of their deviation, the equilibrium of reproduction is upset. If the capitalists of Department I sell more to the capitalists of Department II than what they buy from the latter, part of the commodities of Department II will remain unsold. "Formation of virtual additional money-capital in Class I (hence under-consumption from the point of view of Class II); the piling up of commodity supplies in Class II which cannot be reconverted into productive capital (hence relative over-production in Class II); surplus of money capital in I and reproduction of deficit in II." [52]

Although depreciation is not saving made from surplus value, yet if it exceeds replacement, this also means a fall in purchasing power in Marx just as it is the case of saving in excess of investments. Marx regarded the equilibrium of depreciation and replacement also as a condition of proportionate reproduction. Here again the problem arises out of the fact that with those capitalists who have come to replace their fixed capital, the volume of replacement only occasionally coincides with the amount of money set aside by other capitalists for such replacements as are due to be made later. When, however, the two deviate from one another, the equilibrium of aggregate demand and aggregate supply will be upset. This question also occurs in Keynes when he points out that depreciation equals replacement only in a stationary economy. In a dynamic economy, however, capital stock is quickly expanding, and "this ... had led to the

setting up of sinking funds in respect of the plant which did not need replacement. . ." [53] Thus new investments ought to equal not only the savings that individual capitalists wish to use for new investments to be made at a later point of time, but also part of the sinking funds in excess of replacement.

In Keynes, if intended saving and intended investment deviate from one another, it is the change in national income that restores their equilibrium through the multiplier effect.

Such a type of multiplier does not exist in Marx, although the two-department scheme would provide the possibility to construct a multiplier, differing from the one based on the Keynesian propensity to consume. It would express, in the case, for example, of the output of Department I shooting ahead of the output of Department II and, consequently, of the demand for consumer goods exceeding their supply, by what multiple of the deviation the output of consumer goods should be increased for equilibrium to be restored between the two Departments. And with the restoration of equilibrium between the demand for, and the supply of, consumer goods, the saving-investment equilibrium would be realized in the Marxian two-department scheme, too.

A representation, however, of the spill-over effect can be found in Marx, an effect which the representatives of the models built upon the paradigm of non-market clearing call demand multiplier. It implies that the shortage of demand in the market for certain goods is also carried over to other markets. Marx points out that the excess output of a few vital commodities brings forth a more or less excess output in the commodity market as a whole.

"The stagnation in the market, which is glutted with cotton cloth, hampers the reproduction process of the weaver. This disturbance first affects his workers. Thus they are now to a smaller extent, or not at all, consumers of his commodity – cotton cloth – and of other commodities which entered into their consumption. It is true, that they need cotton cloth, but they cannot buy it because they have not the means, and they have not the means because they cannot continue to pruduce and they cannot continue to produce because too much has been produced, too much cotton cloth is already on the market. . . But apart from the workers who are directly employed by the capital invested in cotton weaving, a large number of other producers are hit by this interruption in the reproduction process of cotton: spinners, cotton-growers, engineers (producers of spindles, looms etc.), iron and coal producers and so on. Reproduction in all these spheres would also be impeded because the reproduction of cotton cloth is a condition for their own reproduction. This would happen even if they had not *over-produced* in their own spheres, that is to say, had not produced beyond the limit set and justified by the cotton industry when it was working smoothly. All these industries have this in common, that their revenue (wages and profit, insofar as the latter is consumed as revenue and not accumulated) is not consumed by them in their own product but in the product of other spheres, which produce articles of consumption, calico among others. Thus the consumption of and the demand for calico fall just because there is too much of it on the market. But this also applies to all other commodities on which, as articles of consumption, the

revenue of these *indirect* producors of cotton is spent. Their means for buying calico and other articles of consumption shrink, contract, because there is too much calico on the market. This also affects other commodities (articles of consumption)." [54]

Marx's reasoning will reveal that effective demand in the market of a given product depends not only on the price of that product, but also on what happens in other markets, that is, the demand function contains along with price constraints, also quantitative constraints. The demand for spindles and looms depends, in addition to their prices, also on the demand for calicoes. The excess output of calicoes diminishes the demand for a number of other products. Their output is diminished despite their prices remaining unchanged. The incomes of workers employed in these branches of production fall, which further diminishes the demand for calico.

The invalidity of Say's Law and of the Walrasian Law also becomes evident. The scarcity of demand spills over the markets and the sum of excess demand cannot be nil.

At the same time, Marx also calls attention to the pitfalls of argumentation, which may also be applied to the views of the representatives of new macro-economics. He only expounded how the excess output of certain commodities spills over all markets, but ". . . it is by no means clear how over-production of these articles can arise." [55]

The problem of investments, though it plays a key role both in Marx and Keynes in the presentation of the economic process, appear in different aspects in both of them, which presumably expresses the divergent characteristics of the two periods of time in which Marx and Keynes lived.

Marx speaks of the accumulation compulsion of free-competition capitalism, as a result of which investments go beyond the limits set by the markets. In connection with Hobson's complaints concerning overproduction, Keynes remarks that it "is, in fact, a secondary evil. . ." [56] What Keynes considers to be the greater evil is the fact that society does not want to invest enough. It does not want to invest as much as it wishes to save at full employment, therefore full employment cannot be accomplished.

By Keynes's time, free competition had already been replaced by the rule of the oligopolies, as a result of which the compulsive impact on accumulation of competition decreased. It appears that this was the social and economic background of Keynes's complaint about the entrepreneurs' inadequate propensity to invest.

Money and interest theory

Certain similar elements, though to a lesser extent than in the relations discussed above, also occur in Marx's and Keynes' money and interest theories. In the part of the "General Theory" dealing with money theory Keynes is interested not in the determination of the price level, but of economic activity, of the level of national income.

Both attach to money – although on different considerations – a specific role in economic life. It is not only a means of transactions, but also the object of independent

endeavours. This function of money played an important role in their rejection of Say's Law.

Marx points out that, owing to the specific role of money ". . . the commodity must be turned into money but the money need not be immediately turned into commodity, and therefore *sale* and *purchase* can be separated. . . This *form* contains the possibility of crisis. . ."[57] "The proposition the commodity must be converted into money, only means that: *all* commodities must do so. And just as the difficulty of undergoing this metamorphosis exists for an individual commodity, so it can exist for all commodities." [58] In a crisis, the demand for money, the liquidity preference, becomes absolute. "During the crisis, a man may be very pleased, if he has *sold* his commodities without immediately thinking of a purchase." [59]

Marx speaks only of the abstract possibility of crises in connection with the specific role of money in the world of commodities, and this form does not contain the necessity of crises. He maintains that money in this specific function cannot be replaced by any other commodity.

Although Keynes explains the specific role of money in a way entirely different from that of Marx, yet he mentions among the characteristics of money that ". . . it has an elasticity of substitution equal, or nearly equal, to zero." [60] And unemployment is caused, as he thinks, by the fact that people want to sell only to hoard money as an asset. ". . . men cannot be employed when the object of desire (i.e. money) is something which cannot be produced and the demand for which cannot be readily choked off." [61] And Keynes also holds the view that "liquidity preference. . . does not increase until *after* the collapse in the marginal efficiency of capital," [62] that is, in the period of crisis.

Keynes explains the equilibrium level of the rate of interest exactly by the specific role of money as an asset.

In his interest theory Keynes wishes to provide an answer to the question of how the interest rate and through it the level of economic activity can be lastingly influenced by changing the quantity of money. In the neo-classical model based on the optimum allocation of resources the rate of interest was interpreted as a real phenomenon, whose equilibrium rate, or – to use Wicksell's term – natural rate was determined by the marginal productivity of capital and by the marginal sacrifice ensuing from the postponement of consumption. In this model, the monetary authority was not able to effect a durable deviation of the market rate of interest from its natural rate, and monetary policy could not exert a lasting influence on the real processes. However, interest is in Keynes a wholly monetary phenomenon, and he sees the function of the rate of interest in its bringing the demand for money as an asset into line with the quantity of money not required by transactions and available for hoarding purposes. And people, in his view, demand money for the purpose of holding wealth depending on the extent the current market rate of interest deviates from what they individually hold to be a safe level of interest rate. By its monetary policy the central bank increases the quantity of money available for the purpose of holding wealth and is able, given the unchanged expectations of the public with respect to the financial policy of the future, to decrease the

equilibrium level of the interest rate and to lastingly influence investment, the level of economic activity.

The level of the rate of interest held by people to be a safe one is, according to Keynes, "a highly conventional" [63] phenomenon. "Any level of interest which is accepted with sufficient conviction as likely to be durable will be durable, subject, of course, in a changing society to fluctuations for all kinds of reasons from the expected normal... But it may fluctuate for decades about a level which is chronically too high for full employment..." [64]

To monetary policy alone acting through changing the rate of interest Keynes does not attribute any basic significance in raising the level of economic activity. "... a high rate of interest is much more effective against boom than a low rate of interest against a slump." [65] "If a reduction in the rate of interest was capable of proving an effective remedy by itself, it might be possible to achieve a recovery without the elapse of any considerable interval of time and by means more or less directly under the control of monetary authority. But, in fact, this is not usually the case; and it is not so easy to revive the marginal efficacy of capital, determined, as it is, by the uncontrollable and disobedient psychology of the business world." [66]

Marx approaches the problem of interest from an entirely different aspect. He regards it not as a monetary, a psychological phenomenon, but as part of surplus value. The change of its rate depends in his system on changes in the demand and supply of loan capital. Nevertheless, there are also some common features in the two interest theories, too.

Marx holds the view that "... there is no such thing as a natural rate of interest in the sense in which economists speak of a natural rate of profit and a natural rate of wages." [67] "The average rate of interest prevailing in a certain country... cannot be determined by any law..." [68] The reason for it is that interest is but a portion of average profit. "The same capital appears in two roles – as loanable capital in the lender's hands of the functioning capitalist. But it functions just once, and produces profit just once. In the production process itself the nature of capital as loanable capital plays no role. How the two parties who have claim to it divide the profit is in itself just as purely empirical a matter belonging to the realm of accident as the distribution of percentage shares of a common profit in a business partnership." [69] "Customs, juristic tradition, etc. have as much to do with determining the average rate of interest as competition itself..." [70]

Not having a natural yardstick, the rate of interest can be changed lastingly by means of monetary policy in Marx, too. And Marx writes about it that "the power of the Bank of England is revealed by its regulation of the market rate of interest." [71]

The average rate of interest mentioned by Marx corresponds to the Keynesian rate of interest held by people to be a safe one. And Marx writes about it that "the average rate of interest appears in every country over fairly long periods as a constant magnitude..." [72] But unlike Keynes, he sees its cause in the fact that the average rate of interest changes spontaneously only with changes in the average rate of profit and "... the general rate of profit varies only at longer intervals." [73]

By issuing their own notes, banks can in Marx significantly manipulate with supplying credits. Does this change in the magnitude of credits act in his system on the real processes? In Marxian theory, it is not the monetary sphere that determines economic activity. The turnover of money and credit just adapts itself to the level of economic activity. At the same time, however, it also reacts on it, and in this respect it is not neutral towards the movement of the real processes. In Volume III of his "Capital" Marx devoted a separate chapter to the investigation of the role of credit in capitalist production. Let us single out from it, without any claim to completeness, just a few ideas. Credit accelerates the metamorphosis of commodity and capital, and this metamorphosis brings ". . . with it an acceleration of the process of reproduction in general." [74] Credit ". . . accelerates the material development of the productive forces", [75] promotes overproduction, speeds up the outbreak of crises. But it does not launch an upswing, does not eliminate economic crises. Marx points out that abundant loan capital and the low rate of interest may contribute to an expansion of the accumulation process and stimulates economic upswing. He adds, however, that the abundance of loan capital is not the cause of the expansion of the reproduction process. [76] He also points out what credit policy can achieve in a crisis period. ". . . as long as the credit of a bank is not shaken, it will alleviate the panic in such cases by increasing credit-money and intensify it by contracting the latter," [77] but it is unable to eliminate it. "The entire artifical system of forced expansion of the reproduction process cannot, of course, be remedied by having some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and having it buy up all the depreciated commodities at their old nominal values." [78]

The antagonism between individual and social interest

Owing to the lack of automatisms ensuring full employment and adjusting total demand to total output, it runs as a common idea through both "Capital" and the "General theory" that pursuing private interest does not realize public interest, that rational economic activity in the individual economic units does not necessarily lead to a rational arrangement of the economic processes on the social scale. ". . . social reason always asserts itself only *post festum*. . ." [79] As we have seen, different things occur in the theories of both thinkers in macro- than in micro-economics so that the analysis of the behaviour of the economic subject cannot be the starting-point for understanding macro-economic interrelations.

Looked at from this aspect, the critique by the representatives of the neo-classical macro-economics of the Keynesian theoretical system, that in it the expectations of the economic subjects are irrational, seems to be unjustified. This critique appears to be especially strange in our days when the uncertainty of the prospects of capitalist economy has greatly increased. The assumption of irrational expectations is also in

conformity with Marx's view according to which ". . . the cohesion of the aggregate production imposes itself as a blind law upon the agents of production." [80]

The approach, says Coddington, which assumes that a more or less uncertain expectation constitutes the basis of all kinds of economic activity ". . . does not itself provide any kind of fixed mechanism according to which the unfolding of events takes place. . ."[81] In an anarchic capitalist economy, says Marx, in which the economic agents are faced with an uncertain world, strict laws regulate the economic processes on the social plane. He points out, however, that these, just as the equilibrium, are realized through their incessant violation. This is the way in which the law of value and other laws of the economy assert themselves under capitalist production relations. ". . . this constant tendency to equilibrium of the various spheres of production is exercised only in the shape of a reaction against the constant upsetting of this equilibrium." [82] Demand and supply are never in equilibrium in any given case, and in their subsequent deviations ". . . the result of a deviation in one direction is that it calls forth a deviation in the opposite direction. . ." [83] Equilibrium in the market of commodities is established, in Marx, only as the average in the boom and slump periods, and in the labour market it is not established even at that time. In Marx, accumulation ". . . produces . . . a relatively redundant population of labourers . . . of greater extent than suffices for the average needs of the self-expansion of capital. . ." [84] Under the average self-expansion of capital Marx understands the surplus-creation capability of capital as it appears in the average of economic upswing and downswing. In Marx, the market of commodities comes into equilibrium also at unemployment.

The perspective for capitalist development

We have attempted to select similar elements out of the economic teachings of Marx and Keynes. But the two economic systems are, despite certain similarities, different in *essence* from one another.

The starting-point for Marx's explorations is the analysis of capitalist production relations. He builds his theoretical system on the antagonistic contradiction between the capitalist and the working class. In his theory, it is due to the conflict between the two basic classes of capitalist society that the consumption of the working class can move only between narrow limits, that the market, the expected profit for individual capitalists, is uncertain, that the reserve army of the unemployed is persistent, that individual interest incessantly clashes with social interest and that general crises of overproduction are necessary to arise. Marx points out that the antagonistic character of the relationship between the working and the capitalist class testifies to the historical, transitory nature of the capitalist economic system.

Keynes regards, along with unemployment as the first deficiency, the arbitrary and unjust distribution of wealth and incomes as the second main deficiency of the prevailing

economic order. His General Theory, however, is intended to deal only with the first one, "but there are" – as he writes – "two important respects in which it (i.e. General Theory – *A. M.*) is relevant to the second", too. [85] But for Marx it is the capitalist order of the distribution of wealth which is the source of all economic evils, among them also of unemployment examined by Keynes.

In Keynes, one of the two respects relating to the order of the distribution of wealth and incomes, brings consumer demand into connection with income distribution relations. He dispels the misconception often encountered in neo-classical literature that the growth of wealth depends on the self-restraint of the rich. With this "one of the chief social justifications of great inequality of wealth is, therefore, removed." [86] The other respect is connected with the future consequences accompanying inequalities of wealth. The last chapter of the "General Theory", is also concerned, besides suggesting a remedy for curing the existing ills, with long-term problems, with the perspectives for capitalist development. In the long run, Keynes includes a historical element in his explorations. He holds interest, as a reward for owning capital, to be a transitory phenomenon, [87] such as is no longer needed. "The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital." [88]

According to Keynes, the problem of incomes resulting from capital ownership will be resolved spontaneously. In the course of capitalist development capital stock will increase to such an extent that the scarcity of capital will cease. With this, rent for capital ownership will also discontinue. ". . . the euthanasia of the rentier, of the functionless investor. . . will need no revolution. . ." [89] "And with the disappearance of its rentier aspect much else in it besides (i.e. in capitalism – *A. M.*) will suffer a sea-change." [90]

And what would survive of capitalism ?

According to Keynes, the disappearance of interest would not mean the free use of capital assets. It would only mean that ". . . the return from them would have to cover little more than their exhaustion by wastage and obsolescence together with some margin to cover risk and the exercise of skill and judgement." [91] Although inequalities in the order of the distribution of wealth would survive, this would not ensure economic advantages for the owners. The stratum of passive capitalists living merely on the ownership of their capital would cease, but active capitalists, who obtain their incomes as a reward for useful activities, would survive. The following statement of Keynes is in conformity with these ideas: "I sympathize, therefore, with the pre-classical doctrine that everything is produced by labour. . . It is preferable to regard labour, including, of course, the personal services of the entrepreneur and his assistants, as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand." [92]

From a Marxian point of view, an active capitalist is of course also exploiting, his income is not the result merely of his work. "The industrial capitalist is a worker, compared to the money-capitalist, but a worker in the sense of capitalist, i.e., an exploiter

of the labour of others. The wage which he claims and pockets for this labour is exactly equal to the appropriated quantity of another's labour and depends directly upon the rate of exploitation of this labour, insofar as he undertakes the effort required for exploitation; it does not, however, depend on the degree of exertion that such exploitation demands. . ." [93]

But Keynes wishes not to abolish, but to improve capitalism. We cannot call him to account for not applying a Marxian approach as it would be impermissible (and impossible) to call Marx to account for Keynesian ideas. The present study was also intended to demonstrate that Keynes, who saw the capitalist system of the economy not with Candide's eyes, and described it not as he wished it to be but as he saw it in reality, came, though on the basis of different theoretical considerations, to identify such phenomena as were described by Marx who kept in sight the historical, transitory character of capitalist economy.

Both Marx and Keynes intended to present the capitalist economy of their times in their theoretical systems. Their theories, however, can be used for the explanation of the phenomena of present-day capitalist economy only if their teachings are further developed in accordance with the changed circumstances. To achieve this, serious attempts have been made in our days on the part of both Marxism and Keynesianism.

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СХОДНЫЕ ЧЕРТЫ ЭКОНОМИЧЕСКИХ УЧЕНИЙ МАРКСА И КЕЙНСА

А. МАТЬЯШ

Статья обращает внимание на сходство отдельных взглядов этих двух эпохальных мыслителей. Эти сходные черты — хотя Маркс и Кейнс являлись теоретиками, исходявшими из разных предпосылок, принимавшими во внимание разные измерения времени, имевшими разные мировоззрения и разные цели при изучении капиталистического хозяйства — происходят из того, что они оба старались раскрыть тяжкие беды капиталистической экономики и разделяли мнение, что нет спонтанного автоматизма, способного исцелить эти беды. Статья анализирует несколько таких проблем, — сравнивая позиции Маркса и Кейнса, — которые играют важную роль в обеих теориях: бопрос о вынужденной безработице, роль капиталовложений в создании рынков, точки зрения Маркса и Кейнса о деньгах и проценте, а также противоречие между личными и общественными интересами. Это последнее получает особое значение в обеих системах взглядов, ведь как Маркс, так и Кейнс четко разграничивали макроэкономические и микроэкономические процессы. Они оба придерживались мнения, — в отличие от многих экономистов эпохи, — согласно которому макроэкономические отношения не могут быть объяснены исходя из анализа поведения хозяйствующих субъектов. Статья не считает своей задачей сопоставление систем взглядов Маркса и Кейнса. Автор стремится показать, что в некоторых вопросах Кейнс, исходя из совершенно другой теоретической основы, выступаяс намерением улучшить капитализм (но глядя на капиталистическую экономическую систему не глазами Кандида, и не изображая ее так, какой он хотел бы видеть ее, а такой, какой он видел ее на самом деле), пришел к таким же выводам, как и Маркс, стремившийся доказать преходящий характер капиталистического строя и неизбежность его крушения.

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INDUSTRIAL STRUCTURE AND STRUCTURAL CHANGE IN HUNGARY

V. NYITRAI

The authoress examines the present structure of the Hungarian industry and its changes in recent years answering the challenges of the world economy in the eighties. Beside the structure of output and sales she also reviews the development in the structure of inputs. She confronts the self-evaluation of enterprises, based on a system of technico-economic criteria developed in 1977 for the purpose of modifying the structure, with the actual situation and, relying on it, she outlines the development directions also to be derived from the international practice. The impact of the central development projects on the transformation of structure is mostly of a favourable direction, and the projects modernising the input pattern are of particular importance (such as energy conservation, the transformation of materials and technologies). The article establishes that the combination of the instruments of control with the central development projects and with the active initiative of the enterprises leads to the transformations in structure necessary for the lasting increase of efficiency in the macro- and microspheres.

The experience gained in the course of the economic development of earlier years raise the question, to what extent a structural change is able to promote a real improvement in the efficiency of the Hungarian economy, and to help it out of the trough into which it has been pushed by foreign economic problems and domestic difficulties. Other issues have also been raised by the experience of the last few years. The most important resolution of the 1970s was the one taken by the Central Committee of the Hungarian Socialist Workers' Party on the 20th October 1977 regarding structural development and foreign economy. As the years have passed, it has become a widely debated issue, how far the 1977 decision holds for the international and Hungarian conditions of today; whether it is valid also for the 1980s, or to be reinterpreted, whether we are to make progress in a new or modified direction, or at a new or modified pace. The stand taken by the Central Committee of the HSWP in June 1982 confirmed the main directions of the decision made five years earlier and, though with certain necessary corrections, it did not deviate from the 1977 decision in regard of the most important objectives of structural policy.

As for the *necessity* of a structural transformation, it is little debated in Hungary at present. It is practically accepted in general, too, that *the structural change is not an end* in itself *but a means:* a means to improve efficiency, and to achieve, as fast as possible, our economic and living standards policy objectives. It is, however, a debated issue, whether, after the path has been changed, the requirement of higher efficiency can in fact be met by a structural change, with a lower growth rate. In other words: in earlier times, many of us agreed in a faster growth that promotes dynamic changes in the production and sales patterns, today, however, opinions are not unanimous whether a slow growth rate could promote a real change in the production and sales patterns and, what is even more important: in the input pattern.

I wish to make it clear at the beginning that in my opinion it is not worth arguing about whether, with a lower growth rate, it is necessary or possible to change the patterns, first of all in industry. Instead, it is worth arguing, and necessary, too, about the *means* we have at our disposal to shape the production, sales and input patterns in a way that each serve the achievement of a higher efficiency if we continue at the same rate along the path Hungary has been following since 1979. That is to say that, in my opinion, the resolution of the Central Committee of the HSWP of 20th October 1977 is not only timely today, but it is in harmony with our long-term efforts and medium-term development conceptions. This is not changed by the fact that not each one of the short-term operative measures points in this direction and that a few elements of the resolution cannot be implemented in the short run. It is simply impossible not to progress, in the long run, in the direction indicated in the 1977 October resolution.

A detailed explanation of the problem of structural development requires

- a clarification of concepts,
- a short description of the international trends, tendencies, and experiences,
- a survey of the Hungarian development between 1978 and 1982 (from the aspect of structural change),
- an evaluation of the role of the so-called "central development projects" in structural transformation,
- and last but not least, an indication of the further methods, possibilities and ways of shaping the structure during the 1980s.

Concepts

In this study the concept of *economic structure* is interpreted in the widest possible sense; it covers the product and activity pattern of production, the market pattern of sales, as well as the pattern of inputs. This conceptual question arose already during the preparation of the October 1977 resolution of the Central Committee of the HSWP. Although in the resolution itself emphasis is laid on the structure of *production* and *sales*, also the pattern of *inputs* is mentioned, since the latter largely influences the efficiency of production. The changes that have taken place since, and particularly the second price explosion on the world market have called attention to the fact that the Hungarian economy is lagging behind most in respect of the pattern of inputs (more than in the pattern of production and sales). At the 1982 general meeting of the Hungarian Academy of Sciences József *Bognár* [1] pointed out emphatically that the Hungarian economy produced its goods with much higher inputs than correspond to its development level or are justified on the basis of international experience. Let us add: beside the volume and per unit value of inputs being very high in labour, as well as in assets and materials (within the latter, in imported materials), their structural composition is also far from being ideal, what is more, from what would be acceptable at the present relative development level of Hungary (measured on the basis of international comparison). With the prevailing price

and quality conditions of the world market, Hungary can gain a comparative advantage only through such production activities which turn out well saleable goods and services (adequately valued in prices) with rational inputs of materials, energy, labour, and assets. No continuously profitable exports are conceivable without the fulfilment of these requirements. This holds, of course, for the entire economy and, in particular, for the manufacturing industry.

Today we cannot speak of structural problems without at least outlining the *input pattern* and the tasks involved by it. The subject is, of course, very large, therefore, it is hardly possible to treat it in all detail in a single study. Here belongs, for example, just to mention one partial field, the structure of labour input in which today the ratio of unskilled labour is much higher than justified by the Hungarian development level of production, and that of highly qualified intellectual and manual labour is comparatively lower, though in the latter Hungary has rather considerable reserves. But there are two neuralgic points of the input pattern on which interest is focussed today: one is the pattern of *imported materials* (within them particularly of those bought against convertible currency), and the other the pattern of *energy* input. In the latter field, as it is generally known, Hungary had been for long progressing in an opposite direction than those leading the international field and those following in midfield, and in which a change in direction took place with a long delay and still not at the required pace. Therefore, I think that at least these questions have to be highlighted, so that we can see, which tasks of structural transformation face us in the coming period.

It is also one of the conceptual problems, in which *time interval* the transformation of the production and sales patterns is conceivable. In the mid-1970s Hungary cherished illusions also in this respect. We thought that after the formulation of the October 1977 resolution a faster shift was to be expected, for which the adequate means of indirect control were already in hand. It turned out, however, that structural transformation was a long-range objective in both production and inputs. A few of its elements could be put into effect in a medium term (it is in respect of these that progress can be made by means of adequate indirect regulators, such as the new type of price system), but in the short run development is hardly perceptible, in most of the cases. I think that it is mainly in the long run that the regulatory system, and its most important element, the price system, can modify the structure. Direct operative interventions are also possible, yet they do not always serve well the objectives of a long-term development. Today it is perfectly clear that the active and initiative role in the transformation of structure is, and must be played by the enterprises, of course, within the framework of a given economic environment and amidst given regulatory and price systems. The central management's task is to provide help, exert its influence, and to shape the environment. The consequences to be drawn from the preceding – for example, those regarding the central development projects – are to be further examined.

Finally, still among the introductory remarks, I wish to speak of the role of structure in the improvement of *efficiency*. I think that there are still large unused reserves in this field. Undoubtedly, economic efficiency can and should be improved through other

means as well. International experience shows, however, that a *joint* transformation of the production and input patterns can be the most successful means of improving efficiency in the medium and long run. (This necessitates a corresponding transformation of the technological background, since a genuine change in the input pattern is inconceivable without a technological change in most of the sectors.) If we keep this in view, we might be able to serve this aim better by shaping the system of instruments of economic regulation.

International experience and tendencies

Looking through the international economic literature of the last two or three years, we often meet with the challenge of long-term structural changes. All countries of the world, of whatever size and development standards, have to prepare themselves to face this challenge. In the economic literature of quite a few advanced industrial countries the idea has come to expression that, during the slow and expectably much disturbed development of the world economy in the 1980s, one of the solutions for national economies can be to change their product and input patterns through the fastest possible adaptation of techniques and technologies. (This is explained, among others, by the authors of the studies [2], [3], [4], [5].) All these studies underline the dependence of world economy on oil, and the ways of structural transformation which give preference to oil saving efficient technologies, to less energy-intensive products and sectors, as well as to a wider use of primary energies other than oil. The other sphere of ideas treated by the above-mentioned studies as well as by others is that the countries with advanced economies have to take into account the appearance of the developing and industrialising countries in ever broader sectors of markets. Competition can be stood successfully by products of higher technological standards. Advanced economies can gain comparative advantages from their higher qualification standards, a wider application of innovation, as well as from national and international specialisation, if they remove simultaneously the production of goods of a lower degree of processing and requiring little skilled labour into the developing countries. A demand for specialisation develops also within the industry of the advanced countries. As an example, M. *Sharp*'s study [2] mentions the textile machine-building industry, in which a specialisation by countries has developed during recent years. In certain types of machines Switzerland has the leading role, in others the FRG. The leading role does not mean here only prices and sales volumes, but also the technological standards, the quality and reliability of the products. This is a good example, because the developing world presents a strong competition exactly in the textile products, and an adequate mechanisation may largely compensate for the cheap labour of the developing world. Comparative advantages may be gained, therefore, also in a way that high-standard mechanisation is applied in the textile industry, relying on the existing textile machine manufacturing capacities.

It was the practice of the 1970s that the advanced industrial countries centred their resources on the manufacture of capital and technology-intensive products, while the developing countries centred theirs on labour-intensive products and exploitation of raw materials. In the following period preference will be given to a *development* of specialisation *in the form of cooperation,* in which innovation of the product and of production technology will also play a role.

It seems that in the twenty years ahead three main development trends will be strengthening in the developing world: *energetics; microelectronics and telecommunication;* as well as *biotechnics.* A division of labour has started to take shape within the three trends among the countries on different development levels, and further changes, some of them revolutionary, are expected in this field. The joining into the three main development trends is a vital interest of every country with an advanced or medium-developed economy, among them also of Hungary. It is not indifferent, however, when and into which phase we shall join; a loss of time, or a wrong selection of the phase may have grave consequences for price and efficiency.

In the international literature the necessity of a technical adaptation to structural changes is emphasized, explaining, among other things, that for the EEC member countries a structural transformation is indispensable which would redirect production resources increasingly towards the newly emerging activities and sectors. [3] If this is done with a delay, the process of structural adjustment will slow down, hindering the development of the new industries in the EEC countries. In the process of accelerating structural changes, an important role is attributed to the *central state control.* In this respect the Japanese example seems to be worth following. Government intervention and help are seen as necessary for strengthening economic flexibility regarding both the labour and capital markets.

The study [4] analysing the structural changes in the West German economy establishes the fact, examining the changes of the past twenty years, that a favourable international position is held today by those sectors in which research and development activity is more intensive than on average. Such are the *chemical industry, engineering, the vehicle-building industry, precision engineering and synthetic (plastics) materials processing.* The activities exerted in these sectors promoted not only innovation within the sector, but the whole innovation process of the economy. Another noteworthy statement is that in the manufacture of consumer articles such goods have gained importance in the past two decades as are destined for leisure time occupations and entertainment. In this fiels, too, the leading role is played by products of high technical standards, keeping up with the development of microelectronics.

As for the international division of labour between the advanced and the developing countries, the studies [5] and [6] suggest several strategies of division of labour within sectors. According to one alternative, the highly industrialised countries specialize in products of outstanding quality, and the developing countries in those relatively simple to produce. According to another alternative, the firms disposing of high technological standards establish a few units placed in the developing countries, which are able to

produce high-quality goods with the aid of adequate mechanisation (with a machine park transferred thereto). There are examples of both strategies in the practice of the advanced and developing countries. The analysis by countries shows, among other things, that Greece (qualified by the study [5] as a country oriented more on the domestic market and only partly on exports, and where a domestic raw material basis is available) has striven mainly to develop its machine industry, vehicle engineering, the chemical and clothing industries, that is, such branches which produce traditional products and which are of a low energy intensity. Another example is that of Yugoslavia, which the study qualifies as defensively export-oriented, where there are domestic raw materials available, and where the main emphasis was laid on the development of the chemical industry, non-ferrous metallurgy, general and electrical engineering. In the case of Yugoslavia, however, the export market orientation has not produced unambiguously good results, and has even led to a certain degree of instability during recent years. According to the study, the small and medium-size firms of the advanced industrial countries can react on the challenge of the world market competition presented by the developing countries by establishing such services which provide for solutions of specific problems in connexion with the product delivered, as well as for technological know-how. The changes in demands made on products, and the particularities of the market require an increasing adjustment. It may be useful to appear on third-world markets in cooperation with other firms. In the manufacturing industry the cooperations must include complementary production activities and marketing. The market position can be further strengthened through continuous modernisation, extensive automation, the application of complex electronic and high-standard machinery and equipment manufacturing technologies, and with the adaptation of the latest results of modern science. Especially great possibilities are inherent in a better utilisation of intellectual activities.

I think that the preceding statements hold not only for the West German industry, but they can be raised as development requirements also towards the Hungarian small, medium and even large-scale enterprises.

This selection from the last years' literature of the advanced industrial countries is, of course, by far not complete, and it does not even fully cover one subject. My purpose has only been to exemplify that the questions we are faced with daily in the course of the structural transformation and which are raised as a challenge also by long-term planning towards the Hungarian economy and in it mainly towards industrial development are not special Hungarian problems. The same questions arise in the counties on a much higher development level and the answers they have found to these questions may orientate also Hungary in its direction and rate of progress, in consideration, of course, of the given circumstances and possibilities.

Otherwise, the few examples quoted are a further confirmation of the statement made earlier, namely, that the basic principles of the structural policy resolution taken in 1977 are still valid, and maybe even more than they were at the time of making the decision. The countries which have met the challenge of the developing world have made higher qualification, licence and know-how purchase and their simultaneous further develop-

ment the most important elements of the structural transformation, in the same way as it was laid down in the Hungarian decision. What is more, for a small country with relatively scarce resources as in Hungary, the tasks which have been set to the industries of economically more advanced countries which have also more resources may be even more important. The question is not to borrow or copy something of these formulations, but that the international tendencies are to be considered meaningful in regard of the structural transformation, too.

Hungarian experiences in the structural transformation during the years that have passed since changing the path

The macrostructure of the Hungarian economy has not much changed since 1978; in it, an earlier characteristic feature of structural development has remained, i.e. the increasing share of industrial activities. It is a new element that this increasing ratio has not been a result of increasing activities in industrial organisations, but of the expansion of industrial activities in non-industrial (among them mainly agricultural) organisations. The change in composition is shown in *Table 1.*

Table 1
Share of the main groups of material activities in the production of national income (net material product) (at comparative prices, in percent)

Activities	1978	1979	1980	1981
Industry without food industry	43.0	44.2	43.8	44.7
Building industry	12.7	12.8	12.3	12.2
Food economy	20.7	19.6	20.8	20.1
Other material activities	23.6	23.4	23.1	23.0
Total	100.0	100.0	100.0	100.0

Not only the macrolevel change was relatively slow at that time; the *product* patterns of production, as well as of sales were changing slowly. The process continued at the beginning of the 1980s.

In the years 1979–1981 the composition of sales considerably changed. At comparative prices, the ratio of wholesale and retail sales and of foreign trade grew within industrial sales (without the food industry), while that of sales for investment purposes decreased. During the last three years changes in the industrial macro- and microstructure have been the results mostly of foreign market changes. It has been the effect of world market tendencies that demand has decreased for metallurgical – and mainly for ferrous

metallurgical – products, which has resulted in a falling share of metallurgical output in the total. The energy saving (conservation) measures have caused the ratio of the oil and gas extracting, and especially of the processing, sectors to decrease, while the share of a few engineering sub-branches has grown in production as well as in sales. Within the chemical industry, the ratio of organic and inorganic chemicals, and that of municipal gas manufacturing has grown, while the share of the pharmaceutical industry has changed to a lesser extent since 1978. There has been less structural change within the light industry, in which the world market slump has been considerably as well as increasingly affecting production and sales since the late 1970s. In the sphere of mass products Hungary cannot stand successfully the price competition with the developing countries and it can only rarely gain advantage in quality and dressing.

On the basis of the gross output, the sectoral structure of the Hungarian industry has shown the development as it is demonstrated in *Table 2*.

The industrial sectoral structure which had developed in the 1970s became practically stabilised by the turn of the decade, and the changes within it are generally in conformity

Table 2
Sectoral structure of industry on the basis of gross output (at 1980 prices, in percent)

Sector	1979	1980	1981
Mining	6.5	6.3	6.0
Electric energy industry	4.1	4.3	4.3
Metallurgy	10.5	10.3	9.9
of which:			
ferrous metallurgy	7.3	7.0	6.5
Engineering industry	23.7	22.7	23.4
of which:			
building of machines and mechanical equipments	5.2	4.9	5.1
telecommunication and vacuum technical products industry	3.5	3.5	3.7
precision engineering	2.0	2.0	2.2
Building materials industry	3.2	3.3	3.2
Chemical industry	19.2	19.2	19.2
of which:			
organic and inorganic chemical industry	5.6	5.8	5.9
crude-oil processing industry	7.9	7.3	7.0
pharmaceutical industry	2.3	2.4	2.5
Light industry	13.6	13.9	14.0
Other industries	1.5	1.4	1.4
Food industry	17.7	18.6	18.6
State and cooperative industry total	100.0	100.0	100.0

with the international trends. There are, however, a few particularities of the Hungarian industrial structure, which raise special problems in our days.

It is remarkable in view of the Hungarian development and possibilities, as well as by international comparison that the favourable agricultural conditions of Hungary notwithstanding, the ratio of the Hungarian *food industry* is not outstanding. It is even similar to that of such countries whose agricultural background is by far not so good (Czechoslovakia, Poland). The main reason for this is that the development of the food-processing capacities could not keep pace with the increasing output of agriculture. No adequate warehouses, storing and deep-freezing capacities have been built up to enable that the rich crops of agriculture could be sold at a higher level of processing and should be thus less sensitive to the world market fluctuations.

The share of the metal working industry and that of machine building are different from what is found in the European advanced industrial countries. The Hungarian shares are much higher than those in Spain which is of a development level similar to Hungary, and measured by gross output, higher than in Denmark, Norway and Finland, and measured by value added higher – beside the above-mentioned countries – than in Austria. This we even might consider as a favourable factor, if we did not know that the range of products of the Hungarian machine building and metal working industries includes, beside a few products of outstanding technical standards, quite a few products which are hard to sell on account of their low technological standards and for being not quite up-to-date.

The Hungarian chemical industry developed in line with the international tendencies, what is more, the ratio of the chemical industry within industry is similar to that in the advanced industrial countries. In the course of the 1970s the output of the pharmaceutical industry, municipal gas manufacturing, and of the organic and inorganic chemical industry about trebled, and that of the synthetic materials and crude-oil processing industries doubled. The latter is, however, not free from problems, because the decreasing crude imports already leave some of the capacities unused, and this tendency will be continuing.

The composition of industrial exports by markets changed considerably, particularly in the period that followed the change of the growth path. The shift favoured the exports against convertible currency, primarily in the sphere of products of the engineering, chemical and food industries.

It is a further characteristic of the structural change that the concentration of manufactures by main groups of products is rather widely different in sales by markets. The most concentrated are still exports to the rouble area. In the Hungarian exports to the rouble area the big weight of mechanical engineering products is characteristic: at the beginning of the 1980s 63 percent of such exports consisted of mechanical engineering products. Light and food industrial products represent a considerably lower (and decreasing) ratio in the exports settled in rouble. The Hungarian exports settled in convertible currency are more diversified, with two central points: mechanical engineering and food industrial products; these are followed rather closely by the chemical, light

industrial, and metallurgical products. (The latter, however, fell considerably in the early 1980s.)

It is worth confronting the product pattern of exports with that of imports. The latter are more diversified in both the rouble and the non-rouble turnover, though the mechanical engineering products are dominant also in the imports settled in convertible currency. (See *Table 3)*

The exports settled in rouble are highly concentrated also in a more detailed breakdown. The share of vehicles represents 22.2 percent, that of the telecommunication and vacuum technical products 9.2 percent in such exports. In the Hungarian exports settled in convertible currency the leading main group of products is that of the organic and inorganic chemicals with a 9.8 percent ratio, which is followed by the ferrous metallurgical products with 8.4 percent (the ratio of this group, highly sensitive to market fluctuations, considerably decreased by 1981), then by meat products with 8.2 percent, machines and mechanical equipments with 7.0 percent, vehicles and non-ferrous metallurgical products with 5.0 percent each, and the products of the poultry and egg processing industry with 4.9 percen.

Of the microsphere it can be said as well, that the Hungarian idustry, and especially the manufacturing industry, turn out a very wide range of products, that is, their production is diversified. Another characteristic feature of the manufacturing industry is the orientation on finished goods. This is clearly illustrated by the engineering industry, in which the bulk of exports consists of buses, machines, mechanical equipments, and telecommunication articles, while the share of products of the so-called "background industries" is low and, contrary to the international tendencies, has further lowered during the last ten years.

It is further characteristic of the structure of the engineering industry that a comparatively little share is held in it by products embodying up-to-date – and within it leading – technologies. Within the production equipments of the engineering industry the share of automatic machines and equipments rose from 9.9 percent in 1975 to only 10.4 percent by the end of the decade, i.e. 1980. As the export orientation was gaining strength, the ratio of up-to-date products representing higher technological standards grew mainly in the telecommunication and vacuum technical industries, and in the production of medical, optical, and administration-technical machines and equipments. During the last ten years the most dynamical development was found in the products serving management techniques and of the related control and regulation equipments. The sales of these products grew at an average rate of yearly 19 percent, accompanied by a growing share in exports. All that was connected with the appearance and "domestication" of the computer technology. Within this main group of products the ratio of products for computer technology amounted only to 16.1 percent at the beginning of the 1970s, and it reached 54 percent by the end of the decade.

In the non-rouble exports the fastest growth was that of the chemical products. Their share in the exports of manufactures amounted to 14.2 percent in 1971 and already to 18.5 percent in 1980. The share of the engineering industry was also growing fast: from

Table 3

The rates of domestic sales, exports and imports of industrial products by main groups of products (at 1980 prices, in percent)

Aggregate main groups of products	Domestic sales		Exports settled				Imports settled			
			in rouble		in convertible currency		in rouble		in convertible currency	
	1971	1980	1971	1980	1971	1980	1971	1980	1971	1980
Industrial products total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:										
mining products	8.5	6.5	3.9	2.1	2.8	7.1	17.9	19.9	6.9	5.6
electrical energy	4.8	5.9					3.4	4.1	0.0	0.0
building materials	3.5	3.8					2.3	1.4	5.0	1.8
metallurgical products	12.2	10.2	5.8	3.1	22.6	14.6	11.1	8.5	9.3	9.3
engineering products	17.9	16.5	53.2	62.9	14.3	21.8	39.2	42.3	19.6	27.6
chemical products	16.1	21.3	7.8	9.6	14.2	18.5	12.4	13.6	28.0	30.1
light industrial products	17.2	16.2	15.1	11.6	21.7	15.7	10.7	7.3	13.5	15.4
food products	19.8	19.6	14.0	10.2	23.5	21.2	2.7	2.3	17.5	9.6

14.3 percent at the beginning of the decade to 21.8 percent by its end. It is further characteristic of the development process that the pattern of exports to the advanced industrial countries is widely different from that of exports to the developing countries. In the exports of manufactures to the advanced industrial countries the biggest share was held in 1980 by the light industrial products (20.5 percent) and the engineering products had a 16.6 percent share. As opposed to this, about half of the Hungarian industrial products exported to the developing countries was made up of engineering products and within this complete factory equipments and production lines represented a high share, to which know-how, training, i.e. intellectual exports were attached. It is a welcome fact that such export activities have started, they should, however, be further increased.

The pattern of exports to the different markets is deviating also in respect of the commodities actually traded. In the twenty biggest groups of products in the exports to non-rouble and rouble areas, only five are found to be outstanding on both markets. These "carrier" products are the public road-vehicles, footwear made from leather and leather substitutes, woven upper clothes, agricultural and aliphatic chemical products. The other fifteen groups of products are of different importance in the two main markets.

Hungary's non-rouble exports are composed of bulk goods of a lower processing level and lower technological standards. These goods are, in general, traditional export articles of Hungary. This is well illustrated also by the fact that while the average age of all exported goods was 14.3 years at the turn of the 1980s, within this the age of the goods exported to non-rouble markets was 17.7 years. I do not think it has to be especially explained that these traditional goods manufactured for long and practically unchanged can stand the competition – under the increasingly difficult foreign market conditions – only at a low price level, if produced at an adequate scale of production, in good quality and by providing guarantee. It is, however, widely known that the Hungarian manufacturers have difficulties exactly in respect of the latter.

A noticeable progress has been made in the trade with the developing countries. About 38 percent of the Hungarian engineering exports settled in convertible currency go to the developing countries: beside the above-mentioned complete factory equipments there are buses, main units of buses, traction-engines, cables, electric bulbs. Hungary takes part in the electrification programme of several countries with the construction of electric transformer stations, as well as in the installation of food industrial equipment and factories, the fitting out of hospitals, etc. It seems that the delivery of turn-key factories with the belonging staff of specialists is the direction which is to be continued, both with a view to improving export efficiency and increasing exports.

The above outlined situation renders it important to accelerate the renewal of the product pattern. The rate of product replacement was rather slow during the late 1970s. Only 2.6 percent of the goods manufactured by the state-owned industrial enterprises in 1980 were new, 2.2 percent were modernised, 3.1 percent had amended shape, quality, or size in comparison with the previous year, and 92.1 percent were produced in unchanged finish. The manufacture of only a few products ceased and, even if it is taken into account that the disappearing products were produced on a modest scale, we cannot

resign to the fact that during the twenty years up to 1980 the share of the products manufactured for the last time in a given year remained below 1 percent. The rate of product replacement was fastest in the engineering and the light industries, which is also natural, since in these sectors the requirements of technological progress respectively of fashion, are dominating. In the engineering industry the leading role was played by products to be considered new on a national scale, while in the light industry – and in it particularly in the clothing industry – by products that had undergone a change in model. (See *Table 4*)

We cannot rest content with the fact that 91.2 percent of the products of the engineering industry are unchanged, because in several branches of this industry there is an extremely fast technological progress in the world (communication techniques, computer technology, etc.). It is also little comforting that the rate of replacement of the products intended for exports is somewhat higher: for example, 5.1 percent of the products sold for convertible currencies in 1980 were new, and the rate of the modernised products was also somewhat above the average. That is to say, the share of the engineering products new on the national scale amounts to only 9.7 percent even in the exports to nonrouble markets, and that of the light industrial products to 7.1. percent.

On the basis of an economic and technological system of criteria worked out in conformity with the 20th October 1977 resolution of the Central Committee of the HSWP the state-owned industrial enterprises were obliged to arrange their products into categories as they qualified them to be perspectivic, competitive, to be rendered competitive with further inputs, or to be abandoned. It may be said without exaggeration that the self-evaluation of the enterprises was overoptimistic, which reveals the lack of a good knowledge of the market, and of a realistic appreciation of the competitiveness of the enterprises' own products. The state-owned industrial enterprises obliged to make this evaluation qualified 64 percent of their products as perspectivic, of which 34 percent was supposed to be already competitive and 30 percent as to be made competitive with further inputs. As for their export activities, the enterprises' declarations were even more optimistic. They said that about half of their products sold abroad in 1980 were already competitive and one quarter could be made competitive with some further inputs. Such optimistic views were expressed by the enterprises, independent of their sectoral attachment. An example: the engineering enterprises judged more than one third of their products to be competitive already, and a further 28.5 percent to be made competitive with additional inputs. In the light industry 37.8 percent of the products were considered competitive, and 11.3 percent to be made competitive with additional inputs.

In the state-owned industry, the share of the products which the enterprises themselves judge as to be dropped is slight. In the entire state-owned industry 2.3 percent of the products were qualified as such, within which 2.9 percent in the engineering industry, 3.1 percent in the light industry, and 1.9 percent in the chemical industry. It shows the peculiarities of the self-evaluation that while in the telecommunication and vacuum techniques industry 35 percent of the products were judged as competitive at present, in precision engineering this was only 20 percent. Therefore, much remains to be

Table 4
Distribution of the total sales of the mass-produced goods by categories of modernity in 1980 (percent)*

Sector	Ratio of new products	modernized products	goods produced with some change	goods produced in unchanged finish	Total of mass-produced goods	Of which: ratio of products manufactured for the last time in the given year
State-owned industry	2.6	2.2	3.1	92.1	100.0	0.9
of which:						
metallurgy	0.2	4.8	0.2	94.8	100.0	0.1
engineering industry	4.4	2.5	1.9	91.2	100.0	1.9
building industry	1.7	2.1	2.4	93.8	100.0	0.4
chemical industry	1.3	1.8	0.2	96.7	100.0	0.4
light industry	4.5	3.6	17.4	74.5	100.0	2.6
food industry	2.2	0.1	0.3	97.4	100.0	0.3

*Prototypes, experimental series and products, parts and accessories not included.

done by the enterprises with a view to improving their knowledge of the market and, relying on this knowledge, to plan for development, product replacement and technological changes for the coming years.

Development of input intensity

Although it is impossible to cover even approximately the entirety of the subject within the framework of a single study, it has to be mentioned that the structural change is to be reflected in the most important indicators of resource-intensity: among them in the indicators of labour and material input intensity. It has been several times repeated: Hungary's interest is to sell on the foreign as well as on the domestic market products of a higher level of processing, in other words, such as incorporate more domestic labour, and at the same time to reduce the material intensity of the products (first of all their import material intensity). Where we are in this field today is clearly shown in *Table 5*.

On examination of development in the 1970s it strikes the eye how fast the import intensity of economy had grown and how much its labour intensity had fallen up to the middle of the decade. This is in harmony with our earlier statement to the effect that the share of products of a higher level of processing is not advanced and in exports it is in some cases even decreasing. It is also remarkable that after the 1975 peak of the per unit import intensity there was a favourable change in tendency. However, it did not continue in an unbroken line till 1978, but a transitory reduction was again followed by growth. And the per unit import intensity of the various branches of production marks the fields in which reserves are huge in our days and where a change is urgent.

In consequence of the rise in material and energy price in the last two years there has been, undoubtedly, a reduction in the material input ratio of industry (computed at comparable prices): material intensity has considerably fallen with quite a few industrial enterprises, especially in 1981. As a result of the stricter import economy of 1982, improvement has continued: not relying as yet on any considerable modernisation of technology, but rather on a few individual economy measures. A lasting improvement has only been found in a few fields of industry.

It is also well known that the Hungarian agriculture attains its extremely good production results with rather high inputs. Similarly to industry, in agriculture the cost sensitivity of the enterprises and cooperatives is not keen enough; there are large saving possibilities both in materials and in energy.

Impact of the central development projects on structural transformation

It is beyond doubt that the industrial structure and its change in recent years have been essentially influenced, and in some fields even determined, by the central development projects which can look back already on a few years' past (for example, that

Table 5
Per unit indicators of the labour and material intensity of production (at current prices)

Year national economic branch	Total employment (persons)	Domestic material consumption (Ft 1000)	Import
	per one million Ft of gross output		
1970	7.6	452	106
1975	4.9	435	146
1976	4.5	463	125
1977	4.1	462	131
1978	3.8	459	136
1979	3.5	459	137
1980	3.2	491	121
Industry	1.8	525	157
Mining	1.9	243	63
Electric energy industry	0.9	640	22
Metallurgy	1.0	467	244
Engineering industry	2.5	543	132
Building materials industry	2.6	503	111
Chemical industry	0.6	388	254
Light and other industries	3.4	445	205
Food industry	1.2	764	111
Building industry	3.3	509	84
Agriculture	5.2	576	51
Forestry	3.8	500	48
Transport and telecommunications	4.0	254	116
Home trade	5.5	308	18
Foreign trade	1.4	303	304
Water control	4.7	388	36
Material sectors together	2.8	501	123
Non-material sectors together	5.9	405	99

of the aluminium industry, the pharmaceutical and plant protective industry, petrochemistry) have had a particularly strong effect on structural development. This has been mostly positive, though not in all of its elements.

For illustration, let us examine four projects which have affected the structure.

The implementation of the central development project of the *aluminium industry* was gravely affected by the depression that began in 1980 and worsened in 1981, and by the slump of the aluminium price. There were, however, a few factors that had a favourable

effect on a lasting structural transformation. One of the targets of the project was to increase the share of products of a higher level of processing, and some results have actually been achieved in this field. The manufacture of semi-finished aluminium products grew (even though not at the rate envisaged in the project), and their exports also increased, on both the rouble and the non-rouble markets. But the ratio of alloyed products has remained low, though this ratio has been in a few advanced industrial countries two or threefold of the present Hungarian share already in the mid-1970s. (In Hungary alloyed products have a 26 percent share in the total of the semi-finished products', in the mid-1970s this ratio has been 40 percent in Austria, 55–60 percent in Sweden, 70–75 percent in the United States.) The structural development programme of the production of finished aluminium goods had been well elaborated by the early 1980s; a few successful new products were launched on the market (for example, thin aluminium foils, containers, etc.). It is, however, very investment-intensive to expand the range with products of a higher level of processing. Therefore no fast progress is to be expected in the implementation of the structural development programme in the coming years.

Within the aluminium project the primary material production has developed so much faster than the manufacture of semi-finished and finished goods. In the Hungarian exports a large share was held by unprocessed aluminium blocks; development of the production capacities of semi-finished goods has been relatively slow. Thus the requirement of a higher level of processing has not yet been duly satisfied. (The Hungarian domestic price system also worked against it for a long time.)

The central development project of *petro-chemistry* was approved by the Hungarian government at a time when it seemed justified with the low crude prices. At the time of its implementation, however, the world market situation, and especially the relative foreign market prices changed considerably (though this spilled over to the Hungarian prices with some delay), and this affected implementation. It is characteristic also of this project that the basis of the primary material production was growing at a fast rate during implementation, with which the building up of the vertical processing plants did not keep pace. The project has produced a structural change, its economic efficiency is, however, by far not favourable.

The central development project of the production of *pharmaceuticals, plant protecting agents and intermediate* products is relatively new: its implementation started with the 1980s. Its main target is to increase export capacity through the development of this production sphere embodying a long tradition and intellectual potential. We are only at the beginning of its implementation, however, even the first year produced some results: the time-proportional target of the pharmaceutical and intermediate product exports has been overfulfilled, the ratio of ready-packed goods, as well as their price and profitability have increased. On the other side, the export of basic materials has been profitable neither on the rouble market, nor on the convertible currency makret. This is a further stimulation to increase the ratio of readypacked products, also with the help of expanding the background activities.

The project also envisages to increase the number and share of original pharmaceutical products launched on the market, as well as that of products manufactured under licence. As for the use of licences, the pharmaceutical industry is high-ranking: in 1980 113 articles were produced under 67 licences. (In 1980 the whole state and cooperative industry used 465 licences.)

Of the central development projects I mention as last one of the most important and, in view of the first years of implementation perhaps the most successful, actions: the programme of *energy economy,* remarkable not only in respect of the product pattern, but also of the input pattern. Its objective is, namely, not only to change the composition of production, but primarily to reduce the energy intensity of the national economy by increasing the *efficiency of the energy economy.*

On examining this diversified programme solely from the structural aspect, the fact can be established that the project is being successfully carried out: its effect on structure was favourable both in the macro- and the microspheres already in 1981. The per unit energy intensity of the economy has decreased, the ratio of coal has been growing and that of hydrocarbons decreasing within the primary energy used. Within this the falling ratio of crude oil and its derivatives is especially remarkable (in 1978 the ratio of use of crude oil and oil products amounted to 41.6 percent of the total energy, in 1980 it amounted to 37.4 percent and in 1981 only to 35.7 percent). The favourable direction and extent of the changes in inputs are also felt in the different sectors and main technological phases. It is to be noted, for example, that those fields have shown a progress surpassing the industrial average, which are of a relatively low energy intensity, for example communication techniques, precision engineering and the light chemical industry. At the same time, the per unit energy consumption of a few expressly energy-intensive technologies has also been reduced considerably, and results have been achieved in the field of a rational energy utilisation and the substitution of energies for each other. These results are to be appreciated as initial successes, there are, however, further reserves, among other things inherent in the per unit energy intensity of certain products. (I have in mind first of all the household electric appliances, the consumption of which depends on the type sold on the market.)

This brief survey allows the conclusion that the most important central development projects serve well the modernisation of the production and input patterns and the acceleration of the rate of changes. Further structural changes are to be expected in the field of the *waste material and secondary raw material* utilisation (recycling), and in the *programmes worked out for material utilisation,* which are now starting.

Further ways of structural development

It is without doubt that the price and regulatory systems introduced in 1980 and their amendments partly implemented in recent years and partly planned for the future are all of a structure-changing nature, not only from the aspect of the production and sales

patterns, but also of the input pattern. In outputs the profitable and efficient exports to non-rouble areas are to be increased, and in respect of inputs the share of products of a lower energy and material intensity is to be boosted. The *joint* assertion of these two objectives may bring a genuine change.

The central development projects have been in general well serving structural transformation; beside the above-mentioned ones, the project for the production and application of *computer technology equipments,* and that of the *development of microelectronics* have had a similar effect. All these help the enterprises properly select their products. Preferential credit terms, and special credit actions aimed at the expansion of exports to the non-rouble markets and at energy rationalisation (conservation) serve the same purpose. It is, however, to be reconsidered, which of these projects are to be continued in the coming years. In my opinion, obviously those which lay down *intersectoral* objectives, while there is less reason to keep in operation in the long run projects covering only a limited field (a branch, a group of firms, or a group of activities).

The price and regulatory systems, as well as the system of taxes and subsidies encourage structural transformation. But they only encourage it – the strategy and tactics of the transformation have to be worked out by the enterprises themselves. To do so, however, a more realistic knowledge of the prevailing conditions is necessary than what is there today, as well as a better founded medium and long-term enterprise strategy. Even if we assume that, knowing that their information on the composition of their production according to competitiveness went to the central authorities, the enterprises gave their data more optimistically than the way they see them in fact, and I stress it again: even if we assume this, the information is still over-optimistic according to which the bulk of the Hungarian manufactures was either already competitive at the beginning of the 1980s or could be rendered so with a reasonable amount of additional inputs. A good knowledge of the situation requires daily information on the market: to know the customers' opinion, which shows in prices and complaints, the growing or decreasing stock of orders, in the keeping or losing of earlier acquired markets. And sometimes even more information can be obtained through direct foreign trade relations. The use of this channel of information is a primary condition for that the enterprises can work out their own realistic medium and longterm strategic conceptions and adjust their plans continuously to the changing situation.

Are the price and regulatory systems able in themselves to develop the structure, or is further help needed? In this field, there is no consensus among the Hungarian economists. In my opinion, though the role of price and regulation is determinant, such means cannot be dispensed with as are, for example, some of the central development projects. Among them, those are lastingly successful in which central and enterprise resources exert their effect in the same direction, strengthening each other. A similar kind of means is, in my opinion, central subsidy, which is inevitable in certain cases. As for information, I think that the foreign trade organisation has to play a more important role than before. In this field, a few steps have been made in the right direction, but

enterprises do not always ask for foreign trade information, even though it is indispensable for developing their structural policy.

There are also further factors shaping the structure in the long run.

Export-oriented development cannot do without a development concentrated on the domestic market. I have in mind first of all that the sales of a product can be largely promoted by the existence of a reference basis. For example, it will certainly help the export offers of the Hungarian agricultural machine building industry, if the machines are used in Hungarian agriculture and good results are achieved with them. Many other examples could be cited as well. The point is that an export development cannot be successful (at least not in a wide sphere), without a home reference basis; an export articles hardly known to the home consumer cannot win genuine success.

The problems that are raised by clashes between the long-term tendencies of structural transformation and short-term economic efficiency requirements also have to be taken into account. It might happen that the strategy laid down by the enterprise (either on the macro- or on the microlevel) runs against a momentary economic interest, for example, constraints on import economy or on development prevailing at the time. In such a case, a solution has to be found in which the *long-term objectives are preserved.* For momentary interests, no vital, long-term interests can be given up! We have to know the way we are to go in order to achieve our long-term strategic aims, and where, how, and in which direction we can depart from it, as well as how we can regain the way and on what conditions.

The simultaneous transformation of the production and input structures is a most important task. It is one of the greatest problems of the Hungarian economy, that these two development targets have been examined separately for decades, what is more, in the micro-sphere the input structure has hardly been examined at all. That the Hungarian enterprises are little sensitive to costs is a consequence mainly of the fact that, though they have had to fulfil certain requirements regarding the product pattern, stipulated by the management and enforced through direct or indirect means, the input pattern has been pushed into the background. This situation is to be changed urgently: this is the objective of the new central development projects concerned with technologies and inputs.

The joint movement of structure and organisation, that is, the establishment and permanent development of a flexible, operative, and active organisational system corresponding to the required structure are no side issues. Such an organisation is needed, in which large, medium, and small enterprises all have their place and role, and a harmonic cooperation of organisations of various sizes will produce the good results of structural development. The simultaneous transformation of structure and organisation demands farsighted, active and creative management at all levels.

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СТРУКТУРА ВЕНГЕРСКОЙ ПРОМЫШЛЕННОСТИ И ЕЕ ИЗМЕНЕНИЕ

В. НИТРАИ

Статья рассматривает нынешнюю структуру венгерской промышленности и изменения, происшедшие за последние годы, в свете мирового экономического вызова начала 80-х годов. Наряду со структурой производства и реализации автор рассматривает и изменение структуры затрат. Она сопоставляет оценку предприятиями их собственного положения, сделанную ими на основании разработанной в 1977 году системы технико-экономических критериев изменения структуры с действительным положением, и указывает на направления развития, вытекающие из международной практики. Влияние централизованных программ развития на изменение структуры в Венгрии в большей части является положительным, особенно большое значение имеют программы, совершенствующие структуру затрат (как, например, программы рационализации потребления энергии, материалов и изменения технологии). Статья констатирует, что система экономического регулирования, централизованные программы развития и активная инициатива предприятий, вместе взятые, могут привести к преобразованию структуры в макро- и микросфере в направлении, необходимом для устойчивого повышения эффективности.

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CHANGES IN ECONOMIC REGULATORS AND ENTERPRISE REACTIONS*

Á. MATITS–J. TEMESI

Relying on the mathematical-statistical analysis of the balance-sheet data of industrial enterprises the articles draws conclusion on some impacts of changes in regulators. The analyses presented support the hypothesis that there exists a normal state and normal path of the economy and that a tendency of returning to the latter asserts itself. The 1980 changes in the regulators amounted to large-scale interference in essential areas of the economic system. The undoubtedly existing tendencies of "rearrangement" indicate that the shifting of the economy onto a new path with the aid of changes in the regulators is an as yet unsolved task. Measures are needed that simultaneously and unequivocally affect both the control and the real spheres and which lead the economy onto a new path that can be verified also from enterprise data.

The follow-up of effects of changes in regulators is an important task of economic analysis. Changes in regulators – as a tool of economic policy – always embody certain intentions. It is a very important question for judging the prevailing regulatory system whether these intentions have been realized in the practice or not.

In Hungary the 1980–81 modifications of regulators have recently brought researches aimed at answering this question to the fore again. [1] Several articles and studies attempted to reveal the effects of the new price system introduced in 1980 ([3], [4], [7], [18]) and also some other researches were aimed at revealing changes in the economy resulting from the regulatory system as well as at the follow-up of various trends (e.g. [13], [15], [19]). In the present article the judgement of the regulatory system will be approached through the examination of measurable reactions of the economy.

In the course of our research work a mathematical-statistical analysis was performed covering 59 indicators characterizing enterprise activity and determined on the basis of balance-sheet data of all Hungarian industrial enterprises (including also cooperative industry) available from 1970 to 1981.**

A part of the indicators (36) are of basic data character, i.e. they are indicators selected from balance-sheet data and various other economic data value of assets, cost data, result (profit or loss) data, value of "funds", characteristic values of foreign trade activity, labour data). Another group of indicators (23) included so-called "derived" indicators computed from the above indicators used. These indicators served for the

*Our article has been based on the research work carried out at the Institute of Mathematics and Computation Science of the Karl Marx University of Economics on commission of the Ministry of Finances. [17]

**A data bank established in the Computer Centre (at present Institute of Computer Techniques of the Ministry of Finances) and containing almost all balance-sheet data of Hungarian enterprises was used. The computations were made by László *Cserjés*, co-worker of the Institute.

description of comparable enterprise data (relative measures) as well as of the quality of management (efficiency, profitability).

To present the full analysis is of course impossible because of the volume of computations made and their diverging character. Therefore, we do not even try to give a summary of the results. In the following we wish to concentrate our attention on the regulation aspects of our researches: we should like to point out how the modifications in regulators are reflected in the enterprise data.

Evaluation of the changes in regulators

In connection with the changes in regulators first of all the question should be asked how the effects of changes, occurring in regulators in the period examined (1970–1981), can be followed through the statistical analysis of balance-sheet data of industrial enterprises. Of course, various answers may be given to this question, all of them meaning approaches to the problem from different aspects. In the solution chosen by us we tried to concentrate on three aspects, interrelated yet deviating in their essence.

a) The behaviour of indicators of industrial enterprises directly connected with regulation as well as of *aggregate values* of indicators describing the functioning of the real sphere was examined.

b) Changes over time in the *distribution of enterprise values* of the indicators examined were analyzed.

c) Through the statistical analysis of indicators characterizing *the quality of management* we tried to evaluate and qualify the effects of changes in regulators.

The results obtained practically support a hypothesis of János *Kornai* presented in his book entitled "Economics of shortage" [13], namely, that there exists a normal state and a normal growth path of the socialist economy to which the economy is always returning after eventual deviations. The assertion of this "rearrangement tendency" [5] seems to be verified by data even from several aspects.

In the following we wish to support this statement with some details taken from our researches.

Partial modifications of regulators that occurred until 1979 did not basically change management. This is apparent also from aggregate time series of selected, relevant balance-sheet data of industrial enterprises. (See *Figures 1* and *2.*). It may be seen that the stable, smooth growth trend of values characterizing the entire industry was not or only to a small extent influenced by modifications of regulators and the "breaks" that occasionally occurred were later on corrected by the system.

But the changes in regulators carried out in 1980 meant a large-scale interference with the system. The main question here is how we judge this interference. The problem may be approached from several aspects:

– Does the changed regulation mean lasting changes or is the "break" only temporary?

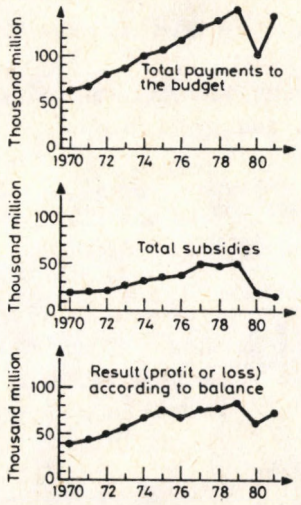

Fig. 1. *Aggregate time series of balance-sheet data of industrial enterprises (I.) 1970–1981*

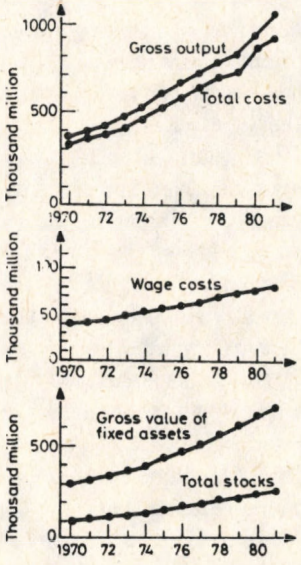

Fig. 2. *Aggregate time series of balance-sheet data of industrial enterprises (II.) 1970–1981*

– Will movements of the regulatory sphere be followed by movements to be observed in the real sphere of the economy?

– Have the changes of regulators brought about positive or negative changes considering the behaviour of important indicators used to judge the economy?

"Stability" of the effects of the 1980 modifications of regulators

Regulators changed in 1980 were further modified in several respects already in 1981. In this sense thus we cannot speak at all of a stability of the 1980 regulation. But if we suppose that fundamental goals are unchanged, we may ask what picture is shown by the balance-sheet data of enterprises directly reflecting changes of regulators, considering the entire idustry*.

We took three indicators, namely:

– total payments of the enterprise to the state budget,

– total subsidies granted to the enterprises,

– result according to balance-sheet (profit or loss).

Though other variables of the regulatory sphere could have been selected, too, we think that these indicators speak for themselves, since they properly reflect relations between enterprises and the state budget and their lasting changes may express basic economic policy trends. At the same time it could also be mentioned, that analyses of other indicators connected with changes of regulators used in the course of our research have not contradicted our conclusions in any respect.

Figure 1 shows aggregate time series of the selected indicators between 1970 and 1981. It may be observed that the time series are growing practically evenly until 1979. The only exception was the 1976 value of results (according to the balance-sheet) indicating a setback. This break was, however, corrected by the growth of 1977–78. This is also a good example for the fact that values of the indicators examined are striving towards a normal path determined by a growth breaking through any changes.

The radical effect of the 1980 changes in regulators appears in a drastic break of the time series. The question can immediately be raised: is this large-scale change really a reflection of the declared economic policy intention, i.e. of the shifting of the economy onto a "new growth path" [10], or is this break only temporary and the system will return to its "usual" state? In the first case values of the time series would develop independently of the trend observed between 1970 and 1979, while in the second one a "backward move" of values of the time series would be experienced again. Of course, data of a single year are not yet convincing from this viewpoint, thus no far-reaching conclusions can be drawn on the basis of 1981 data. Some circumstances are nevertheless

*Of course, revealing sectoral differences would also be interesting, this, however, exceeds the scope of the present article.

remarkable. The values of payments and results unambiguously indicate a trend of reversal. At the same time, it may be attributed to the forced movement of the system according to its normal path, too, that the deviation (i.e. backward move) is of an extent that by far exceeds that of the movements characteristic of the system. (Previously the measure of change from one year to another was evenly small.) 1981 data indicate that withdrawals (taxes, levies) radically cut back in 1980 began to increase again and the values of results reduced in 1980 are similarly growing. At the same time the amount of subsidies granted to the industry did not increase. *Redistribution is thus aimed also further on at lasting withdrawal of higher incomes created in the industry for the purposes of other national economic sectors.*

Effect of changes in regulators on movements in the real sphere

Changes of regulators, more precisely, the movement of economic variables directly depending on regulation may, of course, not be evaluated in themselves. Effects of regulation on the real sphere should necessarily be examined, too, since even if interference is brought about primarily by financial phenomena (i.e. those belonging to the regulatory sphere) a permanent result may be achieved in the latter sphere only if indicators directly related to production do also react to this interference.

Unfortunately, our analysis is rather limited in this respect, insofar as only balance-sheet data of enterprises, i.e. financial information computed at current prices are available. At the same time, we should not be dissatisfied with our data, either, since they contain a highly important information: evaluation of enterprise activities as they feel it through their "pocket". If production decreases but receipts increase, if efficiency decreases but costs may be charged to others, if everybody's position is about unchanged in the economy or there is some growth at least nominally, then the general feeling of those participating in production is positively influenced.

The question to be raised is very simple: if the 1980 changes of regulators resulted in radical changes in variables of enterprises directly depending on regulation as shown in the above, how do these appear in case of other variables connected first of all with the real sphere?

For this purpose some characteristic and perhaps most frequently used management variables were selected. What do aggregate time series of gross output, total costs, wage costs, gross value of stocks and fixed assets show? (See *Figure 2)* Evenly growing, completely smooth curves undoubtedly liked by statisticians indicate here serious problems. Our dilemma may be formulated in such a way that either regulation is very perfect since it ensures such a stable growth, or it is possible that the growth of the system is independent of regulation. In the first case the control system having recognized that such radical changes of regulators are needed for maintaining a stable growth may be considered as foresighted, in the second case, however, regulation seems to be destined

for its own end, since even radical changes of regulators have not affected the movement of the system.

Of course, this conclusion is too daring and not even fully justified, since the behaviour of variables picked out by us does not characterize the entire economy. There is no doubt, however, that the problem revealed is thought-provoking anyway, and even these simple figures allow us to raise several useful and illuminating questions. For example, the 1980 changes in the price system were aimed among others at influencing the trend of automatically shifting costs onto users. The parallel paths of the curves of gross output and total costs, respectively, well indicate this trend. It may be seen that the situation did not change in 1980–81.

Changes in the quality of management

The quality of management may be described with several indicators. Should we choose any of them, we may be faced with fierce objection. In the course of our work we used 23 derived indicators, yet we would not say that we succeeded in giving a full-range and many-sided characterization of the quality of management. Now we are forced to narrow down the number of indicators examined even more. We shall present changes of four indicators. In our opinion from the changes in their values conclusions may be drawn concerning changes in the quality of management. At the same time, by analyzing these indicators we can present the most important trends which we consider relevant from the viewpoint of our topic taken in a narrow sense, the follow-up of the effects of changes in regulators.

The indicators examined were the following:

1. efficiency: $\dfrac{\text{result (profit or loss)}}{\text{net value of assets+wages}}$

2. productivity: $\dfrac{\text{value added}}{\text{average labour force}}$

3. relative cost of production: $\dfrac{\text{total costs}}{\text{gross output}}$

4. inventory turnover: $\dfrac{\text{value of yearly stocks}}{\text{net price receipts}}$

Firstly the arithmetical mean, standard deviation then as the quotient, the relative standard deviation of these indicators were computed. The results of these computations may be found in the table. Since we should like to draw conclusions from changes in the distribution of indicators later on, in our table data of 1979, 1980 and 1981 are given.

The occasionally very great relative standard deviation indicates that very extreme values may be found in the entire enterprise sphere, and therefore distributions of the full sample are very difficult to handle. This problem already arose also with the basic data but most visibly appeared with the derived indicators.

The extent of distortion caused by extreme values increased even more by 1980*. For obtaining a statistically meaningful sample the relative standard deviation had to be reduced. Therefore, a correction was carried out by omitting extreme values in both directions. Our table also contains characteristics of the corrected sphere of enterprises. It may be seen that already with a 2–10 percent reduction of the sample relative standard deviation is decreasing to a favourable level, i.e. the number of enterprises with too extreme data is small. A good example for that is the indicator of efficiency. In 1980 and 1981 some enterprises increasing losses (amounting to less than 3 percent of all enterprises) had such an extremely negative value in the numerator of this indicator that the simple arithmetical mean became negative. This result is, of course, thought-provoking, yet from the viewpoint of the entire industry we still have to consider as characteristic the positive average efficiency of capital of about 17–20 percent that results from the corrected sample. The distribution of the indicator can not be judged with a 60–80-fold relative standard deviation, but the value of relative standard deviation of around 0.70 computed from the corrected sample is much more realistic. The situation is the same with the inventory turnover. The 1980 mean for the entire sphere of enterprises was, for example, 129 days, while only 76 days for the corrected sample, which means that by omitting altogether 7 enterprises the mean decreased to two thirds. It is worth mentioning that in the knowledge of practical specialists the latter value is reflected. (This simultaneously means that they are "automatically" correcting.)

We deem this detour of methodological character important because statistical examinations – speaking now about full-range surveys – mostly work with automatically corrected data. The question may arise, however, how the omission of enterprises characterized by extreme values influences the economic interpretation of the results. Can any big enterprise be left out of the sample at all (since they are usually the ones producing extreme values) without violating the requirement of analyzing reality?

In our opinion it is expedient to form two groups of enterprises for analyses. In one group those of "average" behaviour, while in the other those behaving themselves "extremely" should be included. Only characteristics of the group of average behaviour may be investigated with the instruments of mathematical statistics. Besides, however, also the enterprises left out should somehow be included in the analysis, since it may occur that certain properties are determined precisely by them, or at least a more colourful picture of reality may be obtained through their examination. The present system of economic regulation based on the averages, but enabling also the taking into

*Standard deviation of the values of enterprise indicators could also mean a more powerful differentiation formulated among economic policy objectives. In the knowledge of results of the corrected sample, however, we cannot say that.

Table 1

Some statistical characteristics of indicators

Indicator	Dimension	1979				
		Full sample			Corrected sample	
		mean	relative standard deviation	number of enterprise	mean	relative standard deviation
Efficiency	Ft/Ft	0.22	1.91	1350	0.21	0.74
Productivity	Ft/man	126.57	3.88	1341	144.49	0.69
Relative cost of production	Ft/Ft	0.25	6.13	1361	0.86	0.25
Inventory turnover	days	108.50	10.00	1365	73.62	0.78

*The full sample included 1371 enterprises in 1979, 1361 in 1980 and 1379 in 1981.

consideration of exceptions makes a more thorough examination of this problem important and topical.

What can we say about changes in the quality of management in the knowledge of the above indicators? (See *Figure 3*) Our statements can be summarized as follows:

a) In 1980 distributions *considerably shifted* as compared to 1979 and these changes *indicate* unambiguously *negative trends.* Efficiency and productivity were decreasing, at the same time the relative cost and the inventory turnover were increasing. On the basis of all this the effect of the 1980 modifications of regulators on the quality of management has been unambiguously unfavourable.

b) From the viewpoint of judging idustrial enterprises the skew distribution of the indicators of efficiency and cost level, is an unfavourable phenomenon. The majority of enterprises are producing with very low efficiency and the share of enterprises producing at a cost level exceeding even 95 percent is high. It may be stated as well that this unfavourable situation could not be improved by changes of regulators.

c) In respect of productivity the structure of our industrial enterprises can be regarded as more acceptable. The practically symmetrical character of distribution meets "expectations", namely, that extreme productivity values may only be found with a small part of enterprises. In 1980 changes of unfavourable character took place also here, that is, the ratio of less productive enterprises increased.

d) The tendency of "rearrangement" hitherto demonstrated in the economic system may be very well observed also in respect of the quality of management. Unfavourable

qualifying enterprise management

1980					1981				
Full sample		Corrected sample			Full sample		Corrected sample		
relative standard deviation	number of enterprise	mean	relative standard deviation	number of enterprise	mean	relative standard deviation	number of enterprise	mean	relative standard deviation
–0.01	–63.20	1322	0.17	0.70	–0.10	–86.7	1348	0.20	0.73
81.38	14.24	1335	132.50	0.73	91.76	15.63	1354	149.35	0.78
1.15	6.59	1351	0.90	0.26	0.90	1.70	1371	0.88	0.39
129.18	11.95	1354	75.86	0.75	198.20	20.77	1350	76.18	0.66

changes of 1980 were followed by a movement indicating improvement in 1981. Efficiency was growing, the cost level falling as compared to 1980, but 1979 values were not attained. With the indicator of productivity the measure of improvement even exceeds to some extent that of the decrease from 1979 to 1980. In respect of the inventory turnover no considerable improvement may be spoken of even from 1980 to 1981.

We would like to mention one more result: it may be seen with almost all derived indicators included in the investigation (thus also with the selected indicators) that their means are stable in time. Therefore, the idea arises again that *these values are attached to the normal state of the economy, they somewhat move away under the effect of the* "diversion" but soon return to their "normal" value. The same can be experienced also with the distributions of the indicators. Though the direction and measure of deviations may be observed and analyzed, the type of distributions will not change.

Some conclusions

The data presented and other related computations support the hypothesis that there exists a normal state and a normal path of the economy and the tendency of reversal and "rearrangement" to normal paths asserts itself.

The signs indicate that interferences were aimed at making macro-level indicators (first

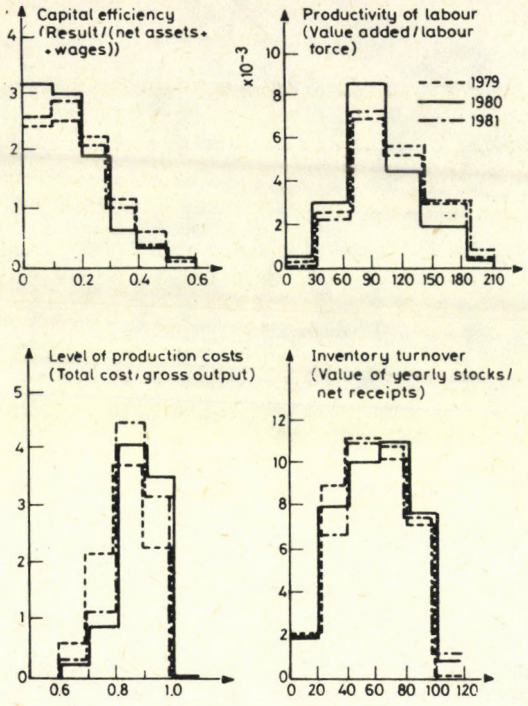

Fig. 3. *Distribution of indicators qualifying management*

of all the balance of foreign trade, aggregate investment, etc.) more favourable and they has no *impact in merit on the functioning of the economy as a whole* – even if this effect was eventually favourable from the viewpoint of the selected indicators –, what is more, even a deterioration of efficiency took place.

Several specialists may be met in whose opinion the changes determined on the basis of the external regularities recognized diverted the Hungarian economy to a "new path". We do not agree with this concept and think that movements induced by the changes in regulators do not support this optimistic judgement. Until interferences do not alter also the normal state and normal path of the economy, the treatment will remain only symptomatic, and long-term impacts may easily create even more unfavourable situations. Such measures are needed that simultaneously and unambiguously affect both the control and the real spheres and lead the economy onto a really new path

In our article we made an attempt at drawing conclusions by means of some simple methodological tools from balance-sheet data of enterprises concerning the effects of changes in regulators and movements around the normal path and normal state, respectively. In the following a more exact quantification of these concepts and research aimed at finding even better tools for measuring tendencies will be needed.

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ИЗМЕНЕНИЯ В СИСТЕМЕ РЕГУЛИРОВАНИЯ ЭКОНОМИКИ И РЕАКЦИИ НА ЭТО ВЕНГЕРСКИХ ПРЕДПРИЯТИЙ

А. МАТИЧ—Й. ТЕМЕШИ

Основываясь на математическом и статистическом анализе баланса промышленных предприятий авторы делают выводы о некоторых эффектах изменения методов регулирования. Анализ данных подтверждает гипотезу, что у экономики имеется нормальное положение и нормальный путь развития, и в ней прослеживается тенденция к возвращению к нормальному пути.

Изменения методов экономического регулирования, введенные в 1980 году, означали весьма значительное вмешательство в функционирование основных элементов экономической системы. С помощью агрегированных данных по предприятиям авторы анализируют следующие вопросы: а) приводит ли измененное регулирование к продолжительному или кратковременному изменению в экономике? б) следуют ли за изменениями в сфере регулирования также и изменения в реальной сфере экономики? в) как изменились показатели, характеризующие качество хозяйственной деятельности, в результате изменений в системе регулирования?

Безусловно существующие в экономике тенденции к возвращению к нормальному пути развития указывают на то, что перевод венгерской экономики на новую траекторию развития при помощи изменения средств экономического регулирования является еще далеко не решенной задачей. Требуются такие мероприятия, которые однозначно и одновременно влияли бы как на сферу регулирования, так и на реальную сферу, и которые переводили бы экономику на новую траекторию развития таким образом, чтобы это отражалось и в деятельности самих предприятий.

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PROBLEMS OF FULL EMPLOYMENT

J. TÍMÁR

The hitherto prevailing mechanism of the socialist economy prompted the realisation of "true" full employment. The sharpening labour shortage entailed the elimination of all types of unemployment, but at the same time strengthened tendencies aimed in enterprises at forming labour reserves and also the efforts of workers at holding back performance. Hungary proceeds further in the implementation of the economic reform and wishes to transform the "sellers' market" gradually into a "buyers'market". It has to be reckoned with that this would essentially modify demand for labour, the relations of the labour market and full employment. In the turnover of labour the selective mechanism of requirements raised towards performance would assert itself in a manner different from the present one, the mobility of labour would be governed by the economy and the individual difficulties of reemployment would also appear on a social scale. Even with full employment maintained, its nature would change. Employment policy has to prepare for adjustment to the reform, aimed at asserting economic efficiency. For this such means and methods have to be devised which are suited for providing effective support to those newly seeking employment and to those temporarily unemployed.

The concept of full employment was introduced by *Keynes* into the modern Western economic theory. [1] In his interpretation "full employment" is that condition of the labour market in which there is no hard-core unemployment; in which no such situation develops where those looking for a job do not find any even if they were ready to take it on at a lower real wage level than the generally established one.

On the interpretation of the concept

Keynes and his followers have pointed out emphatically that even in case of a normally functioning economy, under relatively well balanced labour market conditions, there are always some people who are unable to adjust to the structural changes in the demand for labour quickly enough and thus lose their job or are without a job. Such unemployment develops, if ". . .unemployment due to a temporary want of balance between the relative quantities of specialised resources as a result of miscalculation or intermittent demand; or to time-lags consequent on unforeseen changes; or to the fact that the change-over from one employment to another cannot be effected without a certain delay, so that *there will always exist in a nonstatic society a proportion of resources unemployed "between jobs"*." [2]

This "frictional" or "structural" unemployment is considered by the different schools equally as inevitably concomitant with a dynamic economic development. Politicians and theoretical economists only argue about the size of the "natural rate" of frictional unemployment which does not yet violate full employment.*

*In one of his last studies, *Tinbergen* cited the example: "in the United States full employment is considered as achieved if the rate of unemployment does not exceed 5 percent; Lord Beveridge of the United Kingdom accepted 3 percent; and the Swedes keep themselves to one and half percent." [3]

In consideration of historical experience, the full employment realised (realisable) in a *capitalist economy* can be defined also in the following manner: it is *that special condition of the labour market, in which the volume of labour supply is for short transitional periods almost identical, and generally somewhat,* i.e. by the number of the frictionally structurally unemployed, *larger than that of the demand for labour.*

If, owing to an upswing or some other external factors (such as a decline of population) labour shortage appears in a capitalist economy, preventive and levelling mechanisms, effective against the excess demand for labour start functioning. Elements raising the wage level become stronger, technical progress accelerates, productivity increases, and the manpower reserves begin to be drawn into the economy.* As a result, the "normal" state of the labour market is restored, in which again supply is predominant, just as on the commodity market. In this process an important role is played by the *highly important* labour reserves of the capitalist economy. [4]

In a capitalist system full employment develops, namely, at a relatively low level of economic activity of the population, so that in the households there remain a relatively high number and ratio of inactive women in the working age. Besides, in most capitalist countries** the inflow of migrant worker (regulated as it suits the labour market situation) is highly important. Thus the equilibrium position of the labour market is favourably influenced also by the inexhaust ble manpower reserves of the developing countries.***

In the early 1950s, the economic theory of the socialist countries totally refused the "bourgeois theoretical construction" of full employment. It maintained that the bourgeois theory of full employment served only to conceal unemployment. As opposed to this – it was said – the "full" employment of socialism meant that society employed the available labour force completely; not only that there was not and could not be any unemployment, but this specially interpreted "full" employment was identified with the *maximum level* of economic activity. [5]

In the 1960s – at least in the Hungarian literature – the concept of "full employment" became already separated from the interpretation of the maximum level of employment. It had been accepted that *full employment was a state of equilibrium,* which could develop at various levels of economic activity [6]. However, such opinions

*This process also accounts for the fact that after World War II, in the decades of a lasting economic boom, the economically active population grew fast in the advanced Western countries – faster than in the socialist countries.

**One exception is Japan, in which the small commodity production of agriculture plays an important and special "buffer" role on the labour market.

***External manpower reserves are especially important in helping to solve the structural imbalance problems of the labour market. The same end is promoted by the international production cooperations, as well as by the multinational companies. These do not bring labour into the advanced countries, but the kinds of work "emigrate", which cannot be accomplished economically with the given relative capital/labour costs and wage level within the country, or which the "national" labour force does not want to perform any more.

economy the demand for labour always corresponded "exactly" to the number of those seeking labour. [7]

In these theoretical theorems and assumptions that Utopian picture of socialism is embodied, in which planned economy based on the public ownership of the means of production coordinates, according to "the law of planned and proportional development", "labour resources" and "labour requirements" quantitatively as well as qualitatively, without any equilibrium disturbances, thus excluding any unemployment and preventing any imbalance.

Towards the end of the 1960s full employment was treated in the socialist countries' literature as a proof that the socialist economy was indeed able – unlike the capitalist economy – to eliminate unemployment and thus to establish a "complete and real security of existence" in employment in the social sense. It was left, however, unclear that *this full employment* developed and became consolidated parallel with an increasing imbalance of the labour market; *its strengthening was accompanied by the emergence of labour shortage.* The more widespread and stronger the labour shortage became, the "truer" full employment grew to be. Therefore, full employment realized under socialist economic conditions, free from any unemployment, *is to be described* – so it was maintained – *as a special state of the labour market, in which the demand for labour attains, and then increasingly exceeds labour supply and labour shortage prevails on the labour market.*

Economic development is accompanied by a large-scale labour turnover also in the socialist economy. Therefore, at any given moment several thousands may be "between two workplaces", who may not be considered unemployed by definition. This is confirmed by the labour fluctuation statistics, according to which 80–90 percent of the labour turnover quit their job. In the capitalist countries most of the workers changing their workplace were dismissed or laid off, even in the best periods of full employment. Thus in the two systems the motives of fluctuation are widely different. Therefore, some individual cases notwithstanding, the statement can be considered valid that in the existing socialism, under the conditions of full employment consolidated on the grounds of increasing labour shortage, "unemployment" in the social sense, interpreted economically, frictional and structural unemployment too, has been eliminated.

Realization of full employment

To realize *full employment has been the main objective of the advanced capitalist countries' employment policy* ever since the 1930s. Labour parties and trade unions have been representing this objective with particular firmness. This main objective of employment policy is practically a fight against unemployment. A group of the measures taken in order to solve the problem try to approximate labour demand to labour supply by stimulating the economy, supporting the maintenance of existing jobs and the

creation of new ones. Within the general armoury of economic policy used to stimulate the economy, this policy includes the supporting of those fields that are lagging behind: economic branches and firms in crisis or declining, by granting them tax allowances, favourable credit terms, and taking over infrastructural investments. In accordance with the different economic policy tendencies, the general policy of increasing the number of jobs is served first of all by monetary instruments; tax allowances, or by increasing the direct economic role of the state, that is, the number of investments financed by the state. Reduction of the working hours is also intended to increase the number of jobs. This policy may be important in periods of economic recessions and crises. However, as it has been shown by recent experiences, such activity of the employment policy has proved to be rather inefficient in a recession.

The other group of measure fighting unemployment try to influence labour supply on the domestic market and to regulate the taking of jobs abroad, as well as immigration. The principal actors of the labour market: employers and employees, as well as representatives of the state agree in that labour is – and must be – in constant movement between jobs even with full employment, and this "natural" movement is concomitant with a certain amount of unemployment. Therefore, in the Western countries such employment service and retraining organisations and unemployment benefit systems were established, primarily in the 1950s and 1960s, *to handle structural and frictional unemployment – present also under full employment – and solve its conflicts in a socially acceptable manner.*

This is how *full employment* developed and *became consolidated* in the advanced capitalist economies in the period of lasting economic boom prior to the 1970s. The number of the registered unemployed fluctuated generally only between a half and two percent of the employed, while the employment offices (exchanges) had usually much more vacancies on their records, than the number of job seekers.*

The economic crisis emerging during the 1970s soon put an end to the idyllic state of full employment of the preceding decades. The *number of the unemployed* recorded in the advanced industrial countries *is today more than 30 million.* Their rate reaches or goes beyond 10–11 percent of the economically active population in several countries. Although the growth rate of unemployment has lately slowed down, for the time being it cannot be foreseen, when and how today's high wave will abate. In any case, it has become certain that in today' new development period of the capitalist economy neither the Keynesian or neo-Keynesian policies based on direct state intervention, nor the

*It is worth mentioning that it was during that period of economic upswing that the "neo-liberal" or "neo-classical" theories became fashionable according to which the registered unemployed were in fact "voluntary" unemployed, choosing this condition for themselves, since the "exaggerated social care" and the open-handed dole systems allowed that those who wanted could live without work, at the cost of society. These views were refuted already by the empirical researches of the time; British, American and Canadian examinations showed that even a considerable improvement of the unemployment benefit failed to increase noticeably the number of the unemployed (in case of unchanged economic development).

"classical" monetarist method can produce the wanted results. The institutional systems and means which served well the purpose of full employment during the economic boom or, more exactly, rendered the structural and frictional unemployment, present also with full employment, socially well manageable, are inefficient during economic crises. "Full employment" as an objective to be attained within a foreseeable time is temporarily taken off the agenda. Efforts are now centred on braking the growth of unemployment, and on driving it back gradually. At the same time, however, the present mass unemployment has not led to social conflicts, like those of the 1930s. In this a certain role is played by the institutional systems built up earlier with a view to maintaining full employment. Although the number of the permanently unemployed has grown considerably, the majority of the unemployed are only for a short time without a job, and during that time most of them receive such benefit as makes the loss of wages financially bearable. Also, during the boom period, the non-registered economy within the capitalist economy grew to be of important dimensions, and its "black labour market" offers a wage earning possibility for some of the unemployed.* Further, the political tensions may be reduced by the fact that, unlike in the 1930s, most of the wage earners and their organisations do not see in the capitalist countries any other alternative that a reasonable adjustment to the given situation.

Many decades ago the socialist countries began to fight unemployment and to realize full employment in conditions different from those of the advanced capitalist countries. At that time the majority of these countries – Hungary among them – were economically less advanced, with very high rates of unemployment, hidden in agriculture and, particularly directly after the war, open in the towns.

The single important objective of employment policy was at that time *to fight unemployment.* This objective organically fitted into the entire social policy of the new system and was in conformity with the economic policy attached to the socialist industrialisation, aiming at an accelerated economic development. Strangely, employment policy still had the primary objective of fighting or preventing unemployment, when as a consequence of the forced industrial development policy, already signs of a labour shortage began to show in certain periods and certain regions. During the 1950s and even the early 1960s, the short and medium-term plans always revealed new "manpower reserves" making an impression as if the labour resources of the country were almost inexhaustible. Thus it was a long-lasting effort also in investment policy to enable the employment of the labour prognosticated by the manpower planners. This industrialisation of the countryside was, therefore, stimulated both by the intention to achieve full employment, as well as by the increasingly felt labour shortage of the industrial regions.

It became first known to the Hungarian economic policy makers in the mid-1960s that the *free labour resources of the country might get exhausted already in the near future,* and in a longer perspective stagnation of the potential stock of manpower and then its

*This "hidden economy" is much different in its origin, nature and effects from the functioning of the "second economy" in the socialist countries.

reduction was to be expected. Although no sufficient theoretical knowledge was available at that time about the functioning of the socialist economy, it soon became widely known that efficiency requirements were not duly asserted in the economy and did not constrain the demand for resources, among them for labour. The employment policy makers thought that in the enterprises, mostly under the pressure of the societal organs, social considerations had too much weight in employing and keeping labour. Therefore, from the mid-1960s, beside the requirement of full enployment, that of a *"profitable", "economical", and "efficient" labour utilisation* received increasing weight. A document of the Economic Policy Committee of the Hungarian Socialist Workers' Party laid it down for the first time that the realisation of full employment was primarily a central, societal objective, in which the regional organs played an important role, while the enterprises' most important task was to employ labour efficiently.

During the early 1970s the labour shortage became general and more acute in the country; demand for labour surpassed labour supply at an increasing rate in all regions and in respect of all types of labour. *Labour shortage was especially grave in Budapest* and in the industrial centres of the countryside, and as regards certain more difficult kinds of work, to be done under worse conditions than the average throughout the country.

The increasing labour shortage had an adverse effect on discipline; enterprises used different means and methods, open and concealed, to draw labour away from one another. The fluctuation of labour was growing; relative wages were shaped by the labour market conditions and not by central intentions. *Labour shortage made it into an established enterprise practice to keep labour in reserve, and developed a kind of "wage-earners' attitude" directed at withholding output; the so-called internal labour reserves were growing.**

Employment policy tried to solve the increasing number of conflicts as they were recognized in many ways. Their tendency is indicated by the fact that the greatest importance was now attributed in Hungary, instead of full employment, to efficient employment.**

As for the means and methods of employment policy, such efforts became stronger, which aimed, on the one side, at mobilizing the still available free labour reserves, and on the other side at limiting demand for labour, trying to achieve a "rational distribution" of the labour force.

*It is not worth disproving those earlier views – mostly with a propagandistic aim – which referred to large-scale "internal reserves" and denied (and some still do) the existence of a labour shortage. They are worth as much as if somebody denied the existence of a real material shortage hindering production by saying that, according to data, there are very large frozen stocks.

**In the capitalist countries *the requirement of "efficient employment" is not* among the declared objectives of employment policy. In a capitalist economic system the *efficient utilisation of resources follows from the whole economic functional mechanism.* Employment policy partly serves this development when, during the periods of economic boom, it stimulates the increase of labour supply, while it also protects the employment of those wanting to work against the hard efficiency requirements asserted in the economy. The limits of this become evident in recessions.

The best known measures to this effect were the following: stimulation of those reaching the retirement age to stay on in their job, encouraging pensioners' employment, transport of workers to and from their workplace by the enterprise if their home was far, establishment of units in villages, enlargement of the outworker system, subsidising the mechanisation of materials handling and packing, wage regulation 'constructions' to stimulate the utilisation of the enterprises' " internal reserves" and the "reasonable" regrouping of surplus labour (wage bill regulation, wage differentiation in enterprises, etc.), staff number freeze in certain occupations and branches, and which was especially characteristic of these measures, obligatory labour exchange and labour allocation (categorisation of enterprises, the judgement of their "plans", classifying their needs).

All these measures did not produce, however, any genuine results. As long as the dynamic growth of the economy had not stopped – which it did, finally, under the unavoidable pressure of the world economic crisis – labour shortage continued to increase and cause ever more obvious troubles in the economy, in spite, i.e. independent, of all the measures taken.

According to experience, employment policy possesses efficient instruments *to increase labour supply.* By the early 1970s, however, labour reserves became so much exhausted in Hungary that mobilisation of the still available "free" ("external") resources would have led to dubious results both economically and socially. Employment policy could also influence the increase of demand for labour, among other things, by means of investments. However, the means used in the reverse direction, that is, *those aimed at constraining demand for labour proved to be inefficient* and in some cases even harmful.

Today's Hungarian dilemmas; reinterpretation of the full employment principle

In the second half of the 1970s the growth path of the Hungarian economy changed considerably: national income is now growing at a slow rate and sometimes stagnating; the number of those employed in industry and in the building industry is considerably as well as continuously diminishing. Because of the reduced working hours, productivity measured by employment is rising more slowly on the national economic level, it is only the productivity per man-hour that is growing at the previous rate. All this notwithstanding, no important change took place in the equilibrium conditions of the labour market: *labour shortage has continued to be prevailing in the economy.**

*Because of the reduced number of the economically active population, some presume that labour shortage will cease or even unemployment may appear. It is not to be forgotten, however, that in the last years the manpower resources to be drawn into work has been diminishing at a much faster rate than employment. (between 1975 and 1982 the economically active population decreased by only 91 thousand, while that of the people to be reckoned with as labour resource by 330 thousand.) Besides, though the *sectoral* employment in industry and the building industry decreased, if the number of those

Experience has shown that under the conditions of the present economic mechanism developed after the 1968 economic reform, full employment – characteristic of the directive planned economy – has persisted. It is *not only that there is no risk of a social unemployment* but the problem still is labour shortage, and that under the given circumstances we cannot achieve the necessary results in improving efficiency.

Today's full employment developed and became consolidated under the conditions of labour shortage. And labour shortage, together with other factors, has an unfavourable influence on the functioning of the economy, as well as on the improvement of productivity and quality, and of economic efficiency in general. Its consequences react directly and indirectly on the social atmosphere: the respect for well accomplished work is fading.

Seeing these phenomena, it becomes clear, why such opinions arise from time to time that unemployment has to be created "if we want order and discipline".* Experiences and facts do not support such opinions.

Not only that even in the capitalist system no such political régime exists as would openly approve unemployment, and this is even more absurd and unacceptable for the government of a socialist country. It is an even more important fact that the assumed connexion between unemployment and economic efficiency is not confirmed by data. Not only the experiences of the economically less developed countries contradict such assumption, but no connexion of this kind shows between economic efficiency and unemployment in the advanced capitalist countries.

At the same time, there is no doubt that the efficient functioning of the advanced capitalist economies is concomitant – as we have already pointed out – with a certain extent of unemployment even in economic booms, at full employment; security of existence is not "full" or "real" even in such times. It seems, therefore, that while unemployment is *not a condition* of economic efficiency, the efficiently functioning capitalist economic system entails a certain extent of unemployment.

And now it is justified to ask the question: what will be the effect on the Hungarian

engaged in industrial *activities* outside the sector – mainly in agricultural organizations is added, the industrial employment figure hardly shows a change. Finally, unlike earlier tendencies, employment in the nonagricultural sectors has decreased, but the agricultural employment has stopped to decrease, and recently it has even increased. Therefore, statistical data do not support the opinion according to which an important change has taken place in the labour situation of the country, on the countrary, they indicate that by its passive attitude towards decreasing labour supply and by reducing the social worktime basis (the total of available man-hours) employment policy has actively contributed to the maintenance and at some places even to the worsening of the labour shortage.

*These views are not new. It is worth quoting Włodzimierz *Brus* who says the following in this book written in 1960 and published in 1982 in English [8]. "Full utilization of productive capacity applies... to labour by the elimination of structural unemployment. The value of this achievement cannot be underrated. But, even this has deleterious effects on work discipline, with an increase in the instability of the labour force, etc. While we must be on guard against the exaggerated reaction that some small percentage of employment is necessary, nevertheless the problem does exist and it is no great comfort to say that it is the result of an inadequate consciousness of the masses."

labour market conditions and on full employment, if we continue on the road we started and continue developing the functional mechanism of our economy so that the requirements of economic efficiency encourage and even force the enterprises to use resources, including labour, rationally?

Knowing the relevant decisions and preparatory work, it is to be expected that a functional system rationally asserting economic efficiency will be developed in Hungary. Further, it is to be expected that in this system a real competition of producers will develop, enterprises will treat wages as a cost factor which would render the regulation of wages and earnings so far applied unnecessary; on the whole, the *seller's market* would be gradually replaced by a *buyer's market* in the Hungarian economy. Under these conditions, enterprises could employ new labour or keep their existing staff only between the limits of their profitability. Naturally, all *this would essentially modify demand for labour and affect the equilibrium of the labour market, and full employment.*

It would be wrong to evade taking the probable consequences realistically into account with the plausible argument that if we succeed in considerably improving the efficiency and competitiveness of the Hungarian economy, it will not be difficult to maintain full employment of the potential labour capacity decreasing, anyway, for demographical reasons.

On the basis of earlier experience, the first thing to be expected is that, to the extent in that the selecting mechanism dictated by enterprise interest in efficiency will be asserted the employment, keeping, and promotion of labour, to the same extent *the accustomed ways of and possibilities for individual selection of jobs would be repressed;* the main driving force of labour turnover would be enterprise initiative. The workers would have to get used to the fact that the *freedom of their mobility depends on their ability to adjust themselves to the changing economic requirements.*

The seriousness of the problem is illustrated by the Hungarian society's reaction on a few phenomena which run against earlier views about "true" full employment (for example, a modest staff reduction in some public institutions and enterprises, certain difficulties in finding employment in a few agricultural regions, the problems of finding jobs for graduates from certain small groups of higher education, and for young people having finished a vocational secondary school, etc.).

There are, however, much more serious and complicated problems: because of sales difficulties, capacity utilisation is low in several fields of production, productivity is hardly rising, or is decreasing, and therefore, internal labour reserves have grown; further, several enterprises show high deficits, so that the justification of survival of some of them has become questionable.

All this gives rise to worries and raises the question: how can full employment be maintained, or rather, how is the full employment the Hungarian society wishes to maintain also in the future to be interpreted?

Certain official documents and declarations of policy makers seek the answer in the correct direction, when they point out that full employment is not the right of the employee to a given job; only a claim to a job in conformity with abilities and

qualifications is justified. And this cannot constrain the enterprises in selecting their employees, including transfer and dismissal. Under such conditions workers are obliged to better adjust themselves to efficiency requirements. A greater and adaptive mobility – *guided by economy* – of labour is needed.

This conception is expressed in the latest wage regulation measures, which are a modest attempt that enterprises treat wages as a cost factor. To this conception correspond also the efforts at further developing the labour offices' system, trying to replace the councils' earlier labour allocation function by an active agency activity promoting full employment.

However, the stands taken in this matter, though correct, are not clear and unambiguous enough to assure that certain old illusions be avoided and the tasks facing us be thoroughly prepared. This is one of the reasons why *the employment policy measures are in themselves weak and have no genuine effect on labour market conditions.* Therefore, we do not think it is just a theoretician's hair-splitting if we object to the slogan of an "efficient and full employment" proclaimed today with such emphasis. This formulation fosters, namely, the illusion that employment policy can have two, equally important, objectives: full employment and economically efficient employment. Employment policy, however, does not dispose of such special means and methods by means of which it could achieve this double objective. In fact, as it is proven by international as well as by Hungarian experience, *the efficient employment of labour can be realized only as an organic part of an efficiently functioning economy,* that is, insofar as the entire social mechanism functions in this way.

Employment policy *must have for primary objective, also under such circumstances, the maintenance of full employment,* the satisfaction of claims to jobs and earnings, and *the socially acceptable treatment of a possible unemployment.*

It follows from the preceding that today's slogan is illusory also because it places full employment and economically efficient employment beside each other, as if there were no conflict between the two. In a few works it is even asserted that under the conditions of a socialist economy this double objective is harmonically compatible, thus strengthening, willingly or unwillingly, the other illusion according to which employment policy has (or may have) a primary or important role in the efficient functioning of the economy.

These illusions have been influencing the Hungarian employment policy for quite a few years. In the early 1970s, when no favourable change took place in the mechanism of the economy, the demand had repeatedly been made on employment policy (wage policy included), that it should "institute measures" with a view to efficient employment. The consequences were those ineffective "labour management" measures to which we have referred, and the same thing is characteristic of efforts at the central regulation of enterprise wage outflow (in everyday usage: "wage regulation") of which it was expected – without justification –, that they would lead to a "reasonable regrouping", and "efficient employment" of labour.

It does not follow from the preceding, and particularly not under socialist societal

conditions, that the employment policy can treat the requirements of economic efficiency indifferently, even less that it can oppose them. On the contrary, it is important and justified to recognize the importance of efficient employment. Therefore, the formulation should be rendered more precise: *the primary objective of employment policy is to maintain and strengthen full employment, yet in such a way as not to hinder the assertion of economic efficiency in the employment of labour.* Accordingly, such means and methods have to be carefully elaborated and introduced, which are apt to coordinate the demand for, with the supply of, labour, *to create a relative equilibrium on the labour market and to offer a solution to reemployment problems that may arise in connexion with the assertion of the efficiency requirements.*

The fundamental fact has to be recognised that in case of an efficiently functioning economy a certain amount of *excess supply* would be characteristic of the relative equilibrium of the market. And thus the means and methods that can promote an economically rational migration of labour would be especially important in the institutional system of employment policy.

This approach is not yet general or accepted in the Hungarian society. Even less do we have an institutional system of employment policy and labour economy necessary to achieve this aim. Therefore, it is quite natural *that while the so-called full employment is correctly interpreted in principle, in everyday conflicts the fear from unemployment elicits such inhibitions and preventive measures as are contrary to the declared aims.* In specific cases, we shrink back from any genuine change of the labour market conditions and avoid conflicts accompanying employment difficulties from the outset. As a matter of fact, it is only natural that as long as the new objectives have not been clearly laid down, and means and methods of their achievement not elaborated, the old customs and ways of reaction are stronger.

Means and methods

It is very important for today's Hungarian employment policy *to adjust itself well to the reform objectives aimed at asserting economic efficiency.* Trying to maintain full employment, active help should be given to establish a relative equilibrium of the labour market, even in the case of *a small excess supply,* Therefore, such means and methods must be devised, as are suitable to help those seeking employment for the first time, and those transitorily without work in finding new employment.

These tasks are not independent of the further development of the economic reform.*

*The means and methods of employment policy also depend on whether the reform develops enterprise independence further in the direction of "manager socialism" or in that of "workers' self-management". In the former case, the manoeuvring freedom of enterprise managers in selecting employees must be definitely strengthened, and this demands, at the same time, that the role and independence of trade unions be increased, so that the *conflicting interests of employers and*

Yet the employment policy should not wait for the final results of the parallel reform activities. Today's conditions already necessitate *an active preparatory work to solve the employment difficulties* which may arise if today's terms are more consistently asserted.

The specific employment policy instrument suited to regulate labour supply and demand, as well as most of the important measures of other "policies" – requiring coordination with the employment policy – are known from foreign and Hungarian practice and have been partly formulated in the latest long-term employment policy conception. [9]

Attention will be called to other important points and reference made to unusual contexts only in a few aspects.

The methods of labour supply regulation have been accepted and partly developed in both directions. It is, however, a new and less accepted idea to influence the economic activity of women also in a way to restrain their readiness to take a job if that is made necessary by a low labour demand, the more so as an exaggeratedly high level of full-time economic activity of women is, as experience has shown, a source of many family and social conflicts. In our opinion, the viewpoint expressed in the long-term employment policy conception is fully acceptable that various measures should be used *to increase the freedom of choice between a job and the household.* *

This tendency, no doubt, clashes with the earlier ideal of equality between men and women proclaiming "the liberation of women from the slavery of housework", as well as with the idealistic aims of the feminist movements. It is just as true, however, that a part of families and some of the women themselves have never shared those ideals. Therefore, the employment policy is to strengthen such realistic conditions which increase, *instead of constraining,* by referring to some abstract ideals, the women's freedom of choice between taking a job – and in what manner –, and taking care of the family within the household.

The relationship between employment policy and educational policy is more complicated and a much debated issue. The conception so far prevailing in the socialist countries' educational policy has been that education is to increase gradually the general culture of the people; and vocational training is to be developed in accordance with the labour demand of the national economy, that is, with the probable future needs of the

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employees be expressed within an adequate institutional form and solved on the basis of an open social consensus.

If, however, the workers' self-management comes to the fore, the economic organisations will be responsible, within the limits of efficiency, also for the employment of their members (similarly to today's agricultural cooperatives). The state will still have the primary responsibility for full employment, and the workers will still need a strong organisation to safeguard their interests, but the division of labour between "enterprise" and "state" will be different in that case.

*For example, by raising the amounts of family allowance and baby-care benefit and by modifying their terms, if necessary, the rate of participation of women can be reduced, and the women's freedom of choice increased.

labour market.* This conception is directly connected with the earlier conception of full employment, by force of which the state assumed responsibility to provide jobs for the qualified manpower. From this follows practically also the limitation of admission to vocational training, and higher education, which, while infringing on the individual's freedom of choice in the continuation of studies, represents rather a formal and temporal constraint on the young in choosing their career (occupation). [10]

This problem assumes, however, another character and affects directly the equilibrium conditions of the labour market, if the educational policy makes a considerable change in the regulation of admission to professional education against today's practice.** Such change would by all means be possible and even necessary in several fields even for pedagogical reasons, between the limits of economic possibilities and social considerations. In such case it will have to be made clear, to what extent the state assumes or *does not assume* responsibility for employment in accordance with qualification (training) and conflicts of the labour market, partly different from those of today, will have to be prepared for.

Although, as we have mentioned, demand for labour functions only as a part of the whole mechanism of the economy and can only be regulated as such, there are a few, not at all unimportant, means for influence also within the field of the employment policy. Such are, for example, reduction of the working hours, part-time employment, the job-sharing or work-sharing and the outworker system. In the Hungarian practice so far the reduced working hours have increased demand for labour, contrary to the declared objectives. In the future, the labour market situation will have to be examined very carefully before deciding on the way in which working hours can and should be further reduced.

Part-time employment, the new job-sharing system, as well as the outworker system are apt to reduce conflicts arising from reduced labour demand, and to coordinate women's household work with a wage-earning job. In Hungary, however, these forms of employment have not any considerable traditions. Therefore, their spreading would necessitate a higly active and thorough organisational and informative activity on the part of employment policy.

In case of need, the employment policy would have to be prepared also to stimulate labour demand with other means than before. For this purpose, the practice of those countries has to be studied, in which the employment policy makers dispose of adequate financial funds to stimulate labour demand, particularly in economically less developed regions.

*This special undertaking of an obligation is clearly expressed in the "planning of the demand for skilled and qualified labour" to serve the development of education. The lack of the knowledge, and of the studying, of these methods leads sometimes to unfortunately frequent misunderstandings and misinterpretations.

**Some put it in a particular form by saying that "it is the liberation of education from the dominance of economy, or manpower planning".

It is useful, also from the aspect of employment policy, to support complementary activities of agricultural cooperatives and, in general, the spreading of the many kinds of jobs summed up under the term of "second economy"*. The wider this kind of activity, the better its function in satisfying social needs is fulfilled, and, at the same time, it can play a *special and favourable balancing role on the labour market,* if it can be achieved through a further development of the regulatory system that the enterprises of the socialist sector and the private sector offer *approximately identical conditions on the labour market.*

Any changes in the demand for and the supply of labour can be asserted only through the mediations of the labour can be asserted only through the mediation of the labour market, that is, through migration of labour. Therefore, *employment policy must be centred on regulating (not constraining) the labour market.* An important institution of this activity is the labour exchange.

In the modernisation of labour exchange (offices) those latest efforts are by all means sensible which aim at transforming the "administrative" labour exchange limited to simple manual labour and serving or constraining the enterprises' demand for labour into a "servicing" activity dealing with the different groups of the labour force in a differentiated manner. It remains an open issue, however, how much today's "uniform" labour exchange office can satisfy the special needs *of the widely different types of the labour force,* first of all, of the professionals. It will have to be examined, whether the latter task would not be better attended to by other organisations, for example, by the associations (METESZ**, etc.).

Further analysis is needed to find out, what the actual content and method of the "servicing" labour exchange, should be.*** The question arises, too, whether the satisfaction of the various casual and temporary demands for labour, as well as the expansion and better organisation of such jobs could be better done by labour exchange offices or by special servicing enterprises.****

Formally, the organisation and support of the extension training and retraining of workers have already been among the tasks of the labour offices. In practice, however, this has been done autonomously by the sectoral ministries and their enterprises, as well as by special vocational training institutions. In order to influence the demand for labour and especially in view of solving the probable employment difficulties a retraining attached to labour exchange system should be developed. This does not require the reorganisation of today's extension training and retraining, but it does require that the role and influence of the regional organisations of labour management (labour exchange)

*Which in our terms, means all activities outside the socialist sectors.

**(Society for science and technology)

***We do not think it will be necessary to charge the client with the costs of labour exchange so as to strengthen its "servicing" character. The essential point of strengthening the "servicing" character is the best possible satisfaction of the needs of job seekers.

****In this respect, the "interim" system, developed in France, is worth particular attention.

should increase in the financing and, if necessary, also in the organisation of extension (retraining) courses and especially of vocational retraining courses.*

Finally, although a benefit system has been functioning since 1957, and was somewhat modernised in 1967, this regulation is inapt in its present form to help in solving social problems arising from some temporary difficulties of job finding. Therefore, relying on a careful study of foreign experience, a new and up-to-date *reemployment benefit system* ought to be elaborated which would really free enterprises from the social obligation of keeping unnecessary or inadequate labour, and serve efficiently the economically rational reallocation of labour.

The development and reasonable operation of regional labour exchanges and of the system of retraining as well as of supporting those seeking reemployment make it necessary *to counterbalance the efforts of regional council and social organs directed in* the last decades and even today at replacing, so-to-say, the centrally abandoned functions of the directive planned economy and at a "planned allocation" of labour by intervening into the activities of enterprises. Also the efforts of the councils at burdening the enterprises with exaggerated statistical reporting, obligations should be curbed. At the same time, through adequate central management and extension training, and by providing methodological guidance *the independent analysing, planning and organising work of the regional organs should be developed, based on knowledge of the functioning of the labour market and directed at its influencing.*

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***Which does not necessitate at all that the councils record or watch every activity of this kind, for which efforts have been seen.**

ПОЛНАЯ ЗАНЯТОСТЬ И СВЯЗАННЫЕ С НЕЙ ПРОБЛЕМЫ

Я. ТИМАР

В введении дается определение полной занятости и сравнивается полная занятость в условиях развитой капиталистической и социалистической экономики. В первом случае спрос на рабочую силу равен или немного превышает (на количество т. н. фракционных безработных) предложение, а в последнем случае спрос на рабочую силу сначала достигает, а затем все больше превышает предложение и постоянной особенностью рынка рабочей силы становится дефицит рабочей силы.

При благоприятной конъюнктуре развитые капиталистические страны способны надлежащим образом справляться со структурной и фракционной безработицей, которые имеют место и при полной занятости. Однако система этих институтов оказывается неэффективной для решения проблем быстро растущей, массовой и неизбежной безработицы, возникающий в период рецессии, для восстановления полной занятости.

Механизм функционирования социалистической экономики пока способствовал достижению «подлинной» полной занятости. Обострение дефицита рабочей силы привело к ликвидации всех типов безработицы, но в то же самое время усилило тенденции к накоплению резервов рабочей силы предприятиями и к торможению роста производительности труда. Венгрия продолжает проводить экономическую реформу и стремится постепенно превратить «рынок продавцов» в «рынок покупателей». Необходимо считаться с тем, что это может значительно изменить положение со спросом на рабочую силу, отношения на рынке рабочей силы, полную занятость. В миграции рабочей силы иначе, чем сейчас, будет действовать селективный механизм требований производительности труда, мобильность рабочей силы будет определяться экономикой, проблемы трудоустройства встанут в общественном масштабе, при сохранении полной занятости изменится ее характер. Политика занятости должна заранее подготовиться к требованиям достижения экономической эффективности в ходе реформы. Для этого необходимо изменить средства и методы эффективного трудоустройства, оказания помощи временно оставшимся без работы.

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NEW FEATURES OF THE ENTERPRISE STRUCTURE IN THE HUNGARIAN AGRICULTURE AND FOOD INDUSTRY

M. CSIZMADIA

The enterprise structure of the Hungarian agriculture is characterized by diversity. There are organic links among the state farms, the farming cooperatives, the specialized groups and other small ventures. This diversity – a rational combination of large-scale and small-scale farming – is one of the important sources of the achievements of Hungarian agriculture up to now. Recently changes started also in the enterprise structure of the food industry. The number of trusts diminished and that of independent enterprises increased. Food processing expanded in the large farms and cooperation between food processing enterprises and large-scale farms was strengthened. Also new forms of enterprises and ventures have appeared. Several of the state farms turned into combines. Production systems began to spread widely among the enterprise and cooperative associations.

There are three major components of the system of economic control: planning, economic regulation and the organizational-institutional (policy making) system. Since 1964 there has been significant progress in Hungary in applying the system of economic regulation. The system of planning has also been transformed. However, with the exception of a few fields (such as the food economy) the established structural conditions were left unchanged for a long time. It was a logical development that by the late seventies mounting demands emerged for the improvement of the enterprise structure. Research work engaged in the enterprise structure became vivid also in the field of the food economy (meaning agriculture plus food processing).

The enterprise structure of the Hungarian agriculture is typically *multisectoral and diversified.* Household-plot and auxiliary farms as well as economic associations work in integration with state farms and cooperative farms. This diversity, ie., the rational combination of large-scale and small-scale farming, has been and is expected to remain an important source of success. (See *Table 1*)

It must be nevertheless emphasized that the *main supports of Hungarian agricultural development are the state farms and the agricultural cooperatives. Diversity rests on them. It is with the decisive predomination of large-scale farms that the development of both small-scale production and small enterprise as well as of associations is realized.* The recent spreading of small enterprises adds to the diversity of the agricultural structure. Specialized groups (teams), already organized by state farms and associations too, rapidly multiply. More and more industrial and servicing specialized groups are started in the agricultural cooperatives. More and more large-scale farms organize economic working groups (teams), units with independent economic accounting, and small groups. The chance has been given lately for the state farms to run some of their departments under

Table 1
Number and average area of large-scale farms in Hungary

	1961	1970	1975	1981
End-year number of farms				
State farms, combines	271	180	150	130
Agricultural cooperatives				
common farms	4204	2441	1598	1320
household-plot farm (thousands)[a]	994	782	700	658
Associations, total	84[b]	453	526	892
Specialized cooperative farms	453[c]	243	144	61
Average area of one farm (ha.)				
State farms, combines	3740	5548	6602	7585
Agricultural cooperatives	1100	1985	3161	4032

Source: Mezőgazdasági Statisztikai Zsebkönyv (Statistical Pocket Book on Agriculture.) On the basis of several volumes.

a) Data of 1972 and 1978 are substituted for 1970 and 1975, resp.

b) 1965 data

c) Total for agricultural cooperative groups and specialized cooperatives.

contract and for the agricultural cooperatives to use a system of lump-sum accounting. Under certain conditions small-scale industrial and service units can be leased out to private persons, too. The above are not taking place in some spontaneous venture but are organized by the large-scale farms. In this way the activities of small enterprises are closely adjusted to and even integrated with socialist large-scale production. Relations are close and cooperation is mutually advantageous among large-scale farms and small-scale producers. As a result of this cooperation and integration, also the organizing power of socialist public property is enhanced and more goods and services are made available to the population.

State farms and combines

At the beginning of the 1980s, there were 130 state farms in Hungary. Their share amounted to 13 percent in the country's arable land, 14 percent in agricultural active earners, 18 percent in the fixed assets in agriculture and 20 percent in gross output. Their objectives are, besides promoting the economical production of commodities, the following: producing seeds, propagating materials and breeding stock. To this is added the introduction and spreading of production and breeding technologies and business management methods of up-to-date, large-scale farming. (See *Table 2*)

Table 2
Main data of state farms

	1960	1970	1980
Number of farms	333	180	132
Total area (1000 ha*)	969	998	994
from this: arable-land (1000 ha)	645	656	612
Share in the total area of the country (percent)	10.4	10.7	10.8
Employees, total (1000 men)	180	147	144
Share in total agricultural employment (percent)	10	12	14
Share in total agricultural fixed assets (percent)	26.5	25.4	18.2
Per farm			
land area (ha)	2914	5548	7588
gross value of output (million Forints)	24	110	433
employees (persons)	475	848	1092
Per employee			
land area (ha)	5.4	6.8	6.9
gross value of output (thousand Forints)	50	126	397
fixed assets (thousand Forints)	89	195	429
Average yield of wheat (kg/ha)	2430	2550	5060
Average yield of autumn barley (kg/ha.)	2570	2580	4480
Average yield of maize (kg/ha)	3470	4400	5480
Yearly milk production by one cow (1000 l)	2980[a]	2940	4461
Yearly egg production by one hen (pcs)	203[a]	214	221

Source: Mezőgazdasági Statisztikai Zsebkönyv (Statistical Pocket Book on Agriculture.) On the basis of several volumes.

a) In 1966

* 1 hectare (ha) = 2.471 acres.

Significant funds were allocated from the state budget since the very first times for supplying the state farms with means of production, but for a long period of time the farms were not able to make efficient use of the funds. From the second half of the 1960s on the qualitative indicators of farming steadily improved and the yields of a number of major products, especially of wheat, maize, apple and milk, showed considerable increase. However, the rapid growth of production was attained by the farms at significantly rising costs. As a rule, inputs increased at a much higher rate than the value of total output. Thus, simultaneously with the improvement of the productivity of live labour, the production of the state farms has become very capital intensive and capital efficiency is low. This has been the result of the interaction of many elements, like shortcomings of management as well as external factors – eg. price conditions – together with the special course of historical development, and the established structure of production in which the capital intensive animal breeding and plantation farming represent considerable weights.

Lately capital intensity has become moderated and capital efficiency has improved.

However, the amendments of regulations drawing away income beyond the load bearing capacity of the farms hinder and slacken the vigour of this trend. One-third of the farms have low income and only 24 percent of them can afford development from own sources. That is, the majority of the farms must depend solely on the depreciation allowance. On the other hand in most farms 20 to 25 years would be required to replace and update their assets from that money. In more than three-quarters of the farms the charges on the development fund are more than double of their own resources. This income position is perplexing, especially from the point of view of the future, and particularly if the purchasing prices of the means of production keep climbing and state subvention keeps decreasing. It is a real hazard that for the above reasons the financial foundations of enterprise autonomy, initiative and enterprising might dwindle to the minimum in the state farms and this in turn might result in lasting stagnation.

It is a remarkable new feature of the enterprise structure of state farms that beside the wine combine of Tokajhegyalja set up in the early seventies, another 7 farms are now functioning as combines.

The combines boast of the best business efficiency in the sector. Two versions have been developed in Hungary. The combines of Bóly, Agárd, Környe and Mezőfalva belong to the first category. These are engaged in high-standard agricultural production and the elaboration, development and propagation of complex technology for their respective branches, futhermore, in the purchasing and marketing of the necessary seeds, breeding animals and industrial and agricultural means of production. To the second category belong the Baja and lately the Bábolna as well as the Mezőhegyes combines also engaged in food processing (meat processing and sugar production). On the basis of the content and nature of their activities the above ones are agro-industrial large-scale enterprises essentially of the same kind as the Wine Combine of Tokaj–Hegyalja. All farms do significant research and development (experimental) work.

The following conclusions can already be drawn from experiences:

a) The Hungarian agricultural combines are typical large company organizations asserting a high degree of concentration of the forces of production, furthermore, of vertically interlinked agricultural and industrial production, services and marketing.

b) The combine (a big company) is a technical-technological as well as business unit (meaning management and interests) with the autonomy necessary for successful management, with internal decentralization adjusted to actual conditions, with internal systems of incentives and management, and with autonomous economic units.

The aforesaid also give orientation in deciding which substantial features do and which ones do not belong to the notion of combines. There is namely an inclination in giving descriptions of combines to lay stress on less important features and to state rigid rules. Eg. verticality is frequently emphasized and attributed absolute value. So is the postulate that the combines are supposed to be units of settlement at the same time, and to function as such. Whereas verticality frequently occurs with small and medium companies as well. Similarly, concentration or dispersion with respect to settlement cannot be an absolute requirement towards any form of enterprises and especially not for large ones.

There is no practical obstacle to the functioning of combines in the frameworks of trusts or unions. The degree of autonomy of the internal units of combines, too, depends on conditions and business considerations. The only golden rule of business is as follows: the form of organization applied must be the one best suited to conditions, giving the best business advantages, and rendering the best service to the objective fixed.

From the organizational point of view also the activities of the National Centre of State Farms, a special enterprise headquarters coordinating the activities of state farms and partly discharging the function of state supervision, deserve attention. The centre is not a department of ministry nor is it a trust but its work consists on the one hand of organizing, developing and coordinating activities and, on the other hand, in a specified sphere of the proprietary supervision of state farms. The results of its decade-long activities are favourable. A similar solution appears to be practicable also in other fields.

Agricultural cooperatives

At the beginning of the 1980s there were 1320 agricultural producers' cooperatives in Hungary. They were farming on three-quarters of the total area and employed 12 percent of all active earners and 62 percent of agricultural active earners. Their average land area was 4000 ha. They owned the majority of livestock and two-thirds of the stock of assets. They contributed nearly two-thirds of total agricultural output. (See *Table 3*)

In the seventies the number of agricultural cooperatives was almost halved because of large-scale amalgamations. Mainly the development of the means of production was quoted as the reason although in reality the problem was not that dimensions of the agriculutural cooperatives hindered the wide use of technology but rather the scarcity of good quality machinery and the lack of professional competence for the economical operation of the available means of production.

It became a more and more marked feature of the agricultural cooperatives during the past ten years that their business expanded vertically, that in addition to agriculture in the strict meaning of the term also their industrial and service activities developed. This has taken place in order to satisfy growing local and national economic demand, to exploit the available capacities, to engage the workforce more fully and because of the higher profitability of industrial activity. The developing of industrial activites is particularly reasonable in large-scale farms with unfavourable natural farming conditions. Many good example demonstrate that the development of auxiliary activities in such farms is suitable to pave the way for the lasting consolidation of profitable large-scale farming including the expansion of agricultural production.

There are pronounced dissimilarities between agricultural cooperatives because of their different natural and economic conditions. In 1981, only 384 agricultural cooperatives, or 29 percent of them, were capable of expanded reproduction from their own funds. Another 196 agricultural cooperatives are of acceptable economic stability. 740 common farms, 56 percent of the total number of agricultural cooperatives, struggle with distur-

Table 3
Main data of agricultural cooperatives

	1961	1970	1980	Index (1961=100)
Number of farms	4204	2441	1338	31.8
Average area of a farm (ha)	1100	1985	3961	360.0
Per cooperative				
gross output (million Forints)	4.7	27.4	91	1936.2
fixed assets (million Forints)	2.0	24.2	142	7100.0
workforce (person)	204.0	399.0	425	208.3
Common and household-plot farms, total				
area (1000 ha)	5352	5603	5741	108.0
from this: household plots (1000 ha)	738	738	441	59.7
Average yields (kg/ha)				
wheat	1820	2070	4740	260.4
barley	1160	1130	1920	165.5
maize	1790	3400	5580	311.7
sugar beet	17750	28780	37280	210.0
potato	6590	11420	17750	269.34
Animal stock per 100 ha of agricultural area				
cattle	31.1	29.7	28.9	92.9
pork	93.7	73.1	89.5	95.5
sheep	28.8	43.3	45.5	158.0
Production per animal				
milk (litre)	1960	2410	3506	178.9
egg (pcs)	73	198	226	309.6
wool (kg)	3	4	4	133.3

bances of reproduction. These latter virtually have no chance to expand production as they have small own resources, practically not more than the depreciation, allowance, and they have no realistic chances to raise loans either. The situation is further aggravated because the depreciation allowance accounted after the machinery is not enough to compensate for the physical and moral obsolescence of the means. The dwindling of profits is attributable not only to taxes growing heavier but also to the obligations of replenishing the working capital and of the redemption of loans laden with inflationary impacts deriving from the different levels of industrial and agricultural prices, from the agrarian price scissors' opening wider. All these developments occured simultaneously with otherwise advantageous trends when, in 1981, the value of output of the agricultural cooperatives increased by 15 percent over 1981 at current prices, profit increased by 20 percent on sectoral average, by a rate far higher than in previous years, and also the own development funds increased by 21 percent.

Like in the case of state farms, also the income position presented above demands the consolidation of the financial foundations of enterprise autonomy and enterprising spirit

and thereby the stabilization of the cooperative form and the strengthening of its socialist characteristics and of cooperative democracy. Contradicting the ideas invigorated since the mid-seventies and claiming that "cooperative property must be developed to the highest degree of socialization" it must firmly be stated that *the cooperative is a lasting organizational form of enterprise structure in the Hungarian agriculture, also for the long perspective.*

Cooperatives have to be relied upon in socialism not only temporarily for the transformation from small-scale production into large-scale production but also in the building of the advanced socialist society. It is, therefore, reasonable that they be developed as integral parts of the socialist establishment and in accordance with their social and economic significance. There are two extremities to be avoided in this work: first, the illusion of the omnipotence of the cooperatives and, second, the underestimation, subjugation and nationalization of the cooperatives. The existence and functioning of cooperatives does not negate the need for state enterprises and the case is not the reverse one either.

The using of the cooperative form is determined also in socialism by economic rationality and human incentive. The principial basis is the treatment of state property and cooperative property as equivalent socialist properties. In accomplished socialism social progress will not require the profound changing of socialist ownership but their consolidation, the strengthening of both state and cooperative property, the increasing of their common features and close cooperation between state and cooperative enterprises.

Two further important principles derive from the above. The first is to guarantee enterprise autonomy to state enterprises and cooperatives with equal validity. State authorities cannot make business instead of the enterprises and cooperatives. Enterprise autonomy is a primary preconditions of successful business activity. The interests of society are asserted by the state through the methods of socialist planned economy, through an intelligent coordination of the instruments of direct and indirect control, through economic influence, legal regulation, economic administration, governmental supervision and control.

The second important principle is the acknowledgement and observation of equal rights in relations between state enterprises and cooperatives. State enterprises may not exercise statutory powers over cooperatives but in most exceptional instances (natural disasters, epidemics, etc.). The proper way is to build the relations and cooperation between state enterprises and cooperatives on spontaneity, mutual advantages and acceptance of risks.

Finally mention must be made of three elements of the Hungarian agricultural policy which continuously renew in content and which concern the whole enterprise sphere of agriculture. These are spontaneity graduality and democracy.

The achievements of the Hungarian agriculture have been attained under conditions when spontaneity, respect for mutual interests and democracy were decisive in the way of treating people. The principle of spontaneity considering financial interests as well as democracy played particularly important roles in guiding the peasantry on to the way of

cooperation. Graduality in organizing large-scale farms and in choosing the forms of work organization, management and distribution suited to conditions guaranteed the required transition and the necessary steps. Later on these principles acquired new contents in enterprise autonomy, in choosing the new forms suited to changing conditions, and in the exercise of autonomy. By their intelligent use the management of large-scale farms and their associations can be advantageously influenced also in the future.

Household-plots and auxiliary farms

The small-scale farms numbered 1.7 million in 1972 and 1.5 million in 1980 in Hungary. From this, 658 thousand (44 percent) are household-plot farms of members in agricultural cooperatives and the rest are auxiliary farms of people belonging to other strata, whose full-time occupations are mostly non-agricultural. Their share is 26 percent in plant production and 48 percent in animal husbandry. Most gardens and the majority of poultry belong to the small farms. (See *Table 4*)

Small-scale production in this country is integrated by the socialist large-scale farms and consumers: cooperatives. The *contracting system* for household-plot farming is a widespread form. In this scheme the large-scale farms supply the animals, fodder, the machine work and other services required for household-plot farming and the products fixed in contract are marketed by the large-scale farms. The value of their services is discounted from price receipts and the rest is paid out to the small-producer. Most cooperatives manage this task by handling household-plot production as an *independent branch* directed by competent experts. Other large-scale farms organize *special groups* (teams) for turning out a given product, and besides their own workers anybody engaged in small-scale production may participate in the group. The most common such groups work in the production of small animals (rabbit, poultry, dove, and bee keeping) and in horticulture (vegetable, fruit, grapes and mushroom production) and are in charge mainly of procuring the materials and equipment required for production and of the organized marketing of the products.

Depending on natural and economic conditions, small-scale production is much more diversified than large-scale production. In addition to the big number of hobby gardens there are many self-sufficient small farms that discharge a social function. There still exist a diminishing number of private small-scale farms producing commodities and also household-plots and auxiliary farms have engaged themselves lately in growing number in the production of bigger volumes of commodities. The development of both the commodity producing and the small-scale hobby farms deserve more attention in the future. But also the importance of small-scale production carried on for social reasons (involving pensioners, handicapped persons, etc.) is undiminishing. However, from the economic point of view the hobby farms, those of social nature and the expressly commodity-producing household-plots and auxiliary farms must be distinguished.

Relations established with the latter must not take the forms of charity or other social

Table 4
Number of household-plots and auxiliary farms and their cultivated areas

	Farms in 1972		Farms in 1981		Cultivated area (farm/ha.)	
	number (1000)	percentage distribution	number (1000)	percentage distribution	1972	1981
Household-plot farms of members of farming cooperatives						
smaller than 0.5 ha	185	11.0	84	5.6	0.35	0.33
bigger than 0.5 ha	597	35.5	574	38.3	0.77	0.82
Total	782	46.5	658	43.9	0.67	0.76
Household-plot farms of members of other cooperatives	66	3.9	30	2.0	2.4	1.52
Auxiliary farms						
smaller than 0.5 ha	619	36.8	639	42.6	0.20	0.16
bigger than 0.5 ha	214	12.8	173	11.5	1.13	0.87
Total	833	4.96	812	54.1	0.44	0.31
Grand total	1681	100.0	1500	100.0	0.62	0.53

assistance. Essentially they must be *business relations* that can be based on mutual advantages in the case of cooperative members and employees of large farms just like normal relations among commodity producers are. Otherwise the seeking of onesided financial benefits and other speculating drives of small producers will be risked.

As shown by recent experience the maintaining and especially the expansion of small-scale production is also feasible with higher technical standards. This will require a substantially improved supply with means of production. Similarly, the regulatory system will have to be adjusted to the development of small-scale production.

The following major arguments stand for the *lasting* persistence of small-scale production:

a) a step-by-step establishing of large-scale production (considering that the financial-technical as well as personal conditions develop gradually, the combination and concerted development of large-scale-and small-scale production is the most advantageous way from the point of view of society);

b) better employment of workforce in the economically active age and of active pensioners;

c) utilization of productive capacities, fixed assets and equipment which cannot be used in large-scale farming;

d) better food supply, serving partly the consumption of people engaged in small-scale production and partly, through commodity production, the improved supply of the whole population and occasionally even contribution to exports;

e) raising the income and the standard of living of families engaged in small-scale production, partly by increasing the money receipts from household-plot commodity production and partly by savings through the consumption of own produce.

The enterprise structure of the food industry

At the beginning of the 1980s, 99.8 percent of food industrial processing was done by companies belonging to the socialist (state and cooperative) sector. From the 82.1 percent share of the state-owned food industrial companies those under the direct supervision of the ministry represented 77.5 percent and those supervised by councils 4.6 percent. Food industrial processing by large-scale farms amounted to 12.7 percent and by consumers' cooperatives to 2.2 percent.

As a result of excessive organizational centralization that the structure of industrial enterprises had gone through, trusts were set up in the 1970s in ten special branches of the food industry, namely, the meat, poultry, dairy, canned food, grain, sugar, spirits, wine, beer, and tobacco industries. In three branches (refrigeration, sweets and cooking oil) big national companies were working with numerous establishments while the baking industry, and the production of mineral water and soft drinks belonged mostly to companies supervised by councils. In the early 1980s this onesided centralization in trusts began to change with the winding up of six trusts and the gaining of independence of their

companies. Trusts functioning at present are the Animal Trading and Meat Industrial Trust, the Grain Trust, the Dairy Trust and the Trust of Distilling Industrial Companies.

The Hungarian experiences of recent years, in harmony with international experiences, back up the endeavour to pursue *diversity, ie., the rational combination of activities of small, medium and big companies, also in the development of the enterprise structure of the food industry.*

Business efficiency and competition justify the operation of autonomous small and medium companies in services, trade and in market-oriented activities of the processing industry where the majority of food industrial processing belongs to. In these activities, especially where research, technological development and marketing do not necessitate any considerable concentration of assets and labour, enterprise initiative calls for flexible and not very centralized structural solutions and the operation of trusts cannot be justified, even from the point of view of administration.

However, in the fields of economic life where the interlocking of central and enterprise activities is an absolute requirement because, due to the centralization of the central management of commodities, to centralized price policy and foreign trading activity, the economic units are more expressly instruments of plan implementation, it may be reasonable to centralize decisions and the economic organizations. Here it may be proper to run trusts and other large organizations.

The establishing of trust organizations or of big enterprises is the most rational in the case of vertically interconnected economic activities of big volumes. It will be important, however, to observe the following guiding principles:

a) Enterprise centralization is not an end in itself. The organization of big enterprises must not be extended, on the mere grounds of administration or ideological arguments, to areas where they cannot function economically or where smaller organizations have better chances of success. Under our circumstances enterprise size is a matter of efficiency, ie., a technical and not an ideological one.

b) Trusts and big enterprises may not become sole (monopoly) organizations, not even in branches where it is proper and advantageous that they function. This means that in every line of the food industry there should be autonomous small and medium companies, cooperatives, associations, and food-processing establishments of various socialist organizations. The activities of big and small enterprises can easily be coordinated in every line of the food industry. Cooperation based on mutual interests and risk-taking offer much greater advantages than the onesided exploitation of monopoly position. Also cooperation with agile small and medium enterprises is the best way to assert the advantages of big enterprise.

c) On the attained level of development the regional coordination of the raw material base with the processing establishments, and the consuming market deserve more and more attention. In this activity the *primary* point is to define the location (area) of the small and medium establishments that should reasonably be set up and it is of *secondary* importance who will build them and who will run them. Experiences of past decades also suggest that supervision by the ministry is justified chiefly in the case of setting up,

running and developing big enterprises and in some exceptional cases of medium enterprises. It is expedient to set up small and new medium establishments mostly under the supervision of councils, in the framework of large-scale farms and cooperatives, or in the form of associations. Since the seventies the development of food processing by large-scale farms, cooperatives and their associations possessing free development funds has become quite prevalent. The small enterprises of large-scale farms are also expected to proliferate. However, a faster rate of expansion is obstructed by the low profitability of food processing.

Associations of enterprises and cooperatives

The advantages inherent in the concentration, specialization and cooperation of production are not limited to intra-enterprise processes. Inter-enterprise relations have already penetrated the entire business and functioning of the large-scale farms. From the point of view of both current and future development, a most promising form is the *system of contractual partnership* developed between large-scale farms, the procuring and marketing trade, and the industry, in *which the traits characteristic of integration are becoming more and more pronounced.*

This process is essentially the following: the system of contracting, transcending the frameworks or traditional commercial relations, is added a content characteristic of simple partnerships. To put it still more accurately, commercial relations are transformed from buying and selling based on mutual advantages, responsibility and risk taking into economic cooperation.

Associations are typical forms of inter-company relations. From the about one thousand associations functioning in the Hungarian national economy in 1981, 892 worked in the fields of the food industry, as well as forestry and the wood industry. 85 to 90 percent of the associations pursued basic agricultural activities and related food industrial, engineering and commercial activities.

Taking also multiple memberships into account, in 1981 altogether 9900 parties cooperated in associations. All of the state farms and 65 percent of the agricultural cooperatives were members in more than two associations. 5 percent of the agricultural cooperatives did not participate in any association. Most associations are so-called simple companies without being autonomous legal entities and are organized and administrated by one of the parties, the so-called *gestor.* 739 associations of this kind were functioning in 1981. A smaller part of the associations (153) work as independent enterprises (legal entities). Production systems play a decisive role in the development of agricultural production. In 1981, from 73 production systems 39 functioned on the basis of enterprise contracts, 28 as simple companies, and 6 as joint enterprises. 85 percent of the maize, 75 percent of wheat and sugar beet each, 44 percent of orchards and the total of the rice area belonged to production systems. All the large-scale farms engaged in poultry and egg production, two-thirds of the pig farms and half of the cattle keepers participated in production systems.

From a review of the development of associations to this date the following major conclusions can be derived for the future:

a) In the Hungarian agriculture business cooperation shows a big variety of forms. It is essential to preserve this wealth of forms also in the future and to let them develop in accordance with economic realities. The developing of associations and the fact that the state farms (combines) and the agricultural cooperatives are to remain the basis units of agricultural production, are not mutually exclusive.

b) The decisive point is not the form but the contents and the economic success of cooperation. Here the most important requirements are the economical expansion of production and the enhancing of efficiency, among others thorough realizing the advantages of concentration, specialization and cooperation which can be augmented by association. So the organizing and functioning of associations must not be encouraged on the basis of administrative and ideological arguments when they are not profitable and not advantageous for those participating.

c) It is most essential to safeguard the economic independence of the cooperating parties and to assure that they are financially interested. This is the best motive for cooperation between companies. Economic cooperation cannot tolerate administrative, statutory methods.

d) The usually scarce development resources scattered by farms can be put to better use through cooperation. Cooperation, however, must not be exhausted by the setting-up and running of joint investment projects. The coordination carried out in the frameworks of associations will be successful if its influence upon the total business of partner farms is beneficient, taking care that the centres of associations must not become apparatuses of administration (for the breaking down of plans).

e) Promotion of the work and improvement of the activities of associations of sectoral nature (eg. production systems) remain to be the main path of strengthening cooperation. Production systems are tested structural frameworks for the proliferation of up-to-date knowhow and technology and of the complex organization of production. A better exploitation of regional opportunities and of the advantages of coordination embracing the activities of member farms may require the organization and functioning of regional associations. Depending on the range of the partners these may be agricultural as well as agro-industrial associations. The four Hungarian agro-industrial unions are of this regional type of associations. Associations working on grounds of small region or neighbourhood have also spread lately. The partners help each other with knowhow, lending of equipment, other services, and the coordination of their common tasks.

f) Up to now associations among agricultural cooperatives and those inside the agriculture have been predominant. It is also essential to promote cooperation between state enterprises and cooperatives, as well as between agricultural and industrial companies. This latter idea, that is, the agroindustrial quality of associations, can be enhanced by setting up joint establishments for the purpose of industrial activities of large-scale farms, as well as by the joining of existing industrial enterprises to the associations.

g) In the future the associations should be used more intensively in the creation of mutual financial interests between large-scale farms on the one hand and the purchasing, marketing and processing companies related to agriculture on the other hand in the development of economical production, processing and marketing; in the economical use of high productivity species, up-to-date knowhow and technology; and in improving management in handicapped large-scale farms.

Enterprise structure and economic control

The activities of Hungarian enterprises and cooperatives take place in the framework of planned economy, integrated in the whole of the economy and economic control. Their activities are based on central government control where governmental level policy and plans are decisive and are in interaction with enterprise policy and plans. The changes occurring in the social and economic environment – such as the changes in economic control and in the economic regulators – affect decisively the activities, relations, and even the internal structures and work of the economic organizations. On this ground the regulation and control of enterprise and cooperative activities can be carried out embedded in three major sets of relations:

– by influencing economic control relations,

– relations of cooperation and integration (dependence) established with other business organizations,

– by shaping the internal conditions of enterprise organization and operation.

With the implementation of the 1968 reform of economic control substantial changes unfolded in planning and in the application of the system of regulation. However, in the field of organization changes began to show only in the last years. It can be now stated in the light of experiences of two and a half decades that in the three said fields, namely, relations between economic control and enterprises, relations between economic organizations, and internal enterprise relations, further considerable progress is needed from the point of view of the development of enterprise structure.

The economy is still laden with the heritage of the *old approach of enterprise management intertwined with administrative methods.* One of the worst outcomes is that central control much restricts the material-financial basis of enterprise autonomy. Consequently many large-scale farms and food industrial companies are only legally independent. It is another problem that some elements of control through the breaking down of plans are used excessively also in the economic control system effective since 1980. Among other things, the production and use of enterprise incomes are most minutely regulated especially with respect to personal incomes or wages, which amounts to direct interference with decisions that should be taken by enterprise management, actually by centralizing these issues and removing them from the sphere of authority of the enterprise management.

Fortunately there was no breach in the agriculture in the relations among economic

organizations. On the contrary, inter-enterprise relations were appreciably expanded and boosted by the development of production systems and by other initiatives. In the food industry, however, hardly anything has changed.

The updating of the internal enterprise mechanism is a timely task both in agriculture and in the food industry. The reform of economic control has in a sense halted at the gates of trusts, enterprises and cooperatives, and even in the agriculture, where it has gone the farthest, it has not penetrated the internal life of large-scale farms sufficiently. Together with several other reasons this is very clearly due to the fact that the development of the internal mechanisms was for a long time limited to matters of the hierarchy of management and the organization of management, and also to the failure to properly connect it with the autonomy of the actual economic units, with the encouraging of their enterprising, with wages and remunerations. Science, too, must be blamed for not recognizing the new symptoms of enterprise and cooperative practice, even though the large-scale farms did from the first times seek for solutions where the development of the internal organization and financial incentive are interconnected. Furthermore, they always preferred forms that met practical objectives and local conditions, and they combined traditional solutions with up-to-date methods. This is how the most convenient forms serving interest attached to success and suited to the level of the forces of production were reached. Practice produced a big variety of forms. Initially family and share cropping (métayage) were widely applied while lately the so-called small teams, farming units and groups *with indepenedent authority and incentive* have been proliferating.

Contracting work and lump-sum accounting are more and more widely used. The consistent observation of enterprise autonomy, spontaneity and progressivity are essential here. Local initiative and the rational utilization of opportunities would be thwarted by insisting on centrally prescribed schemes.

Development of the internal enterprise mechanism deserves special attention also because this is the way to further consolidating enterprise (cooperative) democracy.

In conclusion I should like to reiterate that substantial progress must be made in all the above mentioned three fields if we wish to enhance the autonomy, initiative and enterprising spirit of the enterprises (cooperatives) which are the clue to general future advancement.

НОВЫЕ ЧЕРТЫ СТРУКТУРЫ ПРЕДПРИЯТИЙ В СЕЛЬСКОМ ХОЗЯЙСТВЕ И ПИЩЕВОЙ ПРОМЫШЛЕННОСТИ ВЕНГРИИ

М. ЧИЗМАДИЯ

Структуру предприятий венгерского сельского хозяйства характеризует многообразие. С государственными хозяйствами и производственными кооперативами органически связаны подсобные и приусадебные хозяйства, а также кооперативные объединения, специализированные группы и мелкое предпринимательство. Такая многоцветность — рациональное сочетание крупного и мелкого производства — является одним из важных источников развития, проделанного до сих пор венгерским сельским хозяйством.

В последнее время начались определенные изменения и в структуре предприятий пищевой промышленности. Сократилось число трестов и возросло число самостоятельных предприятий. Расширилась переработка сельскохозяйственной продукции в сельскохозяйственных комбинатах, укрепилось сотрудничество между предприятиями пищевой промышленности и сельскохозяйственными комбинатами.

Появились также и новые формы предприятий и предпринимательства. Многие государственные хозяйства объединились в комбинаты. Среди объединений предприятий и кооперативов широко распространились производственные системы. Образовались четыре аграрно-промышленных объединения.

Статья дает картину о новых чертах системы предприятий в венгерском сельском хозяйстве и пищевой промышленности, появившихся в последние годы, а также о связях между предприятиями и государственным управлением экономикой.

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VALUE ASPECTS OF THE DEVELOPMENT OF SOCIALIST INTEGRATION

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The integration mechanism is to promote the judgement of national and international decision processes on the basis of identical standards. Without it, enterprise interest in the development of integration cannot come about and it cannot be replaced by any kind of interstate commitment. The basis for the convergence of economic processes is that a gradual transition has to take place from the hitherto mainly administrative control instruments to economic ones. The functional openness of the economy is mediated by restricted internal convertibility and an economically founded exchange rate is a decisive element of the latter, its substance being that the external relative values directly influence the internal economic decisions. Finally the author gives details of the ways of solution of gradual transition in respect of both the national and the CMEA mechanism.

A historical approach is an elementary principle of scientific research in economics even more than in other fields of scholarly investigation. The purpose, contents, methods and forms of economic activity change very rapidly. Nevertheless, the above elements always constitute a unity and mutually permeate each other. If a change in any of these factors is not perceived in time, there is a danger that the harmony between them will be upset. In such cases random occurrences may appear to be the rule, while laws are attempted to be applied in lack of conditions for their functioning. This may even lead to a generally backward state of economic relations as well as to difficulties and contradictions in economic life.

All that hold *a fortiori* to foreign economic relations in which the evolution of internal economic processes are continuously confronted with changing external conditions. It is particularly worth attention that the aims of economic cooperation of the CMEA countries have basically changed in the last 35 years. In the fifties the division of labour began with the mere exchange of use values, then continued in the sixties with efforts at cooperation and specialization aimed at increasing the efficiency of the exchange of commodities. Finally, in compliance with the new fundamental objective set at the 26th Congress of the CPSU, international socialist integration of the seventies has to be subordinated to the joint solution of problems of intensive economic development. These changes, of course, modify the laws of development of cooperation among socialist countries.

General approach

The main line of perfecting and developing cooperation among CMEA countries is strengthening the function of foreign economic relations, also in saving social labour; what is more, gradually this function should become the basic objective of cooperation. The mere exchange of use values turns from objective more and more into an instrument. This, again, provides the foundations for qualitative changes in the forms, methods and contents of relations among socialist countries. It is quite clear, that this development *is far from being over.* Intensification of the process of reproduction within individual CMEA countries goes hand in hand with their integration. These two interdependent processes are characteristic of the advanced socialist society. This development enhances the significance of efficiency criteria for planning both on national and integration levels.

Integration is a gradually evolving process. It would be a grave violation of historical approach if we considered the present set of integrational means, or the instruments applied prior to the evolution of real integration, reflecting conditions of those days, as satisfactory for the future as well.

For instance, the Comprehensive Program adopted 13 years ago did not at all solve the problem how the mechanism of integration should be coupled with the internal mechanisms of economic decision-making within the individual member countries. In the Comprehensive Program it was mainly or exclusively the interstate, macroeconomic relations, tasks and objectives that were in the foreground. However, later developments soon proved that microeconomic and domestic economic problems can hardly be circumvented. Their actual solution becomes possible only with a correct application of theoretically established objective economic laws.

In the stage of elaboration of the Comprehensive Program it had not been clarified at all what requirements intensive development actually raised towards micro-, mezo- and macrolevel decisions. The concept of advanced socialism had not even been formulated. In this respect the situation nowadays is completely different. Marxist economic theory of socialism has made considerable advances in recent years. It has essentially succeeded in grasping the totality of economic laws of socialism as a uniform system, in describing the complex aggregate of these laws, their mode of functioning and mutual interrelations. This allows for economic theory to show the general laws asserting themselves in the "marginal areas" of the national and the cooperation mechanisms, whose enforcement is objectively necessary and, at the same time, economically advantageous for every member country of the CMEA. Thus, with the emergence of the true theoretical foundation for the international cooperation mechanism, interpreted as the continuation and superstructure of the national economic mechanisms, it becomes possible that the administrative methods should gradually be replaced by economic ones also in international economic relations.

The concept of advanced socialism elaborated in the Soviet Union exerts a determinant impact on economic thought also in other socialist countries that are in a

state of transition from the stage of under-developed to advanced socialism. Consequently, this means, and has to mean, one of the important theoretical handholds in the course of elaboration of a new concept of cooperation including the scope of problems of harmonization of national systems of economic management.

With the progress of integration it becomes an ever more important and later one of the main objectives that the international mechanism of cooperation should exert a real, systemic impact on unifying criteria for economic decision-making within the individual countries. This mechanism is to "homogenize", as it were, the economic environment. Since we speak of a mechanism of an international integration process, it has got to counteract the autarkic tendencies of the national environment, that is, so that under its impact the joining in the socialist international division of labour should become a precondition for raising economic efficiency, even a condition for survival for enterprises. This theorem is not new, as it was formulated already at the time of adoption of the Comprehensive Program.* Its practical application however, has not been attempted ever since then.

Analyses of enterprise behaviour have proven for every CMEA country that strong autarkic tendencies have been prevailing in their economies to this very day. Their basis is the obsolete concept of economic independence preserved and strengthened by the so-called "resource principle" in national economic planning and also in material-technical supply, both based on the breaking down of plans in the form of physical indicators and tasks. This is the cause, among other things, why socialist enterprises are not induced by their economic environment to efficient and thus to integrational behaviour.

With the prevailing systemic conditions enterprises are insufficiently interested both in increasing the efficiency of their production and of CMEA trade, what is more, they do not possess objective economic efficiency criteria at all. These relations are characterized, in general, by the fact that the seller little adjusts itself to the demands of the buyer, which is one of the causes why the purchasers of the so-called "soft goods" as well as the producers of the so-called "hard goods"** turn outside the integration. This is also a reason for the poor stability of intra-CMEA contacts, including relations in specialization and cooperation.

Numerous analyses have pointed out that barriers to integration processes cannot be overcome by sporadic isolated measures, but only through a systematic development of the entire mechanism of international cooperation. The solution must be comprehensive and systemic. An ensemble of coordinated measures is needed which equally affect the national system of planned control and management and the system of integration as well. Such comprehensive change cannot come about simply as a result of the

*See eg. [1] On p. 226 the following is stated: "It is useful to apply such economic method which put the enterprises and economic units of the cooperating countries into a situation in which it is a prime necessity for them to join into the interstate division of labour. . ."

**In this context obviously not the *eo ipso* quality of the commodity based on some technical characteristics is meant, but its economic valuation, meaning quality relative to its price.

"perfection" of existing forms, but only through a qualitative transformation of the whole prevailing system. The demand for such changes was formulated by the recent congresses of the fraternal parties when they put the intensive development of the individual economies on the agenda.

The main direction of the solution to the problem has been known ever since the 24th Congress of the CPSU held in 1971. The report of the Central Committee submitted by L. I. *Brezhnev* pointed out the novelty of the integration process in that *cooperation has to be aimed at specialization in those high-technology products which are most profitable for the member countries.*

For the systemic conditions of a fully developed integration process it is precisely this idea that is of decisive methodological importance, along with the provision of the Comprehensive Program stressing that in developing the socialist international division of labour alternatives offered by the global division of labour are also to be taken into account. It follows that the technologically most advanced branches and products must be the most profitable for CMEA states, further that these are to be a basis for joining both the socialist and the global international division of labour.

The raising of the technical and scientific level of production, and the enhancing of its efficiency on this basis are first of all a precondition and only *additionally a result* of the international integration of the national production complexes. It is only through improvement of the use value of the commodities and by a parallel reduction in their prices that items offered to each other on the socialist world market should become at least as competitive and lucrative as are commodities of capitalist origin or even more so. Without this the stability of CMEA relations, to be considered simultaneously a precondition to the development of integration, cannot be secured on an economic basis in a systemic way. A sound base for the integration process can only be created if the national systems of planned management promote increases in efficiency on the basis of scientific and technological progress. No legal or state administrative measure can efficiently substitute this as far as their actual impact on integrational processes is concerned.

The role of commodity (market) and money relations

The basic measures to be taken in the interest of the transformation of the system of CMEA cooperation due in the near future were outlined by the 26th Congress of the CPSU in 1981. The necessity of such changes was confirmed by other fraternal parties as well.* The problem is to complement plan coordination with the *coordination of general economic policies as a whole, with special regard to converging the structure of economic mechanisms in this process.* Among diverse forms of intraregional cooperation interfirm and interministerial direct relations are to become of prime significance.

*The paper was written before the CMEA summit in June 1984 (Ed. note).

No doubt, for the development of the integration mechanism it is the convergence in the structures of national economic mechanisms that is of the highest importance. This step already points beyond the framework outlined in the Comprehensive Program. It goes without saying that unchanged control systems cannot converge. The approximation and transformation of national mechanisms must mean in every country two aspects of the very same process.

As regards its substance, this process must be directed at integration, that is, against autarky. In other words, this would mean the establishment of systemic conditions for a gradual reduction of the scope of problems decided exclusively on domestic considerations, expressed in "national" material balances, that are primarily aimed at meeting national requirements from domestic resources. Simultaneously, the set of issues to be decided upon economic efficiency creteria would widen, thus increasing attention should be paid to impacts of the international division of labour on the results of national labour inputs. Such criteria, of course, are always expressed in value terms.

From what has been said it follows that one of the central problems of the transformation of the mechanism should be a more extensive and also more intensive use of commodity, monetary (market) relations in the management systems of planned economies. This should result in the assertion of principially similarly constructed national efficiency standards for each country, and also for every economic subject, be that an enterprise or a control organ. This is an orientation outlined already in the Comprehensive Program. There are two factors that explain why the significant results provided for by the provisions of the Program could not be attained: on the one hand at that time it was not so clear how complex the scope of related problems was, on the other hand, however, it was the Program itself that emphasized the autonomous nature of perfecting national macroeconomic control systems. Both reasons became transgressed with time: the complexity of commodity and money problems in integration have universally been tackled in economic literature, while autonomy in shaping the national systems of economic management was replaced at the recent party congresses by the target of converging the structures of economic mechanism.

A more extensive use of commodity and monetary categories relies on a more thorough knowledge of the objective nature of the requirements of the law of value, thus also the *objectivation* of value criteria and the related control instruments in the planned management of economic processes. Objectivation has both a quantitative and a qualitative aspect. A basic feature of the quantitative aspect is the approximation of price to value. Inseparable from this is the determinant qualitative aspect, meaning the efficacy of impact of value categories on decision-making in the economic sphere. Therefore, a structural convergence in national mechanisms has unavoidably got to result in relative prices approximating one another and, on the other hand – and this is the substance of the matter – the impact of these prices as externally given parameters for producers (suppliers) and consumers (buyers) should grow in each member-country, in a coordinated way.

Meanwhile, convergence in value categories and in their structures adds up to the

earlier mentioned homogenization of economic environment. This means that value categories become parametric, i.e. they turn for the economic units into external magnitudes. Without this parametric nature, as is commonly known, no equivalent exchange can develop among the participants of any market.

Do terms of exchange on the internal markets of individual CMEA countries approximate the proportions justified by socially necessary labour inputs? Do buyers pay for the actual costs of sellers even if by doing so conditions for their own consumption deteriorate? (e.g. by paying a higher price for poorer quality than would foreign buyers?) And later, when they become sellers themselves, are they in a position to pass thus incurring higher costs onto their buyers by means of price calculations? If, namely, this is the case, society can by no means allow for economic organizations to decide autonomously on their foreign economic relations reacting to the signals of such distorted value relations. Such enterprise decisions, in each case when, owing to the above circumstances, commodities produced relatively more productively in one country are exchanged for commodities turned out less productively in the other country, result in a loss of national income through foreign trade. It is precisely in order to avoid such situation that the state preserves the right to weigh in each case individually whether it is worth while to participate in the international exchange, and further, to regulate the relation of foreign trade prices to domestic ones individually, should the necessity arise. This system, however, deprives the institution of direct interfirm contacts from its substance, the promotion of enterprise initiative also in the field of foreign trade. In consequence, direct contacts considerably loose their (true) sense.

The evolving of equivalent exchange in compliance with the law of value on domestic markets – inclusive of the creation of organic linkage among the national, regional and international values – is a precondition not only of developing direct interfirm contacts among CMEA countries, but also of equivalent exchange transacted between CMEA countries as subjects of the socialist world market. It is understandable that each actor of the market – i.e. individual states in case of the CMEA – make efforts at maximizing the volume and quality of use values that can be acquired through international exchange. Contractual terms, accepted finally by both parties result in an exchange of definite quantities of labour and, in fact, in their general equivalence. The question whether "equivalence" thus established corresponds to the concept of the Marxian labour theory of value cannot be circumvented by a reference to the agreement between the two parties. Real equivalence can only be ensured through convergence among price proportions of *every single act of exchange,* insofar as this also means an approximation to the socially necessary inputs. These proportions evolve in production, thus in national economic frameworks.

National price relatives at present do not correspond to proportions of CMEA contractual prices. Their use as contractual prices would only lead to an outflow of commodities from CMEA market; beside other factors, this would add an additional obstacle to the development of integration. This phenomenon raises doubts not only against the objective nature and against theoretical foundations of contractual prices, but

poses even more sharply the question to what extent domestic prices correspond to the national value. This situation, therefore, indicates that there is no equivalent exchange on any of these markets. Its outcome is the prevailing bilateralism in CMEA relations, that – compounded by a number of other factors – restricts international trade much below the optimum level that would be justified by comparative and absolute advantages.

A following major aspect of converging national economic mechanisms – related to the present level of development of domestic commodity and money relations – *is the value substance of the concept of economic accounting* (khozraschot). Under incomplete economic accounting enterprise and association interests are linked to the fulfilment of *mandatory partial tasks* of the state plan, and thus an enterprise is interested in foreign economic relations only if this is definitely (explicitly) envisaged in the plan. Therefore, in this field, their own initiative cannot be taken for granted. After the introduction of full economic accounting (polniy khozraschot) the collective of enterprises of associations becomes interested in the final result of economic activity i.e. in decreasing expenditures and increasing receipts, i.e. in net profits. As a result, collectives initiate themselves all measures, that might contribute to economic efficiency including increased participation in the international division of labour*.

Full economic accounting is conditioned by the general functioning of the whole system of instruments of enterprise control. It is these instruments that determine the rights and obligations of the economic units and of their managers both towards the control agencies and their employees. This determines the place of the enterprise (association) in the economy, as a whole, which especially directly affects the possibilities for the establishment and viability of international economic organizations. These international economic organizations must not violate the interests either of the country of location, or of the other founding countries (which brought about the international organization with a definite economic objective and justly expect that it should be attained), further it must not violate the interests of its employees, since they continually compare their living standards and conditions of work with possibilities for people at other workplaces. The combined meeting of all hitherto listed requirements, as well as the balanced state of the exactly defined rights and responsibilities of the management of the international economic organization towards its member organizations is only feasible on condition of a high degree of full economic accounting in each participant country.**

From what has been said it follows that it is the planned evolution of socialist commodity and money relations that mean, from the systemic point of view, the fundamental, historically new feature in converging the national economic mechanism of

*The term "full economic accounting (polniy khozraschot)" used in Soviet economic literature corresponds on the whole to the concept of regulated market economy in Hungarian literature, while Soviet authors use the concept of "incomplete economic accounting" (nepolniy khozraschot) to describe an "improved" directive mechanism also employing value indicators and financial incentives. Also the Czechoslovak analyst uses these terms in this sense. (Ed. note)

**In Hungarian terminology monetization of the national economies is meant. (Ed. note).

the CMEA countries. Consequently, most important elements in the coordination of economic policies are precisely those measures that are to be instituted in the above direction. The orientation of economic policy is determined by its general concept, having a sole feasible form, which is the target-model, i.e. a conceptual description of the future economic system that is to be established.

To the extent it is necessary for the advanced socialist society to elaborate a target-model (conception), whose new qualities meet the new requirements of the intensive type of growth, to the same large extent it is also necessary to work out a corresponding target-model for the integration mechanism. This model has got to be directed at integration, that is, it should provide the basis for both enterprises and government control organs to counteract autarkic tendencies.* The function of the latter model is mainly to complement and render concrete the (earlier outlined) domestic parametric environment** for enterprise management primarily from the viewpoint of the international assertion of the law of value.

This would involve a further development of the Comprehensive Program in three directions:

1. Prefecting of economic, technological and scientific cooperation would be subordinated to the attainment of the most advanced technological levels and of the maximum increases in the efficiency of social production.

2. Coordination of plans, the fundamental instrument of cooperation would be organically linked to the wider application of commodity and money relations.

3. Socialist and global international division of labour would develop parallelly.

The goal is thus that such conditions should come about both in production and for control organs which make the economic organizations interested in and responsible for taking into account possibilities for socialist international division of labour to maximum extent while effectively solving production and other economic problems. Establishment of such conditions would allow for a radical reduction in the number of cases forcing individualized central decisions even on such matters of international cooperation about which it is the enterprises that possess adequate information. In a thus evolving environment the growth in trade flows and the majority of economic, technological and scientific cooperation measures would follow organically from the objective economic interests of enterprises, that were coordinated with societal interests by means of central control.

Such situation can only come about if the scope of the planned application of the law of value significantly expands within the individual national economies, and that in a

*A description of the model-like approach in researching economic phenomena, the relevance of the theoretical models of economic mechanism and their difference from the so-called descriptive (real) and the normative (desirable) economic mechanisms is unfolded in detail in the interesting article by L. *Abalkin* [2].

**This concept comes from Polish economic literature and denotes the state when economic regulators and prices are external magnitudes for enterprises, rather than factors under their control.

context where the number of equivalent exchanges increases among the economic units, since this law asserts itself uniformly on both the national and international levels. From the diverse nature of individual spheres of activity and of the fields of material production it follows that the law of value and its categories are also to play a different role in their societal regulation. A comprehensive transformation of the economic mechanism is only feasible anyway through gradual steps, differentiated both in time and space.

Consequently, it will be expedient to start the elaboration of new principles of economic control for those branches, subbranches and products where technological and scientific progress is fast, the characteristics of products change quickly, so their price relatives are volatile in international trade. These are, of course, mainly the manufacturing industries. Analysis of the shortcomings of the socialist international division of labour indicates the prime importance of solving precisely this set of problems. It is particularly important in the manufacturing industry to make the environment gradually more competitive both regarding technical characteristics of the products and the level of inputs. This systemic environment may come about depending on three factors: the assertion of equilibrium in economic development, strengthening the position of buyers in the economy and, finally, on the extent prices are externalized for the sellers.

National and international value

The political economy of socialism evolved in a period when the first socialist state developing in an imperialist environment was economically relatively weak. This is the reason why it has carried the elements of autarky from the very beginning. Some of these features permeate economic thinking to this very day, in spite of the fact that objective conditions have radically changed since then. Nowadays it would be hard to present as scientific any theory of the socialist economy but the one of systemic openness *vis-à-vis* the external environment, particularly in forward-looking (future-oriented) theoretical researches.

Economic opennes has both a quantitative and a qualitative aspect. From these the qualitative one may be considered as determinant. This feature is determined by the *mode of operation* of the economy and its relation to the outside world, and thus may also be called *functional openness*.

Functional openness and its control instruments inform the given economy about the world-wide trends in labour productivity, its differentiated development by branches and products, and thereby promote the realization of the requirements comprised by the law of saving of time. This information is of value nature, that is, it is a value category both in its form and contents. It is itself a part of the parametric environment for the enterprise sphere. Functional openness cannot be measured or characterized quantitatively (thus e.g. with the share of exports in GDP or similar indicators). It can be grasped exclusively from

the qualitative aspect, by studying to what extent the success of foreign economic activity constitutes a direct efficiency criterion for enterprises and branches.

From the viewpoint of political economy functional openness of an economy reflects the objective relationship between national and international value. It is similar to the Marxian relationship between individual and market value. In this context the concept of national value is *in itself* – divorced from international value – a category void of contents. *As a matter of fact, national value exists only in unity with the international value,* and thus can be a mediator of equivalent exchange only as such also in the national market itself. This relationship is of fundamental significance for the national price policy concepts. It follows that the success of foreign sales is an inseparable organic part of the so-called consumers' valuation of the commodity which has to be taken into account in setting wholesale prices.

In elaborating the perspective target model of advanced socialism a functional characteristic of the category of price is that wholesale prices have to be established with an eye on external prices. Otherwise, by assuming a closed economy, it is difficult to imagine how equilibrium prices could practically come about. In this case absolutely flexible prices, changing from day to day and reacting even to very tiny changes in demand and supply would be needed, which is an absurd requirement for a planned economy. From this aspect, participation in the international division of labour also plays an irreplaceable role as a factor of relative price stability, and even as a "reserve for planning" insofar as short-term incongruence among resources and needs can be bridged over while applying relatively stable and yet economically founded prices.

A similar approach has to be applied also in the long-term conception related to the optimum national economic plan. For this plan it is of decisive importance how objectively and exactly comparative advantages deriving from the international division of labour can be measured. It might be based on a comparison of forecasts (and plans) relating to foreign prices and domestic prices and inputs. Namely, without this there can be no talk of a planned optimization of joining the socialist and the global international division of labour while *determining the tasks and physical proportions of technological and scientific progress in* long- and medium-term plans.

The next key question of the relationship between national and international value and of the functional openness of the economy is *the external function of money.* The external function of socialist money may be interpreted as a modified form of the world money function defined by Marx. Similarly to the other money functions (measure of value, standard of price, instrument of turnover, of payments and of accumulation) this, too, is an inseparable attribute of socialist money. In reality, however, this is an underdeveloped property of money. Amongst the various functions of socialist money no doubt this has attained the lowest degree of development. In other words it still is in a rudimentary state, and this holds not only for the national monetary units, but also for the international common currency, the transferable rouble.

In consequence of the fact that in the CMEA countries' actually functioning national control systems domestic prices are only very weakly linked to foreign prices, further

because the external function of money is underdeveloped, no realistic, economically established rate of exchange functions, either. Some of its functions have been replaced by special coefficients in order to connect production with foreign trade, irrealistic official exchange rates are corrected by foreign exchange coefficients, and, in addition, the latter are complemented by a system of financial stimulation of foreign trade and by financial bridges.

The Comprehensive Program reads: "In the course of establishing the economically founded rate of exchange or foreign exchange coefficient of the national currencies the CMEA countries determine ways of linking the foreign and domestic prices as a function of their possibilities and conditions."

Reality corresponds to this statement. The economic substance of an actual linking of external and domestic prices and, in consequence, the mode of operation and importance of the exchange-rate-like financial instruments are different in individual CMEA countries. They correspond to the possibilities and demands recognized and acknowledged by the individual countries.

It may be stated not only from the aspect of the measures taken by the individual countries and of the efforts formulated in the Comprehensive Program but also in theory, that evolution of perfecting the economic mechanisms in individual CMEA countries will result in the gradual formation of realistic (economically founded) exchange rates. This may be stated in spite of the fact that up to now no such exchange rate has ever been applied in any CMEA country, not even transitorily or experimentally, that could serve as efficiency criterion when deciding on participation in the international division of labour.

The concept of an economically founded exchange rate

An economically founded exchange rate, if interpreted as an economic category of socialism, is of planned nature. As such, it is partly a condition and partly a result of optimizing plan-decisions on every management level of the economy. Coupled with other control instruments it is itself part and parcel of the parametric economic environment of the enterprise sphere. As a consequence, reality of the exchange rate is not only a function of its size but also of the way in which it can exert its influence as a tool of planned management on economic decisions. The two – quantitative and qualitative – aspects of the reality of the exchange rate are closely interrelated, the latter being of prime importance. The correct size of an exchange rate cannot be determined by means of some calculative plan-computation (thus neither by comparing the prices of two relatively isolated economies). Its evolution is conditional on the exchange rate's exerting a real impact on the economy, this being envisaged by the national economic plan.

In planning the optimum rate of exchange one has to set out from the methodological principle that the less efficient domestic production has to be substituted by more

efficient imports. This approach is of extraordinary importance for the planning methodology of a functionally open economy. The systemic condition of this planned optimization is that every economic unit may satisfy its productive needs by the optimum combination of resources and factors of production, while it possesses full-scope information about the foreign supply in the scope of products in question. It also has to take into account that its buyers possess similar opportunities. Provided that all systemic conditions listed above are met, a producer joining the socialist international exchange of commodities will strive to reduce its production costs below the world market level and to offer at the same time products of better quality than usual on the world market. Otherwise, buyers will not purchase their products. Then a domestic producer may generally undertake exports only if it is able to meet world market requirements in respect of both costs and quality. Under these conditions exporting and thus expanding the export volume of the country will become unavoidably the interest of the majority of those producing for domestic needs. And the higher the proportion of efficient exports, the greater the possibility of substituting more efficient imports for the inefficient domestic production and this might start a self-generating process.

Optimization of the national economic plan has a stimulating impact on the earlier summarized economic decisions. Beyond the economically most rational solution of the above mentioned physical and structural problems this optimization may also result in that the national currency is exchanged for foreign currencies in optimum proportions, that is, it may help in establishing a *realistic,* optimal *exchange rate.*

Planning and operation of a realistic, economically founded exchange rate of the socialist national currency comes about as a resultant of thousands of optimizing economic decisions taken on various levels of economic management. The national economic plan secures its necessary conditions in a comprehensive way, including not only the methodology of computation, but also the system of conditions and instruments for the functioning of the exchange rate. Contrary to the widespread conviction, the functioning of a realistic exchange rate is not confined to the realm of tradables, *but it also actively influences the entire process of social reproduction,* that is, every link in the chain of this process.

It is a physical and structural property of a functionally open economy characterized by the operation of a real rate of exchange, that continuous polarization takes place in production according to branches and products: there emerge on the one hand dynamic products that are suitable for export and on the other hand declining ones, whose production is to be divested and replaced by imports. In a small country the development of any sector of the manufacturing industries exclusively for domestic needs becomes from the economic point of view a systemic anomaly. Neglecting this finding in economic policy implies the rejection of creating the conditions for the gradual introduction of an economically founded exchange rate.

An economically founded exchange rate will never reflect exactly how the value of a currency objectively compares to that of other currencies. Since this rate of exchange is itself a lever in economic regulation, it has to be relatively stable, while the relative value

of currencies constantly changes. This is so much true that the exact value ratio of currencies can never be practically established. The objective relative value of currencies compares to the economically founded rate of exchange in the same manner as does value to price. Although the exchange rate is the basis, it is simultaneously also the expression in terms of value of the fact that conditions of reproduction in a socialist economy have become individualized in the superstructure of world economy. This individualization relies on the differences in the productivity and income relations of the given production and economic complex from those of the other production and economic complexes constituting the system of relations of the given region or that of the world economy. These differences are reflected in the actual purchasing power of individual national currencies. As a consequence, what the relative purchasing power of these currencies reflects is not the realistic exchange rate, but the objective relative value of these currencies (which is known to differ always from the exchange rate.)

In spite of the fact that the economically founded exchange rate is relatively stable in comparison to the objective relative value of currencies, the *price-formation function* of the exchange rate requires it to be *flexible* against currencies with constantly changing purchasing power. Otherwise a realistic exchange rate might transmit external inflation. The pricing function of the exchange rate as a systemic characteristic implies not the transmission of the general external price level, only the changes in its relatives.

All other functions of the exchange rate listed in economic literature (stimulation, standard of decisions, comparison, source of information) are rendered possible by the price-formation function, through its influence on internal relative prices. It becomes possible precisely by the extension of this function that while serving as a factor in pricing the economically founded exchange rate transmits under advanced socialism not only the conditions of production, but also those of consumption. Thus, the rate of exchange becomes *one of the important regulators securing the parametric nature of the price system.*

The actual operation of the exchange rate presupposes that economic units dispose of the right to conclude – within the framework provided by the regulations, directly or with the mediation of specialized organizations – export and import deals based on calculations made with this exchange rate and through free negotiations, while the exchange rates are complemented only by *normative* (universally applied) financial instruments. In this case, however – in contrast with the now prevailing practice – economic units as a rule should not get extra price support, individual subsidies for the enterprise, for products or activities, nor should individually established extra taxes be levied on their foreign trade activities. Thus, the operation of the exchange rate also assumes that every foreign trade transaction is the result of an optimizing decision taken on enterprise level, further that the related receipt or outlay is directly dependent on actual foreign trade prices.

This mechanism is frequently called the *international convertibility of the currency.* In fact, however, this does not mean actual convertibility. In the above described system no movement of money takes place between two different owners. The state remains the

owner of the currency. The actual circulation of money continues to be concentrated in the hands of a bank authorized by the state. As subjects of such "convertibility" economic units cannot acquire claims in foreign currencies, cannot transfer their earnings to foreign banks etc., they are only entitled to transact foreign trade deals under definite conditions. Conditions and rules of internal convertibility mean essentially such elements of central control over enterprises through which the state exercises its monopoly of foreign trade and on foreign currencies. *This is then the operational mechanism of the economically founded exchange rate.*

External, that is, *real currency convertibility* means, as opposed to the former, that, under certain rules defined by the state, foreign economic units may also buy and sell national currency for foreign means of payment. Thus the rules of external convertibility mean not only a tool of central state control over relatively independent enterprises, but also *a form regulating the relationship of the state as owner of the means of production to other owners.* Thus, the expediency of introducing external convertibility should be judged above all by setting out from the fact that the behaviour of foreign economic units is determined exclusively by their self-interests which – as distinct from internal convertibility – are not subject to central economic regulation expressing the interests of the socialist society. This is thus another dimension of exercising state monopoly on foreign currencies, in which the state as a participant of the international market regulates its own behaviour. Therefore, the conditions and effects of external convertibility have to be judged first of all with a view to the economic power of the country.

If the rate of exchange is actually used in the framework of optimizing the national economic plan and if the mechanism of the so-called internal convertibility is asserted, the economically founded rate of exchange plays the role of an efficiency limit to exports and imports. If this is neglected in certain export or import transactions, this testifies to the unsatisfactory efficiency of the transaction from the points of view of both the economic unit and society. Therefore, an actually functioning exchange rate is *always a marginal magnitude,* more exactly it reflects the marginal input needed for earning a unit of foreign exchange, not an average as the currently applied foreign exchange coefficient does – precisely following from the imperfection of its pricing function. In this context it is completely irrelevant whether this coefficient consists of two parts (that is of an artificially low official exchange rate and a surcharge on it), or it is a uniform, officially quoted and published "exchange rate".

Transition from the foreign exchange coefficient (multiplier) to the real rate of exchange

Already this sketchy outline of the economically founded exchange rate in a socialist economy made it palpable on the meeting of what complicated conditions it depends whether it can be introduced at all, what is more, how difficult it is to create these

conditions themselves. Beyond that, it is also obvious that the rate of exchange will not influence economic decision-making in every branch and subbranch in the same way. Partly on account of that, and partly in the interest of the relative stability of domestic wholesale prices, financial and pricing instruments will always be applied between production and foreign trade. These, however, will substantially differ from the currently applied solutions in that they will not neutralize the effects of computations and comparisons made in foreign exchange on production decisions.

Following from the complexity of the external and internal systemic conditions of functioning of an economically founded real rate of exchange it has to be taken into account that the measures to be taken for the gradual introduction of such rate of exchange are perhaps the most complicated and most complex among the changes aimed at developing the intensive and integration-oriented road of economic development of the CMEA countries, and at the structural convergence of the national economic mechanisms serving as its foundation. These measures affect each element and subsystem of the system of planned economy.

In Czechoslovakia and other CMEA countries the views of several economists on a realistic rate of exchange have been determined by the unfavourable experiences with those practical attempts at strengthening the economic links between foreign trade and production, which were partial and lacked systemic approach. On the other hand, there is a growing recognition of the need for practical measures to establish an organic link between national and international value and to increase the functional openness of the economy. A product of this contradiction is the spread of somewhat simplistic approaches to the complicated scope of problems of the exchange rate. Simplification, as a rule, consists in underestimating the fact that systemic conditions for the functioning of a realistic rate of exchange are much more contradictory for a socialist society than for a capitalist one. Following from this, much of the knowledge learned from the analysis of the operation of exchange rates in the world economy cannot be applied to our conditions. A simplifying approach asserts itself e.g. in the analysis of the relationship between the real rate of exchange and convertibility, or in the onesidedly quantitative approach to the economic soundness of an exchange rate. And there also are misunderstandings of opposite sign. Certain authors e.g. find only a quantitative difference between the presently applied linkage of foreign trade with production through the price coefficients on the one hand and the rate of exchange, on the other. These authors essentially deny the necessity of a qualitative transformation of all existing physical (structural) and systemic conditions that determine the functioning of currently applied coefficients, otherwise substantial conditions for the operation of a rate of exchange cannot come about, since the present system of relations between production and foreign trade reflects different conditions and a different level of development. Again others attribute absolute importance to the price formation function of the rate of exchange. According to them this can be mechanically asserted and foreign trade prices can be transmitted to the domestic economy in an unconstrained, unplanned manner.

In contrast to the above approaches, in my view the gradual introduction of the

economically founded rate of exchange – attainable through developing the price-formation function of the existing exchange-rate-like instruments – has already become one of the main trends in perfecting the system of socialist planned economy, or it should at least become one of them. In the course of this evolution, structural and systemic conditions for the introduction of the economically founded exchange rate are gradually coming about. From among the *structural conditions* the assertion of the equilibrium concept of the national economic plan is of prime importance, in other words, a plan aimed at maximizing the final national economic result. From among the *systemic conditions* first of all the *optimization* of the national economic plan deserves attention, going on in both physical and value terms, in several stages, at least, parallel at control organ and enterprise levels. A further condition is the application of *prices proportionate to value,* which have be applied in the course of drawing up and implementing the national economic plan as obligatory criteria of efficiency. Also *full economic accounting* (polniy khozrazchot) has to be introduced, meaning that the economic units should be fully responsible for the success of their activity. Up to now none of the conditions listed has been implemented to the necessary extent in any of the CMEA countries.

As a consequence, the presently applied foreign exchange coefficients are neither able to provide complete and objective information for the national economies about the effects coming from the external environment, nor to secure the effective, systemic assertion of these impacts.

The main qualitative feature of the foreign exchange multipliers (coefficients) is that their orienting function (their influence on the selection of targets) is slight, even that being a function of financial bridges. From this follows a search for alternative measures *promoting and enhancing the efficiency of the foreign exchange coefficients in a systemic manner.* These measures must be aimed primarily at the clarification what exactly are the functions fulfilled nowadays in fact by the financial bridges. On this basis, a *system of differentiated instruments* has to be worked out, which would first of all reduce the extremities presently prevailing in subsidies and taxes but observing the role they can play in establishing conditions for efficient future external trade transactions. A universal or linear reduction in foreign trade taxes and subsidies would hardly prove expedient as a means for an overall tightening of conditions for economic activity, since it is a grave deficiency of the current domestic price systems that prices deviate from values at random and this situation must not be automatically reproduced in the future.

While improving the system of planned control, generally speaking every measure contributes to the evolution of an economically founded rate of exchange which increases responsibility for the consequences of decisions taken in the enterprise sphere, and also all measures which increase the role of value instruments, above all of prices in the selection of economic goals and in decision-making. Similarly, also the measures point in the direction of establishing the conditions for an economically founded rate of exchange which widen the social information base of buyers, relying on which they can become acquainted with alternatives in covering their producer and consumer needs – inclusive of imports – and every step which increases the role of the consumer in general. But the

most important are the measures aimed at a qualitative improvement of national economic planning, also mentioned at the 26th Congress of the CPSU, primarily the elaboration of alternative plan-variants, the subordination of the plan to economic efficiency considerations, and finally, the uniform character of plan targets and the tools of their implementation.

The economically founded rate of exchange is not an end in itself. Its role is nothing else but a feedback built into the system of planned economy, subordinated to the objective function of increasing economic efficiency. If we miss any of the systemic conditions for the functioning of the exchange rate as an instrument of the central control, there is a great danger that we foster vain hopes regarding the extent to which a foreign exchange coefficient, not yet possessing the properties of an exchange rate, can exert an autonomous impact on the increase in efficiency of the entire reproduction process. The exchange rate, being an instrument of control, is unable to transgress in itself the characteristics of the system whose constituent part it is.

National and international monetary relations

The strategic goal that the economically founded uniform exchange rate of the national currencies of socialist countries should be introduced together with their mutual exchangeability is contained – beside several other tasks – by the seventh (financial) chapter of the Comprehensive Program. This chapter also renders concrete one of the basic systemic conditions for integration, namely that the perfecting of the coordination of plans has to be organically related to the extended use of monetary relations, above all in the field of applying the transferable rouble. Here the effort is formulated that the role of the common currency has to be strengthened in a manner that with the progress of time it should fulfil every basic function of the socialist international money (measure of value, means of payment and accumulation).

Following the adoption of the Comprehensive Program, the deeper the various aspects of the realization of these tasks have been studied by economic theory and practice, the more it has become established that the functions and role of the common currency can only be developed parallel to the evolution of external functions of the national currencies. This is why it is topical *to strengthen relations between the systems of national currencies in the CMEA countries and the transferable rouble.*

Thus, *one of the conditions* allowing for the strengthening of the role of the transferable rouble *is the elimination of bilateralism dominating in the economic relations between CMEA countries.* Interstate commitments expressed in physical terms can never be multilateral. They assume a seller and a buyer, who are legally responsible for the exact fulfilment of the deal in a mandatory way. Only such commitments can become multilateral which appear on interstate level exclusively in monetary form and are turned into commodity structures only in the course of direct transactions between enterprises. Expansion of direct interfirm contacts between these organizations also has definite

systemic conditions. These are: the solid foundation of exchange rates and the mutual exchangeability of national currencies. Development of direct contacts among the enterprises of CMEA countries also assumes that at least a part of the international payments turnover should be regulated by other means than physical balances. This method of balances has to be replaced, at least partially, by the multilateral coordination of the economic policies of the member countries related to the control instruments influencing the balance-of-payments position, thus e.g. by coordinating exchange rate policies, reconciling the rules relating to the conversion of currencies, as well as the joint elaboration of principles regulating the access of the enterprises of other member countries to the internal market of a given CMEA country.

The situation is similar with the *contractual prices.* Their perfecting should be aimed at their ever more accurately reflecting the differences in the use value of the products exchanged. But this cannot be attained through administrative methods, by measures taken by the respective ministries of foreign trade. For these are such state organs which are responsible for the development of the global indicators of the growth of trade and of meeting plan targets, and thus are always willing to accept higher purchase prices for some products as compensation for the higher sales prices of other products. They are inclined to use every means available for increasing the turnover even if they are forced to make concessions in respect of efficiency or quality relative to world market standards. An equivalent exchange relying on the law of value and the quality corresponding to it *cannot thus develop without a purposeful activation of the enterprise sphere,* aimed at maximizing the efficiency of production and consumption. This trend can assert itself as a function of an actually functioning, realistic exchange rate and – what is the least – of the system of requirements of internal convertibility.

The list of external and internal, physical and value relations asserting themselves in the mechanisms of international economic cooperation could still be continued. Nor should we forget about the wider, world political significance of these questions, consisting first of all in the fact that, insofar as the earlier analysed interrelations are objective and regular, they allow for the expansion of the scope of application of the transferable rouble both within and without the CMEA. The purpose of the exploration and application of the financial and other value interrelations is that through the development of price, money and the other value categories *on every socialist market* the production of convertible (marketable, competitive) commodities should be promoted in a planned manner. This is also the assertion of the basic economic law of socialism, and strengthens the worldwide positions of socialism, to which Y. V. *Andropov* called particular attention in his speech at the Nov. 22, 1982 session of the Central Committee of the CPSU.

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СТОИМОСТНЫЕ АСПЕКТЫ РАЗВИТИЯ МЕЖДУНАРОДНОЙ СОЦИАЛИСТИЧЕСКОЙ ИНТЕГРАЦИИ

Л. РУСМИХ

Одна из важнейших функций механизма международной экономической интеграции заключается в противодействии автаркии, все еще в значительной степени проявляющейся в развитии национальных экономик, иными словами, — содействие тому, чтобы условием существования предприятий стало бы эффективное участие в международном разделении труда. Согласование экономической политики должно быть прежде всего направлено на совместную разработку целевой модели будущего экономического механизма, опирающегося на экономические рычаги, а затем — на ее последовательное внедрение, другими словами, согласование экономической политики должно быть направлено на создание системных условий функционирования этого хозяйственного механизма. Создание органической связи между внутренними и внешними ценами является также предпосылкой оптимизации народнохозяйственного плана, ведь без этого невозможно принимать решения в области структурной политики, основанные на учете сравнительных преимуществ. Функционирование реального валютного курса является гарантией параметрического характера системы цен и одновременным условием достижения действительно эквивалентного международного обмена. Условия функционирования экономически обоснованного курса совпадают с условиям внутренней обратимости национальных валют, и не требуют введения их внешней конвертируемости на валюты капиталистических стран. Условие функционирования валютного курса — это активное его воздействие на весь процесс воспроизводства и принятие экономических решений на основе этого курса. Введение такого курса требует сложных системных условий функционирования экономики, которые можно создать лишь постепенно дифференцированно по отраслям и периодам, по пути дела, введением полного хозрасчета. В торговле между странами СЭВ внешнеэкономическая роль национальных валют может возрасти только при ликвидации двусторонности и создании органической связи между национальными экономиками, а также при активизации хозрасчетной сферы.

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CHANGES IN THE COMMODITY PATTERN OF INTRAREGIONAL TRADE IN THE EUROPEAN ECONOMIC COMMUNITY

A. INOTAI

After 1973 the intraregional trade of the EEC showed many and substantial changes both in geographical distribution and commodity pattern. A smaller part of these is related to worldwide rearrangement, to changes in relative prices, but the greater part is a result of the internal development of the integration. The trends unambiguously indicate the possibilities of and the limits to the trade-creating effects of the integration and, not infrequently, the consequences manifest in distorted structures which menace with grave dangers in the long run – considering either the world market position of the integration or the competitivity of the individual member countries.

The world economy has been, especially since the second third of the 1970's, under the evermore powerful influence of trends that change the previous balance of power and introduce new power factors into international economic relations, and thus strongly affect the positions not only of individual national economies but also of the regional integrations these economies form.

In the theory of integration the share of intraregional trade relative to the total trade of a given group of countries (integration) was assumed to be one, if not the most important, of the success indicators of the given integration. This approach set out from the assumption that the removal of customs barriers and then in a more advanced stage, the common trade and tariff policy (customs union) applied against third countries would affect trade relations among member states in two respects. Firstly, free trade would channel a part of exports to, and imports from, third countries back into the region. Secondly, united action against third countries would strengthen the intraregional flows of trade. It followed that the intraregional turnover could be expected to have a growing share in the total trade of member countries. According to this theory the growing share of this turnover is a measure, and in the case of predominantly market integrations a decisive one, of the success of integration beside being the simplest to quantify.

When less advanced countries form a group, liberalization of trade with each other is usually accompanied by the setting up of joint, mostly industrial, projects. It is the regional market itself that is supposed to provide the necessary marketing region for these new productive capacities enabling them to turn out products in sufficiently large series and thereby preparing the competitivity of the products in the world market. In the case of such countries the growing share of regional trade in total trade would become

palpable only with the progress of industrial development and its express purpose is, at least in theory, to prepare for international competition.*

The justification of the theory of integration under any given circumstance became doubtful already in the late sixties because of certain experiences. The growth of the share of intraregional turnover in the EEC, which had been steady until then, began to slacken and the desirable degree of regional trade failed to develop in the groups of the developing countries too. On the other hand it became clear that the growing share of intraregional trade or its high level is not the only expression of the success of an integration and, conversely, a favourable change in this indicator alone is not an absolute proof of its success. In most of the cases the integration will not only move masses of commodities but it will also induce significant changes in the broadest range of the factors of production (capital, technology, labour). [2]

The new trends emerging in the world economy since the second third of the 1970's were of a kind that by necessity they also affected the intraregional trade of the integration. Of such kind was the change that took place in the world market of raw materials and especially of primary energy whereby supply security considerations were at least temporarily uprated. The different supply of member states in regional integration with raw materials and energy offered favourable opportunity to strengthen the security of regional supply and thereby to expand the integration to new fields.

Tougher international competition and the rapid homogenization of the world economy have proven to be further significant factors of influence and this in turn directed the attention of the Community's member countries to markets outside the region.

Last but not least, the third major symptom is discernible in the behaviour of industries whose positions have been weakened as a result of structural changes: the diminishing or loss of their international competitivity does not necessarily or immediately cause a reduction or the stopping of production in such sectors. Provided that the integration is equipped with the necessary trade policy instruments and has some scope of movement, the regional market can offer a solution, regarded by many as intermediary, to temporarily protect the sectors in trouble against the storms of the world market and to give them a hand to contract in a slower, planned and quite way. In this case the internal market of the integration plays a role not in the strengthening of world market competitivity but in easing the consequences of lost competitivity which may be brutal and not free from societal and political elements.

*See in more detail: Inotai [1].

The purpose of the study

Concentrating on the above outlined new elements, the objective of the study is to present the changes which the intraregional trade of the European Economic Community underwent between 1973 and 1980–81. Naturally, a number of other problems are also noted which are of prominent importance for both integration theory and practical economic strategy and which exceed the geographic area of the West European integration from the point of view of some inferences. Such problems are, among others, the following: – The expansion of the EEC in 1973 resulted in a process of reduction of customs duties that necessarily had to affect the intraregional shares in trade; but it still remains a question whether the trade-redirecting impacts were allowed to assert themselves in the changing world economic medium of this same period and if so, how far and in what direction;

– Functioning since 1958, how much did the integration of the Six deplete the resources available to it for the purpose of increasing turnover by the early 70's and how far was it able to mobilize perhaps new resources in the more and more pressing world economic conditions?

– What are the characteristics of the commodity pattern of intraregional trade; how well do the different commodities sell in the regional market, and what instruments are suitable to carry out this objective?

– Are there differences between the intraregional turnovers of the individual member states and, in particular, of economies representing lesser weight in the European Economic Community?

Beside the basic problems of the study (regional self-sufficiency; regional response to the sharper world market competition and to the structural crisis) the statistical analyses must occasionally answer also the above questions.

In the statistical part of the study the period between 1973 and 1980 is covered. Because of limitations of length the geopraphical pattern of intraregional trade, which was a part in a more exhaustive study of the author, cannot be treated here. However, a brief summary can still be given of the major changes in trends and thereafter our attention will be devoted to shifts in the commodity pattern.

The following can be stated in brief about the changes taking place in the geographic directions of intraregional trade of the European Economic Community.

1. The stage of dynamic growth of trade observed through a long period of time came to an end as from the second third of the 1970's. This was probably equally due to the changing conditions of the world economy and to the fact that the opportunities established earlier for the growth of trade were largely exhausted by the member countries by the ealry 1970's. However, the advancement that could have given new impetus to the intraregional trade was obstructed by the extension of the most disagreeing interests of member countries to the fields of economic and monetary policy.

2. The abating stimulation of turnover through intraregional trade is especially conspicuous in the case of the original member countries. As a matter of fact, without the

trade-creating effects of the increase in the number of member countries in 1973 the share of intraregional turnover would have dropped even more badly than it actually did. At the same time, it can be also stated that the increase in the number of member countries alone was not sufficient to ward off the forces working against the growth of turnover – at best, it could cushion them a little.

3. The general weakening of the position of smaller member countries in intraregional trade is in close connection with the change shown also in other fields of the international economic power relations. They could at most partially enter into competition with larger member countries in the field of commerce. The solution that could be taken into account for the purpose of balancing this disadvantage, namely, expansion of the turnover among smaller member countries, could not be applied suitably because of economic policy reasons as well as of obvious differences in orders of magnitude. It was not incidental – though it is beyond the subject of this paper – that quite a few smaller member countries sought special opportunities in the non-commercial economic (and occasionally in the non-economic) spheres to improve their position and to gain advantages.

4. Realizing their relatively declining position, the smaller member countries committed themselves to two clear-cut trade policy considerations. Both are most closely connected with their overall economic strategies. First they made often successful attempts – within economically reasonable limits – at balancing their bilateral relations in the integration and at diminishing their onesided dependence. Second, while in their exports they kept strongly relying on the integrated market, in their imports they tried harder to find more advantageous world economic opportunities. They did so first of all because they were aware of not being able to maintain their relative positions in the world market as well as in the given integration without maintaining and strengthening their participation in the global division of labour and, in particular, in the imports of up-to-date technology for development. In this sense the relatively big extraregional share formed in the import of the member countries, ie., their relying on the market outside of the integration, is positively an important means of consolidating their position within the integration and of eventual protection against the loss of advantage.

The commodity pattern of intraregional trade

The changes in geographical directions were accompanied by changes in the commodity pattern. The analysis of these changes in the commodity pattern will make it easier to understand the relations between intraregional trade and world trade and, especially, to compare the competition experienced in the regional markets with that in the world market, to evaluate the international competitivity of EEC member countries.

In the course of computations the intraregional exports and imports of the EEC and of the member countries were studied by selected main groups of commodities. OECD publications provided the statistical data base, also suitable for stating the position of the

Community within the group of developed industrial countries as well as the changes in that position. With some aggregation the data were analysed in a breakdown by the following main groups of commodities:

– Foodstuff and live animals (SITC 0), drink and tobacco (SITC 1), Animal and vegetal oils, fats and vax (SITC 4) (for short: agricultural products);

– Non-food raw materials except fuels (SITC 2) (for short: raw materials);

– Mineral (fossile) fuels, lubricants and similar materials (SITC 3) (for short: primary energy);

– Chemicals and similar products (SITC 5) (for short: chemical products);

– Finished products classified by material (SITC 6), various manufactures (SITC 8) (for short: miscellaneous manufactures);

– Machines and vehicles (SITC 7).

The following three commodity subgroups of two digits were also selected for analysis;

– Textile yarns, fabrics, other finished products of the textile industry (SITC 65) (for short: textiles)

– Iron and steel (SITC 67);

– Garments and auxiliaries (SITC 84) (for short: clothing).

The above subgroups were added in order to study the importance of the regional market also in the foreign trade of such commodities that were pushed back in the course of the international structural transformation and that have been more and more badly afflicted already over a decade of international competition.

Specific limits to intraregional exports by commodities and countries

The share of intraregional exports in total exports differs by main commodity groups. (See *Table 1*) It is the biggest in the class of the so-called primary products, namely, agricultural products (SITC O, SITC 1, SITC 4), raw materials (SITC 2) and primary energy (SITC 3) while it is the smallest in the category of machinery and equipment (SITC 7). This indicates that the different kinds of products are not equally suitable for promoting intraregional exports.*

The transportation requirements of raw materials are usually high and around the deposits of raw materials and minerals extracted for a long time there normally developed production and processing structures based on the wealth of these raw materials. It was found, namely, reasonable from the point of view of both freight charges and structural conditions to let such products flow within the regional market, in other words, that the share of intraregional export in total exports should be high.

Due to significant interference of the Community, the situation of foodstuffs is similar as these move in the artificial medium created by the admittedly protectionist agricultural

*See in detail in: [3], [4].

policy of the European Economic Community and meet with relatively little and occasionally, as a result of administrative prohibitions, absolutely no external competition.

The case of machines is different: The European Economic Community is at the same time the most important exporter of machines to the world and so its production and export of machines might be supposed to satisfy chiefly the requirements of the regional market. In reality this is not so: the machines and equipment embodying up-to-date technology and a high degree of professional competence are bought in the broadest of markets: in the world market. The absorptive capacity of the regional market, even if advanced economies are reckoned with, is relatively small or at least it is small in comparison with the other major commodity groups and especially primary products.

In the case of the included two-digit commodity groups the intraregional share is astonishingly high and is much above the average of the group in the export of textiles and garments.

The commodity pattern of intraregional exports was analysed according to the following:

– Degree of congruence in orders of magnitudes by countries (intraregional shares) with the mean value of the Community and the commodity-specific differences shown;

– Direction and measure of changes between 1973 and 1981 in the intraregional share of each main commodity group;

– Way of assertion in the exports of the different main commodity classes of the new marketing opportunities offered by the joining of new member countries in 1973.

The intraregional export shows different levels by main commodity groups not only for the Community as a whole, but also for each member country. In exports the intraregional shares fall in the range of 50 to 79 percent for agricultural products, 49 to 82 for raw materials, and 29 to 93 percent for primary energy. The big difference between the two poles of this latter commodity group is due to geographical factors: the data of Italy and Denmark, located on the geographical edge of the Community, are around 30 percent while the countries located in the geographical (and economic) centre of the Community, Belgium and the Netherlands, show the highest values. Naturally, it must also be taken into account that the intraregional export share is strongly affected by the physical availability of primary energy. The Dutch mineral gas, the British oil and the West German coal are sold mostly in the integrated market.

In the three main commodity groups of industrial products it is clear enough that the importance of the region is much bigger for the exports of smaller countries than of bigger ones (Denmark being the only exception). In the export of chemical products the intraregional share is between 40 and 50 percent for every bigger member country, whereas in the case of the smaller ones it amounts to two-thirds or more. The difference is even more pronounced in the case of miscellaneous manufactures, as the Community's internal market absorbs nearly three-quarters of the Belgian, more than tree-quarters of the Dutch, and more than four-fifths of the Irish exports in this commodity group. On the other hand its value is about 50 percent, or slightly more, in the cases of the Italian,

Table 1
Shares of the EEC countries' intraregional exports by main commodity groups

Country, year	Main commodity group SITC						Commodity group SITC		
	0,1,4	2	3	5	6,8	7	65	67	84
European Economic Community									
1973	67.5	68.2	64.0	48.8	54.8	44.3	58.0	51.3	68.0
1976	70.0	69.3	64.3	50.1	54.7	41.5	60,0	51.0	67.9
1979	68.6	68.0	64.1	51.0	54.4	45.6	62.0	48.5	67.4
1980	64.2	65.9	65.6	50.5	54.1	44.2	60.4	50.8	66.8
Federal Republic of Germany									
1973	63.5	62.2	64.8	44.0	51.1	41.7	51.6	45.1	60.9
1976	68.7	60.9	61.3	44.3	51.3	38.8	53.6	43.9	63.2
1979	68.0	62.4	64.2	46.6	50.2	43.4	54.0	38.9	60.4
1980	63.8	58.1	65.1	45.4	50.7	43.2	51.8	43.4	60.1
France									
1973	66.1	77.2	57.6	48.9	54.9	50.2	61.8	50.0	64.0
1976	66.0	78.2	57.8	48.1	51.9	41.2	61.5	49.6	62.3
1979	64.9	74.8	50.2	52.9	53.0	45.7	66.8	47.8	61.8
1980	57.1	72.6	48.6	50.8	53.2	43.9	64.5	49.8	62.1
Great-Britain									
1973	37.2	50.9	52.6	31.7	24.1	29.1	29.8	23.4	37.0
1976	42.4	57.3	60.4	36.4	36.0	30.2	38.0	28.5	44.3
1979	50.9	55.2	62.3	40.1	38.7	34.1	43.7	34.3	52.3
1980	49.4	54.5	66.1	39.4	38.1	32.9	44.6	36.3	55.3
Italy									
1973	64.0	53.0	39.5	39.8	55.1	44.8	57.1	38.2	73.0
1976	66.8	57.9	28.5	40.8	54.1	40.4	58.6	36.5	73.1
1979	64.4	54.7	30.8	39.4	54.4	43.4	60.7	39.7	73.3
1980	60.6	48.5	29.2	37.8	53.7	41.7	58.4	40.6	71.5
Belgium–Luxemburg									
1873	83.6	80.3	58.1	71.4	73.3	72.0	79.0	69.9	92.8
1976	86.2	78.7	67.5	72.7	74.5	73.0	79.9	74.8	92.6
1979	81.1	77.0	64.8	72.5	72.4	77.3	80.5	72.2	92.7
1980	78.6	76.4	68.7	70.6	71.5	74.4	78.7	71.7	92.4
Netherlands									
1973	78.3	75.0	81.5	65.9	76.6	59.0	74.9	64.8	91.1
1976	80.1	76.8	80.3	67.5	75.1	53.8	74.1	71.0	88.7
1979	77.7	76.5	80.6	67.0	76.2	58.4	74.7	62.7	87.4
1980	74.5	76.8	80.2	66.3	76.8	55.8	72.8	64.8	87.5
Denmark									
1973	61.5	57.4	17.8	28.7	35.1	37.4	26.9	26.3	17.8
1976	63.9	58.4	15.8	29.7	31.5	38.5	27.0	27.0	15.0
1979	64.2	60.2	27.8	33.8	40.7	38.6	41.4	47.8	19.1
1980	64.2	62.4	30.1	33.1	42.1	41.0	42.3	47.0	20.8

Country, year	Main commodity group SITC						Commodity group SITC		
	0,1,4	2	3	5	6,8	7	65	67	84
Ireland									
1973	82.1	84.2	88.8	61.5	78.8	68.6	84.6	86.9	93.0
1976	81.3	84.2	91.4	59.7	79.9	71.7	86.7	88.3	94.4
1979	80.5	84.6	88.2	67.2	81.8	78.5	87.8	84.8	92.4
1980	72.9	81.5	92.8	65.6	80.7	79.1	87.7	90.5	87.4

FRG or French exports. The intraregional share of engineering exports is around 40 to 43 percent for bigger countries while it amounts to 56 percent for the Netherlands, 74 percent for Belgium and 79 percent for Ireland.

In the three selected commodity groups, reliance on the regional market is even more one-sided. 92 percent of the Belgian and 87 percent of the Irish and Dutch exports of ready-made garments are sold in the regional market and the corresponding values of the textile or steel exports are not much less either. In other words, the weight of intraregional export depends not only on the kind of the commodity but also on the size of the country. Smaller countries are more than averagely dependent on the regional market, especially in the said commodity groups. Their production capacities, infrastructures and traditions have equally led to the predominance of exports to a limited, regional market.

The regional market does not appear to be preponderant to the same extent in the light of shifts in shares that took place between 1973 and 1980. The share of intraregional export increased only in two main commodity groups, namely, in primary energy quite considerably, and in chemical products very slightly. Moreover, the intraregional share increased also in the export of textiles. In all the other groups the share of intraregional export shows different and sometimes remarkable decline. This decline is minimum in the cases of miscellaneous manufactures, machines, as well as iron and steel, furthermore, textile products, while it is fairly big, especially in comparison with 1976, in two fields that are decisive for supply security: agricultural products and raw materials.

The export data of each member country reflect to the export of agricultural products the export shares of Italy and the Netherlands are in agreement with the general trend. Throughout the whole period the agricultural export of France was strongly outward oriented and the same was true for Belgium after 1976. On the other hand the agrarian export of the Federal Republic of Germany apparently tried to make use of the advantages of the regional market, a fact contrary to the general opinion, ie., that the Federal Republic of Germany is an absolute loser in the agrarian integration. The relative EEC orientations of the British and to some extent the Danish agrarian exports were increased by the common agricultural market. At the same time the Irish export in this field robustly decreased.

Similar phenomena are observable in the export of raw materials, although the changes are of a smaller degree. With the exception of Italy, significant volumes of the raw material export of all the member countries are marketed inside the community, and the reasons must include geographic proximity, ie., lower transport costs. A steady growth of the intraregional share cannot be observed but in the case of Denmark and to some extent the Netherlands. After joining, the intraregional export of Britain abruptly and powerfully increased to subsequently show a decreasing intraregional share but on still higher value than before joining.

The growth of the intraregional export share of primary energy was caused decisively by the Common Market orientation of British oil export. The share of the coal exports of the Federal Republic of Germany increased a little and the EEC share of the mineral gas exports of the Netherlands settled at a very high value. That is, by the primary energy resources of the West European integration mainly the degree of the region's self-sufficiency was increased even though up to now the Community could not formulate a comprehensive energy policy programme. The importance of intraregional trade nevertheless increased as a result of endeavours aimed at smaller costs and the expansion of sources of purchasing, furthermore, as an instrument of increasing the intraregional weights of certain small member countries (mainly of the Netherlands and to a smaller extent of Ireland).

In the case of chemical products the slightly climbing intraregional export share shown for the whole of the Community resulted basically for the gaining ground of bigger member countries. The beneficial impacts of new members are clear here since the share of intraregional export strongly increased in the chemical product exports of all the three countries that had joined in 1973. The favourable effect is indisputable even if the trend seems to break after 1979. The fact that big member countries, too, increasingly export to the regional market can be explained with both of the following facts. In Western Europe there was a boom in the market of chemical products, and these products were squeezed out from extraregional areas for different reasons (decreasing competitivity or limited purchasing power of the given region). On the other hand there was a slight decrease between 1976 and 1980 in the weight of the intraregional exports of two small countries regarded as important exporters of chemical products, namely, Belgium and the Netherlands.

There was not much change in the case of miscellaneous manufactures. As a result of their joining, the shares of Britain, Denmark and Ireland began to strongly increase but this growth was moderated about 1979. The very slow decrease in the share of intraregional exports in the cases of France, the Federal Republic of Germany and Italy, as well as its slight growth, unlike the general trend, in the case of the Netherlands indicate the increasingly significant competition in the world outside the Community: although outward orientation is encouraged by the shifts in the centre of growth and the development of global demand, yet the utilization of these opportunities is *ab ovo* barred by the high wage costs in the Common Market. To put it in another way, the large internal market of the European Economic Community saved many companies the

trouble of costly structural adjustment: specialization for the regional market could, at least for a while, protect them against growing international competition.

The above statement is affirmed by the growing intraregional export share of machinery and equipment. The changes that occured between 1973 and 1976 in the demand of the world market are reflected in the significant drop of the share of intraregional machine exports indicating that the member countries of the Community are present in the international market of machinery. However, by the end of the 1970's their relative competitivity decreased and disadvantageous factors (eg. the decreasing East-West turnover and the smaller liquidity of OPEC countries) entered the scene which, all by themselves, would channel machine exports back to the region.

The growing intraregional export shares of new member countries are not the only reason explaining the growth of intraregional trade turnover. It is true that this indicator increased remarkably in the cases of Denmark and Ireland throughout the entire period, while in the case of Britain till 1979, and the same may be observed in the exports of the Federal Republic of Germany, the most significant machine exporter, and of Belgium, too. The intraregional share of machine exports decreased substantially and definitely only in the case of France and at present the share of the French extraregional export is, from the point of view of global competitivity, equal to that of the old paragon the Federal Republic of Germany. It can be supposed that this trend of development is not independent from the French export policy aimed at balancing oil imports from the export of nuclear energetic and strategic equipment, nor from the French economic policy pursued in the second half of the 1970s whereby the international competitivity of the French economy was noticeably improved in a couple of years.* It belongs to the overall picture that the intraregional machine exports of the member countries of the Community typically show considerable fluctuations: except for the new members who joined between 1973 and 1976, and for Belgium facing severe structural difficulties, there was a vehement turn towards outside markets followed everywhere by some degree of "turning back" between 1976 and 1979. (The corresponding degree was over 4 percentage points, except for Italy.)

The changes between 1973 and 1980 in the intraregional export share of the selected three commodity classes are most revealing. The newcomers clearly enjoyed the advantages offered by the regional market: the share of intraregional turnover increased by about 15 percentage points in the Danish and British textile exports, by more than 20 and by 13 in Danish and British iron and steel exports, resp., and by more than 18 in the British garment exports. From an already very high level the intraregional export share of Irish textile and iron-ware further increased. The reverse could be only found in the Irish export of garments, and this, too, from a very high level.

Besides the tariff advantages enjoyed by newcomers and the enlarged market, the intraregional export shares of these sectors grew also because several member countries

*It would be interesting to study the economic policy of the present socialist government from this point of view. However, comparable data are not available for the time being.

tried to maintain production and to "save" structural adjustment through relying on the protected internal market. That is, export was driven inside the region by being gradually squeezed out from the world market and so the intraregional share of the French textile exports increased by almost 3 percentage points in 7 years, the Italian one increased by 1 percentage point, and also the Federal Republic of Germany increased its share. A very modest growth of extraregional exports was only found in the textile exports of small countries oriented to the EEC market (the only noteworthy growth of 2 percentage points was achieved by the Netherlands).

The export of iron and steel deserves special attention as the European Economic Community adopted an integrated plan for these products to combat the increasing difficulties of marketing and the powerful international competition. This plan aimed at reducing external competition through quotas. This meant that a bigger part of the internal market of the Community was reserved for manufacturers in member countries, ie., it entailed a rise in the intraregional export shares. The aforesaid are also supported by data: while from 1973 to 1979 and especially in the years 1976–79 the share of intraregional exports in these products dropped appreciably, from 1979 to 1980 a growth of over 2 percentage points was recorded on the EEC level. Although the regulation of the market was valid for the iron and steel industries of all the member countries, this growth did not occur at uniform rates and in the case of some member countries (Belgium, Denmark) the intraregional share even kept decreasing. The Federal Republic of Germany, possessing the most up-to-date steel industry and increasing its intraregional share by 4.5 percentage points in one year, was undoubtedly the first beneficiary of this regulation. The effects of the regulation were also felt in the French, Dutch and Italian steel exports.

The slow structural adjustment and the protective role of the European Economic Community are shown perhaps the clearest in the export of clothing. The mere fact that two-thirds of the exports of the Community remained inside the region indicates the rather limited international competitivity of this sector. Again, the very slow decrease of the intraregional share underlines the extremely slow rate of structural adjustment. This decrease was only a few decimals of percentage points for the Federal Republic of Germany and Belgium and it was not much more for Italy, France and the Netherlands. It is worth noting that the relatively biggest decrease in intraregional exports was recorded in Ireland, a country that enjoyed the benefits of becoming a member.

It is also remarkable that most countries were not prompted by the appreciable decrease in international competitivity to devise an economic strategy for the conscious planning of long-term structural transformations: when the extraregional markets were lost, reliance on the regional market was, at least temporarily, the means used almost everywhere to survive the crisis. This can be a reason for the intraregional shares showing movements in different directions between 1973 and 1980 in the export of clothing. The endeavour to reacquire the old markets was vividly manifest in the Federal Republic of Germany between 1973 and 1976, in Italy between 1973 and 1979, and in France after 1979.

The impact of new memberships upon the direction of trade between 1973 and 1980 can be in most cases definitely stated with respect to miscellaneous manufactures and the strongly protected agricultural products. This is soundly verified by data computed by main commodity groups, except for the Irish agricultural exports.

It deserves, however, attention that the advantageous effects deriving from membership of the Community became exhausted by 1979: in 1980 the decline in the intraregional export ratio already became general (exceptions are only the exports of agricultural products and miscellaneous manufactures of Denmark, and similar tendencies may be observed in the machinery exports of Denmark and Ireland).

Intraregional imports and international competition

The trend in the share of intraregional imports is more characteristic of the international competitivity of the EEC countries than intraregional exports as it is suitable for a direct comparison with the share of external imports (originating from third countries). Starting from the fact that the European Economic Community comprises highly advanced industrial countries, the share of intraregional imports might be expected to amount to the highest relative value in the case of finished industrial products and to keep a low value for raw materials, in accordance with the relative scarcity of raw materials in the region.

So is it proved by the data of *Table 2* as the share of intraregional imports is 70 percent for chemical products, nearly two-thirds for machines, and is much above 50 percent also for miscellaneous manufactures and agricultural products. On the other hand the intraregional share is about one quarter for raw materials and even less for primary energy. In the three selected commodity groups the share of intraregional import is rather varying: it is very high for iron and steel products, higher than the average of the main commodity groups SITC 6 and SITC 8 in the case of textiles, while for clothing it is below the average of the two said main commodity groups.

The differences by countries already observed in exports, ie., that smaller countries rely more strongly on the regional market also in their imports, are backed up by the data as well. Apart from late-comer Denmark, there was only one exception: the Dutch agriculture which was competitive also in the extraregional market.

At the same time it is an even more important and an extraordinarily revealing symptom that the weight of the intraregional imports of raw materials and energy within total imports was much higher than the EEC average also in the case of small countries. That is, here the economic and supply security considerations favoured intraregional imports, most probably not irrespectively of the recognition that it would be easier to enforce any particular interest within the Community that guarantees fairly balanced power conditions, than against any significant external exporter. More than 60 percent of the Irish, nearly 45 of the Danish and 34 percent of the Belgian energy imports are of

Table 2

Intraregional import shares of the European Economic Community and its member countries by main commodity groups

Country, year	Main commodity group: SITC					Commodity group: SITC			
	0,1,4	2	3	5	6,8	7	65	67	84
European Economic Community									
1973	46.2	23.8	20.9	70.3	59.2	68.4	69.8	73.4	56.7
1976	49.8	24.1	18.6	71.0	58.7	67.6	65.9	69.9	48.7
1979	52.5	24.9	24.4	69.7	56.8	64.8	63.3	70.6	47.6
1980	53.4	24.5	22.0	69.7	55.2	61.9	61.5	70.6	45.4
Federal Republic of Germany									
1973	52.7	24.2	34.1	69.5	58.8	63.2	69.0	67.4	52.7
1976	54.1	23.0	28.7	69.6	53.4	62.4	62.6	62.1	39.3
1979	52.5	24.9	34.3	66.8	52.3	58.8	59.0	61.7	36.9
1980	52.8	24.6	32.8	67.6	50.1	55.7	56.1	59.9	34.9
France									
1973	39.8	19.4	15.4	71.7	72.3	70.7	80.7	86.2	66.4
1976	43.7	19.4	11.7	71.1	69.9	68.0	74.9	81.5	56.0
1979	47.4	21.4	16.0	66.2	66.6	64.9	70.7	81.6	52.9
1980	47.9	21.4	13.4	66.0	64.1	62.3	68.5	80.7	49.6
Great Britain									
1973	35.9	11.5	16.5	49.7	26.5	52.0	39.5	46.2	22.1
1976	43.5	14.5	17.4	59.2	27.7	54.2	45.3	57.0	24.0
1979	46.1	13.5	27.6	63.4	35.0	55.9	50.6	59.3	28.3
1980	47.5	13.4	21.4	62.7	35.7	50.0	50.5	64.0	26.2
Italy									
1973	47.0	29.4	3.8	75.9	60.0	74.6	67.8	65.6	69.1
1976	55.7	30.4	5.7	73.9	57.1	72.6	56.0	62.2	51.3
1979	58.1	29.3	4.6	73.3	55.6	71.6	54.7	65.8	46.2
1980	59.9	28.2	7.7	73.0	54.3	72.1	52.8	64.7	43.3
Belgium–Luxemburg									
1973	71.0	42.4	40.1	83.7	72.5	84.8	83.5	80.8	88.9
1976	67.7	39.0	38.5	80.7	73.1	83.7	78.1	70.9	82.7
1979	73.2	44.2	38.2	79.2	72.0	79.7	77.4	81.6	83.2
1980	72.8	41.6	34.1	78.9	70.5	76.2	74.2	82.8	82.2
The Netherlands									
1973	43.4	27.1	10.2	77.0	80.6	76.1	86.6	91.7	74.8
1976	40.8	27.5	9.5	75.7	75.6	76.7	83.1	90.1	66.2
1979	48.6	23.3	21.7	76.6	74.7	71.8	80.2	86.0	66.5
1980	49.5	23.2	18.8	75.1	73.1	70.6	78.8	87.5	65.1

Country, year	Main commodity group: SITC						Commodity group: SITC		
	0,1,4	2	3	5	6,8	7	65	67	84
Denmark									
1973	28.2	15.4	44.6	58.2	45.6	57.2	53.1	62.7	26.1
1976	32.9	16.1	37.7	61.9	47.3	59.0	55.4	63.1	32.0
1979	35.8	17.0	47.1	64.2	49.9	61.6	57.5	65.7	37.1
1980	38.2	18.1	44.7	65.8	49.2	58.7	56.0	66.0	32.1
Ireland									
1973	53.0	35.5	57.9	84.8	79.9	80.9	77.5	89.4	94.8
1976	57.6	35.2	64.1	83.7	77.9	71.9	75.9	84.2	91.6
1979	65.5	36.2	64.6	80.3	79.2	71.4	76.9	87.9	85.4
1980	68.8	34.1	61.7	84.4	78.2	68.2	76.5	88.5	83.0

intraregional origin and so are more than two-fifths of the Belgian and more than one-third of the Irish raw material imports.

The most essential lesson is revealed by the data series from 1973 to 1980: the share of intraregional imports increased in the case of raw materials, while it decreased in the case of industrial products, including the three selected commodity groups that enjoy various kinds of commercial policy protection. This means that in the foreign trading specialization of the European Economic Committee the stress was shifted on raising the degree of self-sufficiency in raw materials while in the Community's market of manufactures the positions of regional manufactures became relatively weaker. However, one must not assume a relationship of general validity between the two. Although the growing intraregional share of agricultural imports was an outcome of a planned strategy of the Community which, besides improving the self-sufficiency of the region, draws away factors of production i. a. from competitive sectors, and thereby contributes to curtailing the position of the latter ones.

In the case of primary energy and raw materials there was not any active economic policy applied on the EEC level, at most certain member countries showed enhanced concern for their national supply security. The factors of production were surely directed here, too, into less economical sectors, yet on the global level of the economy this was negligible (see for example the costs of West German coal production). No comprehensive raw material program engaging significant capital on the level of the integration was drawn up in the Community. This is indicated by the very moderate growth of the share of intraregional raw material imports which cannot be ascribed to the substitution of regional imports for external imports but much rather to business factors as well as to more serious saving. The similar shift in energy imports was in close connection with the British oil production in the North sea and her exports, and to a lesser extent and mainly till 1979 to the climbing Dutch exports of natural gas, that is, with primary energy available in huge amounts and easy to extract.

Another reason why no connection can be stated between the relative specialization

on raw materials and the drop shown in manufactures is the extraordinary extent of the latter. Only chemical products were an exception, but the share of the intraregional imports of miscellaneous manufactures dropped by round 4 percentage points in seven years and this happened surprisingly steadily. The losses of over 8 percentage points and of more than 11 percentage points suffered by textiles and clothing, resp., played a considerable role in the above. The share in regional turnover decreased less steeply in steel imports. However, the manufacturers of the European Economic Community were found to withdraw from the world market to the regional one in each commodity group because of the challenge of increasingly competitive manufacturers, but this was not enough to maintain their positions in their own markets. They could not safeguard their own markets simply by artificially blocking the extraregional turnover because they were unable to compete in the world market. The differences in costs and in competitivity were already generally so high in certain sectors that protectionist measures could not keep out the external competition but could at most limit it temporarily, as it was seen in the case of the iron and steel sector.

The very quick and continuous drop in the share of intraregional machine imports was the most surprising symptom with far-reaching consequences. This decrease amounted to 6.5 percentage points between 1973 and 1980, ie., imports originating from the countries of the Community lost nearly 1 percentage point per annum of their weight in extraregional imports.

The importance of the intraregional imports of agricultural products expressly increased, in close connection with the increasingly protectionist agrarian policy. The share of intraregional imports amounted to only 46 percent in 1973 and already to more than 53 percent in 1980 and the rate of this increase, ie., the degree of replacing external imports, exceeded 10 percentage points in the cases of the three new member countries and Italy. The same trend is shown for the Netherlands and Belgium too. The Federal Republic of Germany was the only country where the share of the Community in agricultural imports did not increase; owing to both its magnitude and its non-average growth practically this is the market where third countries have some chance as exporters.

Because of the predominantly external import the changes in the data of raw material imports by countries are small in dimension and rather varying in direction. The regional market did not result in a greater than average growth in regional imports even for new member countries; in the case of Great-Britain, growth was limited to the years 1973–76 and the share of the intraregional import of Ireland was less in 1980 than in the year 1973. Only the Danish intraregional import share showed a moderate increase, and from a low level. This means that none of the countries was able to eliminate the strong external dependence, moreover, the ingraregional share decreased by about 1 percentage point in the imports of Italy and Belgium and by about 4 percentage points in that of the Netherlands. Only the import of France recorded a rise of 2 percentage points.

The import of energy is also determined predominantly by external suppliers, though in this field extremely powerful changes took place in the period under study. As a result of the British oil production, the share of the intraregional energy imports increased by

nearly 4 percentage points in the case of Ireland, and by nearly 10 percentage points in the Netherlands. At the same time the Dutch natural gas played an increasing role in the British energy imports whereby the intaregional share considerably improved. For Italy, the farthest away from oil producing Britain and gas producing Netherlands the role of the regional market showed some increase in her supply but still remained by far the smallest. It can be stated in summary that the primary energy extracted in the countries of the European Economic Community did in some cases contribute appreciably to increasing the intraregional imports of the region but could not change the strong dependence on third countries.

The minimum decrease of the intraregional import share of chemical products was mainly in connection with the expanding market through new members and especially with conquering the British market. To the British imports of chemical products the countries of the Community supplied 50 percent in 1973 and nearly 63 percent in 1980, and the share of the member countries in the Danish imports also robustly increased. At the same time, in the other member countries the regional imports declined often appreciably, indicating a growing external competition. The share of intraregional imports decreased by nearly 6 percentage points in France and by nearly 5 in Belgium, and the import markets of chemical products in other member countries also show decreases in the range of 2 and 3 percentage points.

In the imports of miscellaneous manufactures of new member countries the importance of the Community increased (except for Ireland), while in the case of the six original members it showed a most significant decline. In seven years' time the share of the Community decreased by 8.7 percentage points in the imports of miscellaneous manufactures of the Federal Republic of Germany and today it is not more than half of the total import. In the French market the loss of the Community also exceeded 8 percentage points and the loss in the Netherlands is nearly as bad. The decrease was strong in the Italian market and weaker in the Belgian case where the market faces perhaps the worst structural difficulties. The relative decline of intraregional imports which is in close connection with the appearance of cheaper external manufacturers is noteworthy, beyond its rate also because this trend is not intermittent but proceeds at a most steady pace and cuts the intraregional import share year after year.

The behaviour of the machine market is especially instructive as it is the field where highly demanding commodities from the point of view of professional competence and technology are competing. Besides, the market of the European Economic Community is the most significant absorptive market of the world where, at least till now, relatively few import restrictions were effected. This is the most suitable field to follow up the keen rivalry emerging all over the world and it is here that most of the trends to be regarded valid over a longer range for the development of relative competitive positions assert themselves.

The keenness of international competition is best proved by the fact that as a rule the intraregional share of machine imports, unlike the markets of other commodities, showed no increase even in the case of new member countries. That is, the advantages offered by

the removal of customs tariff barriers were not sufficient to keep out the external competition. In the machine imports of Ireland, a country of special status where the establishing of multilateral relations has been consistently pursued for already ten years, the share of the Community fell back from over 80 percent to 68 percent and also the indicator of Britain is less than the 1973 value. For Denmark, its 1980 value did not attain the level of 1976. The intraregional machine imports of the original member countries strongly dropped (except for Italy): by 8.6 percentage points in Belgium, by 8.4 in France, by 7.5 in the Federal Republic of Germany and by 5.5 in the Netherlands. It is not difficult to discover in the background the impacts of the rapidly growing Japanese exports as well as the growing competitivities of recovering North America and of certain industrializing countries. Also the effects of the transformation of the export pattern of CMEA countries are felt in a differentiated way and to a smaller extent. The continuous downward trend of the intraregional import share is a satisfactory evidence that this decline is not a temporary one. The same also indicates that all the outsider countries capable of keeping abreast in the undoubtedly relentless competition may well expect significant marketing opportunities in this field.

It is a lesson to be learned that while in some fields the countries of the Community strive for increasing the share of regional imports, in the field of machine imports they are unable and probably unwilling to do so. Nor is it possible, at present, to change the trend because international competition is strong, a common R&D programme of the Community is missing, the joint industrial policy concentrating on up-to-date ("vanguard") sectors is inelaborate, and, to some extent, because the financial means available to the integration are used in other fields (mainly in agriculture). At the same time it is most unlikely that the member countries would be interested in changing this trend, considering that to make up for having already fallen below the international mark needs free imports of machines and equipment representing the most advaced technology and knowhow.

The date of the selected commodity groups answer the question how much the Community's practice of import restrictions was and is actually worth. The downward trend of the intraregional imports is clear and, except for iron and steel products, continuous in spite of the quota system effective for several years, the "voluntary import restriction" and the dumping procedures. Although the position of the Common Market exports was improved in the Danish and the British markets by the joining of the said countries, in the case of the Six that used to benefit from the tariff facilities for a longer time the market is lost in a spectacular process. In the pioneer country of structural transformation, the Federal Republic of Germany, intraregional imports decreased in the textile industry in 7 years by nearly 13 percentage points, the corresponding values being more than 12 for France and not less than 15 for Italy. In the cases of Belgium and the Netherlands the decrease is of a somewhat milder rate while the Common Market exports invariably maintain a very strong position in both of these markets. Maybe this is in connection with the more limited opportunities of small countries to regroup their resources. – It is, however, highly probable that in these markets competition is not as

intensive because of the smaller capacities of these markets and because of the established solid export positions of the bigger member countries. It is at the same time implied that the structural transformation and adjustment of smaller countries are downright retarded by the export interests of the bigger member countries.

The import market of clothing shows similar traits allowing that the change in the direction of trade, which was powerful in 1973–76, slackened after 1976. In the market of this commodity group intraregional import dropped below 50 percent in the period under study, that is, more than half of the imports already come from outside the Community. The power of external competition is shown by the failure of the EEC member countries to gain ground but at most for a while in the markets of new member countries: the share of intraregional imports decreased from 1979 to 1980 in Denmark and Britain and throughout the entire period in Ireland. The most marked decrease took place in the imports of Italy where the intraregional import sank from 69 to 43 percent in seven years' time. The Community' loss of ground was similarly marked in the markets of France and the Federal Republic of Germany (decreasing from two-thirds to less than 50 percent and from above 50 percent to nearly one third, resp.). This trend was not the same strong in Belgium and in the Netherlands, probably not without relevance to the factors already mentioned above in connection with the turnover of textiles. It is worth noting in this context that the rate of decrease of intraregional imports diminished everywhere after 1976 and nearly halted in the case of Belgium and the Netherlands (going down to 0.5 and 1.1 percent, resp., as against 8 percent for Italy, 6.4 percent for France or 4.4 percent for the Federal Republic of Germany). This is all the more interesting because the share of the Community is outstandingly high just in the case of these two small countries and, provided that the influence of international competition is uniform upon every market, it should have decreased more markedly there than in bigger member countries.

As a result of the protectionism of the European Economic Community with regard to steel, the weight of intraregional imports was successfully stabilized in this commodity group after 1976.

From the member countries the Federal Republic of Germany, having chosen the way of structural modernization, recorded a further decrease of the intraregional share (the restriction of steel imports had practically no detectable impact here), and the same happened in France to a somewhat smaller extent. On the other hand, the importance of intraregional shipments clearly increased in Belgium as well as in the Netherlands. Under the impact of protectionism the importance of the Community increased in the steel imports of the new member countries (in Ireland since 1976). The conquest of the British market is especially striking: in seven years intraregional steel imports increased from 46 percent to 64 percent. So, in this commodity group the protective measures of the Community were really effective but it still remains a question how favourable this development of the sector is on global economic level, for other areas exposed to the impacts of international competition.

Before indulging in the broader contexts of the above, the impact of new member on

intraregional imports must be mentioned in brief. The share of intraregional imports increased in the Danish imports between 1973 and 1979 in every main commodity group to subsequently decrease strongly with respect to machines and slightly with respect to miscellaneous manufactures. In the British case, too, increase was prevailing till 1979 and by 1980 a considerable decrease was similarly recorded in machine imports. Finally, in the case of Ireland the effects of joining did not show in the field of manufactures: the positions of Common Market exporters did not improve in spite of the tariff advantages. Here again, the drop of the EEC's share in machine imports was striking. That is, the advantages of the enlarged regional market did not assert themselves in the market of machines and equipment, the very market regarded as the decisive one from the very point of view of world economic development. Namely, the import of machines and equipment was always determined by global and not by regional considerations – in close connection with the long-term objectives of development strategy. And these considerations have only been accentuated by the ever keener international competition since the second half of the 1970s.

The modification of the international competitive position of the European Economic Community is indicated in the aforesaid on the basis of the trend of intraregional trade clearly enough. However, this trend has to be studied also in its broader context.

Table 3 shows the European Economic Community's shares in total OECD exports and imports. The indicators were split into two parts to make them suitable for examining how far the changing shares of the intraregional, resp., the extraregional (world trade) turnovers accounted for this modification.

The data clearly illustrate that the European Economic Community is still the most important exporter and importer of the advanced industrial countries: in both cases its share is over 50 percent. The EEC exports slightly dropped in the total OECD exports, not free from fluctuations. The study by main commodity groups points out that only the export of agricultural products developed contrariwise: the Community's share somewhat increased in the OECD turnover. In every other main commodity group there developed trends coloured with fluctuations and giving smaller values for 1980 than for 1973. The relative decline is clear enough in all the three main commodity groups (amounting to 2.2 percentage points for chemical products, 2.4 for miscellaneous manufactures, and 1.9 percentage points for machines and equipment.) It demands special emphasis that the weight of the European Economic Community in the total OECD exports is higher than in the OECD machine exports, indicating a relative despecialization. At the same time the share of the Community is far in excess of the average in the OECD exports of textiles and especially of clothing, that is, in fields where the international price competition is particularly severe. The very slow rate of decrease (less than 0.6 percentage points in seven years) of the share in the exports of clothing indicates slow and inadequate adjustment.

The European Economic Community's loss of ground is a consequence equally of the decreasing intraregional and extraregional imports and of a parallel loss of ground in machine exports as well as in the export of miscellaneous manufactures (here the drop of

Table 3

Share of the European Economic Community in OECD trade
(index: OECD total exports/imports = 100)

Turnover, year	Total	Main commodity group: SITC						Commodity group: SITC		
		0,1,4	2	3	5	6,8	7	65	67	83
					Export					
Total										
1973	54.2	52.0	28.0	62.5	64.5	59.6	52.4	65.1	59.8	72.5
1976	51.8	50.4	25.5	56.5	62.9	56.4	49.9	6.2	52.5	71.3
1979	54.6	53.8	26.1	63.3	63.8	59.0	52.0	64.5	55.4	74.3
1980	53.3	52.6	25.7	61.5	62.3	57.2	50.5	62.0	53.8	71.9
To member countries										
1973	28.5	35.1	19.1	40.0	31.5	32.7	23.2	37.7	30.7	49.3
1976	26.8	35.3	17.7	36.3	31.5	30.8	20.7	37.3	26.7	48.4
1979	29.1	36.9	17.8	40.5	32.5	32.1	23.7	40.0	26.9	50.1
1980	27.9	33.8	16.9	40.4	31.4	31.0	22.3	37.5	27.3	48.0
To third countries										
1973	25.7	16.9	8.9	22.5	33.0	26.9	29.2	27.4	29.1	23.2
1976	25.0	15.1	7.8	20.2	31.4	25.6	29.2	24.9	25.8	22.9
1979	25.5	16.9	8.3	22.8	31.3	26.9	28.3	24.5	28.5	24.2
1980	25.4	18.8	8.8	21.1	30.9	26.2	28.2	24.5	26.5	23.9
					Import					
Total										
1973	53.1	59.8	50.4	51.5	58.4	56.4	46.5	60.6	58.8	56.2
1976	50.7	58.4	51.4	44.0	57.4	55.8	45.4	62.2	58.1	55.6
1979	52.0	59.5	49.3	43.2	60.6	57.3	49.3	64.9	56.9	57.1
1980	51.9	59.9	49.6	43.1	60.0	58.1	49.6	65.3	58.1	58.3
To member countries										
1973	27.4	27.6	12.0	10.8	41.0	33.4	31.8	42.3	43.2	31.9
1976	24.9	29.1	12.4	8.2	40.7	32.7	30.7	41.0	40.6	27.0
1979	26.2	31.2	12.3	10.5	42.2	32.6	31.9	41.1	40.2	27.1
1980	24.7	32.0	12.2	9.5	41.9	32.1	30.7	40.0	41.0	26.5
To third countries										
1973	25.7	32.2	38.4	40.7	17.4	23.0	14.7	18.3	15.6	24.3
1976	25.8	29.3	39.0	35.8	16.7	23.1	14.7	21.2	17.5	28.6
1979	25.8	28.3	37.0	32.7	18.4	24.7	17.4	23.8	16.7	30.0
1980	27.2	27.9	37.4	33.6	18.1	26.0	18.9	25.2	17.1	31.8

intraregional exports was more pronounced). The loss of ground of chemicals is almost wholly attributable to the decline of exports to non-member countries. One of the main three commodity groups of primary products shows expressed extroversion while another one a certain priority of internal supply. The first one can be noticed in the case of agricultural products: their growing share in OECD exports was guaranteed by massive exports to third markets. The European Economic Community became a more important agricultural exporter achieved by means of a very costly system of export subsidy whereby the structure is deformed and the international competitivity of the integration in other fields is marred. In the energy exports the British crude oil production started in the period of our study and the growing Dutch mineral gas production are felt.

The changes in the export shares of the selected commodity groups indicate that the regional market offered solid protection to textiles, after 1979 to iron and steel products, and actually also to clothing. The intraregional export of textiles maintained its share in the OECD and its decrease resulted almost exclusively from the diminishing exports to non-member countries. In the export of iron and steel products the EEC's share decreased till 1979 in both the intraregional and the extraregional exports but thereafter the intraregional export share increased and that of exports to third countries considerably dropped. The trade in clothing shows a rather inconsistent picture: round half of the OECD's export of clothing is transacted between member countries of the Community showing the relative importance of this commodity group in comparison with other industrial countries (or to put it in another way: the failure to carry out structural changes). The backing of the large internal market and the slowness of structural adjustment are also expressed in the slightly rising extraregional exports of the Community in clothing within the total OECD exports between 1973 and 1980, and this is not quite consistent with the desirable line of specialization of this highly industrialized region.

The changes in the international trade positions of the European Economic Community are illustrated in a particularly tangible manner by the data series concerning the changes in import shares.

In the total OECD imports the share of the Community decreased by 1.2 percentage points, but this was entirely due to the decreasing EEC share in the import of raw materials and of primary energy in particular. It is especially remarkable that in 1973 more than half of the OECD energy imports was bought up by the Community as againts only 45 percent in 1980. The drop of over 8 percentage points as well as the drop of not quite 1 percentage point in the weight of raw material imports are partly attributable to the slower rate of growth of the West European region and the resulting smaller demand. However, partly, or perhaps primarily, the results of stepped-up savings manifested themselves. In every other commodity group the Community's weight increased in OECD imports. This was particularly true in the case of machinery and equipment where the share showed an increase of 3.1 percentage points.

That is, the most important absorptive market of the world increased its relative importance and was increasingly turned into a battlefield of the world wide struggle for

sales. From OECD imports, round 60 percent of agricultural and of chemical products, and nearly 60 percent of miscellaneous manufactures were sold in the markets of the Community. The importance of this region generally increased also in the OECD imports of the selected commodity groups: the rise amounted to 2.1 percentage points for clothing, not less than 4.7 percentage points for textiles, and the drop in the share of iron and steel imports was very small.

However, the changes in intraregional and extraregional shares were opposite in the majority of cases and throughout the whole period. This is the most essential momentum indicating the relative decrease of competitivity of the European Economic Community. The decrease of total imports by 1.2 percentage points originated from a 2.7 percentage points decrease of intraregional imports and a 1.5 percentage points increase of extraregional exports. Growing external competition was typical for every group of manufactures while it was found to decrease in the case of primary products. Thus, as a result of agroprotectionism, agricultural imports transacted between member countries of the community increased by 4.4 percentage points in the total OECD imports and the external agricultural imports decreased by about the same rate, by 4.3 percentage points. The minimum decrease in the share of raw material imports is only justified by the decrease of external imports by 1 percentage point (there was even some slight increase in intraregional imports). The robust decrease in the share of the import of primary energy must be traced back to the decrease of external imports (by 7.1 percentage points) in the first place.

The intraregional and extraregional movements in the imports of chemical products were still parallel, trade flows in both directions were next to equal causes of the 1.6 percentage points increase in the share of this commodity group in the OECD imports. The case of the other manufactures was different: while the import market of miscellaneous manufactures increased by 1.7 percentage points in 7 years, intraregional imports decreased by 1.3 percentage point (that is, the share of external imports increased by 3 percentage points). The strengthening of external competition is even more apparent in machinery imports: the increase of turnover with non-member countries amounted to 4.2 percentage points and this growth occurred in the years after 1976. At the same time there was a 1.1 percentage points drop in intraregional imports.

Industrial policy and commercial policy measures could not suppress the external competition in the second half of the 1970's: the share of extraregional imports increased by nearly 7 percentage points in the textile market, by 7.5 in the market of clothing and by 1.5 percentage points in the import of iron and steel products. In all the three cases decreasing intraregional shares are added (2.2 percentage points for textiles, 5.4 for clothing and 2.2 for iron and steel products.)

Owing to its dimensions, development level and, at the same time, frequently to its structural difficulties, and in spite of all restrictions, the European Economic Community plays an increasingly important role in the international trade in manufactures, and it is becoming the main battlefield of the worldwide struggle for sales. This obviously does not help the position of West European manufacturers and exporters. The integrated large

market which used to mean better marketing opportunities for products of member countries not only theoretically but for a long time also practically, gradually began to offer attractive opportunities to third countries in the seventies, parallel to the gradual exhaustion of the previous advantages and mechanisms of integration. On the one hand the large market challenged the outsiders to sell and, on other hand, it guaranteed stronger protection for internal, regional manufacturers indirectly already in the 1960s, in the form of tariff facilities, then in the 1970s directly, in the form of various protectionist measures. Having subsequently neglected technological development, the latter became less and less able to rival the competition of outsiders. The different international competitive positions of the individual member countries were apparent already in the early seventies, but at that time the relative loss of position revealed by the relevant data affected only certain countries but not the whole Community and, on the other hand, the drop that could be stated occured in certain third markets. However, in the second half of the 1970s the loss of position was clear and pronounced already with respect to the European Economic Community, in the market which represents the world's most significant import demand but which has structurally fallen behind – in the weakest link in the chain of the advanced capitalist world of today.

This duality, ie., the particular contradiction between the biggest market and the toughest competition, must have an ever stronger influence upon the external economic policies of all the exporting countries and first of all those countries to which the Community as an absorptive market is vital. The European CMEA countries and perhaps especially Hungary most certainly belong to this group.

The lessons from the statistical analysis of intraregional trade can be useful also for the Hungarian external economy. Renouncing on a detailed exposition, I am only going to give a short list in summary:

1. Under the new world economic circumstances the trade creating power of the European Economic Community channelling the trade inside its region could not assert itself. This was partly caused by the most powerful impacts of the outside world but partly it may be derived from the fact that the factors stimulating trade among the six countries that form the core of the West European integration became exhausted by the early seventies. Removal of the barriers of trade was not followed by the formulation of a common economic policy as its conditions did not and, owing to world economic impacts, could not materialize on the level of individual national economies, although the joining of three countries in the year 1973 released certain trade promoting resources and directed the trade of the new member countries to the Community. However, this was not sufficient to compensate for the opposing forces, not mentioning the fact that in certain commodity groups (eg. in the main commodity group of machines and transport equipment) the share of intraregional turnover showed no increase through the whole period under study, testifying to the lack of the relative market-creating impacts of the integration.

2. In the uncertain state of the world economy the role of the integration in increasing the security of regional supply might have strengthened. A successful attempt has been

made towards this end in the framework of a protectionist agrarian policy with enormous expenses, at the cost of deforming the macroeconomic structures, rearranging the resources and lately also causing considerable world trade problems. Successful, if the degree of regional supply and not the efficiency of utilization of assets is regarded to be the measure of success. As a result mainly of enhanced economizing as well as of the geological features of the integrated area, the share of intraregional turnover showed some increase in the Community's foreign trade also with respect to primary energy and raw materials. At the same time the opposite trend evolved in the case of manufactures and especially machinery and transport equipment.

3. The West European integration guaranteed a protected area for sectors and commodity groups failing in the severe international competition. Thereby it damped the pressure of the world market and nourished the illusion that a sales strategy based on the regional market could save the sectors and companies facing structural problems the hard trouble of adjustment (or eventually winding-up). However, the industrial policy adopted for this purpose failed: firstly, it could not improve the international competitivity of sectors at disadvantage and, secondly, it was unable even through protectionist measures to keep third countries with lower production costs out of the internal market of the integration. The robust loss of share of intraregional imports clearly illustrates the inadequacy of protectionist measures artificially obstructing international trade, and this is true even if, for the time being, experiences have not prompted some member countries and first of all the Community to changes in their protectionist attitudes.

4. The shift of the integration's trade and especially of its imports to the broadest international market is partly a necessary consequence of the growing global competition and partly it originates from the realization that the most sensible way of striving at diminishing the lag and halting the trend of losing markets as it has been experienced lately should be, at least in the key areas of development, an increase of the global and not the intra regional import of machines and equipment. The importance of this strive has always been accentuated by the low intraregional turnover of trade in machines relative to other main commodity groups. In the last few years a further increase of the external share in the member countries' machine imports has even more definitely drawn attention to this field, a cardinal one from the aspect of economic strategy and a decisive one from the aspect of long-term competitivity.

5. Over and above the commodity-specific characteristics the boosting of intraregional trade seems to posses country-specific (country-size) characteristics as well. The smaller member countries of the European Economic Community were much more keen on the regional market than the bigger ones. This is especially true in the case of their exports which were thus given the opportunity to rely on a big sales market. The share of intraregional exports in the selected commodity groups was extraordinarily high and this was in connection with the protective function of the larger regional market. On the other hand their imports and therein their machine imports were considerably diversified, here the bigger and the smaller economies do not show substantial differences in shares. Such differences are all the more apparent in the case of the selected commodity groups:

while the international competition of sellers is powerful in the bigger countries, in smaller ones the import market of these products is under the unmistakable control of manufacturers of the bigger EEC countries squeezed out of the world market and not by cheaper manufacturers of third world countries. In this sense the structural adjustment of smaller countries is slowed down and the consumer price level is increased by the export interests of bigger member countries.

6. In the studied period the diversification of turnover, ie., resting on more than one pillars inside (and sometimes also outside) the integration, was a basic characteristic of the commercial policy of small member countries. In addition, a higher than average degree of regional supply, especially of primary products, is also typical of small member countries. Although in the light of statistical data their endeavours must be considered successful, as a result of changes taking place in the world economy and the obvious differences in economic power their share in the trade of the Community has steadily decreased. They were unable to prevent that in spite of their, in most cases conscious, efforts at raising the turnover between themselves above the average. They did score good results in this field and there must be further reserves available to them, but the above are most unlikely to be enough to stop or reverse the trends that are objectively disadvantageous for the small countries. In such a situation it is of special importance to make better use of advantages originating from their special conditions (geographical or transportation advantages, preferential treatment of external capital, infrastructural provisions, etc.) and most small countries actually did avail themselves of these means and provisions which were, however, not subjects of this paper.

7. In the second half of the 1970s and especially in recent years the market of the West European integration has become one of the most important fields of competition of world trade. The same way as the analysis of structural changes stated that the impact of the global structural transformation on industrial development and on international trade need not necessarily show sectoral correlations (ie., it is not the most up-to-date and most rapidly developing sectors whose world trade, too, must necessarily expand the most vigorously), this statistical analysis similarly indicates that a structural lag need not necessarily involve the loss of dominating positions in the import market. On the contrary: in the coming years international competition is likely to grow even stronger in the European Economic Community, which is from the structural point of view apparently the weakest link in the chain of the advanced industrial countries.

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ИЗМЕНЕНИЕ ТОВАРНОЙ СТРУКТУРЫ ВНУТРИРЕГИОНАЛЬНОЙ ТОРГОВЛИ В ЕВРОПЕЙСКОМ ЭКОНОМИЧЕСКОМ СООБЩЕСТВЕ

А. ИНОТАИ

Автор рассматривает те изменения, которые произошли во внутрирегиональной торговле ЕЭС в период 1973—1980 гг. Он кратко касается основных географических смещений, а также замедления, а затем остановки раннего динамичного роста доли внутрирегиональной торговли, временного и частичного воздействия расширения Сообщества в 1973 г. на стимулирование внутрирегиональной торговли, экспансии более крупных государств за счет небольших, а также целей торговой политики малых стран-членов ЕЭС, с одной стороны, стремящихся смягчить одностороннюю зависимость, а, с другой стороны, — укрепить связи небольших стран между собой.

Основная часть статьи посвящена изменению товарной структуры внутрирегиональной торговли. Автор указывает, что степень региональной реализации излишков различных товаров неодинакова. В отношении сырья, в особенности после принятия единой сельскохозяйственной политики, это было возможно, хотя связанные с этим затраты, а также потеря ЕЭС в длительной перспективе своих мирохозяйственных позиций, заведомо заставляют сомневаться в успехе этого решения. Еще в большей степени это справедливо в отношении тех товаров, которые подвержены значительной международной конкуренции, на что ЕЭС ответило принятием протекционистских мер (сталь, текстиль, готовая одежда). Для вытесняемых с мирового рынка изделий региональный рынок временно может открыть дополнительные каналы сбыта, однако, в конечном счете он не пригоден для повышения международной конкурентоспособности. Наоборот: оборонительная стратегия не только ведет к дополнительным затратам, но и создает такую структуру, которая во все меньшей степени соответствует интересам промышленно высокоразвитого региона во всемирном разделении труда. Региональная защита также имеет лишь временный эффект, рано или поздно международная конкуренция — как это, в первую очередь, показывает торговля продукцией машиностроения — прорывает охранительные преграды. С точки зрения товарной структуры особенно хорошо заметны структурный застой и замкнутость малых стран ЕЭС: их рынок контролируется не третьими странами, имеющими преимущество в издержках производства, а более крупными странами-членами ЕЭС, имеющими высокие издержки производства и все более вытесняемыми с мирового рынка, что тормозит быстрое приспособление малых стран-членов к изменяющимся условиям и увеличивает их и без того большое финансовое бремя.

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PLANNING FOR EMPLOYMENT IN A DEVELOPING ECONOMY

D. GHOSH

Models of developmental planning have paid more attention to the question of capital accumulation than to that of employment. However, the nature and dimension of the problem of unemployment, as it exists in countries of the Third World at present, suggests that unless some positive actions are taken in the short run to alleviate this problem, the resulting socio-economic problems may render the long-run goals impossible to achieve. In this paper the link between availability of 'wage goods' (mainly foodgrains), employment and inflation has been discussed. It has been argued that price responsiveness of surplus of foodgrains can be 'perverse' in most economies where foodgrain production is dominated by subsistence farmers. In this context, certain policy implications for employment-generation, both from a short and long-run point of view, have been suggested.

Introduction

Though the problem of unemployment is proving more and more intractable over time in most of the developing countries, it is surprising to find that the traditional literature on developmental planning either relegated the question of employment to the background or, worse, completely ignored it. Few planning models which looked into the question of employment in a developing country did so from the point of view of manpower planning.* Hardly anything has been said about planning for job creation. The reason for this omission perhaps lies in the perception of the nature of a dual economy in the writings of *Lewis* [14], *Fei* and *Ranis* [7] and *Jorgenson* [9]. All these authors start from the premise that either there exists a pool of underemployed labour force (disguised unemployment) in the traditional sector or, with the passage of time, technical progress in the traditional sector displaces labour without affecting this sector's output. From either point of view, the supply curve of unskilled labour is assumed to be infinitely elastic with a given (usually minimum, subsistence) wage rate. The process of economic development is then to employ some of these labourers from the traditional sector in the modern sector to generate a surplus. The surplus thus generated can then be used to absorb, on the one hand, more labour from the traditional sector and, on the other, to generate more surplus for the next period. This process is to continue till all the available labour is absorbed.

*For a survey of such models, see the article by *Blitzer* [3].

We will note two interesting points that emerge from the above discussion. First, labour is not a constraint on economic development. The constraints are availability of capital and, in the context of an open economy, availability of foreign exchange. When economists became aware of the problem of availability of a skilled labour force, planning models were constructed incorporating availability of skilled labour as an additional constraint. However, the main task of economic development remained that of accumulation of capital. The second point we would like to mention is that it is implied that an increase in the GNP by itself will take care of the problem of unemployment.

The experience* of several developing countries, however, suggests that some solution to the problem of unemployment will have to be found rather urgently. Even if we expect that modernisation of a developing economy will help absorb all its labour force in the long run, unless the planners find a solution to the problem of unemployment which exists in the short run, this can and does create socio-economic conditions adverse to achieving any long-term goal. In the rest of this paper we will try to indicate what the main constraints on the generation of employment in a developing economy are, and suggest some policy for the planners.

Choice of techniques

Though the traditional 'theree choices'** approach to developmental planning did not consider unemployment to be a major problem, the discussion on the third choice, the choice of techniques, *Dobb* [5] and *Sen* [18], is related to the employment implication for the economy. In this literature, the choice of a capital-labour mix for Department II (the Department producing consumption goods, with machineries produced in Department I) depends on a planner's objective function. Given a wage rate, if the planner wants to optimize present output, he will select a labour-intensive technique of production; on the other hand, if the planner opts to optimize the rate of growth, he will choose a capital-intensive technique. The rationale behind choosing a capital-intensive technique of production for optimizing growth is that in this way the planner can optimize surplus (of goods produced by Department II) for reinvestment in the future, so that a bigger surplus can be produced in the next period and so on. This now implies that to employ more labour in period t+1, an economy must produce enough surplus in period t. Now, why is this surplus of *consumption goods* important for generation of employment? Why can a planner not create employment in some areas of the economy which call for little or no

*See *Turnham* and *Jaeger* [20], *Bairoch* [2] on the extent and the nature of the problem. See *Lanrui* and *Lukuan* (13) on the problem of unemployment in China.

**These are the choice of the optimal rate of savings, choice of sectors and choice of techniques. It can, of course, be shown that all these three choices are related. On this see Introduction to the third edition of *Sen* [8].

capital? As has been pointed out by Sen [19]*, no matter whichever way jobs are created, creation of jobs implies an additional wage bill and thus demand for additional consumption goods. In a developed country, a situation** may exist where creation of additional demand in an economy can actually lead to an increase in the supply of these goods through utilisation of underutilised capacity. However, in a developing economy a situation such as this is hard to imagine. Thus, the creation of more jobs (and by implication effective demand for consumption goods) than is justified by the availability of consumption goods will give rise to inflationary pressure in the economy.

So far, we have seen that availability of consumption goods, produced in Department II, acts as a constraint on generation of employment. However, we will now argue that an availability of surplus produced in Department II is a necessary but not a sufficient condition for generation of employment. For this, we will refer to *Kalecki* [10] and [11].

Nature of wage goods

In the previous section of this paper we have pointed out that it is the availability of *consumption goods* which is the major constraint on the creation of employment. Can we specify the nature of these goods? Following Kalecki [11], these goods are "goods which constitute a major part of the consumption of broad masses of the population". We will call these goods *wage goods.**** In a poor Third World country the major constituent of wage goods is food-grains. As Kalecki [10] pointed out, a planner's ability to generate employment in the areas where very little or no capital is needed, is constrained by the availability of wage goods. Kalecki's [10] argument is similar to that developed in the previous section. Creation of additional employment generates additional demand for foodgrains.

Notice that even though a large part of the newly employed labour force came from (labour surplus in) agriculture where their level of consumption was already equal to the average productivity in agriculture, the demand for wage goods in the economy will nonetheless increase in this situation. The reasons behind this are, first, that the newly employed labourers will have a higher wage rate, giving rise to an increase in their consumption demand; and secondly, that the income of those who remain in agriculture will increase, creating again an increase in demand. Given that the supply of agricultural products is fairly inelastic in the short run, this increased demand for foodgrains will give rise to inflationary pressure in the economy. Thus we see how important it is to have a surplus of wage goods for the creation of employment. Without an adequate surplus, creation of additional jobs will only end up in creating inflationary pressure in the

*See Chapter 9, Section 9.3 in particular.

**Sen [19] calls this "a situation of Keynesian unemployment" (Page 85).

***Kalecki ([11] page 91) calls them *necessities* as apposed to *non-essentials* which "are consumed mainly by richer strata of the population".

economy, which in turn can *reduce* employment in the industrial sector by reducing demand for this sector's products in home and overseas markets. Also, in cases where socio-political conditions require that the industrial sector's wage rate should be positively related to the rates of inflation, any inflationary wage increase will reduce surplus and hence future investment in this sector, this consideration, too, having a negative effect on total employment.

Let us now take a look at the nature of the surplus we are discussing. From Kalecki [10], [11], we know: the most important constituent of wage goods is foodgrains. Now, does Department II, discussed in the context of choice of techniques earlier, produce foodgrains? If not, then a surplus generated in this sector by itself will not be enough to arrest the inflationary pressure generated *via* creation of additional employment. If, on the other hand, we include agriculture in general and foodgrains production in particular in Department II, we are not yet out of the woods. Even assuming that there exists a surplus of foodgrains in the agricultural sector, can we guarantee that this surplus will be available to the industrial sector? In other words, we now have to take account of the behaviour of the marketed surplus of foodgrains. Most importantly, we would like to know whether the price responsiveness of marketed surplus of foodgrains is positive or negative.

The marketed surplus problem

The literature on marketed surplus is divided on this question.* However, recent econometric evidence on time series data relating to the Indian economy does favour the hypotheses of a negative price responsiveness of marketed surplus rather strongly.** For an illuminating discussion on the factors which give rise to this 'perverse' behaviour of marketed surplus in a developing country, we refer to an article by Mathur and Ezekiel [16]. One can summarize the authors' finding in the following way. In most developing countries, the majority of the peasants producing foodgrains belong to the non-monetized, subsistence sector. The logic of the behaviour of a farmer belonging to subsistence agriculture is totally different from that of his counterpart in a developed, monetized economy.*** A subsistence farmer has a target demand for cash depending on taxes to pay and a few industrial goods the farmer wants to buy. Now, given an output of foodgrains, if the price is high, the farmer's income is also high. Given that the income elasticity of foodgrains is positive, the farmer can afford to consume more of his own produce. On the other hand, a high price for foodgrains allows them to do so, as they can now meet their

*For a survey of the literature, see *Krishna* [12], pages 509–512.

**See *Ahluwalia* [1]; equation 4, page 366. For a non-parametric analysis on Indian data, see *Mathur* and *Prakash* [17].

***For a discussion of the peasant behaviour in this type of economy and on the nature of uncertainty, see *Lipton* [15].

cash requirements by selling relatively less of their total produce. In this kind of economy farmers, when they can, save in kind. As *Mathur* and *Ezekiel* [16] write:

"The farmer in an underdeveloped country in fact tends to hold *in kind* any part of his retained foodgrains which are in excess of his immediate consumption requirements independently of saving potentialities. The explanation of this preference for saving in kind over saving in cash appears to lie in the extreme uncertainty that prevails about both weather and prices in the next year. The farmer apparently feels safer with the foodgrains in his bin than with money in his saving account (which he rarely has in any case)."*

The authors then go on to show how this type of saving behaviour can give rise to price instability. Farmers, we have seen, save foodgrains for fear of crop failure in the future. However, if the harvest is expected to be good, just before the harvesting season the farmers unload their savings (i.e. stock of foodgrains) in the market. This brings down the price of foodgrains as supply increases. Now, as the price of foodgrains decreases, farmers are compelled to sell more of their produce to meet their target demand for cash – thus putting more downward pressure on price. Similarly, on the eve of a 'bad' harvest, farmers hold on to their stock of foodgrains which helps the price of foodgrains to increase. This then enables the farmers to sell relatively smaller amounts of their product, thus reducing the supply in the market.

Let us now try to put the pieces together. We start from a situation where the authorities decide to create some additional employment. In an economy with *surplus* labour in agriculture, this will have to be in the non-agricultural sector.** The creation of additional employment creates additional demand for foodgrains. Given the supply, this extra demand increases the price of foodgrains. However, as the price of foodgrains increases the marketed surplus for foodgrains decreases, thus exacerbating the inflationary situation in the economy. Of course, the intensity of this inflationary pressure will depend on a number of things. First, on the dimension of the change in food prices for a given change in the economic activities in the non-food producing sector; secondly, on the price elasticity of marketed surplus itself. These will in turn depend on the price and income elasticities of demand for food-grains of the farmers and non-farmers, total output of food, farmers' stock of foodgrains, its elasticity with respect to price and to farmers' own demand for foodgrains, and on the farmers' demand for other sectors' products. We must remember that the values of these elasticities will vary from economy to economy, depending on the stage of development and the degree of monetization in the economy. For example, the more 'developed' an economy is, the lower the income and price elasticities of demand for foodgrains will be. Also, the more monetized an economy is, the lower the value of price elasticity of stock will be. In an economy where the subsistence sector is completely monetized, the price responsiveness of marketed surplus will, of course, become positive.

*Mathur and Ezekiel [16] page 398. Emphasis in the original.

**Though mechanization of agriculture can sometimes create additional jobs, but this process has its limitations. See *Day* and *Singh* [5], page 171.

We thus see that mere generation of surplus by itself is no guarantee that employment can be created in an economy. We have, however, encountered this view about the role of the agricultural sector before.* As Dobb [9] writes that, in the context of employment generation:

"Nor will a rise in total agricultural output, even if it is a rise in output per head, necessarily make any contribution to the problem, since it may be absorbed in higher consumption by the peasant producers themselves – a fact that was very much in the forefront of discussion and policy making in the USSR in the '20s. In such circumstances a price-policy, however favourable to agriculture, may not suffice to attract a large flow of village products on to the urban market, since the peasant may be content to take out the benefit of improved terms of trade in getting more industrial products for the *same* total quantity of agricultural exports as formerly (possibly for even less)."**

Dobb, however, was of the opinion that some policy of taxation will be sufficient for removing this problem. In many developing countries, where agriculture is predominantly subsistence agriculture, this opinion by itself will probably not be enough. What are the alternatives? We will take a look at them in the next section.

Before going on to the next section, we must point out that the nature of wage goods will change with economic development. An appeal to Engel's Law should be enough to make this point clear.

Policy in the short term

For the creation of employment opportunities in the rural or in the urban sector, we can see that a choice of appropriate techniques by itself is not enough. Creation of jobs in the service sector to provide jobs for the unemployed labour force in the urban sector, a policy which is being followed at different levels of intensity in most of the developing countries, can only exacerbate the problem, unless provisions are made for an adequate supply of wage goods to match the increased demand for them, as a result of the increase in employment. It is not that the planners traditionally were ignorant about this. For example, during the period 1955–65, covering the first two five-year plans in India, it was recognized that the availability of food surplus is a major constraint on the path of economic development.*** It was also assumed that an increase in agricultural productivity by itself would solve this problem. However, we have argued above that an increase in agricultural productivity on its own is no guarantee that agricultural surplus will flow into the industrial sector. Increased productivity in agriculture is a necessary but not a sufficient condition for surplus food to flow into the non-food producing sector. So,

*For a rigorous derivation of this, see Mathur and Prakash [17]. A generalised version of this paper is given in *Ghosh* [8].

**Dob [6], pages 29–30; emphasis in original text.

***See Chakravarty [4] p. 1229.

before any job creation takes place, i.e. before deciding on the appropriate choice of technique from the point of view of employment generation, the planners will have to make provision for enough food to sustain these additional jobs, so as to avoid any pressure of inflation being created in the economy.

In the short run, the stability of food prices should be maintained through the operation of a buffer stock in food. Government should buy food in a good year of harvest, when prices are low and should use this stock to keep food prices from going up in the bad years. Of course, a programme of food imports can be of great help. But given the balance of payments situation of most Third World countries, one should not think that this option is a very practical one for most of them. Countries without any balance of payments constraints, which are just a handful of the oil producing countries, may choose this option. Increased taxation on the big farmers may also be useful. But for many countries it may not be politically feasible. So in the short run the planners can only afford to create as many jobs as are permitted by the 'natural increase' in the marketed surplus (i.e. the *'trend'* rate of growth) assuming that prices are kept stable. During a *'bad'* year, which sees a fall in food production, the planners should use the buffer stock of food, built up in the good years, to keep prices from going up too high, not only to create new employment but to protect the existing jobs as well.

How would the planners know how much food to release from their buffer stock during a bad year? Or how many jobs to be created during a good year? We have indicated that, depending on the degree of the food producing sector's need for the non-food producing sector's product and also on the degree of monetization, each country will have different values for the price elasticity of marketed surplus.

Now, at the beginning of each harvesting season* the planners should prepare a forecast of expected marketed surplus. They should also prepare a forecast of the total demand for food by the non-food producing sector. From these the future price for food can be forecast. After forecasting this base price, the planners should find out by how much this price may be increased for generation of employment at different levels. It is then the task of the planners to calculate values of price elasticities of marketed surplus for each level of the price of food associated with different levels of planned employment and see which one of them will be consistent with stable food prices. In other words, the level of the final price (calculated from initial supply and demand plus the change in it due to the creation of jobs through increased economic activity in the urban sector) that will generate enough marketed surplus without creating inflationary pressure. In a bad year, of course, the planners will have to decide, on the basis of price information how much food to release from stock to keep the supply of marketed surplus unaffected.

Looking from this point of view the task of economic planning becomes a continuous affair. In spite of declaring a target for employment generation and other economic goals every five years or so, which is done at present in Indian Five-Year Plans, the planners have to decide on their target during the beginning of each harvesting season. This does

*In India there are two in each year.

not imply, however, that in planning there should not be any long-term goal. All we are suggesting is that unless we solve the problem of inflation in the short run, the long-run goal will probably continue to elude us.

Before concluding this section, we would like to point out that for estimation of price elasticity of marketed surplus, one requires time series data on marketed surplus. Krishna [12] argues clearly, why an indirect estimate of this elasticity may not be sufficient. At present, to the best of our knowledge, this does not exist for any country. (One can construct a time series on marketed surplus for India. The two articles mentioned above [1], [17] are examples of this.) Thus, the data requirements for this kind of planning are rather demanding.

Policy in the long run

A strategy of maintaining terms of trade disadvantageous to the food producers is not a very sound one from a long-term point of view. This is because such terms of trade will probably act as a disincentive to that part of the rural sector which is monetized, and farmers belonging to this part of the rural sector may, depending on the situation, move out from production of food or reduce their output of food. Thus, from a long-term point of view, a policy of continually low food prices may prove to be counter-productive in the sense that it may actually reduce the available marketed surplus through reduction in total output.

In the long run the task of the planners will be to change the economic structure in a sense which is different from that implied in the traditional analysis of dual economy. Structural change should not mean changes from an essentially agricultural (or traditional) to industrial (or modern) society. It should mean changes in the economic and social structure of the existing economic institutions. We have seen that the largely non-monetized nature of the rural sector in the developing economies is the root cause behind the perverse behaviour of marketed surplus in these economies. What causes the non-monetized sectors to continue in these economies is uncertainty. So the task of the planners will be to remove this uncertainty. This is easier said than done. In many of these countries, if not all, the political structure depends on the type of rural society they have. Vested interest would like to see that the structure continues without any change. However, a system of land reform, provision for cheap and assured credit for the small and medium farmers and a change in the land tenure system can help remove the uncertainty and hence hasten monetization of this sector. However, less controversial strategies like better irrigation facilities, provision for regularly advising the farmers about crop diseases, etc., will go a long way to reduce the farmers' uncertainty about the future.

Monetization (or commercialization) implies that farmers start to produce for the market. They also keep their savings in money. For this reason any holding of stocks in a monetized economy is only for speculative purposes. The higher the price of foodgrains, the greater the supply of marketed surplus will be. In a non-monetized economy, where

farmers keep their savings in kind, savings will not necessarily be translated into productive investment. Though part of savings may be invested in capital formation, in the form of hiring labourers, to be paid in kind, to build houses, etc., part of it suffers from wastage and loss of various form during storage. [15] Thus monetization of the economy, by encouraging the farmers to save in money, will increase the farmers' as well as the country's welfare.

We have argued that the supply of marketed surplus is positively related to the farmers' need for the non-farming sector's goods, i.e. for manufactures. The planners can take advantage of this. One way to increase the farmers' demand for the urban sector's goods is through modernization of agriculture. If the farmers' needs for commercial inputs like tractors, chemical fertilizers, etc. increase they will have to pay for them in cash compelling them to sell more of their produce. Since modern methods of cultivation require better irrigation facilities in support, this method of increasing the supply of marketed surplus will help to reduce the farmers' uncertainty about failure of the monsoon season as well.

To increase farmers' demand for consumption goods produced in the manufacturing sector, the planners should see that the goods produced in the industrial sector meet the needs of the farmers. Also, they should see that the farmers themselves are made aware of the usefulness of such goods. Insofar as the rate of growth of effective demand is a constraint on economic development, opening up the rural market for consumption goods will surely alleviate this problem to some extent at least for countries with sizeable population. Recent emphasis in India on the concept of "export-led growth" is believed to be prompted by the lack of effective demand in the home market. [16] In situations like this, our recommendation of opening the rural market will solve both the supply and the demand problem in the economy.

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ПЛАНИРОВАНИЕ ЗАНЯТОСТИ В РАЗВИВАЮЩИХСЯ СТРАНАХ

Д. ГОШ

В моделях планов развития всегда большее внимание обращается на накопление капитала, чем на занятость. А ведь сущность и серьезность проблемы безработицы, с которой сталкиваются в настоящее время страны третьего мира, говорят о том, что если в ближайшее время не будут приняты определенные меры для облегчения этого положения, то вызываемые ею социально-экономические проблемы могут свести на нет достижение долгосрочных целей развития. В настоящей статье рассматривается связь между наличием товаров (в основном продовольственного зерна), покупаемых за заработную плату, занятостью и инфляцией. Доказывается, что в большинстве экономик, где в производстве продовольственного зерна основное место занимают нетоварные хозяйства, реакция избытка продовольственного зерна на изменение цен может быть «искаженной». В связи с этим в статье рекомендуются некоторые меры экономишеской политики в интересах создания новых рабочих мест, как долгосрочные, так и краткосрочные.

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INTERVIEW

THE PAST, PRESENT AND FUTURE OF THE EAST-EUROPEAN ECONOMIES: THE HUNGARIAN CASE

An interview with Rezső Nyers*

I. FURGERI–J. BETLEN

Crises of the East–European countries and their causes

Question: Up to now we have talked about the specifically Polish causes of the crisis. But was there not something more general behind all this, such as overcentralization, for instance, which, after all, is characteristic not only of Poland, nor are the crises restricted merely to Poland. These recurrent crises have always been solved by the use of military force. Is there no other solution? Does not all this imply that mechanisms are lacking which make possible some sort of a self-regulating system of social conflicts.

Answer: Well, in my opinion as well, some deeper, common cause must be sought at the back of these periodical crises. These can only be explored by a thorough analysis, in the dialogue of politicians and social scientists, with the participation of those who are themselves actors in the economic and political life of the East-European countries, and also with the help of those who are outside observers, less directly involved in or affected by them, but who are still not indifferent. It is no doubt of help to us, in the world of existing socialism, to be criticized from the outside, as long as this is constructive criticism which promotes critical analysis, and thus accelerates the process of clarification, deepens our image of reality and improves the quality of our action. I should like to emphasize, however, that even with the best of intentions, no complete, let alone final judgement of the problems of these societies can be expected from the outside.

If the aim is not to justify prior opinions, but to reveal facts and causes, then the deeper reasons have to be clarified through the common activity and the dialogue of Communists in different countries committed to socialism – and I would also include

*In the course of 1982–1983 Rezső Nyers, Senior Counsel of the Institute of Economics, Hungarian Academy of Sciences, member of the Central Committee, Hungarian Socialist Workers' Party was interviewed at length by Italo *Furgeri*, of the Italian daily *Unità* and János *Betlen*, of the *Hungarian Radio*. They discussed several problems of the recent political history of Hungary, the theory and ideology of Marxism and of socialist society. In the following we publish those sections in the first place which relate to the economy and economics. Smaller omissions are denoted by (. . . .). The headings and subheadings were chosen, and the texts selected, by the editors of this journal. Our thanks are due to the interviewed and the interviewers for agreeing to the publication of this English version. – Ed. note.

socialists who approve of the building of the new society. In fact, even objectively-minded bourgeois criticism may prove to be fruitful. The decisive role, however, must devolve on Communists who operate, live and work in the conditions of existing socialism. And what is more, discussion must not be confined to accusations and apologies, such methods make it impossible to get to the truth; judgement must come about over and above accusations and apologies.

I am of the opinion that the deeper causes are economic, political and ideological in nature. One of the main factors causing crisis should certainly be sought in the economy. The majority of the economic institutions in the present world of existing socialism are imitations of a solution adjusted to the conditions of an earlier period, to a considerable degree they are modified versions of the Soviet model between the two World Wars, when the model of a closed economy had to be applied in a Soviet Union surrounded by a hostile external world; (. . .) when a policy of forced accumulation had to be implemented and considerable resources had to be drawn away from a part of the economy, mainly from agriculture and services, and pumped into the industry; when, in the interest of security and the future, accumulation had to be carried out in the Soviet economy even at the expense of the consumer needs of the masses. – Well, beginning with the sixties the earlier conditions have progressively changed, and the new conditions found themselves in contradiction with the old methods in several countries.

After the Second World War, given the conditions of the East-European socialist countries that suffered much war damage, the adoption of Soviet solutions played a useful role in reconstruction and in establishing socialist institutions. Add to this that certain specific features appeared everywhere. In the late fifties and sixties all these smaller countries searched for ways of management that would better correspond to their own conditions. It is true that only hesitant steps were taken in the direction of enterprise autonomy and these countries could not carry out truly radical changes. Modern economic structures and economic mechanism suited to these countries did not come about. If I consider the crises in turn, Berlin in 1953, Hungary in 1956, Poland the same year, then Czechoslovakia in 1967–1969, and the repeated tensions and conflicts in Poland in the seventies, I find that the same problem returns in all of them.

I should like to point out again and again that in consequence of the changes in conditions the economic problems became more and more pronounced. The post-war period of extensive growth – when economic growth was mainly fed by higher levels of employment and investment – came to an end in almost every country, with the possible exception of the Soviet Union and Romania. In Poland a dramatic situation emerged specific to the country where despite a labour surplus extensive growth proved impossible. The Polish leadership obviously did not clearly perceive the contradictory nature of the situation, and therefore exaggeratedly forced both the immediate solution of employment problems and the quick introduction of new technologies. The drama then ended in a curious mixture: modern technology accompanied by low productivity and high indebtedness.

I see the deeper economic cause of the crises in the fact – to put the matter in the most general terms – that we have not found, having mostly searched only half-heartedly, a development and management model of intensive socialist economy that radically differed from what went before. Hungary has already set out on the road of radical reforms, in Yugoslavia bold innovations have been employed for some time already, in Poland the outlook for the reform is still critical, while in the other countries the search for sound changes, bogged down for a decade, has started again. We have to continue searching for both an economic mechanism, and an economic development policy. For a long time we were attracted by the idea of fast, forced economic growth, now we consider qualitative factors, mainly the idea of economic equilibrium, as important as growth, but this is still not enough. The productivity of labour and the efficiency of capital must play essentially greater roles than at present.

The other deeper cause, that is beside the economy, is, in my opinion, that our earlier ideas did not sufficiently reckon with the diversity of society, with the simultaneous presence of many concrete interests. Our political mechanism was not adjusted to that fact. Originally, the East-European political mechanisms were based upon the central elaboration and implementation of the uniform social interest in every important issue and did not sufficiently reckon with the fact that a great many particular interests are present within the general social interest – in the economy, in cultural matters and in public administration, – which have to be studied, explored by politically minded people and allowed to confront each other in order to clearly see and be able to implement the social interest in the really decisive and important questions. In our countries, however, the system of political institutions was based precisely on the assumption that the Party that has the leading role is able – even without weighing up and discussing particular interests – to work out the interests of society using its own political instruments, then mobilize the state machinery for its implementation, and afterwards ensure the support of the masses. In Eastern Europe this political model was adequate in the revolutionary period and at places it operated well. In those times the political mechanism was in harmony with the system of goals of society. In every smaller community a few similar but highly important objectives had to be attained and similar methods could be applied. There were few debates and voting was rare, yet this sweeping movement was democratic. The masses followed the Party in the realization of the social revolution in Hungary and, I think, also in many other socialist countries they felt in their daily activities that highly important objectives were being realized in their best interest. With the passing of the particular social climate of the revolutionary period, once things were consolidated, this political model could less and less play the role of a link in the Leninist sense between the party and the masses. Today the interest of society gives priority to qualitative goals and these are mostly differentiated according to area, working communities, and even major sections of society. With such a differentiation of goals and interests, the interests of society can be asserted in the socialist countries only with a higher degree of political democracy than the present one, using methods that clarify and reconcile interests. We are still at the initial stage of developing a socialist democracy of that nature.

The third reason in my opinion is that ideology cannot carry out its function in connection with the internal contradictions of socialist society. Our way of ideological thinking has, in many respects, fallen behind, it has not developed further. It is an ideology that expresses social relations between the two World Wars and at the end of the Second. I would even venture to say that in some of its aspects (in the theoretical ideas concerning socialism) it was backward already relative to the then prevailing conditions. As regards the central core of ideology, I consider the theoretical pillars of Marxism as up-to-date, well founded and firm even today. Marxian historical materialism is confirmed by history itself, we have no reason to question the theory of the development of social formations. The classic Marxian theory of the class struggle is still a soundly functioning compass in the social struggle. The concept of the dictatorship of the proletariat as the instrument of revolutionary change holds true even today, although in theory it should be more clearly distinguished from every form of traditional political dictatorship. The same holds for the necessity of a planned economy, for our fundamental stand aimed at the restriction of spontaneous market forces in the interest of society. In all these respects our theory provides sound answers to social problems even today, thus it disposes of the crucial features that are required for a theory of our days, yet many theorems were added to it, which were incorrectly identified as criteria of a Marxist way of reasoning, although they only expressed *ad hoc* practical responses.

I am of the opinion that the East-European ideology related to socialism – while it answers social reality in many important parts – deviates today from the situation and the requirements in two respects: in certain of its aspects it parts company with reality and runs ahead towards communism (the cult of equality), in others it has got stuck in the ideology of revolutionary change (the concept of social interest, the interpretation of democracy). (. . .) When it comes to one of the most important questions – the relationship between state and society – I feel that our theory is vague and unclarified. Like many others, I find the theoretical substance of the problem in the fact that in Eastern Europe we all along identified the socialization of institutions with étatism,* and rejected the principle of self-government, and later thought it could only be implemented in communism. As a result, both theory and practice slipped onto an incorrect line at places, thus our present thinking still overestimates the social efficiency of state action. The theory of self-government in Yugoslavia came into being as a sort of counter-effect. It is absolutely justified as one kind of socialist model, though, precisely because it came about as a counterpole, it perhaps overestimates the scope for action of smaller communities and underestimates the role of government action.

It is a characteristic shortcoming of the political economy of socialism even in our own days that it, unfortunately, underrates the objective existence and role of the market. This has grave practical consequences for the economic equilibrium of the East-European countries, for the profitability of production, and for the supply of consumer goods. As a consequence, if the ideology is mistaken or uncertain concerning this problem, an

*In the sense of direct national ownership and control of the means of production. – Ed. note.

economic policy that works also in the long run cannot be formulated, sooner or later difficulties will emerge in social development, unless changes are made in time, as they are in some countries.

But I must emphasize that in practice there is no direct correspondence between the above deeper reasons and the immediate concrete causes, we cannot say that the deeper causes directly gave rise to the troubles in practice, their existence can only be presumed. In reality the workers of Poland rebelled because there was no meat or other food in the stores, and yet they were told day in day out that everything was done in the interests of the working people; they had to listen to sermon after sermon that under socialism low prices were an achievement that would last forever and yet the government wanted to raise prices and they did not understand the reason why;– a belief spread in Poland that it was not proper to be religious, thus a believer officially was not supposed to be religious, but non-officially a great many people were religious and this caused grave contradictions of conscience. These were the concrete causes – and this is why there cannot be a one-to-one correspondence between the deeper causes and the direct causes. But the thread linking them exists, even if it is invisible.

Collectivisation of the Hungarian agriculture between 1958–1961 and its consequences

Q: Enough said about the events of 1956, let us now speak of the economy. Concurrently with toughness in consolidation the new leadership exhibited political realism, the agricultural policy was changed, the obligatory quotas of delivery of produce were abolished, the agricultural price scissors were closed somewhat, and agricultural production soon improved. In 1958 collectivization was started again and it quickly ran its course, being completed in three years. Difficulties arose once again in food supplies, and shortages appeared relative to previous years which suggests that collectivization perhaps took place too quickly. In addition, there were rumours that although the procedure could not be compared to the methods of the fifties, complete spontaneity was not observed by the political agencies this time either, as if there were insufficient time to hold one's hand and wait for the peasantry to really want the change. Another symptom suggesting that this second wave of collectivization may have been too hasty is that financial resources appeared to be insufficient to supply all the newly formed or expanded cooperatives with machinery, as if the state budget had not been prepared for so fast a collectivization either. What, Comrade Nyers, is your present view of the second wave of collectivization?

A: To put it briefly, I think that the economic conditions were not fully ripe for collectivization, the economic interests of the country, both short-term and medium-term economic interests suggested a somewhat slower, more protracted period of collectivization. But political conditions demanded the speeding up, the bringing forward and fast implementation of collectivization.

According to the views then prevailing in the socialist world it was highly questionable whether, in the case of a collectivization process that was extended over a longer period of time, a continuous growth of output could be secured while it lasted. If it could not, it did not appear to make sense to protract collectivization. If however, it could, then this was better and cheaper for the country, since a more gradual solution would imply smaller burdens. In my opinion whether or not a collectivization process extended over some longer period of time endangered the growth of production cannot be decided in itself. Thus, no definitive economic judgement is possible on whether the collectivization process of the sort we chose was correct or we could have opted for a different one. Thus, I would not recommend the Hungarian method to other countries as a general model, although in our country it finally proved to be successful in the long run.

Q: Which were those particular political reasons which prompted acceleration?

A: First of all the country had already started a collectivization drive in 1949, which was discontinued in 1953, then continued again in 1955 and again abandoned in 1956. Taking longer could therefore also be interpreted, to a certain degree, as a weakness, or even a defeat for the system. There was also the problem of relations with the other socialist countries. In those days – although the 1955 agreement still governed Soviet-Yugoslav contacts – relations with the Yugoslavs became strained. I am not clear in my own mind about the role the Chinese leadership of the time had in what went on in the socialist world, but in can be presumed that it had some role. Agriculture, as we all know, had not been collectivized in Yugoslavia. In those times the Hungarian Party and the Party leadership had a particular international problem of identity. They had not yet succeeded in being accepted within the whole of the international movement as an authentic Communist Party that consistently followed the road of socialism, they could not completely avert the suspicion that they were following the Yugoslav road instead. They were thus inclined to prove their ideological and political identity internationally by carrying out collectivization as quickly as possible. I consider the spill-over from Soviet–Chinese relations as a third reason. Although in a weak form, it was then that the Sino–Soviet confrontation began – I was in China in 1958 and I experienced it in person – and that meant that an ideological-political problem arose also for the Khrushchev leadership within the international communist movement, and even within the Soviet Union. It wanted to offer evidence that it was not revisionist, and at the same time also that the Soviet way of collectivization of agriculture was the right one and not the communes advocated by Chairman Mao in China. The Soviet leadership was interested in finding those who showed emphatic support. I believe that this also affected the decision of the Hungarian political leadership although only indirectly. This curious coincidence of various effects may also have prompted the Hungarian leadership to act, and the sooner the better.

In the final analysis, it cannot be doubted that this decision of the Hungarian Party was in keeping with its openly declared long-term objectives, thus there was no question of a major change in the ideological line. Because of its problem of identity there was an

urge to make it clear that any loosening of the alliance with the Soviet Union was out of the question. And these were really weighty political considerations.

Within the Hungarian Party some of the local political leadership advocated also for prestige reasons that we should prove that we were right on the question of socialist transformation. This, too, made for acceleration and pushed the central political leadership in the direction of speeding up collectivization.

Thus, in the last resort, the political reasons proved to be stronger than the strictly economic considerations.

No doubt, burdensome economic consequences appeared, as well, there was a certain price to pay for collectivization, but certainly not in terms of diminished production since output increased in 1959 relative to 1958 and in 1960–1961 it was close to the 1958 level. A shortage of cereals only appeared as an episode in 1963, mostly owing to weather conditions. The real price was that we put out of use a great part of the means of production of small holders within a short time, and that the bulk of manual labour had to be replaced by machinery. Thus a considerable part of the huge investments did not increase output but only served a replacement of the means of production. Modernization, however, could certainly not be put off and, on this account, agricultural investments had to be increased even at the expense of industry and the infrastructure. The change in the structure of investment upset the course of implementation of the Second Five-Year Plan (1961–1965). We considerably fell behind the planned increase in national income (net material product), the Second Five-Year Plan was not a success, and in this the speed of collectivization also had a role. But this rapid collectivization also had a positive impact, inasmuch as it gave a forcible impetus to the application of new reforms in agricultural cooperatives. In the last resort, we proceeded according to the cooperative plan of Lenin, our solutions increasingly deviated from the Stalinistic idea of kholkhozes.

Q: In other countries the process of collectivization was just as fast or even faster, but did not lead to reforms there.

A: Yes, but in Hungary it had to be proved that output would increase together with collectivization, and would boom soon afterwards, and this could certainly not succeed using the old methods. At that time the political situation was not sufficiently consolidated in Hungary to be able to put up with a kind of collectivization that would mean asking allies for food-aid, or resorting to Western imports. Thus, the search for, and the application of reforms was actually almost a necessity in agriculture. At that time Hungary had an outstanding team of experts in agrarian policies both Communists, and non-Communists. They were headed by Lajos Fehér, a Communist, and Ferenc Erdei, who was not a Party member. Theirs was the merit of fighting for the innovations, as real political in-fighting had to take place to put those things through.

Q: What were these reforms that were obstructed in the beginning?

A: Things, one takes today for granted. It may appear ridiculous that they had to be fought for in the first place. For instance, that, income distribution in the agricultural cooperatives should not be based on the workday-units but that income should depend

on actual performance, and be directly calculated in money terms. Such things appear ridiculous today, but at that time there still was widespread dogmatism in the Soviet Union. Khruschev fought against it, but could not break it: many Soviet people, and in their wake quite a few Hungarians, considered it sheer revisionism not to have the workday-unit as the basis of income-calculation. The right for cooperatives to own their own tractor had to be fought for, that the tractor should not be provided by the state machine station, the work being performed by the latter, since this had highly harmful consequences. Every work process: ploughing, sowing, harvesting had two masters. The fight for effective household-plot farming already started in those times (. . .)

Q: Where did this idea come from? Was this something entirely new?

A: No, the basic idea was found in Soviet literature and some of Stalin's Statements. But in Stalin's times it was applied with Janus-faced dialectics. It was declared to be possible, but it was allowed only a shadow existence, and even that was declared transitory. Thus the household plot farms were considered only a temporary political concession, while we took the declared principles seriously. We went beyond the Stalinist method. There it was centrally determined that a peasant family could keep only one cow in the household-plot farm, and one sow, at times it was even determined how much poultry they could keep, that is, as the saying goes they tried to square the circle. But the basic idea was provided by the Soviet collectivization, not by its practice, but by its declared principles. We took seriously what they could not really introduce in practice in the Soviet Union for almost fifty years. Now it seems that fifty years after Soviet collectivization they are returning to their own principles and try to apply them in practice. It would be highly desirable that they succeed, the difficulty is that the household-plot farms do not flourish independent of the actual policy or the economic mechanism.

Q: Accelerated collectivization started in 1958, and the acceleration had political reasons. It was in these years that a situation prevailed where – as you put it – even Kádár's line did not seem to be secure. The trial of Imre Nagy took place in 1958. It was then that relations with the Yugoslavs deteriorated, which necessarily led to more rigidity in the socialist countries. Around 1960 the situation changed, Khruschev took the offensive against the conservatives, Stalin was evicted from the mausoleum. In the meantime the Hungarian leadership consolidated its position, their power strengthened, one might say it was then that what many call Kádárism evolved. 1963 was the year of the amnesty, many men associated with '56 got important positions in culture and public life in general, from that time on a kind of tolerance has prevailed which offers a certain scope of movement for initiatives of various kinds. This is a favourable soil for a reform policy. Would you agree with that way of putting things?

A: Yes, I believe things may be connected in a similar way. In my opinion such an interpretation is likely to be the closest to the truth.

In fact, in early 1957 a general reform policy already had serious chances in Hungary, but the chance turned into reality only in the case of agricultural policy. Between mid-1957 and 1962 the issue was not a general reform-policy, but the elimination of the

grave distortions that prevailed prior to 1956. The restoration of legality, collective leadership within the Party, the carrying out of incomplete agricultural collectivization, the insistence on the crucial importance of competence in the economy and the partial reduction of overcentralization. All these involved changes in the working style of the Party, a break with the Stalinist notion that a Communist is a special type of man, made of special stuff, which had earlier been interpreted by a certain kind of official as a right to run things their way. All these were changes in the right direction relative to earlier times, nevertheless, at that time, Hungarian politics had two options: it contained the possibility both of the restoration of a kind of civilized overcentralized state without Stalinism, but also a Communist reform policy. It was in 1962–1963 that Hungarian domestic policy ceased to be of two alternatives. It was in that period that we unambiguously started on the road to reform.

The Hungarian economic reform

Q: Already before 1956 there was talk about a Hungarian economic reform and about a decentralized economic model. Serious preparatory work was done in the ministries in late 1956 and early 1957. This stopped later, in connection with the then prevailing political situation which we already discussed. In the early sixties the preparation of the reform started again, but the reform was only introduced in 1968. First, how did these preparations take place, and second, wasn't the time that elapsed before the reform was accepted too long?

A: The economic rationality of the reform was beyond dispute in 1957, but there were political factors that worked against it. One was that the collectivization of agriculture was still an open question, since the Party had not given it up in principle, but the time of introduction was unclarified. If collectivization had taken place in a short time, this would have worked against the early introduction of an economic reform, since collectivization was expected to upset the domestic market and thus urged the preservation of powerful centralization, transitorily also in industry. I would not say that about every kind of collectivization, yet I consider it valid for the case of such a rapid, perhaps somewhat forced, collectivization. In addition, it also spoke against a reform, that the reconstruction of the economy could also take place under the then operative directive system, with minor improvements in economic control. Politically this was more advantageous, since thus faster growth could be immediately attained. Of course, such a characteristically short-term advantage also involved long-term disadvantages. In those times the advantages were generally recognized, while the disadvantages much less. Events justified this assumption. There was also a third factor, that in 1957 power was not yet consolidated. The relationship with professional people was ambiguous, it was not really good, and this applied not only to intellectuals but also to a good part of professional people with economics and related qualifications. All that still acted against a radical economic reform in 1957.

The preparation of the reform started again in 1964. Then – I have to say – it was no longer necessary to fight too hard for the working out of the draft reform. Both the Party and public opinion increasingly sympathized with the idea of reform as time passed. When the ideas of the reform were formulated, there was still some political wrangling but only of normal dimensions as one expects with a measure of such importance.

It helped that international conditions in the socialist world were favourable at the time. An economic reform was also initiated in the Soviet Union, and once this is done in the Soviet Union, the atmosphere cannot be against the reform in the socialist world. Later some hesitation and discussion began in Hungary when the substance of the draft reform emerged and it became clear that it differed from the Soviet reform, but I must insist that at the time there was no argument or conflict with the Soviet leadership on this subject. It helped much, and affected the Hungarian political atmosphere favourably, that the Czechoslovak ideas of reform developed parallel with ours, and they mutually supported each other in those times.

Q: The reform was introduced in 1968 and journalists usually claim that you were one of its fathers. To what extent did the reform in 1968 put into practice the original idea?

A: The Hungarian reform was the result of a collective decision, fortunately it was not the initiative of one man. I consider it as a success that the idea of the reform, and now a practice renewed in many respects, took roots in our country. The reform has not proved an abortive experiment. When working it out and introducing it, we felt like gardeners who are sure that the plant to be seeded is worthwhile, but are not quite sure whether the soil and the micro-ecosystem will accept it. Well, today it is obvious that reception has been favourable.

As regards the original ideas, they had two dimensions, a temporal and a spatial one. On the one hand the ideas outlined a model of an economic mechanism to be evolved in the long run, this was published in the 1966 resolution of the Central Committee of the HSWP. On the other hand the ideas took concrete shape in the measures of January, 1968 and later, which were in line with the long-term principles allowing for compromises demanded by life that were mostly considered to be transitory. Much was realized of the original ideas, but the reform could not be implemented in its full complexity. This situation demanded a further process of reform leading to full implementation. With the introduction of the reform we started to elaborate a form of the socialist planned economy different from the earlier ones. We laid the foundations, as you put it. But in the meantime the economy also had to be developed operatively, and these two things, systems-building on the one hand and the operative control and development of the economy on the other, at times came into conflict with each other. . . This is why we could not leap into the period of the full implementation of the ideas in one go. . . . I think in 1968 we crossed the Rubicon separating the two methods of planned economy, and this is a great achievement of 1968.

The substance of the 1968 reform

Q: What are the main features of the reform which, amount crossing this Rubicon?

A: To put it in most general terms, the substance is that, setting out from the objective existence of the market, we are trying to realize a planned economy in conformity with the market but based on socialist ownership, as against the Stalinist economic mechanism which was based on the elimination of the market – complete elimination in theory, and to a great extent in practice. It follows that commodity (market) and money relations play an active role in Hungary, they have a feedback effect on plans, while the earlier mechanism relied on the natural (physical) central control of economic processes, and commodity and money categories were only formal signs expressing central decisions.

In concrete terms, *one of the main features* of the changes was that we freed the state enterprises from the operative control of the state administration, so that they became autonomous in the economic sense. National economic planning has become a two-level activity: central planning serves the control of the global economic process, the enterprises do not get instructions but draw up their plans themselves.

The second main feature is that we started on the road to a multi-sector economy. We have broken with the earlier dogma which still emerges at times in the international communist movement, that the socialist economy must consist of a single sector, that it must only include state-owned enterprises. The cooperatives had to be firmly institutionalized in the long term in the first place since, in some activities, they mean a cheaper and more efficient form of management. Further, we also acknowledged the legitimacy of various small scale economic activities, including petty trade and tradesmen and craftsmen of various kinds, household-plot farms in agriculture and small-scale cooperations of workers for *ad hoc* activities.

The third feature is a change in the pricing principle and the price mechanism. It was acknowledged that prices cannot be determined by the state on the basis of abstract interests, but that prices are objective categories which develop in production and must be determinant also in consumption. The state must continue to exercise an influencing role on prices and thus also on costs. We established the principle that prices must be formed in the future under the combined impact of three factors: the value judgement of the market, state subsidies and taxes, and production costs.

The fourth main feature is a new partnership to be established between management and the trade unions and greater autonomy for the enterprise trade union bodies (shop stewards), with a strong emphasis on representing the interests of the workforce.

Thus, the substance of the idea is the linking of the plan and the market as factors of equal weight, this we consider a form of the socialist planned economy. We rely on the market since without it our vision would be dimmed when it came to the assertion of the social interest. We insist on central planning since the automatism of the market cannot offer optimum economic results for society. All this may appear sheer eclecticism both from the angle of market theory and that of the conventional theory of planning. For all

that, it can still become good practice, since it is known – though many feel loth to admit it – that desirable economic growth could not be secured in the long run on the basis of either theory.

The retreat

Q: At the end of 1972 the Central Committee met and passed a resolution, the gist of which was that the decisions of the 10th Congress had to be more resolutely implemented. As the public discovered later this essentially meant in a way to halt the reform process in certain respects. Was this, a U-turn or rather a slowdown, what were its causes and who suffered a defeat: merely the reformers, of Kádár himself?

A: In my opinion, the substance of that resolution was that it actually stopped the continuation of the reform process, while at the same time it made efforts to save as much as possible of the results attained, minimizing the U-turn effect. This makes it clear that the resolution implied a victory neither for the reform nor for those who opposed it. The reform process jelled. It had been a motion picture and it now turned into a still. This situation prevailed for six years and the stalemate resulted in substantial losses in terms of both time and money. It could therefore be equated with a relative U-turn.

Thus, after 1972 no essential steps were taken in the interest of a more consistent implementation of the 1966 resolution. Certain measures were introduced which were not of major importance and yet meant a retreat. Such was, for instance, the resolution on the levelling of wages, which acted against higher quality work, or the resolution which granted large financial subsidies to several large state enterprises which had run into economic difficulties because of their low efficiency. This, too, was a backward step, since it stood in the way of efforts to force these enterprises to modify their product pattern, while the social interest demanded the latter. It is true that this resolution of 1972 also contained a sound decision, namely, a general rise in industrial wages. This was a step related to the reform, since it was the reform which had created the possibility for a general rise of industrial wage levels. The same resolution delayed the raising of meat prices (which had been lower than costs) and thus caused a permanent delay for the government in this field. It also stopped the process of granting foreign trading rights to industrial and home trade firms. Cooperatives were excluded altogether from the right of trading abroad.

The 1972 resolution, however, did not revert the original resolution on the reform, nor did it change the general structure of the economic mechanism, thus it did not amount to a complete U-turn. But rigidity still meant a relative retreat if we consider the reform as a process. This was very clearly shown in what remained of the seventies.

Let me say something about the causes of this turn towards rigidity. This was a result of a political debate within the Hungarian Party which became acute in 1971–1972. Certain currents started within the Party which in essence wanted to reverse the reform, roughly following the example of Czechoslovakia after 1969. I would therefore call it the somewhat delayed impact of the Czechoslovak events on Hungary. As I interpret the

final result, the resolution eventually safeguarded the idea of the reform, and this was its positive feature, but it highly unfavourably affected further development, and this was its negative feature. In a critical period it caused several years' delay in Hungarian economic development, and caused unfounded economic growth which had serious financial consequences.

Q: You mean the huge credits Hungary raised in the mid-seventies?

A: Yes, and, in addition, we used them for the financing of the current account deficit and only little for the development of techniques and technology. This also basically weakened the adjustment of the economy to the market. I do not say that every loan raised was due to the grave terms-of-trade losses suffered by the Hungarian economy. But the rigid economy required much more money than what would have been necessary if the operative ability of the economic mechanism had been maintained (. . .)

Q: And if the reform had then continued, perhaps also these credits would have been better invested.

A: Then we would have needed less credit, and what we raised would have certainly been better used. As regards the position of Kádár, that was not basically shaken, but his scope of movement undoubtedly changed.

Q: Since the reform had strengthened his position. . .

A: That's right. The position of Kádár definitely became stronger with the introduction of the reform, the following economic boom and the palpable improvement in living standards. But in 1971–1972 the reform brought to the surface certain weaknesses of segments of the economy sharpened conflicts in the search for a solution and weakened the position of the reformers. This also affected Kádár's position unfavourably. Otherwise, I am of the general opinion that in our parties the position of the number one leading person is strong if the different views and theoretical trends in the leadership are represented in a proportion more or less corresponding to the requirements of the main political line. In such a case it is possible to develop a good political synthesis and choose the better alternative. In those times a particular stalemate emerged within the leadership and this was soon solved by a weakening of the weight of the reform wing. This arranged, apparently and for the time being, the situation within the Party and the government, but, as it has turned out, it could not produce a long-term solution since it had a paralysing impact on action in the whole of Hungarian public life. For, in the end, the reform policy had to be continued after all.

Q: What coalition was it that became dominant within the leadership at that time? What changed? It is all very well to blame the events in Czechoslovakia for the change at least in part, but, on the other hand here were the large enterprises which turned out to be politically strong, and it is also usually said that there were opponents of the reform within the trade unions, and, finally, it is also said that the more conservative forces within the Party apparatus. . .

A: As far as I can tell the motives of the anti-reform coalition of forces and their composition have not been clarified to this very day. There was no open fight in Hungary on this point and there is no open analysis or debate as yet. Otherwise, the decision of the

Central Committee in 1972 also had the role of preempting an open political fight. This perhaps had the advantage of forestalling the perhaps transitorily wider, although temporary, growth of an anti-reform current, but it also prevented certain political positions to come out into open. The wider political public as a matter of fact remained, outside the events. People did not clearly understand what happened and why it happened.

Why was the reform again put on the agenda?

Q: What were the changes inducing the Central Committee in 1978 to take an unambiguous stand in favour of the reform?

A: There were several reasons for that. One was that – and this was a reason of great portent – that the changes in the world economy had had a negative impact on the Hungarian economy. A huge terms-of-trade loss was produced which could not be counter-balanced by an economic mechanism that had become rigid. In 1978 the alternative was either to radically reduce living standards or attempt to restore economic equilibrium by continuing the reform. The other reason was that in 1978 it became obvious – and it would have been good if it had been clear in 1972 – that it was impossible to escape world market competition by means of CMEA autarky. The given situation of the CMEA countries evidently excluded such a solution in 1978. The third reason was that by 1978 the arguments used by the anti-reformers in 1971–1972 and up to 1974 had worn bare.

Q: What were these arguments and why had they worn bare?

A: Well, for instance the argument that the then current annual 2–3 percent price rise accompanied by a 5–6 percent rise in wages was a burden on working people; that the reform meant rising prices, while an unchanged price level would be good for living standards and this could be realized with stricter central control and the restriction of enterprise autonomy. Between 1973–1978 the enterprise autonomy was in fact restricted, prices, however, rose even more steeply, but now owing to central measures. The argument had also worn bare that if the losses of large industrial firms were counterbalanced by government subsidies, changes would be more favourable for a faster rise in the living standards of industrial workers. After the brake on the reform living standards were rising more slowly, thus the arguments did not hold water.

Further steps and the solution of socio-economic conflicts

Q: The reform is based on the regulating role of the market in a socialist economy, nevertheless competition, the most essential feature of the market, is rather restricted on the socialist market. How can you escape this contradiction?

A: One can overcome this contradiction by eliminating forced monopolistic organizations which are not justified by technical or technological necessity but were created

because of an assumed saving of costs. The monopolistic foreign trade companies and the domestic producing and trading monopolies also belong to this category. This process had been stopped by the resolution of 1972. A further remedy may consist in institutionally acknowledging the multisectoral nature of the economy. It is also part of the armory that the state administration should not lay down the product pattern of the enterprises according to some central considerations, the enterprise should be free to develop a profitable activity even if it belonged to the product pattern of some other enterprise. The more efficient should finally survive. To a certain extent, the liberalization of foreign trade belongs to this category. Surviving monopolies could as a result be faced with the efficiency-improving pressure of outside competition.

Q: Will this multi-sectoral nature and the increased autonomy of enterprises, that is real competition on the domestic market, not produce large local autonomies which give rise to systems of relations – not only economic but also social systems of relations – which the centre can no longer control, and which are ideologically unacceptable on this account?

A: If we were reasoning in terms of completely free enterprise and a pure market economy this danger would be very great. But in our country we are not reasoning in terms of completely free enterprise but of a market regulated by the state and a system of enterprise determined and influenced by socialist relations of ownership. Thus the danger is smaller and the advantage is substantially greater. This means that everything that can be efficiently produced by state enterprises should be produced by state enterprises, restricted in their activity only by the limits on their ability to accumulate and to invest. What should be produced or traded efficiently in smaller series, with more frequent changes in structure, should be the task of cooperatives, these, too, are strong economic organizations, generally capable of accumulation and growth. The socialist organizations fill most parts of the economic living space, the private sector is economically limited, and thus a concentration of power is preempted. In what is called the small-scale sector the principle of free enterprise essentially applies to functions which the socialist sector is unable to carry out. In the course of development a specific division of functions comes about which is only slowly and gradually modified under the impact of limited competition among the sectors. Small enterprise is thus a complementary sector. . .

As regards anti-social systems that, together with positive local initiatives, such negative local interests and alliances of interests develop which may counter some central social objective, this danger is an inseparable aspect of any more powerful system of interests. The danger is certainly not as great as in a pure market economy. Furthermore, the organizational intensity of our society is much greater, so that we can take successful measures against harmful social outgrowths, and their proliferation (. . .)

Q: But in a market economy full of competition and autonomies, such systems of relations can come about among the individual economic units and areas which are no longer under government control; does this not change the organizational intensity of socialist society which has been characteristic to our very days?

A: We should not fall into the trap of onesidedly exaggerating phenomena. Our society

is full of mutual support and cooperation, but it also includes, and should include even more than at present, the element of competition. The latter however, does not outrun everything in our country. We wish to give an even greater role to autonomy, but the falling apart of society into tiny communities is out of question, we are protected against that. We own a big tool to cope with that problem, and its name is central planning and government regulation. This is not some all-purpose spanner or skeleton key, because it still leaves room for certain alliances of interest, but the decisions of the national economic plan and central regulation are capable of providing a regulated scope of movement for local activity, allowing the latter to be still large enough. Thus, the difference between us and a free-market economy and a class society is fundamental.

Q: In Hungary a system of producer prices was introduced in 1980, in terms of which prices are being adjusted to prices attained in foreign markets, more precisely, the enterprises have to apply identical profit rates. This still is not a real competitive price. But if the price is not a competitive price, how can it still guide producers? Is it conceivable that at some time Hungary will have real competitive prices?

A: I would say that the prevailing price system in manufacturing industry is a particular combination of actual and simulated competitive prices. The export price is an actual competitive price, enterprises have to cover their inputs from it. In the case of production for the domestic market and of imports (with the exception of basic materials) we apply a simulated competitive price, and even this latter is essentially better than the cost plus prices of the earlier period, since this is already a kind of objective price. It is true, however, that at some time we have to go beyond simulation. In order to go beyond it, first of all domestic market competition has to develop, thus monopolistic organizations have to be further broken up. It is mainly competition within the state and the cooperative sectors that is absent, in respect of competition between sectors the situation is somewhat better. The second condition is a greater liberalization of foreign trade, that is of imports, so that domestic products should be exposed to a certain import competition, greater than the present one. These are conditions of further progress, of a change in the *status quo*. This is really already a clear intention, in the economic commission of the Party it was unanimously accepted that after some time this simulated competitive price of today has to be developed into a real competitive price. (. . .)

Q: In 1956, mainly after the entry of the Soviet troops workers' councils were formed in the larger towns. How did you, how do you interpret their role and what is your opinion, in general, of self-management?

A: The spontaneous and massive formation of workers' councils in 1956 expressed the desire of industrial workers to have a say in enterprise matters and in general on economic questions. In the political situation of those days that had become tragic and confused the councils could not, unfortunately, operate according to their destination and increasingly became forums of direct political activity. As a result, forces that opposed the worker-peasant government were able to exercise a growing influence in the workers, councils, so that finally a major part of them were exploited for political manipulations. Thus it was certainly not a mere coincidence that, as soon as the political

situation consolidated, the workers' councils found themselves in a vacuum, they had no proper place and a large number of trade union activists saw in them competitors whom it was best to eliminate from the life of society. . .

In the last resort, in my opinion the Hungarian events of 1956 do not provide a decisive proof either for or against workers' councils. Workers' councils – more exactly employees' councils including the clerical and professional staff – may be justified not only within the system of enterprise self-management, but they might function even in the system of Hungarian autonomous state enterprises as partners with rights equal to those of management. As far as the future is concerned I do not think this is excluded, insofar as the trade union activity can be brought into harmony with the activity of the workers' (employees') councils.

I consider both social self-management and collective enterprise autonomy as ideas organically connected with the basic principle of socialism. It is a socialist idea which it is desirable to put into practice everywhere where people actually want it and are capable of realizing it, that is, where the essential requirements of self-management can be met, and it does not remain a set of mere formalities. I, for one, am an advocate of self-management in cooperatives and of the self-government of local councils. I also think its realization is possible in areas which can be clearly surveyed and understood by workers, that is, where activity is dominated by living labour and not technology, even in state or local government-owned enterprises. Where, however, to realize actual self-management in this sense is impossible, where it would only be formally possible, it is better to do without it. In the latter case it would be much better, in my opinion, to have the participation of workers in decision-making. When I say self-management, I always mean the collective self-management of workers and never confuse it with the independence of enterprises or other working collectives.

In Poland, the idea of self-management also emerged in connection with the trade union movement. In a sense, I accept it and approve it, I find it to be compatible with socialism. But in this case the category of self-management demands special interpretation, since true self-management can be realized only in the basic organizations of workers; while in territorial and national organizations only indirect representation is possible, the task there is to realize it in a democratic way.

Q: When it comes to trade unions, the system of self-management resembles the classic East-European model of socialism inasmuch as it assumes an identity of interests between the enterprise and its workers, and thus leaves little room for trade union activity. If real trade union autonomy develops in large factories and plants, what will become of the leading role of the Party that represents the identity of interests?

A: In Hungary today the Party certainly does not any longer stand for the idea that the interests of enterprise management and the various groups of workers are identical by definition and in everything. We still believe today that in respect of the objectives of social development these interests are identical, but enterprise plans have to be drawn up in such a way that they reconcile the interests of management and the specific inerests of the workers. This becomes possible through a methodical reconciliation of interests, and

this not only leaves room for the political work of the Party organizations, but actually demands it. This political work does not amount either to enterprise management or directing trade union activity.

Thus, the task and activity of the local Party organizations is directed more and more to the studying and identification of different interests with the aim of reconciling them and bringing the common activity as close as possible to the realization of a general social interest. In my opinion correctly conceived trades union autonomy is not menaced by the activity of Party organizations. The leading role of the Party does not mean, however, the taking of arbitrary decisions, but a political reconciling activity that brings about unity or a viable compromise. In the final analysis, the Party is called on to palpate the differences in interests on national and local levels, preventing stalemates, preempting conflicts, often by working out rational compromises. (. . .)

Q: What institutional changes are needed in order that the targeted reform-model be operational? When e.g. in 1976 very harmful measures were taken in the interests of the large firms, restricting the freedom of seeking alternative employment, the press did not protest although many knew that these were unjust and economically damaging measures. And is there no need for some kind of trades union of enterpreneurs? A sense of security is indispensable for any enterprising. The area under a particular crop can be increased even in a year, but for industrial production, investment and time are needed, and the small investment of a small entrepreneur is a very large sum for a single family?

A: The state regulation aimed at the restriction of labour mobility in 1975–1976 indeed had harmful effects, because it introduced the concept of an unjustified change of employment, although legal criteria made it impossible to establish what is unjustified from the aspect of the employer or the employee. But it still could not be called contrary to law. The measure was lawful and its application legal.

No doubt, in the interests of ensuring the normal economic flow further institutional changes are and will be needed. Of these I should stress a more vigorous representation of interests, further more specific legal regulation and, finally, a greater publicity in connection with economic questions.

More representation of interests affects the trade unions, and cooperative organizations as well as the increased role of the industrial and commercial chamber which cover the enterprises. In my opinion it would also be necessary to establish institutional representation of interests for enterprise managers, since the trade unions cannot, and are not, called upon to cope with this task. The problem is now under investigation in Hungary. The protection of the interests of petty traders and artisans-entrepreneurs has to be broadened. At present there is no democratic and efficient form for protecting the interests of the new forms of small enterprise, but I am of the opinion that something of the kind will become necessary in the future.

The improvement of legal regulation is necessary since today lower-level regulations dominate and almost rule economic life. These frequently change, are difficult to survey and mostly do not provide sufficient security for the enterprising and for innovating ideas. We still have to put into practice one of the original ideas of the 1968 reform

according to which the basic regulations of economic life have to be codified in laws, they have to be publicly and democratically decided upon and not prescribed by administrative agencies. Therefore, in the years to come it will be probably necessary to enliven economic legislative activity.

The press and other media generally give a more and more serious coverage to economic issues than was the case earlier, and space is given to opposed ideas. We are, in my opinion, on the right track in this respect, but the role of the media can and should be increased in presenting to the general public the realities of economic life and the actual situation to a much fuller degree than is the case today. It is likely that in the future the scope of facts and data that are today classified as secret will be narrowed.

The foreign economic situation of Hungary
Soviet–Hungarian relations

Q: It is being said that János Kádár succeeded in convincing the Hungarians that the alliance with the Soviet Union is an unavoidable necessity and, in the meantime, he also succeeded in shaping these relations in favour of Hungary. Hungary obtains her raw materials and energy almost completely from Soviet sources and in exchange she is able to place on the Soviet market everything that cannot be sold in the West. Is that so?

A: It is indeed true that in the last quarter of a century the Hungarian Party succeeded, under the leadership of János Kádár, in shaping the Soviet–Hungarian cooperation in a manner that the decisive majority of Hungarian society accepts and holds to be in the interests of the country. They recognise its historical necessity and usefulness and do not feel that the independence and autonomy of the country are endangered. The Hungarian leadership of the early fifties did not succeed in doing that.

When it comes to the unavoidable nature of the alliance with the Soviet Union, I feel that this definition has far too geopolitical a flavour, and misses the fact of voluntariness and mutual advantages. I do not deny that the geopolitical causes do have a certain role in the cooperation and even the alliance, and I accept them to be serious factors. Yet I must say that this does not, in itself, decide the foreign policy orientation. The geopolitical aspect was present between the two world wars as well, yet there was no alliance, not even real cooperation between the Soviet Union and Hungary.

In my opinion the alliance with the Soviet Union offers great advantages and, if the alliance works well, these are realized by Hungary and, naturally by the Hungarian economy. Production for the huge Soviet market was a great stimulating factor making for Hungarian industrial development. Furthermore, many things can be procured from the Soviet Union, which is an economy of universal character, which make the exchange of commodities advantageous for the specialized Hungarian economy. The fact that the Soviet economy is free from trade-cycles has a favourable effect also on the Hungarian economy. I would add that intensive relations with the Hungarian economy are advantageous for the Soviet economy as well. Beside the geopolitical points of view these mutual advantages have a decisive role in the coming about and maintenance of the alliance.

Of course, it is also true that the fact of alliance itself does not automatically produce the advantages, these must be sought for on both sides, they must be found and exploited. It is similarly important that the problems emerging from time to time can be solved to mutual advantage.

But is certainly would not be correct to consider the above advantages as having absolute validity or as being unlimited, nor can Hungary avail herself of them without making an effort. Indeed, the Soviet Union can supply about 90–95 percent of the imported energy of the country, but only about 45–50 percent of her raw material import needs. The rest has to be obtained from the developing countries or the highly industrialised Western ones. Nor is it realistic to imagine that we can sell everything on the Soviet market. It is a great advantage that if we can sell something at all, we can sell it in large quantities, and thus our economy enjoys economies of scale. But it is also part of the truth that today the Soviet market no longer lacks the competition in imports and, in my opinion, if only slowly, this competition will be growing in the future. Therefore, we can, even in the Soviet Union, sell only such commodities which are competitive both from the technological and the price and cost points of view. It is out of question – and will be much more so in the future – that the Soviet-Hungarian economic connections should be for Hungarians an eat-and-come-again magic pudding.

Q: If there is still a grain of truth in the earlier dogmatic view, the question still arises whether it pays in the long run to be linked so organically the Soviet market? Such a comfortable market position does not benefit development.

A: I acknowledge that a market secured for a long time has a pampering effect on the technological development of industry if the structure of demand does not change rapidly. The Soviet market has been such a market for a long time – for three decades following the Second World War in fact – and this contributed to the quantitative development of production and exports of the Hungarian industry. This advantage however, had to be paid for by a slowing down of technical progress. I am afraid, however, that in the future we must reckon with faster structural changes in Soviet demand, and thus the pampering effect will diminish. One of our eyes is therefore crying, the other laughing.

Today the overwhelming share of the Hungarian economy and exports is linked to two markets and to two systems of accounting and the weight of the nonsocialist is for the majority of industries no smaller than that of the socialist market. Of the exported agricultural produce, of raw materials and semi-finished goods, and of consumer goods one half goes to the East, the other to the West. At present a major deviation occurs in this respect in the export of machinery, because 80 percent of that is directed to the socialist, and only 20 percent to non-socialist countries. Since, as regards the growth of imports, and within it that of raw materials, we shall largely depend in the future on the non-socialist part of the world market, and exports thereto also have to be increased. The key problem of our export offensive is the boosting of engineering exports to the West. Our engineering industry will become linked to and interested in both markets to the extent that we succeed in doing so. Finally, I should like to stress that powerful relations with

the Soviet and the socialist markets will be advantageous for the Hungarian economy also in the long run, and we cannot dispense with them. What would be disadvantageous and cause great difficulties for the Hungarian economy would be a sudden great change in the ratio of the two types of trade for world market or world political reasons, that is if a major switch of markets became necessary in an unnatural, forced situation. This is what we would like to avoid.

Situation and prospects of the CMEA

Q: In 1969 you published a long article [1] about the CMEA integration and advocated its acceleration. To what extent does such a prospect seem advantageous in the present situation? How realistic is it in view of the differences in economic mechanisms? In thirty-three years not even a common currency or convertibility between currencies was achieved within the CMEA. The flow not only of labour but even of holiday visitors is limited. Further, every member country looks outward for markets for its hard commodities while they make efforts to import from each other products containing Western parts. Is there not a centrifugal trend prevailing within the CMEA?

A: I continue to consider the acceleration of cooperation within the CMEA necessary and agree with those who advocate it. It is highly important also for Hungary that economic cooperation with the CMEA countries should be reproduced on an expanding scale. This is a resource for us. It is advantageous also in the longer run, nothing challanges these advantages.

As regards economic integration, I approve of it and think it necessary in a sense even today, but I have to say with regret that in respect of the interpretation of integration great obscurity prevails in the socialist countries. There exists a notion and, unfortunately, a powerful striving, within the CMEA for an integration of an administrative nature which does not pay serious attention to the economic armory of the integration. The advocates of market integration of an economic type are at present in a minority, up to now they have not succeeded in making their ideas convincing for the leadership of the cooperating countries and, therefore, the economic armory of CMEA cooperation is underdeveloped indeed and obsolete in important areas.

The problem of integration is further complicated by the circumstance that the objectively necessary differences in integration relations between the Soviet Union and the smaller countries on the one hand, and between the smaller countries themselves on the other, emerge with great weight. On my part, in the long run I find the possibility of a particular double-linked integration realistic in which a high degree of scientific. commercial and monetary integration would be realized between the Soviet Union and the smaller countries bilaterally, and parallel to that a specific market cooperation (a kind of socialist common market) would evolve among the smaller countries, where capital, labour, commodities and holiday travel flow freely. The latter would be highly necessary in the interests of developing the production and export structures of the smaller

countries, but such a thing is hardly needed and not even possible in the case of the Soviet economy.

I acknowledge that considerable difficulties appear in CMEA cooperation, and these resulted in declining dynamism in the development of cooperation. The earlier model of cooperation no longer stimulates effectively and the new model has not yet come into being. But I do not agree that a centrifugal trend prevails among the CMEA countries. This is a bombastic term liked by some people, who also use it in our country, but in my opinion it does not adequately express the actual situation. What we find is rather a halt in development.

In my opinion in the present period it is the short and medium-term possibilities of the cooperation that come to the fore, it is in this respect that the governments can, and have to, make progress. The long-term program still requires thorough theoretical and practical preparations.

Q: The forces of cohesion have no doubt grown under the impact of the Polish crisis parallel with the centrifugal forces. Perhaps for convenience's sake it is not rare for leaders of the CMEA countries to believe that the Polish crisis was caused by the opening to the West, and as an answer they speak, if not about autarky, yet at least about closer cooperation. What promises to be stronger? Such notions or rather what we got used to in the last decade that the Soviet Union allows considerable freedom of action to Hungary for instance in economic policy, if this guarantees internal stability and if loyalty is complete within the military alliance and in foreign policy.

A: Yes, there are people and they are not few in number, who argue that the Polish crisis was caused by the idea and practice of an opening to the West. But, in its noble simplicity, this is an erroneous and unsound argument. There is a grain of truth in it, and that is that the opening to the West was not coupled with a more flexible economic mechanism that would have made the Polish economy capable of developing market relations. Thus, the Polish economy was placed in a powerful external market environment with a system of essentially non-market instruments and this circumstance greatly contributed to the emergence of the grave economic situation.

It is impossible to realize autarky within the CMEA to any significant degree, and any such attempt would be futile. True, there are some who believe in this idea, but, as it is impossible, it will soon be clear in my view that the idea is untenable.

The notion is more realistic that the CMEA countries should rely to greater extent on their own resources than is the case today. In this form there is realism and soundness in it. But what should be the standard? In my opinion, they should rely on their own resources to the degree that they can balance their imports with exports and to the degree that they can obtain long-term credits at favourable rates of interest from countries possessing surplus capital. In later years they can reduce their reliance on own resources to the degree that the competitivity of their exports increases on the world market.

Correctly conceived, self-reliance means, in my opinion, that every CMEA member country should possess satisfactory freedom of action in the interests of improving its economic performance. It is not in the interests of the Soviet Union to try to restrict the

economic-policy autonomy of the smaller member countries, since this would endanger their internal stability. I, for one, am optimistic about Hungary's autonomous economy and economic policy both in the present and the future.

The Western sanctions and their impact

Q: What is your judgement of Western sanctions from this aspect? Two opinions dominate in the West. Some argue that sanctions will deter the Soviet Union from taking steps of the sort that were taken in Afghanistan or Poland, others again maintain that sanctions are, on the contrary, bound to lead to such actions, since growing confrontation unavoidably strengthens the hand of the conservative forces within the Soviet leadership.

A: My view of the Western sanctions is that no serious or successful pressure can be exercised on the Soviet leadership in that manner. I do not think that they cause serious economic damage to the Soviet Union, but such damage will certainly not force the Soviet leadership to make concessions. It can only make world political conflicts more acute.

I am not sufficiently familiar with the internal structure of the Soviet leadership to be able to judge what responses the Western policy of sanctions evokes, what tendencies it weakens of strengthens. But I find that the American policy of sanctions produces resistance not least in Western Europe and in America itself, it causes annoyance to politicians and also to public opinion.

I would consider it almost a step towards suicide for the future of mankind if agressive forces succeeded in accommodating East-West economic contacts to the extremely bad political relations, if things did not happen the other way round, that the still persisting economic relations promote a slow but real improvement in political contacts.

Q: Do you see any danger for Hungary that her freedom of action might be narrowed under the impact of the sanctions? And what view does the Soviet Union take of the Hungarian reforms these days?

A: I clearly see a danger that the growth of the Western policy of sanctions, and their lasting application to Hungary, the lengthening in time of the present situation would greatly narrow down our freedom of action in economic policy. Emergency situations might emerge and in a lasting emergency the danger would not be that Hungarian reforms are opposed by the Soviet Union, but that in such emergency situation we, Hungarians, would be unable to pursue a serious reform policy. Without a certain degree of freedom of action it is futile to dream about reforms.

Hungary's international payments difficulties and the prospects

Q: Western sources in unison estimate the stock of Hungarian debts above 8 billion dollars. To stop its growth, and to meet payment obligations, the Hungarian government reckons, at least for some years, with an annual export surplus of 800 million dollars. If the debts cannot be successfully rescheduled, and an annual export surplus of 800 million dollars has to be produced for some time, a continued restriction on imports will be unavoidable which is bound to have a negative impact on export capacity. The economy might be thus compelled to further restrict imports if the large export surplus is to be maintained. In other words, a kind of spiral depression is, in principle, conceivable. Does this dark perspective seem realistic, and if it came true would it not be the reform line that would have to pay the price?

A: These are gloomy prospects indeed. I do not say that such a dark future for Hungarian economic development is quite impossible, but it cannot be said that this is to be expected, that this is the likely reality. It is then a kind of purely pessimistic variant. If it came true, there would be hardly any serious possibility for the further reform of Hungarian economic control and management.

But we are not proceeding that way. The relative indebtedness of Hungary is not catastrophic, debt servicing hardly exceeds 30 percent of exports. True, in early 1982 the financial liquidity of the country was in danger, yet the cause was not irresponsible management, but the crisis of the international monetary system, and that a trend gathered momentum in the United States which wanted to put financial pressure on the socialist countries for political purposes. The danger of insolvency was averted by mid-1983, repayments are steady, thus there is simply no need for a rescheduling of credits, and I firmly believe that there will not be any.

But I go further, I also say and maintain that the pessimistic variant can be avoided precisely by continuing the reform of economic control and management. It is an actual possibility that we can bring to the surface such reserves – in efficiency, in management – with the aid of which this continuous export surplus can be produced for quite a few years. The fact that the foreign trade surplus has to be reproduced each year on a certain level does not, in my opinion, reduce the economic resources by themselves to an extent that makes development of more flexible management impossible.

My own impression, and that of many others who work in Hungary today for the economic reform, is that there is a considerable reserve in the Hungarian economy in the enterprise sphere which can come to the surface if enterprise management is shackled less. True, imports have to grow, since the economic reform cannot evolve with declining imports. The further development of the reform needs growing imports and somewhat faster growing exports. What we cannot continue is to increase our exports with a high growth rate of imports. And this is mainly related to the imports of materials and energy. Thus we must be able to develop such an export product pattern, in which the value added is greater, and thus exports can grow faster in terms products and energy contained

in them. If we succeed in doing that, then we can somewhat increase the gap between imports and exports so that sufficient imported products, materials, energy and technology become available for domestic use. But this is already related to the question of the economic reform.

One might say that the most exciting question today, both from the aspect of further developing the economic reform and from that of livelier economic growth, is whether there is or there is not a reserve in the Hungarian economy that could be exploited by improving management methods? Those who are pessimistic in respect of the continuation of the reform say essentially that such a reserve exists no longer. The position of the reform-school is, that there is such a reserve but, naturally, it is in the enterprises and not the government agencies, thus it cannot be brought to the surface with simple macroeconomic instructions. I therefore believe that, although given the difficult economic situation only a relatively narrow path offers itself to the Hungarian economy to smoothly carry out further real reforms, yet there exists a way and mode to do so. Given a political consensus it can be implemeted. To sum up: the averting of the danger of insolvency, and the actual likelihood of a political consensus contradict the earlier mentioned pessimistic judgement.

Q: Did the meeting of the Central Committee in April 1983 suggest that this consensus exists?

A: The Central Committee meeting did suggest that this consensus exists in respect of the policy line but the actual content of this consensus on some issues of the reform process still awaits clarification. Thus a consensus has been reached about the necessity to continue the reform policy, and not to stop. What remains to be done is that the general will for further reform should be manifest in concrete proposals. The working out of the concrete steps in order to further develop the reform is in process.

As for our indebtedness, I think that from the point of view of our present conversation the clarification of the precise sum owed by Hungary is of secondary importance. All the more so, as there are different estimates and computations: there actually is a variant of 8 billion dollars, but the majority of Western analysts – particularly bankers – put the stock at seven billion. According to the computations of the National Bank of Hungary, the gross stock of debts is close to that sum of seven billion, while the net stock is below six billion. But the amount is of secondary importance, since the liquidity of a country can be sounder even given a greater debt, and it can be worse with a smaller debt. What I want to say about our present stock of debts is that it assumed dangerous dimensions from 1974 to 1978, and has not essentially grown since, in the last two years growth has stopped and the present order of magnitude is not unmanageable. Nor do the debts require rescheduling, only somewhat normal – not favourable but normal – East-West business relations. Of course, in the case of serious disturbances in East-West financial relations the liquidity of the country could not be preserved given these debts. We hope, trust and try to promote that East-West relations should stay normal. We do not put our trust in illusions, such as an abundant flow of credit, nor do we demand it. Essentially I believe that it is necessary to maintain the present level of indebtedness and to eco-

nomically, profitably use the credits for the Hungarian economy in the interests of smooth development. With a livelier growth of the economy and exports the credit burden of the economy will diminish even if the present level is maintained, and this in the last resort amounts to a reduction in indebtedness. But even today I must say that the credit burden has not yet become insoluble relative to the volume of exports.

Q: How much has to be paid annually in principal and interest?

A: In 1983 the total debt servicing is to the tune of about two billion dollars, comprising both the repayment of expired credits and interest.

Q: With exports amounting to five billion this means 40 percent, which is rather much.

A: Of this, under normal conditions, only 800 million has to be paid out of export revenues, because for economical development objectives we raise about one and a half billion dollars financial credits from banks and import operating capital as well. With these, as I said, the stock of credits will be maintained at unchanged level.

Q: It is said that next year Hungary will have to repay much more.

A: Somewhat more. But this year this sum has approached the peak. Fortunately, the interest itself is declining somewhat. I believe that the expired credit, that is, the repayment of capital does not grow any faster than interest payments decline.

The Hungarian development trends and the question of different models of socialism

Q: After the defeat of the anti-Habsburg Revolution and war of 1848, the collapse of the Republic of Councils of 1919, the Horthy dictatorship, the defeat suffered in the last war, and the putting down of the 1956 uprising, this has been the first historical success of the last twenty-five years – as a renowned Hungarian intellectual said. He added that if people compare the present situation to that of 25 years ago, the observer has the impression that people wish to preserve what they have, the reality in which they are living. Particularly if they look round in the other socialist countries. This is the success of Kádárism. Hungary is the most stable socialist country, people do best here. Do you, Comrade Nyers, agree with this?

A: I agree that the past 25 years have been one of the few, very few, successful periods in the history of the Hungarian people. Great, elevating periods of our modern history were the Reform-Age which attained its peak in the Revolution and war of 1848–49, then in this century the bourgeois revolution of 1918 and the Republic of Councils of 1919, and after the defeat of fascism, the rebirth of democracy in 1945–1948. A great date of development is 1948, the year of socialist changes, but the years between 1948–1956 cannot be unambiguously called successful since historically great and beautiful objectives were mixed with fanaticism and unreality. In the last resort, all these earlier periods were, unfortunately, mere episodes, while the last twenty-five years are already measurable by historical standards. Therefore in my opinion, as well, we may speak of the first lasting historical success in the modern history of Hungary. I hope that

objective historians of succeeding generations will judge this period in a similar manner. It is quite true that the majority of people also highly value the achievements of these twenty-five years and, in general, wish to maintain political consolidation and the tendency of economic advance. It could well be true, however, that the maintenance of these achievements is not as simple a matter under the present world economic conditions, but the will is very strong in the people and so it is in Communists, to achieve this aim. As regards Kádárism – to use the common expression of everyday life – one might say that Kádárism has been successful in Hungary against Rákosism, or, in the wider sense, against Stalinism. But one can think with reason and justification about the term itself, about what we should mean by Kádárism, but also about whether Kádárism exists at all in the historical and political sense. I am of the opinion that we who want socialism – and communism in the distant future – cannot restrict the freedom of action of ourselves and our offspring by linking our idea with the name of a however important historical personality, since the idea bears a greater and deeper meaning. It is well known that even the "isms" derived from the names of our two great classics, Marx and Lenin, are sources of misunderstanding, since they are categories that can be interpreted rigidly. What is the substance of the policy implemented in Hungary under the leadership of János Kádár? I would say that this is a socialist *Realpolitik,* in specifically Hungarian conditions. It is socialist, because it follows socialist principles in the solution of great social problems. It is *Realpolitik* insofar as it considers theory to be a compass, and one to be perfected, which, while guiding policy in practical tasks, does not subordinate it rigidly to theoretical considerations. It is specifically Hungarian, since it could not be successfully applied as a whole elsewhere. As such a policy it has, in my opinion, been justified.

It is more difficult to say, speaking economically, whether the Hungarian people really enjoy higher standards of living than those who live in neighbouring countries. Actually we live better than many of them – there is no need to draw up a list – this can be economically proven and politically perceived. But I must also tell you, because it is an important fact, that the level of per capita general consumption is relatively high in Hungary, but lower than in the German Democratic Republic, and lower than in Czechoslovakia. If we take as standard the consumption of material goods, that is, how much is consumed annually by an average GDR, Czechoslovak or Hungarian average citizen, Hungarian consumption comes third amongst the socialist countries. According to the last economic comparison – made in 1978 – the Czechs and Slovaks annually consume about 10 percent more and GDR citizens 15 percent more material goods than Hungarians.

But, if a second measuring rod is applied, a fuller picture is obtained, and that is the conditions of consumption, and the degree of efficiency of satisfying needs, that is the access to material goods and the control citizens have over shaping their pattern of consumption according to their own demands and income level. In this respect the situation is undoubtedly best in Hungary, commodity supplies are continuous, the range of available goods is wider, the time of access to commodities is shorter than in the other

two countries. Consumers express greater freedom and potentialities in that they can consume within a commodity structure that most favours them and at the time best suited to them.

While the former is a quantitative indicator of living standards, the latter is a qualitative factor. Both are important, but none can substitute for the other. It is the combination of the two that describes the actual situation.

Q: One more thing about Hungary, before trying to expand the subject to East-European socialism in general. Several leading personalities of the HSWP declared in Hungary that there are no different socialisms; there are but different practices and different realities, but the substantial features and, particularly the political and social model, are identical. How far do you think, Comrade Nyers, differences can go?

A: In my opinion, in respect of the socialist principles there are indeed no different socialisms. There are cardinal socialist principles which are identically valid for every country. With our present terminology we may call them the general laws of socialism and I feel this is an adequate term for them. In my opinion, the following are meant: the dominating role of socialist relations of production in the economy and the tool of central planning; the elimination of class differences in the social relations, the open nature of society; equal opportunities for education; and the leading political role of the party of the working class. All these are expressed in the ideology of socialism which has a dominating role in society over other ideologies. These are, in my opinion, the general characteristics of the socialist type of social relations.

But the subject of the economic, social and political model of socialism is a more complicated question, and it is difficult to express a position that might be considered as a consensus. Opinions differ nowadays, according to some there may be national variants of a single model, while according to others several models exist, others again negate the right to exist of a model.

The question arises what should be meant by a model? On my part, I mean when I say the model of the economic mechanism the characteristics of the systems of planning, regulation and economic organization; by a social model I mean ownership and class relations; by the model of the political mechanism the institutions of political parties, political representations of interests, institutions reconciling and controlling interests as well as the political decision making institutions. In my opinion we cannot say in respect of either the economic, or the social, or the political institutions that a single model exists in the socialist world, and perhaps it would not even be good if one were to exist. In my view, the working class, its allies and political leading groups of every country have to adapt the general principles and laws of socialism to the actual conditions of their own country. In the period between the two world wars the general principles of socialism had to be applied in a single country, the Soviet Union, as well as in the Mongolian People's Republic, which, however, was not in a position to seek an independent solution in respect of a social model, thus a single model existed. The period after the Second World War was that when socialism was spreading to several countries and it still goes on. At

that time the general principles already had to, and still have to be thoroughly adapted to the particular conditions of several countries.

As I see it so far, three kinds of model for the economic mechanism of socialism have come into being. The first is the Soviet model, essentially shaped in the thirties, which has since then undergone a certain development. In every country where the Soviet model is applied, this is done with certain modifications. As long as we were living and working in Hungary according to the Soviet economic model, we, too, built into it specific solutions. Historically it was the Yugoslav model that developed second. It combines the principle of a market economy with the principle of the self-management of workers and with planning from below. In my opinion, the Hungarian economic mechanism may be considered as a third model, developed over the last one and a half decades. Of the three models it is the Soviet system that is the most mature, the Yugoslav mechanism cannot be considered as yet fully developed, nor has the Hungarian economic mechanism fully evolved yet. None of the three models seem to be transferable in unchanged form into conditions prevailing in other countries. Therefore, every country has to painfully work out its own version.

All these economic models consist of some linking of planning with market relations. Centralized and uncentralized decisions in a particular combination are attached. I see the substance of the Soviet model in that it completely subordinates the market relations and market mechanism to the central planning in physical terms. Therefore, money and commodity (market) relations have but a subordinated role. They do not really act on the central plan, and do not have an essential role in its control. Commodity and money relations and the market exist in a strongly simulated form. I see the substance of the Yugoslav model in that it bases the linking up of self-managing communities completely on commodity and money relations, thus it places management in a market environment, but the market influencing role of central economic control is weak and its armory of instruments is not satisfactory. The substance of the Hungarian model is that it tries to bring central planning into an organic unity with the market mechanism, it does not subordinate the one to the other. It makes efforts to release reciprocal effects into the economy. As regards the relative proportions of centralized and decentralized activities the Soviet model is completely centralized, the Yugoslav model is in principle completely decentralized, while the Hungarian economic model implies a combination of centralized and decentralized activities.

We cannot speak of differences in models in respect of class and ownership relations, rather of deviations by countries in the internal stratification of the working class, in the roles of the state and cooperative property, in the deviating application or restriction of small family undertakings. Nor do differences in model appear in the case of the political mechanism, but the deviations from country to country are rather significant. In government administration there are differences in the application of the principle of control by branches or regions, in the role of the representation of interests as regards trade unions, cooperatives and small undertakings, in the political role of professional people, in the use made of local self-management. The future development of the political mechanism is

made necessary by the well observed fact that with diminishing class differences ever newer interests of strata and groups appear and demand social and political representation.

The question now emerges whether countries may be called different socialism where the economic mechanism differs in three ways, where class and ownership relations show strong similarities, but also show differences according to country, and their political and institutional systems are also in principle identical, but different in form and ways of operation. Inasmuch as socialism is considered a world phenomenon which is an idea to be realized in an age when nations are particularly distinct, which thus has to adjust to various national conditions, then, in my opinion, these different systems that are of the same type cannot be called different socialism. In the same manner as American capitalism and Italian capitalism which essentially differ in economic setup, cultural institutions, and political mechanism cannot be called, even theoretically, different kinds of capitalism. The difference is nevertheless essential. Just as would be absurd to play politics in Italy in the American way (or *vice versa*), it would be similarly absurd to organize the political life in Hungary in a Soviet manner, or that of Poland in an East-German way or *vice versa.*

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REVIEWS

A DEBATE IN HUNGARY ON THE POSSIBILITIES OF COOPERATION WITH WESTERN FIRMS (1982–83)

G. REJTŐ

On the debate

The paper written by Zoltán *Krasznai* and Mihály *Laki* entitled "Conditions and possibilities of cooperation in production and trade with Western firms in Hungary" [1] has been originally published in Hungarian in the monthly "Külgazdaság" (External economy) in the April issue of 1982. After several comments the reply of the authors as well as an editorial postscript appeared a year later, in April 1983. It is easy to draw a quantitative balance. 14 articles of 15 authors were published in the debate, on approximately 100 printed pages. From those giving their comments seven were scientific researchers, three working in ministries, two in education institutions, again two in central economic institutes and one was working in a bank.

As regards the contents of the debate the situation is not that simple. To draw a balance in a period when also the equilibrium of the Hungarian economy is threateningly precarious does not belong to the easiest tasks. At the same time it is an instructive and exciting work to collate ideas arguing with or complementary to each other in an era which attaches special significance or importance to every written sentence. In the 1980s up to now Hungary – and more or less also the other small countries of the CMEA – had to face two interrelated economic problems, to an increased extent. One of them is *indebtedness to the Western world* and the other the growing inflexibility of the production structure and their *lag behind the worldwide development of technology*. It is not a strong claim that the conditions and possibilities of cooperation in production and trade with Western firms entail such a complexity of questions in which, by starting along any of its threads, one arrives sooner or later at both of these problems. This indicates the topicality of the subject which is an essential condition of any genuine exchange of ideas. A characteristic feature of debates in the social sciences is that, closely connected to the current everyday problems and searching for their solutions they (may) reach findings of more general validity. In the debate to be reviewed in the following no such economic theorems of general validity have been formulated but the imperative necessity of choosing an *economic strategy* and within this the requirement of changing the Hungarian policy regarding the import of *functioning capital* followed up to now has been established.

Raising the question

It is not merely for the sake of brevity that instead of the more comprehensive notion of "cooperation in production and trade" we have used the expression of "functioning capital". One of the most important findings of the opening paper of the discussion was precisely this distinction – and, in its wake, virtually all of the commentators cast their votes for or against it – 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, 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." Much more pronounced is the statement also formulated in the opening paper according to which "... *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...*". Thus, according to the study, the economic policy of the countries which rejected the import of functioning capital "... was either aimed at import restriction and substitution already from the very beginning, or they were forced to give up gradually their export-oriented policy and change over to the path of forced import restrictions and substitution...". Already these few lines foreshadow the horizon of the questions to be answered, namely the problem of *adjustment* of the Hungarian economy *to the world economy*. And though the participants in the debate argued against some statements in the wording, the justification of the adjustment problem was, as a matter of fact, not denied by any of them. The author of the article perhaps of the highest standard, András *Inotai*, wrote the following: "The involvement of foreign capital *does not emerge in itself* but closely connected with the new economic strategy. Owing to the increasing problems of the Hungarian economy, the decline in international competitiveness, the well-known limitations to boosting the volume of exports, the very slow improvement of the export structure far from being free from contradictions – as has been indicated by a growing number of signs for years – choosing this economic strategy can no longer be delayed and, its well-considered, at the same time as far as possible, rapid introduction is a more urging necessity than ever." [2] Somewhat antagonistic to that is the approach – qualified "tactical" by the author cited just above – which puts the question in this form: How can the import of functioning capital be fitted into the Hungarian foreign trade policy? The "strategic" approach –

*Here and in the following italics within the quotations are those of the respective authors.

according to the formulation of Inotai – is the question "solely of a conception penetrating to the depth of things and promising success in the long run": "how should the economic policy be changed in order to make foreign capital interested in production cooperation and, besides, this cooperation be developed in such a way that it should be advantageous also for the given (receiving) economy? [3]

What is independence depending on?

It would, of course, be premature to draw such a conclusion from the foregoing that in terms of the so-to-say "tactical" considerations merely fruitless thoughts were born. An interesting exchange of ideas evolved for instance – partly connected with economic dependence or independence – regarding the question of functioning capital *versus* credit capital.

Ágnes *Hitessy* wrote in her remarks: "As against raising loans as an alternative (beyond the fact that it also involves significant export limitations) *the direct import of capital entails unquestionable advantages.* It brings a simultaneous solution to the shortage of assets in the spheres of both production and foreign trade. Namely, it diminishes the capital demand of domestic development in the proportion of drawing in foreign resources and, parallel to this, in proportion to the net export increment resulting from it, improves the Western balance of trade of the country." [4] (The true, "immanent" cause of capital shortage and the balance-improving possibilities of functioning capital will be dealt with later on.) The author enumerates in the following the other additional advantages of the mixed venture (functioning capital) which cannot be secured by contractual forms, arranging them under separate headings. They are briefly the following: greater competitiveness of the jointly manufactured products, acquisition of up-to-date methods of management, organization and marketing, utilization of the marketing network of the partner, approaching the desirable supply equilibrium in the internal (home) market.

Also Tamás *Bácskai* took a stand in favour of the import of functioning capital, essentially based on two viewpoints: "Capital investment from the viewpoint of the receiver means a final grant, in opposition to a credit charged with the burden of repayment in instalments. The charges of enterprise debts are in general – depending on the terms and interest rate of the credit – higher than those of the profit transfer proportional to the capital participation. This is especially valid for the early 1980s." According to the other consideration, "the direct common risks and common interest in profit develop such forms of behaviour with the foreign investor which are favourable for the recipient enterprise and country in respect of technology, management and foreign marketing." [5] He adds, however, that, in view of the only symbolical presence of joint ventures in Hungary these advantages are existing rather only theoretically at present.

In the opinion of András *Inotai,* however, "It cannot be decided in itself, which foreign financial resource entails more favourable effects. But it can fairly unambiguously be stated on the basis of international experience so far that both credit capital and

functioning capital adapted themselves to the economic policy of the recipient country, i.e., brought about favourable or unfavourable effects depending on the implemented economic policy." The author enumerates examples showing that even in the case where exclusive preference is given to credit capital, indebtedness may reach a large extent and the degree of dependence may be grave (Peru). It is important to stress this because one of the "strengths" of aversion to functioning capital is that it is fostered by the anxiety for economic independence; at the same time he presents also examples to the effect that competitiveness in the world market can be achieved without functioning capital (the rapidly industrializing Asian countries). The latter is a reply to those expectations which hope to solve the troubles of the Hungarian economy by boosting the import of functioning capital. This means that we have again reached the question of the economic policy to be chosen: "It cannot be doubted – writes A. Inotai – that the participation of foreign capital in Hungarian production may mean a certain coercive power creating conditions which the own environment of the Hungarian economy could not (or did not dare to) bring about so far... This is practically admission of the fact that we are unable to overcome the problems of our economy by ourselves. If this is so, foreign capital – as proven by a series of international ventures – would rapidly adapt itself and fit into the given environment and, although not remaining without effect, the favourable changes induced by it would be lagging far behind expectations." [6]

The same idea can be found in the comment written by Péter *Margittai* (who in his paper devoted a separate chapter to the theories developed on technological dependency): "It does not make much sense to expect everything from the foreign investments until we do not possess an economy much more open than the current one, responsive to the innovations many-sidedly subject to, and thus acknowledged by the world market. Opening to foreign investments is not much worth in itself, without dynamic enterprises and technological infrastructure." [7] A few pages earlier we read: With a genuine transfer of technology a technological dependence will not come about either, for the transferred technology changes into technological innovation capacity. Thus the secondary impacts of technology are not at all an automatic result and can be asserted solely by adequate control of reception and development policy." [8]

An opinion basically challenging the topicality of the functioning capital issue can only be found in the comment of Tamás *László*. Commenting upon the paper of *Laki-Krasznai* he wrote the following: "Among the novel tendencies of the international division of labour the article mentions that capital investment relations have been recently estimated as being superior to other forms of relations. This finding may be correct within the capitalist world but experience shows that *no such tendency has appeared so far* between East-West countries with different social and economic systems or, respectively, between such enterprises. In the joint ventures established in Hungary large Western enterprises take part to a significant extent (Siemens, Corning, Volvo), but these were rather only of *experimental character*. For instance, Siemens joined into Hungarian production only in 1979, after several decades of experience. The foundation

of domestic mixed ventures remains primarily a question of trust also in the future and it will become timely only at a certain level of inter-enterprise relations." [9]

E. *Terták* – A. *Török* merely lay the emphasis elsewhere – though this is an essential difference. "According to our views – they wrote – the most important condition of drawing in functioning capital to greater extent is – beside the unfolding of the enterprising spirit and possibilities – to develop integration between the CMEA countries in the sphere of commodity and money relations and to intensify inter-enterprise cooperation." [10] The – nevertheless realistic – basis of this opinion is their earlier expounded view that, as the result of the dimensions of the Hungarian economy and the present level of CMEA integration, no market of appropriate size is available for the Western investors. The question of the market, however, leads us to the sphere of those ideas which examine the background of the capital-attracting ability – or inability – of the Hungarian economy.

On the traditional relations

Here it is expedient to draw two dividing lines. One of them between cooperation activity and functioning capital and the other one between the years prior to and those following 1973.

Regarding the latter Terták and Török wrote: "Under the effect of world trade growing dynamically up to 1973 direct capital investments were motivated for the most part by the 'export of jobs' increasing the production capacity. In the East-West relations it was just this circumstance that led to the 'euphoria' of cooperation in the late sixties and early seventies and which ripened decisively the idea of creating joint ventures in the socialist countries shifting to the stage of intensive development. By the time, however, when the legal provisions on joint ventures promulgated in Hungary in late 1972 should have become well-known in broader spheres, the main points of view regulating the international flow of capital have changed. Namely, after 1973 direct foreign investments serving for the powerful reduction of costs and a significant broadening of the market came to the fore." [11] The Hungarian economy could meet these requirements only to a very moderate extent. The halt in the upswing of cooperation relations can be *partly* explained also by this.

In their comment the authors Gy. *Haraszti* – I. *Muskovics* make a distinction between judging the position of the cooperations and that of the joint ventures. The paper opening the discussion formulated a diagnosis of mutual disinterest (both on behalf of the Hungarian as well as the Western partner); in contrast to this the authors use in regard to the cooperation the expression "asymmetry of interests": "Undoubtedly in the foundation of mixed ventures the lack of mutual interest can almost unambiguously be detected... In respect of other forms of collaboration, however – at least at the 'moment' of concluding the agreement on cooperation – mutual interestedness is prevailing, even under the present unfavourable conditions of the foreign economy. For example

the Hungarian enterprise and the Western firm are even today equally interested in creating a cooperation in the framework of which the latter can sell its traditional techniques (technology) and know-how deemed as still up-to-date, coupling it with the advantages of continuous supply with materials and component parts." But "characteristic of almost any form of lasting inter-enterprise cooperation. . . was always the contrast, i.e., asymmetry in the interests of the partners." [12] This arises partly from the unequal economic characteristics of the joining partners which are "entirely different in respect of quality, structure, management and environment", and partly from the superior strength of the Western firm, or, respectively, from the contradictory economic expectations. Regarding the latter, not merely the contrasts between the Western and the Hungarian firm are meant (e.g. in the case of marketing limitation). Several authors emphasized the contradiction between the *aims of the enterprise and the objectives set by the national economy.* Here the economic problems mentioned at the very beginning of this review appear in their full sharpness. The enterprise's motive to acquire techniques and technology is strongly pushed to the background owing to the assertion of short-term national economic views related to acquiring foreign currency. In the sphere of cooperation e.g. the latter has led to the spreading of the cooperations characterized as commission work or those which serve for import substitution. "If the main interest of the Hungarian enterprise were to make profit, it would be likely to put the emphasis primarily on the powerful and lasting increase of its competitiveness and not on the momentary advantages of extending its exports against convertible currency which is rendered possible by the Western firm" – says the paper of Gy. Haraszti – I. Muskovics [13]. Ágnes *Hitessy* put it in this way: "the efforts to improve the equilibrium of the balance of trade with the West have often resulted in forced solutions regarding also the cooperation policy and, contrary to the long-term structural policy considerations, what is more, crossing them, have led to short- and medium-term solutions." [14]

Thus, in regard of judging the situation of the cooperation relations the standpoint of those commenting is quite unanimous. The only exception is Tamás *László* who explains the non-commital attitude of the Western firms with the recession experienced in the world economy and holds that the cooperations carried out up to our days were, if not perfect, yet favourable. He wrote: "From a national economic viewpoint it can unambiguously be stated that *as a result of international cooperation the technical standards and quality of the released commodities improved,* organization in the participating enterprises strengthened and, finally, the *competitiveness of the Hungarian products in the foreign markets increased.* . . We may emphasize that 80 percent of the agreements involve the taking over of some new technology, the purchase of licence or know-how, and up-to-date plant organization." [15] Though not denying the facts stated above, the article of Gy. *Haraszti* – I. *Muskovics* casts heavy doubts on their success: "Since the conditions and potentialities of the domestic research and development activities have not improved considerably in the past decade they cannot comply with the requirements and objectives nor follow the rapidity in technical progress conveyed by the increasing demand of the world market. Actually this is why the cooperation in technological

development between our enterprises and their Western partners remains merely an intention and also the phenomenon that in their Western cooperations and licence relations enterprises normally do not go beyond a passive adaptation of the acquired knowledge of foreign origin can – beside other factors – be traced back to this fact. The share of their own 'brainwork', superimposed development can only sporadically be experienced, so that no additional value is created." And as a conclusion of this train of thoughts they lay it down that it is not the insufficiency of mutual interests but "rather the *"subsequent impossibility"* of implementing the intentions stipulated in the agreements of mutual interest that we have to talk about." [16]

Why is functioning capital not functioning?

The problems that have impeded the unfolding of cooperation activites – which have so far only been indicated – appear to a greater extent in the case of the mixed ventures. Searching for the failures of the Hungarian objectives of economic policy set in connection with the mixed ventures the authors arrived at the criticism of the economic mechanism and at the necessity of devising a new, consistent economic policy.

Without wishing to diminish the unquestionable value of the ideas formulated by those who made comments I should like to note that in comparison to the fundamental findings of the article opening the discussion, theorems of similar importance have not or have only very scarcely been expounded. "*. . . the practice of the international division of labour followed by Hungary up to now has not only been unsuitable for attaining the objectives set, but even contributed to the sharpening of the foreign and inner economic problems.*" – wrote the authors *Krasznai–Laki* in their paper. [17] And though, I could cite similar statements from the text of the debate it seems to be more useful to give room to the remarks partly supporting and partly complementing it.

On the disinterestedness of the Western firm: One of the most pronounced review of this problem was given by András *Inotai:* "But why should foreign capital come with open arms to Hungary when it can make investments elsewhere under more favourable conditions? Why should it be interested in the capacities in Hungary when similar capacities in the advanced capitalist countries are working far below the desirable utilization (or not working at all)? Under-utilization of the Hungarian capacities is a result of the international structural transformation (and, of course, of an insufficiently foresighted development and structural policy). . . Finally, it is difficult to understand why the specific interests of the foreign capital should be expressed just towards the poorly-operating, uneconomical Hungarian enterprises. Capital even in the Western countries is interested in buying up the well operating enterprises and it is unlikely that this should be different in the case of Hungary working with a much lower economic efficiency." [18] There were many who refuted the favourable statement of the article starting the discussion according to which in a number of spheres Hungary possesses comparative advantages in relation to the developing and partly to the advanced

countries. (The qualification of the workforce, a developed infrastructure, security of investment and, in relation to the Western countries, the wage costs were mentioned as such.) Regarding the latter for instance, one of the debating articles demonstrated that the proportion of wages in the total of production costs is very low, e.g. in the industry it does not even reach ten percent, not to mention that in relation to the developing countries it has no comparative advantage.

Others have drawn attention to the viewpoint of country risks. In this respect recently the judgement formed about the socialist countries has grown worse. One of the factors in this is the foreign exchange situation, as also Tamás *Bácskai* has called attention to it. "Namely it is in vain having profits in national currency, what is more, in convertible foreign currency converted into national currency if in the investor's opinion the foreign currency needed for the transfer of profits is not available in the country." [19] "Distrust is increased – in the wording of the authors Gy. Haraszti – I. Muskovics – by the fact that the capitalist firm does not consider the guarantees offered by the socialist state to be sufficient. Only such a solution would suffice which would indemnify the capital exporters – against payment of insurance charges – for such insurance cases as e.g. expropriation, nationalization, ban on transfers, currency devaluation. This, however, would postulate bilateral government agreements on capital or, respectively, credit insurance. In fact, up to now the advanced industrial countries concluded such agreements only with developing countries or with countires declaring themselves to be developing ones (e.g. Yugoslavia)." [20] There were also some who expressed their doubts about the idea of the authors Krasznai–Laki that if Hungary, in order to make use of her – supposed – comparative advantages, took as first one among the CMEA countries the path of rapid liberalization (in respect of the functioning capital imports), this would bring significant additional advantages for the country. The authors *Terták–Török* thought that "the legal rules regulating the foundation and operation of economic associations with participation of foreign partners created by themselves an appropriate basis for drawing in the functioning capital, . . . no significant further advantages may be expected from their 'liberalization'." About the decisive reasons of this they wrote: "Amidst the world economic system of conditions influencing the international flow of functioning capital it is unlikely that the CMEA countries become rivals to one another as capital importers in the way presumed by the authors. We have formed our opinion partly on the basis that readiness to invest capital in the socialist countries does not grow at present and will not grow in the future to an extent which, even if concentrated to a single country, would grant decisive economic advantages to it in comparison to others." [21]

Examining the causes for the lack of readiness, the paper of Jenő *Bársony* which was published as the summary of a public debate* presented an ample list of instances. For

*Connected with the discussion going on in "*Külgazdaság*", the Research Group of Enterprising, headed by Tibor *Liska*, put the issue of Hungarian policy regarding functioning capital on the agenda of its public debates in November 1982.

example, one of the speakers (Gábor *Miklós)* said: "If they (i.e. the Western firms – G. R.) can choose for example between Greece, Turkey, Ireland, the developing countries of the Far East and Hungary, then we are at a disadvantage also as regards tariffs. This can even be quantified. If the Western firm really had some customers as he has none and if he really wanted to purchase the commodities from Hungary as he does not want to, he would have to pay customs duty on them and this means expressedly a disadvantage compared to other countries." [22] The remark was made in the debate that the licensing of mixed ventures is done individually, it is not a normative procedure. This is an impeding factor inasmuch as according to the specific Hungarian usage also the licensers themselves are interested in the decision-making. This makes the fate of applications incalculable and it mostly lengthens unrealistically the process of decision making, too. Thus it occurs frequently that one or another of those making the decision "tries to block the creation of an undertaking, as being a potential competitor." A further trouble is the question of profit repatriation and, connected with it, the ever more lacking "convertibility" of the forint.

Beyond all these, of course, also the – repeatedly mentioned – obstacles to the realization of capital in the Hungarian market are serious limiting factors. Here, beside the basic conflict – formulated by Jenő Bársony, based on the public debate – according to which "the exports of capital would be mostly motivated by the extension of the market, but the reality of this is dubious, too, for on behalf of Hungary we can hardly offer any new market, what is more, it is rather we who expect the mixed ventures to increase and promote the Hungarian exports"; and beside those stated by Alfréd *Sinkovits,* namely that "the foreign partner is given a certain (relative – G. R.) entrepreneurial independence only in Hungary but this independence and market extends only to the Hungarian borders and in the region of the CMEA ceases to exist", [23] we must not forget – as put by him – that "the possibility of thinking in terms of the total (i.e., domestic and foreign) market is not given to the socialist enterprises because it is not the market variables that determine the enterprise decisions, it is the *economic control* which *influences the decisions by powerful institutional impulses.*" [24] As he writes: for the sake of creating a stimulating market environment it is necessary to bring to accomplishment the money and capital markets, the total commodity market as well as the labour market.

The other side of the solution regarding the limits to the Western firm's sales in the market is pointed out by András *Inotai* who stresses the necessity of an *economic policy oriented to the world market* in which, according to our endowments, also the CMEA has to be reckoned with. The contradictory nature of the present situation has been concisely summarized by Tamás *Bácskai.* His ideas at the same time lead to the introduction of those findings which analyse the disinterestedness of the Hungarian enterprises. "The Hungarian enterprises – with few exceptions – do not consider the increase of profits their primary goal when taking business decisions. The so-called "*supply responsibility*" and the practically uncleared social tasks, among them those of employment and other social tasks intertwined with the current forms of wage and income regulations do not

prompt the enterprises to induce such rationalizing processes reducing production costs which would be reassuring in view of the specific or unit costs, as guiding aspects for the foreign investors. Thus the circumstance that they do not take measures in a large sphere for bringing about the manpower and productivity relations customary abroad in relation to a given output, is an impediment in seeking or receiving the functioning capital that would force these norms of operation unto the Hungarian enterprise." [25]

On disinterestedness of the Hungarian enterprise: Here it is substantially the shortage economy and its consequences basically influencing economic behaviour which can be found in the background of disinterest. I will pick out a few items of the endless list. Tamás Bácskai stated e.g. that "the usages developed by the shortage economy in respect of stockpiling and engaging the circulating capital would also mean inacceptable requirements to the foreign investor." [26] The enterprise behaviour, aimed at security and at keeping reserves, 'complemented' with the low level of profits, with the over-centralized taxing away of incomes and with unsatisfactory internal flow of capital result in that the enterprises have no *assets* to be lastingly engaged, e.g. for mixed ventures. Not to mention the lack of motivation to a risk-taking entrepreneurial type of managing behaviour. Under the present market conditions – to cite the statement of the debate-opening article "... those cooperation agreements are the most pleasant where 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." And, a few lines lower, "... *what is comfortable for the Hungarian enterprises... is contrary to central intentions aiming at the improvement of the balance of payments with Western countries.*" [27] This "recognition" called forth those incentives and direct interventions which attempted to drive the Western cooperations – to use the working of the paper – "against the current" into a direction desirable for the national economy.

What is to be done?

In their reply, closing the debate, the authors Krasznai–Laki repeated: "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." [29] Mutual interestedness in cooperation with the Western firms can only "flourish" on this ground. And all these are not aimed solely at the mitigation of the troubles connected with the balance of payments but are essential requirements for closing up or at least keeping abreast technically and technologically.

This objective, as our practice has shown up to now, cannot be realized through the traditional commercial and cooperation relations. Closing up to the centre of world economy and selecting the central forms of the international division of labour (first of

all the flow of functioning capital) are closely interrelated. "To give up these – wrote Péter *Margittai* – would mean to give up the advantages stemming from the international division of labour which on the other side may drive any development idea to a side-track, or make it precisely a very costly solution." [30] Finally, in their closing article Zoltán *Krasznai* and Mihály *Laki* emphasized that it was indispensable to initiate two processes that are only theoretically separable from each other: ". . . improvement of the conditions of drawing in foreign capital remains in itself ineffective if no *essential* change occurs in the domestic market situation. Moreover, the reform process cannot start – let alone unfold – if the lifting power attainable through a more intensive joining into the international division of labour cannot work." [31]

Once again on the debate

The ideas written down and quoted talk for themselves. It may be surely seen that the comments were formulated not so much in a way polemizing with than rather complementing the thoughts of the opening paper. The discussion on the import of functioning capital (several authors used this expression) is practically part of the discussion on the reform, or in a broader sense, of the reform process which has gathered strength again since the late seventies in Hungary, indicating, as a seismograph, the questions to be answered and at the same time the possibility of searching for the answers by involving the publicity of also the professional press. In judging the discussions it is an important point of view to see how far the participants went in putting the questions. Connected to cooperation with Western enterprises – which is after all a segment of the economic policy – a part of the commentators reached the problem of judging, more accurately, the shaping of economic strategy. The debate was attached to a *partial question* – namely, as also the data quoted in the debate indicated, within the exports destined to the advanced Western countries only 7–8 percent is stemming from cooperation and the number of the mixed ventures is not more than a dozen – but it *did not deal with a partial question.* In the light of the problems of the Hungarian economy related to structure and indebtedness and on the basis of our distance from the multinational enterprises which determine technological development in the world by their functioning capital policy, these data call attention with full force to the existence of a *tendency* threatening the foundations of the Hungarian economy.

Though it seems to be in vain to attempt giving a complete account of the details and the totality of the debate, I still feel it my duty to introduce some *practical suggestions* and remarks. A proposition worthy of consideration was to draw the labour force into the process of transferring technology, for the simple reason that the "bearer" of professional knowledge is man himself. Hereby the "domestication" of new technology may become smoother.

Also the suggestion seems to be sensible to make efforts in order to *export* functioning capital. Beside the "innovative impacts" its use would be to make the exports of commodities "internal". Finally, for strengthening the motivation of Western firms to penetrate into the regional CMEA markets, three methods have crystallized in the course of the discussion (for the sake of simplicity I will cite them from the closing article which gave a good summary of them): "(1) When determining the currency of payments the consequences of foreign currency could be asserted, in other words, the turnover settled in dollar currency within the CMEA could be – partly or completely – directed towards the trade of mixed or joint ventures. (2) Also in the turnover of goods settled in roubles the products of mixed ventures may be such commodities for which we could obtain goods that could otherwise only be purchased for non-rouble currency in order to satisfy the Hungarian demand; (3) through treble cooperation (e.g. joint Austro–Hungarian production for the Soviet market)." [32]

Hungary, in seeking its place in the technological division of labour in the world, may probably not only improve her own position by way of East-West mediation but may contribute to stopping the widening of the development gap between the two world systems or even to diminishing it.

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BOOK REVIEWS

ASSORODOBRAJ-KULA, N. – BOBROWSKI, CZ. – HAGEMEYER, H. – KULA, W. – ŁOŚ, J. (Eds): *Studies in economic theory and practice.* Essays in honour of *Edward Lipiński.* Amsterdam–New York–Oxford, 1981. North–Holland Publishing Co. XII + 251 p.

The book is a collection of papers presented to Edward *Lipiński,* leading Polish economist and public figure, "scholar and man of moral integrity and courage" (K. J. *Arrow*), on the occasion of his 90th birthday. A socialist from his early youth, prof. Lipiński was active both in academic and public life. In 1982 he organised the Institute of Trade Cycles and Prices, was president of the Bank of Economic Development in 1946, deputy chairman of the economic committee of the Polish government in 1957–62 and after 1970, held chairs at several high schools and Warsaw University, edited Economista from 1928. Prof. Lipiński published works on the theory of the enterprise, on costs, prices, wages, on problems of the workers' movement, and on the political economy and economic policy of socialism. In the difficult period of the forties and early fifties his interests turned to the history of economic thought.

This wide range of interest is clearly reflected by the present volume. Its papers are thematically grouped into three parts: I Futurology and history of the economy; II Economic theory; III Planning and development.

The first paper on methodological-philosophical problems of futurology, Jan Czarkowski's "Elements of the theory of prognosticating the development of world demographic relations," is a serious attack against the methods used by the early world modelst of *Forrester, Meadows* and *Mesarović – Pestel.* These models drew an apocalyptic vision of the world's fate for the 21st century on the grounds that production (especially food production) cannot cope with the needs of an exponentially growing population, given the limited quantity of land and other primary resources. In Czarkowski's view overpopulation is not simply a demographic, but a socio-economic problem, which can be solved by transforming economic relations and the social structure. A higher standard of living and level of education reduce birth rates. Technological progress creates new perspectives for the fulfilment of human needs.

K. W. *Rothschild,* in his "Futurology and the economist" takes quite another position in the debate between futurologists and economists. He maintains that the true motive behind the economist's allergic reaction on futurology is simply bad conscience. Futurology posed dramatically such problems of vital interest – the food and population problem, the depletion of natural resources – that were not given due attention in the main body of traditional economic theory. Another reason for irritation is the futurologists' belief that necessary long-term adjustments cannot come about in the framework of a free market system, a view clearly incompatible with the current neo-classical upswing.

The first paper from the realm of economic history is the international movement of capital in Central and South-Eastern Europe before the Second World War by Zbigniew *Landau* and Jerzy *Tomaszewski.* They set out to verify the theorem of a Czech author, Václav *Král* about an "economic Munich", that is, that French, British and domestic capital left the region in the thirties voluntarily, thus giving up the terrain to German imperialism. The huge statistical evidence collected does not fully support this theorem. Long-term investments generally held out, short-term Western-European credits were, however, withdrawn massively.

In another historical paper, Boguslaw *Leśno-*

dorski draws a picture of the enlightenment period in Poland (from 1720 to 1820). He gives an account of the state-of-the-art in Polish research of the epoch.

Gunnar *Myrdal* tries to revive the advice he gave the Blum government in 1936 in his paper "A parallel: the first Blum government 1936 – a footnote to history". At that time, as a socialist he felt it his duty to aid the first French socialist government with previous British and Swedish experience. His suggestion was to proceed gradually with big structural changes or financially expensive programs (like shorter working hours, paid holidays, substantial wage raises etc.), and to concentrate on an immediate devaluation of the franc, the only delaying factor being the possibility of sabotage from the existing banking system (which was to be ruled out by its comprehensive reform). With Mitterand's socialists in government, the warnings of this old document – neglected in their time – seem to regain significance.

In the first chapter of Part II (Economic theory) Kenneth J. *Arrow* develops an extension of the well-known concept of Pareto efficiency for the case where transfers (either redistributive of market transfer) are costly, the costs being in terms of the commodity transferred and proportional to the transfer's size. A new criterion of Pareto efficiency is arrived at (no closed cycle of economic agents exists, trade along which would be advantageous, not detrimental to all of them), from which directly follows that the so-called first theorem of welfare economics, namely that every competitive equilibrium is Pareto-efficient, remains valid under the new assumptions.

Martin J. *Beckman* in the next chapter constructs a demand function for durables (cars is his example), whose acquisition implies a binary choice' to buy or not to buy. For the special case where utility of the durable is log-normally distributed in the population and utility of income is a power function, the ratio of price and income elasticities of demand turns out to be constant (independent of either price or income).

Leonid *Hurwicz* "On incentive problems in the design of non-wasteful resource allocation systems" investigates distortions from centrally imposed behavioural rules in informationally decentralised systems. In such systems (examples of which are production and distribution of public goods in a market economy or market socialism) participants tend to reveal false preferences and thus the mechanism designed to lead to optimality generally fails. Leonid Hurwich models this phenomenon as a multi-move manipulative game – the moves being adaptation to messages sent by other participants –, whose solutions (the manipulative Nash-equilibria) he evaluates as regards a) correspondence with the original goal (incentive compatibility in the narrow sense) and b) Pareto-efficiency, a much less serious requirement. In an environment with one public and one private good, three participants and an adaptation process of the utility gradient type, Pareto-efficiency always holds if utility functions are linear in the public good. (Interestingly, this is not true for the same class of models with two participants). For an even more restricted class incentive compatibility in the narrow sense can be also assured.

Jerzy *Łoś* "Is mathematical economics a new science? " gives a brief survey of the history of economics using mathematical tools from *Quesnay* and *Cournot* to *Sraffa* and *Arrow*. He distinguishes three main areas of interest in contemporary mathematical economics: growth theory, equilibrium theory and the theory of preferences. For the future he predicts a similar line of development of the subject, as was experienced in physics. Two independent disciplines will emerge' theoretical economics, that is economics, treating its problems with mathematical tools (like theoretical physics), and mathematical economics, which is (like mathematical physics) mathematics, based on economic heuristics (game theory being a good example).

Martin *Shubik* "A price-quantity buy-sell market as with and without contingent bids" models the market as a strategic game. In its one-stage version every participant communicates the maximum and minimum price and related quantity for which he buys or sells. The non-cooperative equilibrium of this game will only slightly differ from Walrasian competitive equilibrium. In the multi-stage variant of the model, where contigent bids (m different prices as a function of quantity) are applied, non-cooperative equilibria proliferate, what must be prevented by restricting the flow of information.

There are two papers in the collection dealing

with problems of macroeconomic theory of the Keynes-Kalecki type. Josef *Steindl* compares the three versions (dating from 1933, 1943 and 1968) of Kalecki's theory of the business cycle. The main differences – apart from a couple of formal-mathematical ones – are found in the explanation of the turning points of the cycle: a negative feedback between accumulating (or shrinking) capital stock and the rate of profit in Version I, incomplete re-investment of savings in version II, and, once again, the negativ feedback between – this time the increment of – capital stock and the (marginal) profit rate.

Departing also from the Keynesian tradition, Paolo *Sylos–Labini* puts forward the concept of the optimum rate of profit. He argues that neither a big, nor a small profit (and – behind it – wage) rate is beneficial for the smooth, uncyclical functioning of the economy, the former being an obstacle to market expansion, (as was the case during the Great Depression), the latter diminishing the propensity to invest (a phenomenon discernible behind today's recession). Thus, the rate of profit (and its main constituent, the wage rate) can be thought of as the central explanatory variable of the business cycle.

In the next article Klemens *Szaniawski* introduces the concept of reliability of information, which means the degree of correspondence between possible states of the world (x) and symbols (y) indicating them. In a deterministic model, where one and only one signal is assigned to every state of the world, the information structure resulting from this assignment is either reliable (every y assigned to that x state of the world, which it stands for), or unreliable (there is at least one misassignement). In a probabilistic set-up, where the information structure is given by $p(x,y)$, the joint probability distribution of the random variables x and y, Szaniawski defines reliability of the structure as $min_y\ max_y\ p(x|y)$ and suggests an agreement upon its semantics $s(y)$ as follows: $s(y) = x$ if $p(x|y) = max_x\ p(x|y)$ that is, let every sign y designate that x state of the world which has the greatest probability to lurk behind y.

Jan *Tinbergen* in his "Skill scarcity, monopolistic and hierarchical incomes in some Western countries" is searching for a valid theory of managerial or administrative incomes, both in business and civil service. An interesting hypothesis emerges from the combination of the results of two sociologists, *Tuck* (1954) and *Drucker* (1977), the first stating that throughout a hierarchy each person serving at some level supervises the same member of people of the next lower level; and the second, that incomes tend to rise along levels of the hierarchy by the same uniform rates. The hypothesis thus establishes a functional relationship between managerial income and the total number of subordinates (if income of the lowest level is given). Calculations based on the data of the 500 largest American and British corporations give income differences of 18 to 42 percent between supervisors of 3 to 10 people and the supervised.

Part III (Planning and development) starts with Zofia *Dobrska*'s presentation of the world economic situation with special respect to structural changes in developing countries. The author asserts that from 1974 onwards the position of developing countries deteriorated mainly as a result of protectionism from industrialised countries. Growth rates could be maintained at previous levels only by substantial increases in indebtedness, which is a further threat to independent economic development.

Guillermo L. *Gómez* and Gerhard *Tintner* conceive of macroeconomic development – represented by time series of certain macroeconomic variables, such as real gross national product, real private consumption etc. – as a stochastic process, which evolves under the influence of its own past trajectory modified by "external disturbances" of a stochastic nature (the effects of public expenditure, private investments, taxes, discount rates and other strategic parameters) and measurement error. The resulting stochastic differential equation gives as solution a diffusion process (a special Markov process), the parameters of which are estimated for Colombia and the period 1950–72 using the maximum likelihood principle. An exponential trend results for each macroeconomic variable dependent on time and on relative variations in the above mentioned "disturbing" factors, which is then used to forecasting (till 1982). Other results of the calculations are variance-covariance and correlation functions between the variables.

There is a possibility to include a control variable into the model in order to direct the system towards optimality.

W. *Herer* and Wł. Sadowski put forward the question: what are the costs of accelerating agricultural expansion (especially for Poland)? Unit costs of agricultural production were more or less stable in Poland in the years 1960–75, decreasing labour costs being offset by increasing material and capital outlays, whereas in developed capitalist countries total unit costs were gradually decreasing. One factor explaining this phenomenon is the growing share of the state sector in total agricultural production, because its production costs are substantially higher than that of private farms. The other factor is too much expenditure on agriculture (under the constant pressure of food shortages) the smaller part of which only goes for technical development (thus increasing productivity and decreasing costs), the bigger meaning, however, increased outlays on existing production methods (more fertilizer e.g.) which can produce – under conditions of given land area – only diminishing returns.

Nicholas *Kaldor* in his article "The foundations of free trade theory and their implications for the current world recession" rejects the position of free trade theory (as conceived by *Ricardo, Heckscher, Ohlin, Stolper* and *Samuelson)* that rational division of labour among nations, based on relative factor prices, inevitably a) furthers well-being all-around; b) reduces inequalities in national living standards. Prof. Kaldor demonstrates that the theory rests on a number of assumptions which are irrelevant for real economies, the most important being perfect competition and constant returns to scale. With diminishing returns in agriculture and extracting industries and increasing returns in manufacturing (a condition naturally leading to monopolies) only free trade between primary producers is mutually advantageous, free trade of manufacturing countries with primary producers only enriches the former and improverishes the latter, whereas trade between manufacturing countries with each other must be balanced in order to be fruitful for both.

P. M. *Rosenstein-Rodan* takes up the theme of developmental planning in Latin-America. The main problem here is unemployment, which must be attacked both by long- and short-term measures. As long-term measures he suggests to raise the growth rate from today's 5–5.5 percent to the critical 7.5–8 percent (along the lines of the Italian policy of the fifties), mainly by increasing investment through voluntary and forced saving, to introduce the second shift in industry and to change the terms-of-trade between industry and agriculture in favour of the latter. As short-term measures: to organise labour-intensive public works in road construction and agriculture for wages 40 percent lower than usual and to enhance small enterprise, including handicrafts.

Zdzislaw *Sadowski* investigates "The principle of rationality and the social effectiveness of economic activity." He is arguing against a narrow, "mercantile" concept of rationality (widely propagated in Poland by Oscar *Lange* and the praxeologists), which implies maximisation of a fully quantifiable, single magnitude (individual profit in capitalism, national income or consumption in socialism). In advanced socialism, as in traditional societies, rationality of the economic activity cannot, however, be reduced to such a simple measure. It must show itself in the suitable composition and quality of production not in its mere quantity.

Although the book is interesting and representative even in its present form, one can only regret that part of the papers presented to Prof. Lipiński – most of them with great relevance to the present problems of Polish society (W. Brus: "Authority, participation, effectiveness in Eastern European countries"; T. *Kowalik:* "Statism versus socialisation. The notion of social order in the Polish socialistic thought"; E. *Lukawer:* "The forming of views on the model of functioning of socialism in the contemporary Polish economic thought"; J. *Strzelecki:* "Projectofany: history as incarnation of value" – just to name a few) – were left out of the selection and are listed only by title in the introduction. This selection-bias towards pure economics or social problems of remote areas, seems to be contrary to the spirit of Prof. Lipiński, who wrote with his native country in mind: "The preponderance of economic factors in the social system of values results in handicapped societies and may also give birth to a political system in which justice, peace,

truth, freedom and equality fade out because of lack of soil."

A. SZEGŐ

ASSELAIN, J.-CH.: *Plan et profit en économie socialiste*. Paris, 1981, Presses de la Fondation Nationale des Sciences Politiques. 329 p.

From the mid-1960s economic reforms were initiated in each of the European socialist countries. These reforms were due to the necessity born out of the internal development of socialist national economies and of changed external conditions. The ways and results of the reforms are different in each country. In his book, Jean-Charles *Asselain* analyses, evaluates and places in a historical perspective the economic reforms initiated in the Soviet Union and in six European socialist countries. (GDR, Czechoslovakia, Hungary, Poland, Romania, Bulgaria).

The division of the book is adjusted to the analytical method of the author: in order that the reforms carried out in the above-mentioned socialist countries may be adequately analysed, he draws up the economic history of development of the so-called Soviet type of the socialist economic model in the Soviet Union and in the European socialist countries.

First the development of the obligatory plan directive system is presented, followed by an examination of the period directly after Stalin's death, and then by a description of the large reform waves.

The author chose the comparative research method: he attempts to evaluate the processes under examination by drawing comparisons between countries.

This comparative analysis relies on three basic factors of the socialist economic systems:

1. economic model – as interpreted by the Polish economist *Brus*: 2. economic policy – materialising, according to the author, in a hierarchy determined by the central organs of all the factors of economic and social development; 3. means of planning.

After a historical survey and a review of the economic reforms, the author seeks answers to the following questions:

– Have the reforms brought a renewed and modernised version of the old Stalinist-type model, or has a new socialist economic model emerged?

– What results have the reforms produced?

– To what extent are transitional forms "usable"?

– What accounts for the differences in the choice of the different socialist countries and for the fact that the reforms, born out of identical intentions, have been carried out with such wide variations in the different countries?

The book consists of three main parts and eight chapters. *Part I* discusses the centralised model and the Stalinist order of priorities; in *Part II* the development of economic policy and the beginning of reforms in the post-Stalinist era are analysed; *Part III* treats the reforms themselves and their after-life today.

Chapter I discusses the fundamentals of the centralized model, the directive planning system and the system of incentives; a historical review is given of the model that had developed until 1940 in the USSR. The objectives of the lst Five-Year Plan (industrialisation, concentration of resources) are presented, then the centralization of resources) are presented, then the centralization of economic power and its relation to the development of the detailed directive planning system. A description is given of the system of the national economic plan determining the complex, hierarchical and micro-economic processes in detail. The statement is made that the complexity of planning is to be explained by an ideological distrust of spontaneity. Also the position, executive role vertical and horizontal relations of the Soviet enterprises are discussed (using *Kornai's* definition), as well as the passive role of money – at that time a means of aggregation and control.

The author outlines the system of incentives which is based on the fulfilment of directives and performance indicators. He points out the fundamental distortions: the microeconomic information given by enterprises conceals their reserves of resources (deliberate distortion); a "bargaining" develops between enterprises and the central planning organ, the control activities of central organs become more intensive; in the plan fulfil-

ment system a "basis approach"* becomes prevailing: enterprises take care not to overfulfil the plan. From the macroeconomic aspect, all this results in an extensive growth of the economy, based on quantitative performance, in which productivity is hardly increasing.

In the above described model, profit as an incentive has hardly any importance; the enterprise has little real influence on it because of the administrative fixing of prices and the regular control of profit.

In *Chapter 2* the author examines the so-called Soviet-type economic model as it is functioning in reality, and how the deficiencies of the planning system become apparent. He analyses the enterprise attitude in regard of drawing up plans, initiating investment, labour economy, management of fixed assets, and plan fulfilment. He seeks an aswer to the question, in what maner the relationship between the central management organs and the enterprises lead to distortions in the planned economy. He describes the process of price distortions, the continuous and regular undervaluation of the means of production, the beginnings of imbalance and the need for correction. Finally, in this Chapter the obvious and concealed deficiencies of the model met with in practice are treated:

– accumulation of the stock of unfinished investment,

– imbalance on the consumer market, stagnation of living standards,

– difficulties in asserting social preferences.

The title of *Chapter 3* is: Priorities of the Stalinist economic policy. He points out that the Stalinist economy is a war economy, in which the initial aim is industrialization; by supporting heavy industry and defence the subsequent growth is to be founded through changing the basic structural proportions.

Beside a purposeful concentration of resources, the signs of economic willfulness appear: a very high rate of accumulation (35.8 percent in 1932), and a sudden increase in the number of industrial workers. This was a period of considerable extensive growth. The author mentions that the people's democracies pursued a similar economic policy after World War II. He analyses in detail the structure of investments and their special purposes. He also provides a description of the agricultural situation, the system of compulsory delivery, the deteriorating agricultural price proportions after World War II, the lack of central support and the consequences of all this: the fall in cereals, meat and milk production.

The author pays particular attention to the phenomena of the economic policy striving after autarky; he reveals the differences in potentialities between the Soviet Union and the small socialist countries. Finally, relying on the composition of national income (a comparative Table is found on p.103), a factual picture is given of the realisation of economic policy priorities.

Chapter 4 starts Part II, the shortest one in the book. The author analyses in it the cyclical, fluctuating development of the socialist economy. The next period covered by the analysis is the post-Stalinist era up to 1965, showing cyclicality both in economic policy and in the institutional system. As opposed to the earlier strict order of priorities, agriculture and the industries producing consumer articles were supported between 1953 and 1956; personal consumption was on the increase. In the years from 1958 to 1960 economic willfulness gained ground once again: an upswing of investments, growing military expenses, and forced agricultural collectivisation are characteristic of this period.

Tightening and loosening make their appearance in the reforms of the institutional system as well. The author gives a minute description of the "sovnarkhoz" system, as well as of the phases of economic decentralisation in Poland, Czechoslovakia, and Hungary. He sets forth the results and shortcomings of the reforms, and the lessons to be learned from them.

Chapter 5 treats the basic tendencies of the years from 1953 to 1965 which motivated the subsequent reform efforts. Earlier priorities were completed with new ones: the raising of living standards, and the development of agriculture became more important. Structural disproportions became apparent also within industry (key

*Whereby relative to the base-year an increment has to be attained by all means, and the current year becomes the base next year. – Ed. note.

industries). In view of the greater tasks, the economic organisation of most socialist countries is rigid. The author presents the intensification of each of the fundamental disproportions through the example of some country: Czechoslovakia, GDR, Hungary.

By the late 1950s an effort at diversification was observable in the economic policy of the countries in question. The author analyses the differences by presenting the industrial and agricultural policies of each country. He pays special attention to the Hungarian situation, since – as we shall see later – he considers the Hungarian economic reform as a possible preparation of the new socialist economic model. This chapter provides a particularly large number of data.

In the last section of the chapter the author speaks about the direct antecedents of the reforms. The difficulties of the socialist economies multiplied in the early 1960s: there was a considerable technological gap, the internal conflicts of the system were felt in every development phase, the growth rates slowed down.

Chapter 6 introduces Part III of the book, discussing the preparation for and carrying out of the reforms, and summing up the objectives, results and lessons of the economic reforms by means of a comparative analysis. Being aware that the historical time is as yet too short for a full appreciation of the economic reforms, the author divides the reforms into two groups according to the sphere and functional principles of the economic policy decision: limited and extensive reforms. Accordingly, extensive reforms were planned in Czechoslovakia and Hungary, and limited ones in the rest of the socialist countries (except for Romania and Poland, where no reforms were mentioned at that time).

It is highly interesting how the author recalls economists' different views held then regarding the reform, and the interpretation of the causes of imbalance. From among the Hungarian economists, he quotes statements of András *Hegedűs,* Béla *Csikós-Nagy,* Iván T. *Berend,* Ferenc *Jánossy* and István *Friss.* Then he presents the common orientation of the reform efforts of the socialist countries; improvement of the planning methods, strengthening of the system of incentives, rehabilitation of money and market categories.

In the remaining part of the Chapter the author describes the reforms planned and carried out in each country and he finds out when and why the originally common orientation diverged in the course of implementation. It is upon the basis of the changes the reforms have brought about in the role of the market, in the planning system, in the system of incentives, in the organisational system of the economy, and in pricing that the reader is given an idea of the extent and effect of the reforms carried out in each country.

Finally, in the last part of the Chapter, the purpose, success, and shortcomings of the reforms are summed up for each country.

Chapter 7 is a detailed analysis of the economic reforms in the Soviet Union and the GDR.

The section covering the Soviet reform starts with an analysis of the deficiencies of the planning system; it presents the changes in the period between 1965 and 1969, and the 1967 price reform. It examines the deficiencies of the system of incentives, the problems rooted in the lack of enterprise independence, and points out the necessity of transforming the economic structure. It deals with the 1979 reform whose purpose still was the elimination of chronic deficiencies; the principles of "khozraschot" were generally applied.

The presentation of the economic reform of the GDR begins with an analysis of the preceding period: the years between 1963 and 1968. The main point of the changes taking place in that period was that profit obtained a gradually increasing role both in the system of incentives, and in the field of investments. The considerable development was due to a rearrangement of tasks and to successful central management. The latter was improved through the well organised activities of the medium-level management organs (VVB). The changes that took place in 1969–1970 considerably diverted the reform (disproportions, exaggerated forcing of growth). In 1971–1972 measures were taken which put an end to the New Economic System.

At the end of the chapter the author draws a comparison upon the basis of the common features of the two national economies, by means of an analysis of the industrial and agricultural policies, living standards, and foreign trade.

In *Chapter 8* the author focueses his attention on the Hungarian economic reform. In his opinion, the Hungarian economic reform has succeeded in establishing a new socialist economic model. He presents first the preparations for the New Economic Mechanism and the conditions of its introduction; then he goes on to describe the system of profit incentive and its limits. Finally, he draws a balance relying on the experiences of the first reform years: he calls attention to the important achievements of agriculture, and the improved standards of services. An analysis of the important positive and negative changes that took place in the industrial sector, and thorough examination of the causal relationships are highly informative.

The study dwells on the deteriorating situation of the Hungarian economy because of the primary material crisis that began in 1973, and then deals with social questions (situation of the working class, workers' real incomes). The causes behind the relative strengthening of centralization are analysed, and finally the further perspectives of the reform are weighed, and the statement is made that the reform extends over a long period, in which, halts and even retreats occur.

The Summary roughly outlines the putting into practice of the reform ambitions of the socialist economies, pointing out similarities and differences.

The immediate aim of the investigation of Jean Charles Asselain is to establish the trend of the reform efforts, reforms and changes having taken place or just in course in the European Socialist economies. He characterizes the Soviet economy as a typical model, and then establishes that the adoption of the Soviet model was characteristic in the said countries, and the reform experiments appeared as of necessity. At the same time he shows that in the countries with highly centralized economic control system not even plans for a deep reform were born that would promise radical changes. And this prompts his judgement an the subject: the so-called "Soviet model" does not produce by itself the possibility of radical economic reform, because the system of superstructure suppresses it.

In the course of the analysis the author devotes little attention to the position of socialist countries in the world economy, to changes in capitalist world economy and their interrelations with the economic policies and economic control and management systems of the individual countries. This is all the more a deficiency as the author discusses in detail the Hungarian economic reform in the evolution of which an important role was played by the dependence of the Hungarian economy on ever wider international economic relations.

The part discussing the situation of the Hungarian economy shows that the author relied on a rich basis of Hungarian sources. He considers the process described as a possible realization of a "new socialist economic model". Several remarks are required in this context. One is that, independent of the concrete operational mechanism of a socialist economy, there are certain common features such as the social ownership of the means of production, the role of the state in controlling the economy, the planned economy. These are the bases out of which the different models can emerge. It may be argued how new the "Hungarian model" is. It is known that the combination of plan and market was already a characteristic of the Soviet economy between 1922–1928. Also the Yugoslav economic reform introduced in 1965 preceded the new Hungarian economic mechanism in this respect. (It is unfortunate that the author pays little attention to the Yugoslav economic control system, as its indirect impacts on the East-European reform process can be easily traced.) It would be strange if precisely a Hungarian economist underestimated the importance of abandoning the system of directive planning. It is, however, natural that she feels the limitations of this not fully implemented reform (the continuation of which is again on the agenda in our days) better than a foreign analyst and is less inclined to proclaim its general validity. One need not all too thoroughly know the history of the Hungarian economy for discovering the many particularly national elements in the developments of the Hungarian system of economic control and management. The mere fact is a sufficient proof for that, that after the actual abolition of the compulsory delivery of produce in the Hungarian agriculture in 1956 and the collectivization between 1959–1961, the gradual realization of the actual autonomy of a farming cooperatives preceded similar developments in

other fields. At the same time, it cannot be denied that the Hungarian system of economic control does possess certain general features that may break through also in other East-European countries. Certain signs of this may be discovered. It cannot be excluded that also such "newer" models of socialist economy will evolve which assert the combination of plan and market in a manner different from the Hungarian one of today. This does not detract anything from the relevance of the "Hungarian model", at least it challanges to what extent the Hungarian system of control and management may be considered "the new model of socialist economy" in general terms.

M. CSEH

SIMON, GY.: *Gazdaságpolitika és gazdaságfejlődési törvényszerűségek* (Economic policy and economic development regularities.) Budapest, 1983. Közgazdasági és Jogi Könyvkiadó. 315 p.

Similarly to his earlier publications in his new book György *Simon* publishes the results of his theoretical and practical research work. Now he makes a well-founded attempt to apply, for the first time, functional analysis in examining the economy. He has already achieved an important result: he has proven that the method applied is apt to grasp the empirical regularities – affecting the productive forces – of economic development. The timeliness of this work lies in that the author draws attention to the interrelations between the factors and the rate of growth at a time when growth is slow and interest is sagging in the subject, though certainly only transitorily. The author makes use of this period of lull about economic growth to contribute to the foundation of an economic policy – based on a thorough knowledge of the regularities of economic development – which will better answer the requirements of the emerging intensive development period.

The book is divided into three main parts and further into twelve chapters; it identifies the growth factors, then builds up a model, and finally reveals the particularities of economic development as they are found in the CMEA countries. The novel approach of the author is manifest already at the beginning of the book: in identifying the growth factors. Beside the known factors influencing growth (labour, fixed assets, cropland), the volume of the workers' consumption is indicated as a "representer factor" to express the growing abilities of the workforce, and the number of experts with higher education to express the aspects of technical progress. It is acceptable that the changes in the abilities of the workforce must be shown, since the employment data leave the qualitative aspect or work quite out of account, and the experts with higher education affect only the above-the-average quality parameters. However, the interpretation of consumption as an explicit growth factor raises more than one problem of interpretation and statistical measurement, even though the rising living standards react on the development of reproduction in many ways. Thereby the possibility of examining the growth of national income from the side of the work process (supply) is eliminated* because the high ratio of consumption is from the outset in a close correlation with the changes in the national income; the use of sectoral data to eliminate this effect is limited by a shortage of data. All this calls attention to the importance of further examinations in regard of this factor (for example, the relative wage level might be used for such purpose).

Beside the factors playing a fundamental role in the production process also the various supply (equipment) factors are determined, where the basis of comparison is labour (the technical and scientific equipment of labour, and its supply with consumption, land, and mineral resources). They are the carriers of the mutual effects between the fundamental factors, which depend largely also on the development level attained. In discussing this subject, the author comes to the conclusion that it is more expedient to describe

*Consumption is typically a demand factor, itself in a great part a function of the national income explained. Explanation of the economic result on the demand side may not be unusual in econometrics, but it is always placed in a simultaneous system of interrelations, by separately formulating the supply equation (production function) and the demand equation.

the development level with the supply (equipment) indicators of labour instead of the per head national income. It is a fact that the former centres on the economic conditions instead of the economic results, however, in wider, international comparisons it cannot be left out of consideration, with what efficiency and results the economic conditions are used. (Or else, it may happen that Hungary "precedes" countries which are in fact economically more advanced.)

Relying on the examination of the scope of fundamental resources having a part in the reproduction process, and of their mutual effects, the third chapter presents such regularities of economic development according to which three, also qualitatively different phases may be distinguished:

1. initial phase of economic development,
2. normal phase (this corresponds to today's situation),
3. phase of automated production on the social scale (distant future).

In the first phase the decisive role of live labour in production is characteristic, while other factors play a negligible role. In the second phase already all growth factors play a role. In the third phase live labour is driven back in the production process by the high degree of the technological equipment of labour, that is, automation. Discussing the consequences of production automated on a social scale, the author makes the statement that the scope of the fundamental growth factors and of their mutual effects narrows down again, as opposed to the widening tendency characteristic of the second phase. The development regularities of the production forces leaning towards harmony are conceivable as one of the "realistic" images of the future. And, if we already touch on futurology, it may be complemented by other images of the future, in which the number of the basic growth factors will increase parallel to the differentiation of labour and the natural environment, and their mutual effects will build even more complicated systems than the existing one.

The second main part outlines the mathematical model apt to formulate the regularities of economic development. The growth functional on which it is based is a complex system of functions more general than the known macroeconomic production functions, which includes, as a definite case, the production functions. The basic version of the growth functional models the relationship between the economic result (national income) and the "representer factors" for the sectors in the development of which natural resources do not play an important role. In the model the logarithmic increment of the national income depends on the logarithmic speed of change in the technological equipment, scientific and consumption supply indicators of labour. Further important differences of the growth functional and the known production functions are as follows:

– as a result of generalisation of the concept of factor the functional also comprises the so-called specific speed factors (they are functions depending on the changes in speed of the various supply (equipment) indicators),

– the functional is composed step by step of complex non-linear functions in a way that the continuous formulation and assertion of economic assumptions promoting the analysis becomes possible.

On account of these properties, the functional offers wider possibilities for analysing the processes of economic growth than the method relying on the classical production functions. In addition to the basic version of the growth functional, the sixth chapter presents its agricultural version, in which the logarithmic change in speed of the supply of labour with land appears as a new specific speed factor. Because of the rather complicated system of interrelations, in the field of mineral resources this chapter reports on a still initial phase of the research work, limited to the general principles and objectives. As against other researches into the subject, it is a remarkable challenge that primary energies are included as factors in the traditional production function computations.

The third main part examines specifically, relying on the mathematical apparatus, the regularities of economic development, and their economic policy aspects, on the example of the CMEA countries. Of the national economic sectors the development of industry and agriculture – and separately also that of the engineering and of the chemical industries – are analysed for the period from 1951 to 1978.

The first question examined is whether the particularities and regularities of economic development exist as assumed in the model. The reader receives a satisfactory answer to this question: the differences between the results computed with the aid of the growth model and the factual data are of an acceptable magnitude. This means that such regularities do exist and that the model introduced provides an approximately correct picture of the socialist economy. To make better use of the new possibilities created by the growth functional for an international comparison of the value indicators is in itself and exciting research objective. For example, it seems to be important and necessary to extend research to the economic development of the capitalist countries. As the technico-economic relations are similar, there is a chance that the growth model will prove usable there, too.

The other question under examination is the development of the growth rates, and the role of each factor and of their combinations in economic growth. In this respect, György Simon pays special attention to the factors of intensive development, to the interpretation of technical progress and to its interrelation with intensive development. He considers technical progress a superfactor of growth whose "effect is manifest in that it influences the volume of the available resources and the efficiency of their utilisation." (p. 23) This is in full harmony with the statements of Hungarian and foreign (capitalist and socialist (publications. His train of thought shows a similarity to that of *Kaldor* when he explains that "in the birth of technical progress. . . the supply (equipment) indicators of labour and the changes in the speed of the latter play a central role." (p. 214) Kaldor's basic idea is different only in that he speaks emphatically of the equipment of labour with new technology, since he centres attention on the investments put into operation i.e. on new capacities. His approach is deemed correct also because in econometric analyses the effect of further superfactors enumerated by him (production relations, management system, etc.) is usually examined or measured together with the effect of technical progress (see the concept of the disembodied technical progress).

On the basis of the related numerical analyses the author draws several interesting conclusions. He makes the statement, for example, that "the main cause of the differences existing in the development rates is to be found, in the majority of cases, in the extensive and not in the intensive sources of growth. This holds particularly for the differences between the socialist countries." (p. 217) In answering the question, what kind of interrelation exists between differences in the development of labour productivity and the basic types of technical progress, the author states that in the industry of the CMEA countries technical progress tied to individuals had a dominating role as against the embodied and combined technical progress.

From the economic policy aspect, also those conclusions are important, which the author draws in regard of the development particularities of the dynamical and research-intensive sectors (engineering industry, chemical industry), and of the differential results (returns) of the growth factors. All this provides a strong support for a rational combination of the extensive and intensive sources, the optimum development and allocation of the economic development and thereby for outlining the requirements of an optimum economic policy. A novel approach to these basically important economic policy questions are promoted by this book mainly in the long run. This opinion is further supported by the fact that the differences between the results obtained with the aid of the model and the factual data are usually greater for five-year periods than for 20–30 year periods.

Because of the high degree of aggregation, the model of the discussed regularities of economic development may serve first of all for a theoretical foundation of the macrolevel development and investment decisions. Further research work is needed to find out, what the efficiency of the applied method (functional) is in promoting the drawing up of specific operative economic programs.

G. BÁGER

HORVÁTH, L.–CSATH, M.: *Stratégiai tervezés – elmélet és gyakorlat* (Strategic planning – theory and practice.) Budapest, 1983. Közgazdasági és Jogi Könyvkiadó. 434 p.

Enterprise planning for the medium term, practically almost without exception for five years, has become established in Hungary since the early 1970s. Plans for even longer ranges were drawn up at many places, mostly upon central initiative and sometimes of their own. There have been, however, fewer papers and especially books published on this subject than necessary. A pioneering and till now unique treatise* was published on long-range planning by the author of the greater part of this book, László Horváth. The author, with his past as a successful enterprise manager and with his experience acquired at ministerial and central planning authorities, has exceptional practical and general insight into the strategic opportunities of Hungarian industrial enterprises and the ways of implementing the strategies.

According to its sub-title the book is intended to give an idea about the state of theory and practice. The degree of maturity of our enterprise theory will be still reverted to. As to practice, the more than a decade long history of medium-term planning in itself could furnish sufficient data for a theory-building scientific summation. Still, it is correct to use the conditional as the mode of preparing plans for more than one year has already been modified and it will certainly undergo further modifications in the future. The concept of enterprise planning, or even *broader: the forms of enterprise management, organizational environment and the exercising of strategic policy-making rights will have to go through significant changes* if we wish to advance towards more rational conditions also in this important field of the economy's mode of functioning. The enterprise planning practice has produced examples for elements to be preserved as well as for such that are duly criticized (as this criticism is formulated, beside official statements and other experts, also by co-author Magdolna Csath in this book).

Although in most spheres of economic activity a five-year term is a long one during which changes may be required in market and technological conditions and quite frequently substantial – that is, strategic – alterations may be necessary in organizational affairs, the plans drawn up till now are in most cases over-detailed and rigid, ie., the far-sighted intent to reform is rather hamstringed by them. On the other hand in certain matters medium-term foresight is too short and is becoming ever shorter as the end of the five-year term is approaching – although the rationality of decisions made today cannot be backed up but by long-range assessment, moreover, economic actions with a long pay-off period (professional retraining, investment, market acquisition) actually cannot be estimated on a short term.

The authors cover every essential requirement of the necessary updating of economic thinking and in this context of the approach of planning. Many references are made also to the *institutional changes* required for strategic thinking. The strategic points of enterprise business management differ, namely, from usual economic decisions not only, and perhaps not primarily, in their time span but also in their nature and importance. It is a strategic issue for every commodity-producing organization how big a share should be allocated in the future for the expansion of activities and how big the portion of proprietors should be. Strategic questions are the business policy, the investment policy, any substantial change in the enterprise organization and, last but not least, the issue of appointment, remuneration and dismissal of enterprise managers.

Each of the matters regarded as strategic by virtue of importance or proprietary nature goes beyond the present-day sphere of authority of enterprise management and belongs to the most important aspects of relations between the state and the enterprise. These relations have been in permanent change and we are now in a stage of institutional changes of particular importance. As László Horváth says in Chapter I, the current system of economic control must be considered a temporary one with respect to many of its

*HORVÁTH, L.: *A vállalat távlati terve – időhorizont, ciklusok, stratégia* (The long-range enterprise plan – time horizon, cycles, strategy.) Budapest, 1973. Közgazdasági és Jogi Könyvkiadó. 333 p.

elements. It might be added that this transitionality is felt especially in the distribution of strategic rights, the location of ownership functions and in the relations of the enterprise management to state institutions representing ownership rights as well as to the staff. Beraing these pending changes in mind, this monographic treatise on strategic planning which has, by the way, eliminated a shortage, can be said to be a book written somewhat ahead of time.

In very good logic the book begins with a study of the autonomy of the socialist (state) enterprise.

The problem of autonomy is of key importance. The book duly sets out from the assumption that the more autonomous the enterprise the greater significance the strategic plan will have. It is another true statement that for the time being *no consistent and thorough enterprise theory is available to us* that would cast light among others just on the autonomy of the state enterprise and on the problem of strategic functions that could be assigned to enterprises. Our theoretical deficiencies notwithstanding, László Horvath undertakes the task to review the political, economic and theory of firm propositions pertaining to the exercise of strategic managerial functions in quest for a more rational practice. The author of this review is not able to state for each scope of problems whether the book is always based on the most advanced and clear-cut concept of the literature. It is nevertheless doubtless that the author's statements inspired by the analysis of actual conditions can be agreed with in commenting on the theorems of the economic theory.

The pages scrutinizing the relations between the enterprise management and the staff, ie., *enterprise (factory) democracy,* may be quoted as an example. In principle, the workers' participation in enterprise management is derived from the public proprietary functions of workers, ie., from the fact that an employee at an enterprise is at the same time a co-owner of public property. However, it is hinted later on that the growing intricacy of the economy as well as of the professional and general knowledge of workers are equally working *in favour of strengthening the participation of employees* in various social systems: "... the emerging of participation is favourable for the development of the forces of production primarily by being helpful in ***relieving tensions*** that are induced in connection with the very development of the forces of productions.". (p. 61) On the basis of this latter justification given for participation and irrespective of any legal doctrine one understands the author's firm stand that the development of enterprise democracy is not a matter of jovial administration or political decision, but an objective necessity.

A similarly firm opinion is expressed about the problem of the so-called one-man management which "... is untenable in its unchanged form", as László Horváth puts it. "This principle is apparently closely connected with the system of plan directives and to the hierarchic-bureaucratic organization of economic control." (pp. 58–59) As he says it is now inevitable that the leader let participate broader circles of his staff in decision-making which implies the sharing of responsibility. He goes on to say that at big Hungarian enterprises this principle of management is actually interpreted in this way, and for this very reason it would be correct to settle and codify accordingly the rights and liabilities of staff members participating in decisions. The status of the enterprise upper management as an institution to be changed is touched upon also at other places in the book, e.g. implicitly in the subsequent discussion of the organizational preconditions to the strategic-minded and innovative style of leadership.

Two chapters of the book (work of Magdolna Csath) depict revealing elements from the literature of strategic planning of capitalist enterprises. Here and in the methodological appendix, also written by herself, notions and procedures are stated that are already known but have not yet been applied in this country. For example, although the life cycle theory is not a new thing, it is correct to demonstrate its use in planning since the traditional approach to planning still prefers to think in terms of linear processes and s reluctant to adopt the theoretical paradigm, which is actually of commonplace depth, that any one act (product etc.) will go through a rising, a peaking and a stagnating and declining stage. The mathematical-statistical apparatus presented in the book is similarly not a novelty but, alas, knowing the actual practice of enter-

prise planning, it must be considered to be duly emphasized.

As for the newer and not so well-known elements mention must be made of the so-called portfolio analysis which is repeatedly stressed in the book. Some version of the basic method of portfolio analysis could be easily adapted by the Hungarian enterprises and the planning routine would benefit from its spreading, because planning at present does not treat the internal disparities of big organizations with sufficient differentiation.

A detailed review is given in the book of the manner in which a state enterprise in a socialist economy can formulate its long-term business strategy. In his discussion of the two focal elements of strategy, namely, the future changes in the field of activity and the essential investments László Horváth notes the following: "... central economic control played a decisive role in these issues for a long time and the impression could have been that an enterprise did not have much to do about choosing its line of production or about the timing of its important developments or investments." (p. 174) These problems still go beyond the enterprise management's sphere of authority except managers with extraordinary stamina and position who, precisely because of their exceptional, what is more, privileged position, are no models for the present routine nor for the desired future.

As far as the process of strategic planning task presented in the second part of the book is concerned, the length of a review is not enough to venture a summary. The study of the presented methods of organization analysis and planning, both of those applied (such as the so-called technico-economic set of criteria) and of those scarcely known will be useful for everybody engaged in preparing or taking economic decisions. The following should be stressed from among the numerous essential statements: in the course of strategic planning it is a question to be asked about every strategic unit whether the current organization is capable of performing the tasks or not: "It must be thought over what *organizational changes* are implied at the same time when a strategic plan is passed, as well as the *timing* of such transformations." (pl. 366) Of course it is easier to outline the above than to implement the planned transformation of the organization without too big conflicts.

The recurring idea, ie., that the arge organization should be divided as far as possible into strategic production units with independent economic accounting, maintaining business relations based on market prices (that is, not on artificial transfer costs) with the other member organizations, is particularly timely. This is important not only for planning tear-sight but also for the efficiency of current operations and for the initiative and creativity of staffs.

The book abounds with on-the-job observations and apt remarks built on personal experience or on the knowledge of the literature. In the stage before us its diversified approach may be useful for the cause of enterprise planning even if, as it is hoped, a few theoretical formulae will be outdated by modernization carried out on grounds of economic theory.

The apparatus of references is exceptionally rich and provides broad orientation to the interested reader.

P. Á. BOD

BECSKY, GY.: *Amerika és a világgazdasági kihívás* (America and the world economic challenge.) Budapest, 1983. Kossuth Könyvkiadó. 276 p.

From all the national economies of the Globe, it is the United States whose trends have impressed world economic growth the most powerfully during the last century. In this "American century", now often predicted to be coming to an end, during the half of a century preceding tne world crisis of 1929–33, it was the United States where the development of the modern forces of production was the fastest, where science entered production on a large scale and where the rational forms of business organization were widely applied for the first time. The American dominating positions attained in production and technology as a result of the coincidence of a large number of historical and not exclusively economic factors extended during the more than 40 years after the eruption of the Second World War also to inernational economic relations. Although after a peak observed in the postwar decade the relative world economic weight of the USA has been decreasing for about a quarter of a

century, in the early 1980s it still represented round one-quarter of the total world GDP, one-eight of foreign trade turnover, half of the direct long-term foreign investments and more than half of the international payments are made in American currency. Beyond orders of magnitude, it was the USA where several trends started in the past one and a half decade, such as structural transformation, the phenomena of an industrially mature society, establishment of world-wide empires of US–seated companies, the strategic uprating of "economic weapons", and of external economic relations. All of the above have significantly contributed to the changing of conditions, of old trends and structural and organizational frameworks of world economic growth as well as to the emergence of a new long-range stage of international economic development.

A recently published book by Gy. Becsky analyses the ways in which the biggest national economy of the world is influenced by the complex and intertwined economic-political changes also reflecting trends that set out of the USA itself and by the new global world economic challenges which the different national economies are facing. In the treatise consisting of four structural parts an analysis is given of the position of the American economy in the world, of America's comparative advantages and of its role in world trade and international finances. It is shown that, despite the 25-year wearing down of its relative world economic importance, the American economy still enjoys considerable advantage over the economic potentials of other regional or nation-state economies. Studying the factors causing the loss of weight in world economy the author notes that the American society was for a long time reluctant and sometimes "stubbornly resisting" to accept the need of adjustment to global changes and "the consumerist, environmentalist and anti-trust trends that entered the scene and gained strength in the 1960s and 1970s assumed, together with the US legislation, that their main task was the protection of the public against various real or supposed socio-economic harms and not the enhancing of economic competitivity. The competitivity of the American economy was thus directly influenced in a stage when, mostly as a result of earlier American aspirations, the mutual dependence of national economies strongly increased in the world economy and when other advanced capitalist countries were increasingly catching up with America in many fields" (p. 20). The growing degree of openness of the American economy is shown by the almost doubling ratio of the export of commodities and services in GDP between 1970 and 1980, to amount to as much as 12 percent in 1980: the share of foreign returns in the total profits of American joint stock companies increased between 1960 and 1980 from 7 percent to 30 percent, while the share of American bank deposits made by foreigners jumped from 8.5 percent to about 70 percent of the domestic stock of deposits. In the late seventies the production of every eighth worker of the American manufacturing industry and of one-third of the cultivated agricultural area served exports while on the average 50 percent of oil consumption and 55 percent of that of other minerals were covered from import.

Analysing the domestic factors of the 25-year process of losing ground in world economy the author gives a manysided review of the problems of American productivity and technological development that were most unfavourable during the past decade, as well as of the interrelations between productivity and employment, savings, investment and R&D activities.

National economies normally respond to external challenges and to changes in growth conditions with apparent time lags of different degrees. The growth performances of the American economy were also affected by the heritage of the past. The growth performances in the 1980s have clearly been influenced by efforts taken in recent years towards adjustment and development and the author most carefully stresses their distinct features. Between 1972 and 1980 the volume of American investments increased at a yearly average rate of 3.6 percent as against the average of 3.9 percent in the quarter of a century from 1947 to 1972. However, in this slightly decelerating rate the investments into the manufacturing industry expanded by 6.9 percent against a growth rate of 2.4 percent in the preceding quarter of a century and the volume of investments into the engineering industry increased at a particularly high rate (9 to 10

percent). It is most instructive that while in the postwar quarter of a century the volumes of investments in building and machinery had expanded at a similar rate, in the period 1972–1980 the yearly average growth of building investments within the total investments of non-agricultural companies amounted to 0.9 percent, while that of investments into machinery to 5.1 percent.

The author stresses that in the past decade American investment activities took a new turn in favour of industrial investments and at the expense of the infrastructure and public sevices. The decrease of technical-innovative activities and of international competitivity was certainly inseparable from the stagnation of R&D inputs between 1965 and 1975. However, here, too, some changes could be noticed as these expenses amounted to 2.38 percent of the GNP in 1978, to 2.45 percent in 1980 and to 2.57 percent in 1982.

Part 2 of the book presents the American economy's comparative advantages based on natural factors, the growth conditions of agriculture and mining, their roles, and the main lines of the American policy pursued with respect to natural resources. The author considers the energy economy to be the centre of the world economic challenge America faces. He states that through the higher energy prices the competitivity of the American economy is enhanced against the industrially advanced capitalist countries that depend more strongly on energy imports. American coal exports and economic growth are also encouraged by them, but at the same time comparative disadvantages are created vs. the crude oil exporting countries. (It follows from the logic of the argument that an improvement of the American world economic positions and the association of the field of manoeuvre of the political power game would work towards strengthening the pressure of higher relative energy prices whenever the better economic positions of energy exporters or the decreasing degree of supply security are not considered a direct strategic menace for the United States.)

Part 3 dealing with America's positions in world trade illustrates, relying on the analysis of trade flows, the weakening of long-range trade positions and the major factors of the worsening terms of trade and of external economic equilibrium, that is, of the structural foreign trade deficit appearing in the 1970s. On basis of the study of structure and specialization the author notes that, apart from the weakening of position shown in the early 1970s, in the US manufacturing exports specialization has strengthened in the longer run and especially since the mid-seventies in products containing much sophisticated labour which are of primary importance for technological innovation and reproduction and by means of which the international dominance in technology is established. Inside the group of the advanced capitalist countries the American positions improved already in the seventies in the market of the technically pioneering products, and the only appreciable loss of ground was suffered against Japan. On the other hand, like in the case of Japan, the share of the USA in the export of products of the manufacturing industry that require little skilled work decreased between 1963 and 1979 to nearly its half.

The author explains that the institutional duality of the American economy, the coexistence of sectors controlled by transnational big enterprises and of unmonopolized ones, is the cause of the growing contradictions of the American foreign trade and foreign trade policy. The sector of the large and transnational companies is an active agent in the global world economic transformation, while the medium sectors and small enterprises affected by the competition of imports and which produce mostly labour-intensive consumer goods (as well as steel) display and demand an import-restrictive attitude. The fight between the two said trends is a soucre of uncertainty in economic policy and equally in international economic relations.

To the wealth of natural resources and to technical superiority is added a third big resource of comparative American advantages and a third strong pillar of American international positions, namely, the role of the USA in the international markets of money, capital and credit. *Part 4* the book is a review of the American positions established in the postwar development of the international monetary system, the monetarist trends and main aspirations concerning the reform of the international monetary system as well as the American capital investments abroad.

The central role of the United States in supplying money to the world, ie., in the international credit markets, has been accentuated and strengthened already since the mid-seventies after the floating rates had been established in the early 1970s, through the expanding international turnover of capital following the liberalization of American capital exports and through the credit operations that attained global significance following the therapy of disequilibria proliferating after the oil price explosion. The author notes that "the strict monetary policy that came along with the 1980s, the high American interest rates and the global scarcity of credit had to make the world suddenly realize: it was living in a uniform and dollar-based international monetary and credit system where credit conditions are in the last resort functions of the American monetary and economic policy alone, moreover, in an indirect way they depend on her home and foreign policies."

The increased international monetary role is in itself a globally influential factor of business. It is not irrelevant for the financing of longer-range world economic growth nor for the shaping of the long-term flow of capital that, unlike in the third quarter of this century, the American economy has accelerated in comparison whith the Western European area, also its global importance in capital accumulation has increased, and this importance shows an upward trend. It is a clear sign of global interdependence also indicated by capital flows that from 1970 to 1980, the annual returns on American investments made abroad increased from USD 8.2 billion to 36.8 billion (in this context returns on ban investments increased from 642 million to 5.8 billion) and, in spite of the robust acceleration of international flows, directed to the American capital market which is assumed to be economically attractive and politically safe, these receipts were still four times more in 1980 than profits of foreigners earned through investments made in America. It is not irrelevant either that in the total direct investments of the United States abroad, the share of the OECD countries increased from 68 percent in 1966 to 75 percent in 1975, but thereafter the importance of the developing countries as capital markets has been increasing at a higher rate. The author notes the growing Pacific and Latin American orientation of the American economy in recent years and he does not find it improbable that, in the coming decade stagnating and lagging Western Europe might be pushed into the background in the American foreign and external economic policies.

On the basis of a wealth of facts, arguments and concepts of approach presented in his book, Gy. Becsky safely guides the reader towards an authentical image of America showing the realities of today. A great deal of international experience, a host of elusive and extreme approaches prove how hard the task is to give a true description. It was not much more than one and a half decades ago that the concept emphasizing the dangers of the "American challenge" was born, at the time when the American positions were weakening the most markedly. In the mid-seventies, with another long historical delay, opinions spread in which the American process of losing economic ground, observed in the preceding quarter of a century, was emphasized and projected for the long range. Becsky correctly states that it is misleading to measure the world economic weight, role and opportunities of the United States merely with the position held in the sphere of foreign trade and with some quantitative indicators of production. Scrutinizing the American economic and economic political developments of the past decade he cleverly directs attention to the qualitative factors of economic growth and international influence. The conceptual heritage of the 1970s, ie., an overvaluation (in my opinion) of the energy economy and of natural resources from the viewpoint of economic growth and of the future of international power relations could be challenged. The reader would certainly prefer to be informed about the consequences of the microelectronic revolution taking place in America upon growth, system of control, transformation of structure, social environment and on international power relations, and about the opinions of the author in this respect. However, it would be hard to refute the strategic assessment that the shift in strategic power relations that occured in East-West relations and meant an end to the superiority of the United States was not followed at all by any similar change in the economic power relations. On the contrary, rather the

opposite trend can be stated, and in West-West relations, in spite of the strengthening of certain rivals, there has not developed any new, major and joint accumulation of economic, financial and strategic potential that could cast doubt on the leading role of the USA among the advanced capitalist countries.

The author with broad interests and mind has eventually and laudably highlighted not only the nature of external challenges the American economy faces but he has also made direct or indirect references to all the impacts that could influence the changes for development of the international economic relations and in particular of the national-states that are the most susceptible to external economy in the 1980s from the side of the US development trends. In this sense the book of György Becsky is an achievement deserving attention and study not only among the Hungarian America-research activities but also among world economic research works.

B. KÁDÁR

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

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