ACTA OECONOMICA

PERIODICAL OF THE HUNGARIAN ACADEMY OF SCIENCES

EDITORIAL BOARD

M. SIMAI (Chairman)
P. ERDŐS
T. ERDŐS
F. FEKETE
J. FEKETE
I. HAGELMAYER
I. HETÉNYI
R. HOCH
I. HUSZÁR
J. KORNAI
F. KOZMA
A. NAGY
G. PÁRNICZKY
Z. ROMÁN
J. SZABÓ

EDITOR
T. FÖLDI

AKADÉMIAI KIADÓ, BUDAPEST

VOLUME 34
NUMBERS 1–2
1985

ACTA OECONOMICA

ECONOMIC PERIODICAL OF THE
HUNGARIAN ACADEMY OF SCIENCES

Editor:

TAMÁS FÖLDI

Editorial office: H-1112 Budapest, Budaörsi út 45. Hungary
H-1502 Budapest, P.O.B. 262

Published in two volumes a year. Orders can be placed with Kultura Foreign Trading Company (H-1389 Budapest, P.O.Box 149) or Akadémiai Kiadó (H-1363 Budapest, P.O.Box 24).

CONTENTS

E. CSIZMADIA: Recent Experiences of Cooperative Farming in Hungary 1
K. FALUS-SZIKRA. Small Enterprises in Private Ownership in Hungary 13
T. LAKY: Enterprise Business Work Partnership and Enterprise Interest 27
J. BÁRSONY–I. SÍKLAKY: Some Reflections on Socialist Entrepreneurship 51
I. CSILLAG–E. SZALAI: Basic Elements of an Anti-Monopoly Policy 65
Z. ROMÁN: The Conditions of Market Competition in the Hungarian Industry 79
A. KÖVES: The Import Restriction Squeeze and Import Maximizing Ambitions 99
A. SCHÜLLER–H. HAMEL: On the Membership of Socialist Countries in the International Monetary Fund 113
N. KLOTEN: International Indebtedness: Trends and Prospects 131

COMMENTS AND CRITICISM

J. KORNAI: On the Explanatory Theory of Shortage. Comments on Two Articles by K. A. Soós 145
K. A. SOÓS: A Rejoinder to János Kornai 165

REVIEWS

E. SURÁNYI–ZS. JÁRAI: Bonds in Hungary 167

OBITUARY

Ernő Csizmadia (1924–1984) 175

BOOK REVIEWS

S. PÁSZTOR: Foreign Trade and Development Policy *(I. Gyöngyössy)* 177
H. LŐRINC-ISTVÁNFFY: International Flows of Loan Capital and the Money Markets *(T. Halm)* 179
J. KOSTA: Wirtschaftssysteme des realen Sozialismus. Probleme und Alternativen. T. BERGMANN–P. GEY–W. QUAISSER (Hrsg.): Sozialistische Agrarpolitik. Vergleichs- und Einzelstudien zur agrarpolitischen Entwicklung in der Sowjetunion, Polen, Ungarn, China und Kuba *(A. Inotai)* 182
E. ANTOLA–O. TUUSVUORI: West European Integration and Finland. K. MÖTTÖLÄ–O. N. BYKOV–I. S. KOROLEV (eds): Finnish–Soviet Economic Relations *(Y. Tolonen)* . . . 186

BOOKS RECEIVED

ACTA OECONOMICA

PERIODICAL OF THE HUNGARIAN ACADEMY OF SCIENCES

EDITORIAL BOARD

M. SIMAI (Chairman), P. ERDŐS, T. ERDŐS,
F. FEKETE, J. FEKETE, I. HAGELMAYER, I. HETÉNYI,
R. HOCH, I. HUSZÁR, J. KORNAI, F. KOZMA,
A. NAGY, G. PÁRNICZKY, Z. ROMÁN, J. SZABÓ

EDITOR
T. FÖLDI

VOL. 34

AKADÉMIAI KIADÓ, BUDAPEST
1985

ACTA OECONOMICA
VOL. 34

CONTENTS

E. CSIZMADIA: Recent Experiences of Cooperative Farming in Hungary 1
K. FALUS-SZIKRA: Small Enterprises in Private Ownership in Hungary 13
T. LAKY: Enterprise Business Work Partnership and Enterprise Interest 27
J. BÁRSONY–I. SIKLAKY: Some Reflections on Socialist Entrepreneurship 51
I. CSILLAG–E. SZALAI: Basic Elements of an Anti-Monopoly Policy 65
Z. ROMÁN: The Conditions of Market Competition in the Hungarian Industry 79
A. KÖVES: The Import Restriction Squeeze and Import Maximizing Ambitions 99
A. SCHÜLLER–H. HAMEL: On the Membership of Socialist Countries in the International Monetary Fund 113
N. KLOTEN: International Indebtedness 131
F. HAVASI: The Economic Situation of Hungary and the Tasks to Be Faced 193
J. BOGNÁR: Evolution of Conception about Economic Policy and Control in Hungary in the Past Decades 205
T. VÁMOS: Problems and Responses in the Mirror of Technical Progress in Hungary During the Last Forty Years 219
B. KÁDÁR: Hungarian Industrial Development in the Light of World Economic Changes 241
T. BAUER: Reform Policy in the Complexity of Economic Policy 263
L. ANTAL: About the Property Incentive 275
I. TARAFÁS: The Possibility and Conditions of an Anti-Inflationary Economic Policy in Hungary 287
K. LÁNYI: Hungarian Agriculture: Export Surplus or Superfluous Growth? 299
K. DYBA: Adjustment to International Disturbances: Czechoslovakia and Hungary 317
S. RICHTER: Trade with the Soviet Union: the Case of Austria 339

COMMENTS AND CRITICISM

J. KORNAI: On the Explanatory Theory of Shortage. Comments on Two Articles by K. A. Soós 145
K. A. SOÓS: A Rejoinder 163

REVIEWS

E. SURÁNYI–ZS. JÁRAI: Bonds in Hungary 167
É. SZABÓ-MEDGYESI: Non-Agricultural Activities of Agricultural Enterprises in Hungary . . 361
GY. VARGA: Thirty Years of the Research Institute of Agrarian Economics 374

OBITUARY

Ernő Csizmadia (1924–1984) 175

BOOK REVIEWS

S. PÁSZTOR: Foreign Trade and Development Policy *(I. Gyöngyössy)* 177
M. LŐRINC-ISTVÁNFFY: International Flows of Loan Capital and the Money Markets *(T. Halm)* 179
J. KOSTA: Wirtschaftssysteme des realen Sozialismus. Probleme und Alternative. T. BERGMANN–P. GEY–W. QUAISSER (Hrsg.): Sozialistische Agrarpolitik. Vergleichs- und Einzelstudien zur agrarpolitischen Entwicklung in der Sowjetunion, Polen, Ungarn, China und Kuba *(A. Inotai)* 182
E. ANTOLA–O. TUUSVUORI: West European Integration and Finland K. MÖTTÖLÄ–O. N. BYKOV–I. S. KOROLEV (eds): Finnish–Soviet Economic Relations *(Y. Tolonen)* . . . 186
L. CSABA: Eastern Europe in the World Economy. Adjustment and the Economic Mechanism *(Á. Török)* 383
L. BÉLLEY: Economic Control and Development of the Infrastructure *(M. Mátrai)* 386
B. BOTOS–G. PAPANEK: Question Marks of Hungarian Industrial Development *(L. Kállay)* . . 388
I. DOBOZI: Raw Materials and Fuels in the World Economy *(B. Balkay)* 391
S. WICKHAM: L'économie mondiale *(E. Kemenes)* 394
G. SOKOLOFF: L'économie de la détente: l'USSR et la capital occidental *(I. Kőrösi)* 396

BOOKS RECEIVED

Acta Oeconomica, Vol. 34 (1–2). pp. 1–12 (1985)

E. CSIZMADIA

RECENT EXPERIENCES OF COOPERATIVE FARMING IN HUNGARY

The basic pillars of Hungarian agricultural development are the socialist large-scale farms, the majority of which are cooperatives. Household-plot and auxiliary farming is also built upon them. In the past two decades a good collaboration has developed between the cooperative farms and household plots, based on a harmonious and permanent combination of their activities. Adaptation to the aggravated economic conditions requires the spreading of various forms of cooperative farming and the development of new variants in their internal order of organization.

The main characteristics of cooperative farming

According to 1983 data 1281 cooperative farms were working in Hungary. They cultivate three-quarters of the total land area and engage 12 percent of all active earners and 52 percent of those employed in agriculture. They own the majority of livestock and two-thirds of the means of agricultural production. Together with the household plots they produce two-third of total agricultural output.

In a part of the areas with poor natural endowments—mainly in the region situated between the Danube and Tisza rivers—so-called specialized cooperatives are farming. Their activity is especially marked in the production of grapes, wine and fruit. They produce 15–16 percent of the Hungarian grape and wine output and 7 percent of fruit.

The fishing cooperatives pursue fish breeding and fishing on the lake Balaton, further on 50 thousand hectares of natural and 1000 hectares of artificial water areas.

The fact that agricultural output almost doubled by the early 1980s as compared to that of 30 years earlier is to a very large extent attributable to the successful work of the agricultural cooperatives. In the late 1970s two years of serious draught (1976 and 1979) and in the early eighties the similarly draught-stricken year of 1983 caused some setback of production but did not break the impetus of progress.

Since 1975 growth has been most conspicuous in the production of the industrial plants (e. g. sugar beet, flax, etc.). The share of cooperative farms has been 80 percent in this branch of production. Their ratio increased from 67 to 75 percent in the production of cereals and leguminous plants. Their share only decreased in two sectors, namely, in the production of vegetables and pork. The value of output per employee at current prices almost doubled by 1983, as compared to 1975.

The size of the area cultivated by agricultural cooperatives increased at a rapid rate especially in the mid-seventies. As against the 4204 cooperatives in 1961, by today not more than 1281 are operating as a result of unions and mergers, while their average area increased to its fourfold, exceeding 4100 hectares, and the average number of members and employees is by now more than 500. The average output of an agricultural cooperative was 163 million Ft in 1983, using fixed assets of 153 million and circulating assets of 116 million Ft.

In accordance with the Hungarian classification of industrial enterprises—where they are considered small up to the level of 500 workers, between 500—1000 medium-size and those employing more than 1000 persons are considered large ones—70 percent of the cooperative farms can be classified as small, 25—26 percent as medium-size and 4—5 percent as large undertakings. Based on this division, the small and medium-size cooperative farms contribute 40 percent each and the large ones 20 percent of the total agricultural output.

For a long time discussion has been going on regarding the optimum size of enterprises in agriculture. There are many who deem the agricultural enterprise concentration developed in Hungary as exaggerated, while others—usually on the basis of the high standard of mechanisation—think that it is still too low. This process is influenced practically by a large number of factors. Such are the qualification of the leaders, the level of technological equipment, the given conditions of land, settlements, transport, the structure of production, economic regulators and, finally, the requirements of economy in development and operation. The latter concentrates the impacts of all the former factors, therefore the aspect of economic efficiency is the decisive factor in the reality of enterprise mergers and de-mergers.

It is true that economical utilization of technology alone does not stimulate a further concentration of area. The problem in Hungary is not that the present sizes of land area impede a broad application of up-to-date techniques and technology but rather the contrary, namely, that the sources of development are insufficient to purchase new technology and that there is no adequate skill to employ the available means of production efficiently. Another reason that calls for caution is that while the standard of production has significantly risen in sectors which were rapidly modernized in regard of techniques (cereals, maize, poultry and pig breeding), in those which are labour-intensive and produce with traditional technologies, it has not grown to a satisfactory extent. Increasing efficiency did not everywhere keep abreast with the quantitative growth of production nor were the endeavours to establish new investment projects accompanied by a better utilization of existing capacities.

In about 40 percent of the farming cooperatives economic management is not satisfactorily balanced, a part of them struggle with financial problems, their development came to a halt or only progresses very slowly. This is closely linked to the fact that in agriculture, and especially in the cooperative farms, the differences in natural and economic conditions (unfavourable conditions of land and climate, a density of population too high to live on the yield of the area, a cost plus price system calculated on

the basis of average conditions and other differences) generate substantial differences in the economic results which usually persist and therefore deserve great attention from both social and economic viewpoints.

About one-third of the Hungarian agricultural cooperatives farm on land with poor endowments (sodic, quick ground, mountains, land afflicted by flood or ground water). These lands were brought under cultivation by the village poor in the second part of the last century in order to produce the minimum food needed for their subsistence.

Through even much higher inputs only a lower income can be achieved on these lands than in the country's areas of better quality land. Therefore, it is not by chance that the economic results of cooperatives farming on these lands only amount to a fraction of the better ones with a similar or even more assiduous labour input.

The differentiation is, of course, influenced by other conditions, too: e. g. the structure of production, manpower conditions (such as the supply of labour, its level of education and skills, the standards of management), supply with the means of production, their quality, the distance from the sales market, the system of income regulation (progressive, linear, or degressive taxation), and so on.

The main activity of cooperative farms is agricultural production. However, parallel to strengthening enterprise concentration in the past ten years this has vertically extended. The farms specializing in the production of cereals, meat, dairy and other products made arrangements to pursue socially justified and useful industrial as well as servicing activities, too. As a result of this process, the economic activities of agricultural cooperatives are no longer strictly limited to plant cultivation, animal husbandry and horticulture, but are intertwined with industrial, servicing and trading activities linked to them. This way, the demands of society and consumers can be better mediated to the producers and are easier to fulfil. The vertical extension of economic activity is advantageous for both society and the enterprise, from several aspects, i. e.:

– it results first of all in a greater quantity of commodities, contributes to improving the assortment in the supply, to offering a better supply of foods, occasionally to increasing the exportable commodity stocks and to diminishing the import demand;

– it significantly aids the organization of local industrial, transport, cultural and medical services and the meeting of such demands;

– it usefully supplements the production of the strongly concentrated large industrial enterprises through commission work, and by outworking; partially substitutes for the missing industrial, servicing and trading capacities of small and medium-size plants;

– helps a better worktime utilization of the working population by solving tasks of local labour management and employment;

– extends the sources of income and, consequently, of accumulation of the cooperative farms. As a result, production has grown and become significantly more profitable in several farms. In a number of agricultural cooperatives working under unfavourable natural conditions state subsidy decreased, or could even be completely abolished.

Combining employee and entrepreneurial interests

Hungarian practice well reflects that the key to successfully building up large-scale farms in agriculture is a higher appreciation of peasants and agricultural workers, both materially and morally, improvement of their well-being, and political confidence built upon these conditions.

The government in Hungary took several measures which won the confidence of the peasantry already in the late fifties. It suspended the system of compulsory deliveries and introduced commercial methods instead; it essentially raised the agricultural producer prices and reduced the tax burden. It openly condemned the mistakes made prior to 1956, the forced organization of agricultural cooperatives and remedied the grievances. Significant subsidies were granted to the state farms and cooperatives to restore their economic equilibrium and, at the same time, the government aided the production of the individually working peasants and improved their financial position. In their peasant policy the party and the government followed the principle that it is necessary to win the confidence of the peasantry by raising the standards of living and not to compel them to join the cooperatives by increasing the tax burden or by reducing their income using other restrictions. The same policy was continued in the period of organizing the collective farms and later on in the sixties, when the gradual elimination of differences in income and living standards between workers and peasants was proclaimed.

During the socialist reorganization of agriculture (about the turn of the fifties and sixties) the real income of the peasantry was lagging behind that of the workers and other employees by about 15–17 percent. In the wake of income and social policy measures taken in the mid- and late sixties, as a result of rapidly growing incomes in cooperative farms, this difference dissapeared by the early seventies, the level of the peasant incomes reached that of the urban workers. The aim of this policy was to bring about the conditions for enterprising management also in the cooperative farms, to lift the administrative restriction of labour mobility and, by bringing about personal income parity, to provide uniform conditions and chances for the members of both fundamental classes of the socialist society to increase their personal income further on in proportion to their performance. Thus, the bringing about of income parity eliminated the socially unjust backwardness of peasant incomes having lasted several decades, so that it is no exaggeration to say that this was a historic feat of social policy. Later on, however, the repeated "daily" measuring of the lack or existence of income parity–independent of performance–was contrary to the aims of this policy.

The rational development of economic control and of the system of regulations was organically linked to the general political line. The landmark of this was the 1968 reform of the mechanism which was introduced into agriculture gradually. Regarding its economic content the reform served in agriculture the material foundation of independent enterprising and extended reproduction, the strengthening of enterprise and personal interest. In the early sixties only a minor part of these state and cooperative farms were able to finance the extension of production from their own sources. The most

far-reaching measure of the reform was that through the new regulators it allowed the majority of the farms to create the financial basis for autonomous economic management and development from their own resources.

The regulatory system has since repeatedly changed in Hungary and, occasionally, in directions unfavourable for the farms. Beside the growing taxes and radically declining state subsidies the prices of industrial means of production and materials, which have been for a long time more dynamically increasing than the agricultural prices, were also playing a part in this, and so was the obligation to fill up the circulating funds subject to the adverse effects of inflation. As a result, the number of farms which can afford extended reproduction from their own resources (self-financing), has decreased. Currently not more than half of them can do so. In a significant proportion of the farms the financial conditions of even simple reproduction cannot be realized; their number is about 500, i. e., 40 percent of the farms. In these, after having settled the obligations charging the development fund, the remaining source of development is less than the depreciation allowance of the fixed assets. In the state-owned sector a greater share of the farms, about half of them, belong to this category. If we take into account that, owing to the rising prices of the means of production (materials and equipment), their technological obsolescence and the drastic reduction of subsidies granted to investments, (on the basis of the fixed asset value equalling the amount of earlier subsidies not even a replacement fund was generated), the development fund does not cover the simple reproduction of assets (according to certain calculations that seem to be well founded, because of the above reasons the depreciation allowance only provides a 60 percent coverage for the replacement of the fixed assets), we can clearly see the critical situation of these farms. Consequently, in a third of the cooperatives and in 40 percent of the state farms the value of the fixed assets has been decreasing in recent years.

In the next years it will ever more become a key task of economic policy—and mainly of the regulatory system—to eliminate, on the one hand, the disturbances of simple reproduction in a wider range of the state farms than today and, on the other, to increase the number of enterprises where even extended reproduction is regularly possible, furthermore to favourably influence the income situation of the efficiently working farms which can be reckoned with as the pulling power of the sector. Since these are the material foundations and most important conditions of autonomous enterprise management, the readiness to undertake these improvements needs thorough survey and consideration at a time when increased supply and export requirements are raised against agriculture.

The farms struggling with financial troubles can also do a lot by themselves for the betterment of their situation. It seems to be a fundamental point to implement only developments economizing on assets and resort to loans only when it is inevitable. Practical experience has shown that excessive indebtedness may cause financial disequilibrium and hinder development even in economically well founded farms. The situation of such farms can be improved by a well considered transformation of their sphere of acitivity, by changing the product pattern or perhaps the branch of cultivation,

by the increased employment of specialist staff, or, in certain sectors maybe by returning to the traditional methods and ways of cultivation or husbandry (requiring relatively fewer means of production of industrial origin), by developing the internal system of interests, within the large-scale farms by the combination of large-scale and small-scale methods and so on.

Nothing could show more the existing reserves and those to be explored than the fact that regarding these factors there was hardly any favourable change in the past years just in these farms (apart from the sole important but in itself insufficient condition, i. e., the extension of the spheres of activity).

It has been an important basic principle of Hungarian agrarian policy from the outset that material incentives should be linked in the agricultural cooperatives to the economic results and to increasing production. In essence, the cooperative farms were always only able to make use of what they had produced themselves. This principle was asserted in the beginning by applying the "work unit" system;* later on, when the cooperative farms changed over to pay money wages, the wages were split into two parts. The major part, which was guaranteed, was paid in the course of the year on the basis of work performed, and a smaller part of it at the end of the year, depending on the annual results.

Wages and salaries and material incentives of the workers and leaders of cooperative farms are also currently linked to the results of production and economic management. Thus, the linkage of ownership simultaneously with entrepreneurship can be amalgamated with the interests of members as employees. It is worthwhile for them to undertake more, since recompensation for work is in step with the entire economy of the cooperative, and, more closely, with the results of the organizational unit where people are working.

In this respect changes also occurred in the past ten years which affected cooperative management unfavourably. As a result of the campaign of mergers and integration in the mid-seventies the attachment of members to their cooperative loosened. Extension of the wage regulation rules to the cooperatives weakened the link between the cooperative's income and the remuneration of members. For strengthening the attachment of the membership and direct material interest the self-accounting and the so-called self-governing units have rapidly multiplied in recent years. These forms appeared in the cooperatives already in the early 1960s.

From the early sixties on the cooperative farms applied increasingly diversified forms of combining the interests of people as employees and as owners and entrepreneurs. Share farming and percentage farming and other solutions which linked monetary remuneration to the economic results of farming were introduced in a broad sphere. These forms of enterprising, however, remained for a long time within the

*The work unit stands for the average work performed during a typical workday and the different labour operations were converted into this equivalent. The money equivalent ("value") of a work unit varied from year to year within the same cooperative and from cooperative to cooperative in the same year. (Translator's note.)

framework of remuneration for work and were linked to certain products or to their cultivation process. The qualitative change occurred when, granting autonomy to particular divisions, financial rewards were allotted to the division as a whole on the basis of its economic results. Thus, within the cooperatives such forms of enterprising began to proliferate which today show many diverse forms from the small independent groups, plant units or plants up to the various specialized agricultural producers' groups.

Units with independent economic accounting* became widespread not only in the agricultural cooperatives but also in the state farms; in more than half of the cooperatives we find such units. Of course, it is not everywhere justified to establish such units. They are mostly necessary in the large-scale cooperative farms, and the same applies to the organization of self-governing units. It was mostly in recent years that the self-governing units have been spreading. Their number is estimated at 150–200, they have not been accurately recorded so far. Their autonomy is wider than and qualitatively different from that of independent economic accounting units. Besides having their own plans, system of management and accounting, and headed by a leader of adequate authority, the self-governing units dispose of their resources and means of production to a defined extent; some of them have the right of selling and purchasing directly, outside the cooperative, and they are directly interested in the economic results of their activity.

The operation of the self-governing units may be well demonstrated through the example of the "Ezüstkalász" cooperative farm of Baksa which is farming on 3000 hectares of ploughland and established self-governing groups of about 400 members, with independent spheres of authority and material interest. The working members and leaders of these undertake together to fulfil the targets laid down for them in the plan of the cooperative and collated with them under a contract. The plan contains—on the basis of previous years' data—together with the tasks the wages to be paid on the basis of the norms and also the profit to be achieved by the given self-accounting unit. In order to make the workers interested both in the reduction of costs and in increasing the yields the materials and services used up by the groups are valued at centrally set prices. The members of the groups are personally interested in achieving additional profit.

An impediment to further spreading either the units with independent economic accounting or the self-governing units is that their own management and accounting system, indispensable for their operation, cannot yet be provided in all of the farming cooperatives. In certain cases the way of thinking and narrow-mindedness of the cooperative's leaders is the hindrance, for they feel that the creation of units with independent economic accounting and mainly self-governing groups restricts their powers of leadership. Both reasons play a part in that the spreading of these organizational forms is slow exactly in the cooperatives struggling with financial difficulties. By now it has been proven that such a cooperative where the impacts of changes in the environment and

*These units keep their own records of operation and are remunerated according to own performance, but cannot govern over the conditions that influence the level of operation.–Ed. note

the regulatory system only affect the senior management and the interests of members and particular groups in adjustment to the changing conditions are not asserted according to the given specific internal relations, cannot produce good results. One of the methods of such adjustment might be to organize units of independent economic accounting or self-governing units. It has been found, however, that the county leaders urge the establishment of these units in several counties even where they are not needed, or the proper conditions cannot be provided as yet. The result of such stimulation is that some such units were created in cooperatives only formally, in fact they are not operating.

The specialized agricultural groups were mostly established in small animal breeding, vegetable farming and fruit growing. They support the small producers in purchasing the materials and implements needed for production and organize the marketing of their product. Hence, beside the agricultural cooperatives, state farms and the ÁFÉSZ-s (Hungarian abbreviation for general consumer and sales cooperative) they play an auxiliary role in the integration of household plots and auxiliary farms. With the creation of new forms of enterprising their role is increasing. With their aid the household plots and auxiliary farms can successfully be linked to the farming cooperatives. Special(ized) groups are also being organized within the cooperatives.

The cooperative management and the government's cooperative policy

The cooperative movement is something much wider than the farming cooperatives. It embraces the whole network of industrial, consumers', saving and housing cooperatives. A rather significant part of the adult population is in direct contact with the work of the cooperatives and even more are indirectly affected by their activity. In connection with the agricultural cooperatives it seems to be expedient to summarize briefly the significance of their activity and at the same time the principles of Hungarian cooperative policy.

The cooperatives fulfilled a historic task in guiding the small commodity producers—peasants, artisans and shopkeepers—unto the socialist path. A mass of citizens engaged in agricultural, industrial and trading activities, more than one million people, are working in cooperatives at present. Their main source of livelihood is the cooperative and they simultaneously play a significant part in supplying the population and in exports. Therefore, the significance of their activity in the national economy is tangible.

By joining forces through cooperation the central sources of economic development can be extended. Relatively large groups of the inhabitants are ready to contribute materially, by working, or by some other means to the organization of activities which result in faster and better fulfilment of their demands. Thus in all cases when live labour, the employment of labour, play an important part in economic activity, furthermore when the economic purpose is to serve the direct interests of a smaller community, it is expedient to organize the collaboration of those interested in a cooperative form.

The cooperatives are appropriate framework of large-scale agricultural production and in regard to industry and trade they are apt to complement state industry and trading. They are able to pursue economically, and with the necessary flexibility, certain tasks which are not undertaken by the specialized large enterprises, whereas their realization satisfies social needs. Their advantage is linked to the features of small and medium-size economic ventures, such as direct interests, smaller management and administrative apparatus, more rapid reaction to demands, easier change of the activities, especially when it rests to a large extent on manual work, or entails investment in easily accessible assets.

The social and socio-political activity of the cooperatives is also significant, usually linked to their economic performance. They are often irreplaceable in solving tasks by engaging women, disabled persons, housewives and part-time workers, too.

All this indicates that it is possible to rely on the cooperatives in building up socialism not only temporarily, in the reorganization of small-commodity production rate of large-scale farms, but in the long run too, in the whole period of building a socialist society. It is expedient therefore to develop them as organic parts of the socialist system, in accordance with their social and economic significance. In this work two extremes have to be avoided. On the one hand the over-valuation of cooperatives and, on the other, their under-estimation, repression, or "nationalization". The existence and activity of cooperatives do not negate the necessity of state enterprises, and, of course, the opposite is also true.

Cooperatives are needed at any place in the socialist economy where their activity promotes the wellbeing of their members and other working people and, at the same time, strengthens the socialist relations. Especially large field is open to their work in the production and marketing of food and other consumer commodities, in activities serving for domestic supply and in exports required by the national economy, in services to the population, as well as in the building and maintenance of dwellings.

The Hungarian cooperative policy is built on the basic principle that social progress requires in built-up socialism not a radical change in socialist ownership relations but consolidation, the strengthening of both state and cooperative ownership, enrichment of their common features, and close collaboration based on equal rights between state-owned and cooperative enterprises.

Two further important principles follow from the foregoing. One of them is the affirmation of enterprise autonomy, applying both to state and cooperative enterprises. State authorities should not pursue economic management activities instead of the enterprises or cooperatives. Enterprise autonomy is an elementary condition of efficient management. The state asserts the interests of society through the methods of socialist planned economy, the realistic harmonization of the tools of direct and indirect control, economic influencing, legal provisions, state control and supervision.

Another important principle is the acknowledgement and observation of equality in the contacts between state enterprises and cooperatives. The state enterprises–apart from very exceptional occasions (as elementary disasters, epidemics, etc.)–must not exercise

official authority powers towards the cooperatives. Currently the state enterprises exercise such right in some cases under licences granted to them, in other cases they have no licence, but rely on their monopoly position. The interests of the Hungarian national economy make it necessary that the relationships between state enterprises and cooperatives should be built upon voluntary approach, mutual interests and advantages as well as upon taking common risks.

* * *

Our results up to now have been achieved under such conditions when the observation of the voluntary principle and gradualness played a decisive part in the treatment of people. These principles now gain new content in enterprise autonomy, in selecting the new forms in compliance with the new circumstances and in exercising self-government. We cannot but fully agree with the practice that the Hungarian cooperatives apply varying forms of management and organization even at present, in harmony with the development level of their productive forces and capacities, both in their relationships with one another and in their economic activities. This practice supports the rational utilization of local endowments and possibilities and stimulates initiative.

НОВОЕ В ХОЗЯЙСТВЕННОЙ ДЕЯТЕЛЬНОСТИ СЕЛЬСКОХОЗЯЙСТВЕННЫХ ПРОИЗВОДСТВЕННЫХ КООПЕРАТИВОВ В ВЕНГРИИ

Э. ЧИЗМАДИЯ

В венгерском сельском хозяйстве весьма большую роль как по своей доле в производственных фондах, так и по доле производимой продукции играют сельскохозяйственные кооперативы. Они обрабатывают 3/4 всей земельной площади, в них занято 12% всего самодеятельного населения и 62% сельскохозяйственного самодеятельного населения. Им принадлежит подавляющая часть поголовья скота и 2/3 всех сельскохозяйственных производственных фондов. Вместе с приусадебными хозяйствами они производят 2/3 всей сельскохозяйственной продукции страны.

И сейчас много споров в сельскохозяйственных кооперативах вызывает процесс централизации, происходивший в 1970-х годах и в результате которого резко сократилось число коллективных хозяйств и быстрыми темпами возрасла их средняя земельная площадь и средняя численность работников. Хотя этот спор еще не решен окончательно, но можно констатировать, что эффективное использование техники не требует дальнейшей территориальной концентрации производства.

Несмотря на значительные успехи венгерского сельского хозяйства в последнее десятилетие, приблизительно в 40% сельскохозяйственных кооперативов хозяйственная деятельность недостаточно сбалансирована, часть кооперативов испытывает финансовые трудности, их развитие приостановилось или сильно замедлилось.

Успехи венгерского сельского хозяйства доказывают, что в условиях социализма ключом успеха в создании крупного сельского хозяйства является материальное и моральное поощрение крестьян, сельскохозяйственных работников, а улучшение их судьбы и в основанное на этом политическое доверие. В сельскохозяйственных производственных кооперативах материальное стимулирование с самого начала было привязано к хозяйственным результатам, т. е. члены кооперативов были непосредственно заинтересованы в повышении производства. В середине 1970-х годов в результате кампании по объединению кооперативов, а также изменения системы экономических регуляторов ослабла связь членов кооперативов с кооперативами. В целях усиления этой связи, а также прямой материальной заинтересованности в прошедшие годы были созданы хозрасчетные и самодеятельные единицы, получившие быстрое распространение. Сложились разнообразные формы таких единиц, общая черта которых состоит в том, что отдельные подразделения ведут более или менее самостоятельную хозяйственную деятельность и материальное поощрение их работников целиком зависит от результатов хозяйственной деятельности этого подразделения.

Переводом мелких товаропроизводителей (крестьян, мелких частных ремесленников и торговцев) на путь социализма кооперативы сыграли историческую роль. Кооперативы представляют пригодные рамки для организации крупного сельскохозяйственного производства, а в промышленности и торговле они хорошо дополняют государственную промышленность и торговлю, которые в Венгрии отличаются высокой степенью концентрации. Важным уроком венгерского кооперативного движения является то, что при строительстве социализма на кооперативы можно опираться не только временно, при преобразовании мелкого товарного производства в крупное, но и в перспективе, в течение всего периода строительства социалистического общества.

Acta Oeconomica, Vol.34 (1–2). pp. 13–26 (1985)

K. FALUS-SZIKRA

SMALL ENTERPRISES IN PRIVATE OWNERSHIP IN HUNGARY*

The article tries to find the expedient limits of small firms in private ownership and other small ventures; to what extent their support is advisable; what obstacles should be removed in principle and in practice and what their perspectives may be. The forms of small ventures are rather heterogeneous from the aspect of ownership. There are many transitory, intermediary forms.

It is difficult to make considerable advance in developing the sector of small ventures without drawing in the means of the population to a considerable extent. This raises ideological problems and requires adequate organizational solutions as well.

If the privately owned enterprise exceeds the scope of small firm in a farther future, the form of ownership must change. In this respect the procedure has to differ from the earlier one: the owner must be financially compensated and his expertise must be utilized in the future as well.

The system of new forms of small enterprises and ventures has developed and older forms have been modernized in Hungary mainly on practical considerations quite up to recently. Theoretical aspects and questions of principle have not been dealt with, nor particularly examined. Under the given circumstances this was permissible and even expedient. By now, it seems, however that we have come to a point from which progress can hardly be achieved without discussing some questions of principle, among them those with ideological supplications. Even behind seemingly practical difficulties often such problems are looming. I should like to give some assistance to solving them. First of all I try to answer such questions as the limits to permitting and supporting small ventures and small enterprises** in private ownership or forming other small property while remaining in harmony with our social objectives: what obstacles to their development should be removed in principle and in practice; and what their future should be.

The necessity of small enterprises in a modern economy needs no special proof any more. The functioning of modern economy cannot be imagined without small ventures, a

*When writing this article I was relying on my studies entitled *A termelési eszközök kistulajdona* (Small ownership of means of production) and *A kisvállalkozások fejlesztésének főbb elvi kérdései* (Major questions of principle of the development of small ventures), made for the Institute of Social Sciences of the HSWP and the Ministry of Finances.

**The notions of small venture and small enterprise will be used as synonyms in this article and include private small-scale industry, too, thus differing from official Hungarian usage.

relatively large number of them supply various goods and services with their own expertise, manpower and capital. It is widely accepted that beside big enterprises a considerable number of small enterprises is also required, partly for the direct supply of the population and partly for performing auxiliary activities for big enterprises and thus constituting a part of the "background industry."

The functioning of small enterprises seems to be expedient in Hungary first of all in the following fields:

– where changes in fashion have to be followed flexibly, eventually individual demands have to be satisfied. Thus, for example, in the clothing and shoe industries, the textile industry, furniture manufacturing, production of metal mass-ware, etc.;

– in the background industry complementing the activity of big enterprises, for example, in the production of spare parts, tools, packing material, etc., servicing, maintenance, etc.;

– in practical implementation of inventions, patents (including pilot projects);

– in the building industry meeting individual demands of the population (building of condominiums, family homes, week-end homes, etc.);

– in personal and family services (hairdressing, beauty-shops, cleaning, washing, children-care, care for sick and aged people);

– in certain branches of trade and catering (board and lodging);

– in certain intellectual activities and services (designing in constructions and other industries, computer techniques, translation, interpreting, etc.).

If the necessity of small enterprises is admitted, then the question may immediately be raised in which form of ownership they should function.* According to the teaching of historical materialism the form of ownership ought to correspond to the level of production forces. The forces of production having become large-scale and social, require social ownership, "big property", while small-scale productive forces–on the basis of the same consideration–necessitate "small property". The adequate ownership form of small enterprise is small property. This is also supported by practical experience. Within the frameworks of "big property" a small enterprise may only be run less efficiently than possible in most cases. Certain clumsiness and rigidity resulting from the nature of "big property" impede precisely the realization of the most important advantages of small business: flexible and fast accommodation to market demands.

Each property on the basis of which an individual or a smaller community disposes of a limited quantity (value) of means of production and conditions of earning an income based on them, and disposes itself about the use of this income–permanently or temporarily–may be regarded as small property. Positive financial results from the

*When writing about small enterprise I do not use this notion in conformity with the official Hungarian interpretation, according to which the small state-owned enterprise may, for example, employ 300 or even more workers, but I think of really small firms and ventures where the number of workers is *much less than that,* even less than hundred.

operation of property are enjoyed, eventual negative ones "suffered", obligation and risks borne by the individual or the small community.

The traditional form of small property is small private property, but small property may not only be in private ownership. In Hungary also ownership attached to agricultural household plots and auxiliary farms, and, in major part, to small cooperatives and new forms of small venture is regarded as small property. Household and auxiliary plots are the new forms of small enterprise and small venture.

The traditional form of small enterprise is the "enterprise" of artisans and retailers in their private ownership. It is fully understandable that when the claims to increase the number of small enterprises was put on the agenda in Hungary, this also meant giving some room to private persons. The extraordinarily strong individual interestedness resulting from private property cannot be renounced in the sphere of small enterprise where individual initiative has special importance. However, a considerable part of artisans display such activity not as a main occupation, but only as a secondary one or as pensioners. About 40 percent of them have their main job in the state or cooperative sector. Their workshops, where only one or two persons work, are mostly obsolete as regards equipment, only one third of them is equipped with some kind of small machine [1] and only every fourth artisan has one or more employee (at least legally), on the average one and a half.*

The justification of the private sector and the necessity of its development in the supply of the population are acknowledged by the majority of people in Hungary. In the course of a survey made in 1982 by the Research Centre for Mass Communication, 77 percent of those interviewed considered the private sector indispensable in the supply of the population and in the opinion of 70 percent supply would improve if the private sector were further extended. Merely 15 percent were of the opinion that no new fields should be opened to the private sector. [3] In this question the population votes on the market by making use of the services of the private sector day after day. Public opinion—understandably—does not deal with the participation of the private sector in spheres outside the direct supply of the population.

There are also such views that private ownership does not fit into the socialist economy and is "alien to the system", even in small-scale industry in the form of small property. No doubt, in the traditional, rigid model of socialism and in the practical system corresponding to it there is no room for small private property. It may be feasible, however, with all probability in a socialism allowing several sectors and further developing also "big property" in the interest of ensuring harmony between productive forces and production relations. Even an artisan with several employees cannot be regarded as an exploiter until he performs productive, organizing or management work of determinant

*This is so despite the fact that the number of employees has increased in this sector in recent years, for example by 10.4 percent in 1982. But even so, 63 percent of the artisans having employees engage one, 24 percent of them two, 11 percent three and only 2 percent more than three persons. [2]

importance in his plant. It may be supposed with good reason that his income is based under such circumstances mainly on his own work. What cannot be accepted is an extent of private ownership exceeding small property. It is only the small enterprise and small venture whose private ownership may be allowed under our circumstances. But where is the limit between permissible and non-acceptable private ownership or enterprise size? This question may hardly be answered on a theoretical basis. The limit may only be drawn by taking into account of actual economic and political circumstances as well as the rational size of the given branch and activity. The 1949 Act on Nationalization provided for the nationalization of enterprises employing more than ten workers, thus ten persons could still be employed in the framework of private ownership. This act has remained in force ever since then. Only lower legal orders made different provisions. It seems that the permissible number of employees with private artisans should be looked for at such level also at present. The new regulations usually permitting six employees plus family members, (in certain professions 9–12 employees) provide for similar numbers.*

The importance of private initiative has been emphasized also in other socialist countries in recent years. The new Soviet Constitution of 1977 confirmed the standpoint of the 1936 Soviet Constitution that private economic activity is justified in small-scale industry, handicrafts, agriculture and services for the population, if it is based on the personal work of the individual and his family members. Eminent Soviet economists suggest a better utilization of such possibilities in newspapers and periodicals. Small private property plays a substantial role beside Hungary also in the German Democratic Republic, Poland and Yugoslavia in European socialist countries.

New forms of small enterprises and small ventures are rather heterogeneous also as regards ownership. A state-owned small enterprise is unambiguously part of "big property"–despite the particularities of its economic conditions–and falls outside the range of our investigation. A small cooperative, however, may really be regarded as small property. Members invest their own capital and are directly interested in increasing it. A small cooperative is not simply a collective private venture [4], but some transition between private venture and "big cooperative"–it is cooperative small property. (A considerable part of accumulated wealth is indivisible and will not become the individual property of members.)

From the new forms of small venture 'individual' ones (e. g. private transport of passengers and goods) mean a transition between the private venture of artisans and personal property, bearing the marks of both. (Usually the same vehicle is used for work and family purposes.) Out of the collective forms the so-called civil law companies and the independent economic working communities** can be regarded as associative private ventures and are based on the private property of members. But the majority of the

*The number of participants in private associations may be 30.

**Also called workteams and business partnerships. See [10]. The terminology has not yet become settled.

newly established small ventures are not independent ventures, but work within some big enterprise, closely linked to it. The leasing of shops and the contractual running of shops, specialized groups of cooperatives or enterprise economic work-teams are practically built into the inner mechanism of big enterprises. Most of them are transitory forms, a mixture of traditional socialist ownership and collective (associative) small property where socialist and private ownership features assert themselves to deviating extent. It seems that these forms may be fitted–despite all the temporary or lasting conflicts–into our socialist management system and may usefully complement it.

Financing of small enterprises from the wealth of the population

In a modern economy intellectual capital, special expertise and knowledge are becoming more important factors beside money-capital in several fields. In other cases such individual properties as, for example, taste for fashion, sense of form or sheer physical strength (e. g. in the transport of goods) are important. At the same time traditional physical or financial capital is also indispensable to an extent varying by branch or field of activity. The capital supply of small enterprises should also be supported by the state according to international experience. However, also financial means of the population should be used for this purpose.

A considerable part of small enterprises have problems in Hungary resulting from shortage of capital both in the private sector and in the new forms of ventures. The majority of artisans and small entrepreneurs do not dispose of the necessary financial means. (Or, if they do, they are not properly interested in investing them into the venture. But we are not going to deal with this problem here.) The National Savings Bank (OTP) and other newly created monetary funds help with credit or financial participation in the venture those applying for such aid. This is, however, by no means satisfactory. Considerable progress may hardly be achieved in the development of the sector of small enterprises, if the financial means of the population are not drawn in into the financing of small enterprises to a much greater extent than at present.*

It is a well-known theorem of Marxian political economy that personal incomes should serve in socialism a single purpose–personal consumption and individual-family investment required for this. This principle had already been violated previously. For

**None* of the newly created monetary funds–serving the financing of small ventures–as, for example, the Innovation Fund of the National Bank of Hungary, the Enterprising Fund of the National Bank of Hungary, organizations of the State Development Bank, the Ministry of Industry and the Ministry of Food and Agriculture established for such purposes; the Novotrade Co. Ltd., the Financial Association for Technological Development, etc. do actually not rely on financial means of the population. Bonds and shares issued by the listed institution may not be purchased by private persons.

example, when in the early 1950s the population had been forced to renounce a part of their personal income in the form of "Plan Loan" and "Peace Loan" and the financial means thus obtained had been spent on central investment projects. At present the question is raised in a different manner. While keeping in view that the basic role of personal income really is to cover demands of personal consumption, it should be furthered that a part of personal incomes–first of all the part that would otherwise be spent wastefully or irrationally hoarded–should flow back into the reproduction process, into the circulatory system of the national economy without any coercion. In the contemporary economic situation when state resources have considerably narrowed down, this would be especially important. For the time being, however, the concepts and organizational solutions are missing that would further the utilization of financial means of the population–within that of people not participating in ventures with their own work–in the financing of small ventures.

The possible ways of financing small ventures or enterprises by drawing in means of the population may be divided–in a simplified way–into three groups:

1. financing through the mediation of a bank;
2. financing through so-called "-invest" enterprises;
3. direct investment.

Financing through the mediation of a bank

Under Hungarian circumstances the drawing in of financial means of the population into the financing of small ventures can most expediently be solved through the state or cooperative credit system, through the mediation of banks. This follows from the fact that most people are not willing to undertake financial risks, but wish to place their saved money at a more modest, but safe interest.* In this case the person depositing his money with the bank will obtain a definite interest independent of the business result of the bank–whether the bank grants credit to the small enterprise or participates in the venture, thus assuming risk. The form of placement of money may not only be a normal savings deposit, but also a bond with fixed interest. The most important is, however, in each case that the placement of money should be attractive for the money holder and the interest should exceed the rate of inflation. This requirement has not been met by the policy on savings interest in recent years. Even at present only the interest paid after time-deposits tied up for five to seven years reaches the planned measure of inflation.

In the case of a positive real rate of interest the problem of unearned income can be raised, namely, that those having greater amounts in savings deposits or securities could in

*In the course of the aforementioned survey of the Research Centre for Mass Communication 32 percent of those interviewed belonging to various social strata and occupational groups declared their willingness to start some private venture should they have the initial capital required. On the other hand, 57 percent answered that they did not want to venture even in such a case. [5]

this way obtain considerable income without work. Let us only mention in this regard that large incomes resulting from interest could be mitigated by an income tax, should interest increase to such an extent that it might really become a source of considerable income. However, we are very far from having such problems as yet. He who deposits his money in the bank hardly gains by it.

Big banks all over the world prefer to have big enterprises as clients and do not like to deal with insignificant and risky credit demands of small enterprises. This is an explanation for the fact that in developed industrial countries usually state or semi-state organizations are created to supply small- and medium-sized enterprises with credit. This is partly due to the fact that banks are not and even can not be prepared to judge properly situation and economic perspectives of small ventures, nor the expected economic importance of a new invention or product. [6] It is thus expedient that this function should be fulfilled by special banking institutes or at least departments.

Financing through "-invest" enterprises*

A great part of the population is not ready to invest its savings into business ventures involving great risks even in developed capitalist countries. Therefore, the necessity of reducing risks appeared. Thus such enterprises (banking institutes) financing investments and allocating capital were created which reduce and distribute such risks in a way that a larger number of ventures are simultaneously financed by them, while profits of successful ones compensate for losses. Furthermore, thanks to the extensive knowledge and experience of their employees, these specialized institutions may invest capital entrusted to them with higher profits than could individuals with proper experience lacking in this field. The individual deposits his money with the "-invest" enterprise, while direct investment is made by the latter. Capital investment through such institutions is for those who are willing to undertake certain financial risk in the hope of appropriate income, but only a smaller one than is involved by direct investment. Companies financing investments of small enterprises are usually established in the form of share joint-stock companies. So-called capital sharing companies were established in Austria in the late 1970s with state capital.

The possibility has also been raised in Hungary that small enterprises and ventures should be financed by "invest" enterprises established under the care of state agencies making use of means made available by the population. [7] According to this concept the simultaneous financing of several enterprises and management by experts would diminish the risks of the individuals. Those investing their money should, in general, obtain higher income after their invested capital than the interest paid after deposits in savings banks. Otherwise, they would not undertake even risks smaller than those in the case of direct

*These are essentially similar to Western firms providing venture–capital.–Ed. note.

capital investment. Several solutions could be imagined here. For example, also such one that the "invest" enterprise pays dividends in a predetermined fixed amount depending on the profitability of the enterprise could be added. The "invest" enterprise may eventually work in cooperative form, too, as a cooperative financing small ventures or as a cooperative enterprise. Nevertheless, whichever form will be chosen, each would be an institution working as a banking institute, whose working order and scope of activity ought to be developed with special circumspection.

Direct investment of means of the population

A general advantage of direct investment over the indirect one—made through a banking institute or "invest" enterprise—is that in the former case the money holder may participate in the venture with his judgement, and even his initiative. (He chooses the venture worthy of financing himself, maybe also participates in the activity or has some control over it.) This is explicitly attactive for certain people, because they feel they are the makers of their own fortune. For other people precisely the greater risk may be attractive that usually frightens away the majority. True, one can lose everything here, but a lot can be won, too, more than in case of investment through banking institutes or "invest" enterprises.

At present direct investment into some business is possible for artisans, private shopkeepers, members of small cooperatives, of specialized cooperative groups as well as for participants in certain small ventures of a new type, furthermore, for individual small entrepreneurs. There is no or only a minimum possibility for this precisely with the most popular forms of small venture.* But, even where this is possible, there is a lot of barriers and little stimulation. Thus, for example, a private artisan or shopkeeper may not obtain any interest after his own capital investment—at least legally—, the income of artisans is taken into consideration by taxation only as income resulting from work. Members of collective small ventures, thus also of small cooperatives obtain dividends after the shares bought by them just reaching or hardly exceeding the level of interest paid by the savings bank on deposits. Holders of savings deposits have no risk—as against those of cooperative shares—, they can take out their deposits from the bank at any time even prior to the term of engagement. [9] At the same time, the law allows participation in some venture with financial means only for those who contribute to it with personal work, too. Capital

*"A part of the new forms only allows the increase of personal income, and not the increase of disposition over goods. . . Small enterprise, the contractual running of an enterprise unit, the leasing of a commercial or catering unit, industrial service workshop by small entrepreneurs, as well as the civil law association, the economic workteams—whether independent within the enterprise—are all forms only stimulating for the increase of personal income. It is no objective with any of them to invest from personal income in order to provide foundations for the further functioning of the given organization."—Teréz *Laky* writes this in her paper. [8]

transfer, "silent partnership" are prohibited. Of course, this prohibition is circumvented–mainly in private small-scale industry and retail trade. There also exist illegal forms of the utilization of private capital, especially in the form of loans, against usurious rate of interest.

He, who possesses the expertise and venturing spirit required for entrepreneurship does not necessarily have the money required for this, and *vice versa,* the part of the population having the required money do mostly not possess the expertise or venturing spirit, and for other reasons have no possibility to participate in the venture with personal work. These two aspects should somehow be coordinated, which is hardly possible without mitigating the aforementioned prohibition.

This prohibition is supported by an emphatic ideological argument, the same that can be mentioned also against the raising of various rates of interest, dividends and the recognition of capital interest, namely' the nature of unearned income being alien to our social system. It would really not be proper if some people could obtain high incomes merely by lending money or ceding capital. Here the extent is determinant which may be influenced in different ways, by taxation, limitations, etc. In principle this problem does not differ from that of interest to be paid after savings deposits if this is a positive real value, which–obviously–is a normal state of affairs. Mainly with forms where appropriate control is ensured it could be allowed, within certain limits, that also those may invest their money who do not participate in the venture with their work. The income obtained in this way could be kept within regulable limits through taxation. Small share-holders or proprietors in capitalist countries are not capitalists and their situation practically does not differ from that of holders of deposits with a fixed term.

First of all cooperative shares (special-purpose shares) and those of economic work-teams could also be sold to people who participate in the venture only with financial means. The idea of issuing bonds and so-called "interestedness bonds" has also been raised. This latter would be a further developed variant of special-purpose shares. It would be a security of fixed denomination after which holders would obtain a basic interest and a share from profits in proportion to the denomination.* This could be a way of financing small cooperatives, economic working groups (workteams) and civil law associations. Bonds could be purchased by state institutions**, "big cooperatives" and the population, too. Recently, some state enterprises and "big cooperatives" have successfully issued bonds in Hungary. This makes it probable that such actions would be popular among the population if an appropriate rate of interest were offered. It is conceivable that small enterprises or ventures issues shares. This would be even more

*Cooperative special-purpose shares do not entitle the holder to dividends as against normal shares, but are also securities attached to persons and not transferable.

**In the West it is more and more frequent that big enterprises finance small ones. For example, the research activity of small enterprises is supported since small enterprises may display research activity with greater success and less expensively in several fields. Big enterprises do so, of course, nor unselfishly.

suitable for them insofar as they need not guarantee repayment in this case. In this regard negotiability ought to be clarified.*

Summarizing the above we may say that the way of drawing in means of the population into the financing of small enterprises should not be sought after merely in one direction or on a single basis. Beside financing through the bank as the basic method, direct investment and financing through "invest" enterprises are also possible as complementary solutions. More diversified solutions are desirable so much the more because in this way both the part of the population willing to undertake financial risk in the hope of a possible higher income and the one not willing to do so may find some possibility for participation.

The future of small ventrues

The policy towards small enterprises and small ventures may only be appropriate if we have more or less definite ideas about their future development. If our present behaviour does not fit into this perspective, this may entail very serious consequences and the mistakes may hardly be remedied later on. Drivers, but even passengers of a train ought to know where a tunnel leads to already when they drive in.

A long-term security is needed for any form of small venture to work properly and fulfil its function. This long-term security has two dimensions. One is the possibility that the given activity may be carried out in a more or less unchanged way and within unchanged limits for a relatively long time yet. The other one is the possibility of development and growth. In the concluding part of this article we are going to deal with the second dimension.**

Traditional handicraft industry is of stationary character and usually relies on simple reproduction. Striving for development and growth as well as ability for this are different, immanent properties of modern small venture. Those who are against the increase of the growth possibilities of small plants in private ownership are often worrying and asking where this process will lead to and whether it is not the beginning of some

*In the case of bonds the issuer is obliged to buy back the security upon expiry independent of the result, that is, the creditor cannot lose his money. In the case of purchasing a share the purchaser does not grant credit, but gives capital. In return for this he continouously gets a share from the profits of the venture, but in case of failure his investment is lost.

**In reality not every thing is in order with the first dimension, either; and was even less on in the past, the negative consequences of which can be felt even at present. Thus, for example, because of the considerable uncertainty of the private sector in the past–when one could never know whether temporary concessions or stimulations would not be followed by restrictions within a short time again–those working in this sphere rarely worked in a solid manner, thinking of the longer run. It was much more frequent that they tried to get rich within the shortest possible time and to obtain maximal income even at the expense of business morals and reputation or by breaking the rules in force.

reprivatization resulting in the establishment of private capitalist relations, perhaps even in their prevalence in the economy. Such worries have obviously had some part in the contemporary limits set to the accumulation possibilities of the new forms of small ventures and to the possibilities of using properties of individuals for business purposes in general.

The usual answer to such questions is that these worries are unfounded, since the socialist state may prevent the establishment of capitalist relations in possession of her political and economic positions. In reality the problem is much more complicated than that. It is completely true that the change-over of small-scale commodity production into capitalist production can be prevented under socialist relations. What is more, such danger can be nipped in the bud—if so desired—which is proved by historical experience. Such a policy has, however, usually been concomitant with the "elimination" of such positive effects which are expected from the increasing role of small ventures and property and very much needed by the national economy. This, too, is a historical experience. Therefore, in this respect methods different from those of the past should be used.

If small ventures are given free scope and allowed to develop, then there will always be some especially successful ones, among them, getting stronger economically after some time and considerably increasing their wealth. Of course, this only holds for a very small part, while the majority cannot attain this status*. It will presumably cause fewer problems if it is a collective venture that flourishes, though it is very difficult to make forecasts with the necessary experience missing. The problem is greater if the plant of an individual entrepreneur or private artisan develops to such an extent that the value of his business wealth (building, machines, equipment, circulating capital, etc.) amounts to several million forints and he is able to permanently employ 8—10 persons. It is hardly expedient to prevent this if the given activity is useful and in demand. It should be taken into consideration here as well that much greater private fortunes are also existing in other forms, much less desirable from social viewpoints, for example in luxurious buildings and valuables serving basically for hoarding purposes which bring considerable income for their holders due to an increase in their value at a faster rate than prices are rising. Furthermore, incomes carrying the danger of tensions do exist outside the private sector, too, and may even be obtained more easily, with less work. Since tensions are connected first of all not with the amount of the entire income, but with its part used for personal purposes in a wasteful manner and an entrepreneur spending his income on the development and modernization of his plant is much more accepted by public opinion than the one with an ostensively wasteful way of life, the widening of investment and development possibilities may even diminish discontent caused by income differentials. Of course, this is not a solution free of contradictions. Business wealth increased with diligent work may later on become a source of unearned income or wasteful

*The bulk will always remain owners of small businesses unable or perhaps unwilling to exceed the limits of family business or small ventures.

consumption, too, mainly in the hands of descendants. Such contradictions cannot be avoided: the economy is not a world of ideal relations, but one of realities where from time to time benefits and disadvantages should be weighed against each other.

And what should happen if the most successful small enterprises reach the upper limit of small property mentioned in the foregoing under conditions favourable for them? Should swinging over be allowed or not, and if so, then how? This question is seemingly not topical yet, but it occurs sooner or later in reality to all small-scale producers thinking of the development of their plants, and the supposed answer may influence their present behaviour, too. All rational arguments speak in favour of not impeding this swinging over–if the activity is needed and this is confirmed by the market. Yet efforts ought to be made to find a transition acceptable economically and politically, too.

Problems of small private property and other forms of small property deviate from each other in this respect; nevertheless, common principles may also be developed. Thus, for example, that this transition can by no means be some forced collectivization or nationalization as it has been the case in 1949 and in the early 1950s, but only a solution that is also advantageous for previous small proprietors. First of all the possibility of displaying their knowledge and abilities at a higher level should be ensured, but financial compensation has to be given, too.

As it has already been mentioned, private property can only be imagined in the form of small property and it can only be fitted into our system, in this way even in the long run. Therefore, if a firm in private ownership reaches the critical limit–that should be handled in a flexible and differentiated way–then also its form of ownership ought to change.* One may think here of transforming a private small enterprise into a collective small holding or its integration into or association with a big enterprise. Thus, for example, transformation of a private artisan's firm into an economic work-team or a small cooperative may be imagined. In this case the collective having become the owner would provide for the compensation of the previous owner and the remuneration for his capital handed over. Since the capital of the enterprise would presumably further increase after it had become collective property, the share of the previous owner and, accordingly, also that of the income due to him by this title would gradually diminish. There may be several ways of solution. The collective may buy or lease the means of production from the owner, they may become joint proprietors, etc. while the previous owner may continue working as expert or leader in the collective, too. The precondition of this "peaceful transition" is that forms of collective small venture become attractive or at least acceptable for private artisans. This has not been realized yet.

The integration into or association with a big enterprise may be realized in several ways, too.** The simplest solution is that the state enterprise or cooperative purchases the

*This limit is not identical with the present one determining the upper limit of employees by legal order.

**Civil law allows the association of a private person with a legal entity–e.g. state enterprise–in Hungary even at present. This has occured, however, very rarely in the practice.

private firm, pays out the owner in one sum or in instalments, and he could, of course, remain there as a leader also further on. Association could be brought about on the initiative of either the private small firm or the state-owned enterprise, while such a proposal would only be accepted by the other party if it is advantageous for him, too. It would probably be a frequent case, too, that the small private firm for which the means required for further development and investments are not available asks for state (state or cooperative bank, state enterprise, etc.) support and in return for this offers a corresponding part of its property. If this offer were accepted by the given agency, then the venture would be transformed into a joint–state-private or cooperative-private–enterprise. Thus, it would further grow not only within the frameworks of private property. The previous proprietor would obtain a salary for his work and remuneration after his capital at a decreasing rate. (The weight of his capital would continuously decrease within the total enterprise fortune, too.)

In this case the state would become a partner in the private enterprise. But, an enterprise in joint ownership could also be established in such a way that the private person joins the state enterprise. For example, his firm would become a part of the state (or cooperative) enterprise, while he becomes a part-owner keeping his leading function. It is also possible that not only one artisan, but a group of artisans joins the big enterprise in this way.

These solutions may be accompanied by several foreseeable and unforeseeable difficulties. It is foreseeable, for example, that the employment of former private artisans as leaders in an enterprise in joint ownership may only be realized if the earnings of leaders of state enterprises approach those of successful private artisans. Another difficult problem in such enterprises in joint ownership is also the inheritability of the part in private ownership. The viewpoint of mitigating socio-economic inequalities would require that this should not be inherited. On the other hand, however, the lack of inheritability would withhold private artisans from previous own investment.

The growth of small enterprises, forms of small ventures based on collective (group) ownership, for example small cooperatives, economic working groups (workteams), etc. exceeding the size of a small enterprise also requires certain changes in form, but at least a further development of such forms. These problems are,–by all probability–less complicated, thus the transition seems to be easier. Economic working groups (workteams) may be transformed into small cooperatives if they exceed the limits of the original form, small cooperatives into big cooperatives or may become a part of big cooperatives, etc. Among other things, such a solution is conceivable also here that by giving capital the state becomes partner in the small venture which then will change over into an enterprise in joint ownership. The precondition of all this is, however, that "big forms" become attractive. The future of small enterprises is largely dependent on that of big enterprises.

References

1. Gervai, B.: A magánkisipar fejlődése, helyzete és szerepe Magyarországon (Development, situation and role of private small-scale industry in Hungary). *Közgazdasági Szemle,* 1983. 3.
2. Jelentés a KIOSZ országos vezetősége részére a kisiparosok és a kisiparban foglalkoztatottak 1982. évi létszámának alakulásáról (Report for the national management of the National Organization of Artisans on the development of the number of artisans and employees in small-scale industry in 1982). Multiplied, p. 12.
3. Z. Farkas, K.: „Aki bírja, csinálja" – közvélemény a második gazdaságról; Tömegkommunikációs Központ kiadása "He who can do it, does it"–public opinion on the second economy). Tömegkommunikációs Központ. (Mass Communication Centre) Budapest 1983. p. 37.
4. Sárközy, T.: Problems of social ownership and of the proprietory organization. *Acta Oeconomica,* Vol. 29, Nos 3–4. (1982).
5. Z. Farkas, K.: Op. cit. pp. 39–40.
6. Jenny, A.: Le financement des petites et moyennes enterprises: une nécessité pour la Suisse. *Révue économique et sociale,* 1981. 1.
7. Havas, G.: Public savings and production finance. *Acta Oeconomica,* Vol. 28, Nos 1–2. (1982).
8. Laky, T.: A vállalkozások és a társadalmi-gazdasági környezet Munkaanyag. (Ventures and socio-economic environment). Working paper. January, 1983. Multiplied. pp. 27–28.
9. Varga, Gy.: A kisvállalkozás (Small venture). *Valóság,* 1982. 9.
10. Laky, T.: Small enterprises in Hungary–Myth and reality. *Acta Oeconomica,* Vol. 32. Nos 1–2 (1984) pp. 39–64.

ПРЕДПРИЯТИЯ В МЕЛКОЙ СОБСТВЕННОСТИ В ВЕНГРИИ

К. ФАЛУШ-СИКРА

В статье автор ищет ответа на вопрос, каковы границы, в пределах которых целесообразно обеспечить в условиях Венгрии возможность развития мелких предприятий, находящихся в частной или иной формы мелкой собственности, целесообразно оказывать им поддержку; какие принципиальные и практические препятствия необходимо удалить с пути их развития и какова перспектива этих предприятий.

Потребность в увеличении количества мелких предприятий в Венгрии неизбежно сопровождалось определенным расширением мелкой частной собственности.

Новые формы мелких предприятий и предпринимательств весьма неоднородны с точки зрения характера собственности. Среди них имеются весьма близко стоящие к частной собственности и весьма далекие от нее. Много переходных, промежуточных форм.

В развитии сферы мелких предприятий нельзя продвинуться вперед без гораздо большего привлечения материальных средств населения. Это ставит и определенные идеологические проблемы, а также требует соответствующих организационных решений. В статье рассматриваются некоторые из них.

Если находящееся в частной собственности предприятие — в относительно отдаленном будущем — перерастет границы мелкого предприятия, то должна измениться и его форма собственности; однако в этом отношении необходимо идти по иному, чем в прошлом, пути: необходимо обеспечить материальную компенсацию бывшего собственника, а также возможность использования его знаний и навыков.

Acta Oeconomica, Vol. 34 (1–2). pp. 27–49 (1985)

T. LAKY

ENTERPRISE BUSINESS WORK PARTNERSHIP AND ENTERPRISE INTEREST

Beginning with 1982 several kinds of small economic organizations, so-called small ventures can be founded in Hungary. More than 60 percent of the about 27500 new units coming into being till the end of 1984 were enterprise business work partnerships (VGMK according to the Hungarian abbreviation). The partnership as a legally autonomous unit comprises workers of an enterprise and is contracting with the enterprise to carry out some tasks with the help of the enterprise equipment but outside the regular hours. In industrial and service cooperatives similar communities, so-called specialized teams were formed. The two amount to altogether 72 percent of all new small organizations. When calling them into being, the assumption was that the new small units would operate as small ventures adjusting to demand and supply.

Two years of experience have proved that neither the VGMKs, nor the specialized teams are real ventures; they operate characteristically as work brigades, substituting for overtime work.

The article examines on account of what interests of theirs the industrial enterprises dismissed the possibility of creating real ventures and squeezed the VGMKs into the hierarchical order of the division of labour. The VGMK has necessarily become one of the forms of buying labour power. The enterprises availed themselves of other forms also earlier to a considerable extent (by contracting outside firms and giving them their own materials for processing, by concluding contracts for second, part-time, jobs with their own employees, by employing guest workers). According to the authoress fundamental enterprise interests must change if the VGMKs are to become real small ventures as it has originally been intended.

When the legislative statutes launching small enterprises were in the process of preparation in Hungary, the competent authorities included in the provisions concerning work partnerships also the possibility of creating joint ventures between the enterprise and its employees, the so-called enterprise business work partnership (henceforward: VGMK, using the Hungarian abbreviation of the term)*.

At that time nobody assumed that this form, outlined in a few sentences and held to be just one of the possible forms among the various small ventures, would become the dominant type. Moreover, nobody realized that this form put into practice together with the other entrepreneurial forms would eventually become merely a *work brigade* performing surplus (overtime) work.

*In other English publications also the term *economic workteam* or *community* can be found. The terminology is not yet final. *Ed. note.*

This paper is concerned with one single question: Why did the VGMK become a work brigade? (Hence, I am not going to explore why the other forms of small ventures spread at a comparatively slow rate and how the VGMK gained dominance among them.)

I shall try to provide an answer to this question by analysing *enterprise interest.*

The answer is of relevance, as I suppose, not because of the VGMKs. It is much more important because it exemplifies that as long as enterprise interest remains unaltered even the changes held to be the best will be subordinated to it, and the most promising initiatives will only be realized to the extent allowed by enterprise interest.

For lack of the necessary data and of the computations that have not as yet been possible to perform, I shall just begin to find out the reasons. I shall hardly come to identify a great many interconnections, and what I mean to take notice of may merely be the surface. In addition, I can state about a great many things only what *appears to be,* and not what can also be *proved.* But my statements may be confirmed by the fact that what we can witness again today are, despite the multitude of changes and of new phenomena, regularities of an old, repetitive process.

In what follows we shall be concerned with industrial enterprises and with the VGMKs operating in them. Despite their identical traits, I shall not discuss VGMKs established in other sectors of the national economy, nor the industrial and the cooperative specialized teams.*

Before describing the phenomenon, let us survey in brief why the VGMKs came to be established.

Expectations

The VGMKs—as it is, in all probability, already common knowledge today—is a partnership of at most 30 members recruited from the own active employees and pensioners of an economic organization. To set up a VGMK, it is necessary to obtain the previous approval of the enterprise manager.

The VGMKs can undertake work in the sphere of activity chosen within a statutorily approved framework and filed with the Court of Registration. On the income earned by the work done, earlier a 3 percent, from 1985 on generally a 6 percent corporate tax (or, above a certain limit, an even higher one) has to be paid. The sum after taxes is distributed among the members as personal income (which is also liable to taxation).

As can be seen from the preparatory documents and mainly from the writings published subsequently by those who took part in the preparation [2, 3, 4], the legislative bodies wished to serve various objectives with this form.

*Attention to the basic identities of the VGMKs and specialized teams was first called by György *Varga* in his article [1]. His predictions have since been repeatedly confirmed by practical experience.

Thus, by the joint venture of the enterprise and its employees, it is possible for the enterprise to use its underutilized means of production for the manufacture of commodities in short supply: either the enterprise or the employees find out the demands; the enterprise leases machinery to the VGMK, sells—or helps to buy—the necessary materials; the enterprise guarantees the buyer the quality of the work done by the VGMK and the returns are divided—in an appropriate proportion—between the enterprise and its VGMK. This presupposes the VGMK members' material contribution to creating the conditions for the activity concerned (purchase of materials, rent, etc.). Over and above the profit of the enterprise and the VGMK, the beneficiary of this activity is the national economy as a whole as the multitude of the articles in short supply can be manufactured with the existing means of production of the enterprises to satisfy the needs of both the producers and the population.

The processing of the enterprise's waste materials within the framework of the VGMK may be a gain for the national economy and serve the common interest of the enterprise and its employees.

Associated with the implementation of these objectives the best expectations were attached based, primarily, on the assumption of work partnership as a new type of community of interests.

It could be hoped that with the diffusion and the utilization of the experience of these enterprise forms, a novel kind of cooperation would be established between the enterprise and its employees, and that the wage-labour relationship would be replaced by partnership relations between those who established business cooperation with the firm.

This also means a different attitude to *work:* it was hoped that with the employees directly interested in the profit, manipulation with work performance would be put an end to, and better forms of work organization based on individual capabilities and endowments would be created. The performance reserves thus disclosed would also react upon the usual activities of the enterprise and gradually transform the internal work organization. All this might also give a new content to socialist ownership: the employees would become really interested in the protection of the means of production.

These objectives, attractive in themselves and equally serving the interests of the employees, the economic organizations and the national economy, were heavily urged by the sinister recession in 1980.

The diffusion of the VGMKs

In spring 1982, I took part in a conference organized by the Centre for Extension Training of the Ministry of Industry on the "Role of small-scale and auxiliary enterprises in the national economy". Invited to participate in the conference were managers of 40 industrial enterprises, those in which "some initiatives had already been manifested". Instead of the general managers and department managers invited by name, often only second-rank executives participated, but many of them complained that they were fed up with the innumerable discussions and information about small enterprises (ventures).

In the discussions following the presentation of papers a great many fault-finding, fastidious and sceptical comments were made: "The general manager of the trust first opposed the small enterprises, and gave voice to his opinion everywhere. The authority in competence rebuked him and then he said: "Well, then we shall organize them if an enterprise manager can be called to account for such a thing!"—"I was also publicly criticized by our party secretary as we had as yet no small enterprises." The account of the chief engineer of organization at the Danubian Iron Works—where already 20 VGMKs were in operation—raised some interest, but the interruptions and comments were indicative of resistance: "We had better not let us deceive. The whole VGMK business is nothing else but a means to substitute for overtime. This is how income can be doubled. This view is shared by everybody with whom I have had the opportunity to talk about small ventures." (Interruptions: "He is right!")

A great many serious or only far-fetched arguments fostered by the strictness of the dependence relationship, by the accounting practice of industry and legal prescriptions, but definitely indicating the lack of enterprise interest were voiced.

By way of example, I am quoting just a typical argument: If there are too many VGMKs, then the whole enterprise administration has to adjust to them, but if the enterprise structure is transformed in this way, then things will become impossible to follow and survey. What happens if in such an unsurveyable organization, for example, the accident indicator is deteriorating? The managers already lose their bonuses not only in the case of an industrial, but also a traffic accident. . .

And the most obvious question was repeatedly posed: Why is it not the enterprise wage regulation that is changed? Why can the enterprise not simply use more overtime? If the enterprise used the money it paid to the VGMK for activities that could be performed in regular working time, it would perhaps attain even better results than those of the VGMKs. The competent official of the Ministry of Finance answered: "Wage regulation cannot be changed in the prevailing conditions of the economy."

The industrial enterprises—as it appeared—were reluctant to adopt the idea of the VGMKs, even in cases where "there was already something", where at least some interest was shown in them, or where possibly a few VGMKs had already been established.

A year later, in May 1983, when the VGMK had become the most general form of small ventures (of the 10,000 small ventures registered at that time in the national economy, almost 6,000 were VGMKs), the majority of industrial enterprises were—contrary to public opinion—still opposed to the VGMKs. In the about 1,600 economic units of socialist industry (enterprises, cooperatives) VGMKs were established in only 290 (18 percent). True, by the end of 1983, the number of industrial economic units with small ventures had almost doubled and 539 industrial enterprises (34 percent) had already operated their VGMKs. If we also include the specialized teams operating in about 130 cooperatives then the proportion of the "parent" organizations of the socialist (state-owned and cooperative) industry will be 41 percent. A turn came in 1984 when already 65 percent, i. e. the majority of industrial enterprises and cooperatives already had VGMKs or specialized groups (teams).

The distribution by sectors of the national economy is shown by the table below. By way of comparison, we also included in it the proportions of the independent business work partnerships (called GMK in Hungarian), originally destined to constitute the main form of partnerships, and the ratio of the specialized teams, too.

Although more than 60 percent of the VGMKs were to be found in the industry, the membership of these teams only amounted to 9–10 percent of total industrial employment. In addition, the VGMKs operate in several thousands of plant sites of the enterprises in such a way that at most one to three VGMKs are working in more than half of the enterprises concerned. Only in one quarter of them do more than ten operate. More than 50 VGMKs only work in 19 enterprises.

Numbers and percentages of VGMKs, specialized teams of cooperatives and GMKs by economic sectors as of December 11, 1983

Sector of the national economy	VGMKs		Specialized teams of industrial and service cooperatives		GMKs	
	number	percent	number	percent	number	percent
Industry	5 324	54	704	57	1 212	27
Construction industry	2 237	23	413	33	1 178	26
Agriculture	70	1	2	–	91	2
Transport and communications	110	11	22	2	101	2
Commerce	21	–	5	–	75	1
Water economy	70	1	–	–	27	–
Personal economic services	1 846	19	96	8	1 652	35
Health, social and cultural services	28	–	–	–	145	3
Communal and other budgetary service units	96	1	1	–	207	4
Total:	9 802	100	1 243	100	4 688	100

Source: Central Statistical Office

Thus, in a part of industrial enterprises and cooperatives there were no VGMKs or specialized teams even in 1984. (There has been a general manager who openly declared in face of the public: "I do not agree to establishing work partnerships." [5]) To know the causes of their reluctance would be at least as important as to know the interest attached to the foundation of the VGMKs. What will be discussed in this paper, however,

is, as already indicated, how and why the *founders* rejected the possibility to set up small enterprises, how and why they forced the VGMKs into the hierarchic order of the division of labour. I am searching for the answer—as also indicated—in the action determined by enterprise interest.

According to organization sociology, enterprise interest is shaped by the interaction of two factors. One is the objective endowments of the socio-economic environment determining the conditions of operation (the elements of which are the geographic location of the country, its social traditions, the demographic characteristics of the population, the development level of the management system of the economy, etc.) The other is, amidst the environmental factors, the group interest, integrating into community interest of the members of the organization based on their organizational, societal status. In several works of mine I have made attempts to prove that, despite the interest-diverting effect of the dependence relations and of the regulatory system, the organizations have a more or less autonomous freedom of movement to enforce their interests.* In the Hungarian economy, a multitude of examples have already demonstrated that the enterprises can divert important processes from those that have been planned or assumed. (Such are, for example, transgression of investment limits in spite of the intended curbing of investment, purchasing power illegitimately flowing out despite regulations designed to control the wage outflow and despite the regulation strictly sanctioning the transgression of the planned amounts, etc.)

What we shall discuss here are the interests in shaping the present-day form of the VGMKs, more exactly, such elements of these interests as have—in my judgement—played a determining role in the process.

First, I shall examine the causes of the dismissed possibilities of the enterprise, then, what is closely linked to them, the interest in transforming the VGMKs into work brigades.

The dismissed possibility

Industrial enterprises have never liked the saying, however fashionable it has become, that "the VGMK is the household plot of industry". Beyond the aversion of industry to accept agriculture as a model, the rejection of the "household plot pattern" to be followed subsists, basically, upon the simple enterprise interest in preserving the established pattern of the big-enterprise organization. Small-scale business, closely connected with the large-scale production structure, and the related changes in management and the real processes, the new forms of contact necessarily established with such cooperation, exert a rather deterrent effect.

The great majority of enterprises do not want a change—if only a temporary one—in which "things may become impossible to trace and survey", or could only be followed at the price of a great many internal transformations.

*See e. g. [6]

And "entrepreneurship" would undoubtedly establish relations significantly deviating from those accustomed to. The possibility was already inherent in the prevailing forms of the VGMK, but this was exactly what the enterprises did not want to take advantage of.

Moreover, I hold the view that the *possibility* of VGMKs becoming an enterprise is one of the major reasons for the *reluctance* already experienced earlier and of the ambivalence repeatedly surfaced already by the founders.

And, although the classical concept* can only partially be applied to both the enterprise (as it now exists) and to the VGMKs, yet even the elements interpreted only in a partial and modified way require the existence of conditions missing today and it is not sure that they can be created. Moreover, they involve consequences that are not desirable for the time being.

Entrepreneurship—in the classical interpretation of the concept

a) presupposes autonomy: both organizational independence and autonomous choice among the activities; and that, in addition, as a function of profits (defining here profit very broadly, not only in terms of money but also in the interpretation of the participants of the enterprise);

b) presupposes *risk-taking* in the hope of reaping profit, the risk partly of losing the capital invested, partly of a decrease, or even absence, of business proceeds (and of personal income);

c) presupposes the right of autonomous decision-making about the future of the enterprise as a whole: whether the returns will be invested or not; whether they will be invested in the own or in another enterprise; whether the whole enterprise is possibly wound up.

The original concept of the VGMK involved all these possibilities, if only in a modified way, under the prevailing Hungarian conditions. The VGMK has been, after all, an autonomous organization in its legal sense—from the very outset. So it is even in its present-day form (and it is immaterial that its members are full-time employees of the enterprise concerned). In principle, it might invest money (capital) in the enterprise through buying materials, leasing machinery, covering overhead costs. (This actually occurs in the building industry, where the VGMK undertakes building activities for the population and other work; for this purpose it takes the machines of the enterprise on lease, pays rent for their use, and thus—in a kind of partnership with the enterprise—lets it draw benefits from the better utilization of its equipment.)

But these possibilities have, in principle, been made unviable partly by the lack of interest, partly by the unambiguously opposed interest of the enterprises. Without analyzing the components of this phenomenon in detail, I only want to quote a few characteristic examples.

*For definitions of the concept see e. g. [7, 8, 9].

A great many conditions, for example, economic incentives, have been missing from the very outset. The enterprises are not responsive to the modest profit accruing to them from the activities of the VGMKs. (If they know at all that they would draw benefits or sustain losses from the work of the VGMKs, because cost calculation—as has been long regretted by those working in accounting—is a highly uncertain business.) They are not interested in manufacturing goods in short supply, in eliminating shortage situations, on the contrary, they are, occasionally, interested in maintaining shortages and in protecting their sales position. Therefore, they have no inducements to find out possibilities for the "enterprise".

And as regards the existence of the VGMKs as partners in entrepreneurship, they exhibit a directly reversed interest. This is because an autonomous choice from among the activities, such as, for example the decision on the use of the venture as an economic unit, no longer presupposes the employer-employee relationship, but the common decision-making of equal partners, taking risks and responsibilities jointly. This would mean at the same time that in the big-enterprise organization, set up in compliance with the strict rules of hierarchy, a whole system of small organizations, independent of these rules, having the right to take decisions of their own and restructuring the income hierarchy, would be brought about. Unless compelled by the vigorous constraint of market competition, large enterprises all over the world defend this hierarchy and the obviously related sub- and superordination relations. Even if we leave out of account the other consequences, protection of the organizational hierarchy is in itself a sufficient reason for rejecting joint ventures with the VGMKs. (It is not accidental that enterprises with a strong hierarchy often refer to the economic units operating the VGMKs as firms in a messy, confused situation, in which "anything can be done".)

What appears from all this at the surface is that the enterprises have restricted the chances of establishing "undertakings", "ventures" in all possible ways. They have limited the activities of the VGMKs primarily in two ways: On the one hand, most economic organizations insist on keeping the activities of the VGMKs for themselves, in other words, they do not want them to undertake "outside" jobs.

Several enterprises have even forbidden their VGMKs to do such outside jobs. Beside their own interests, they were forced to do so also by legal regulations which devolve practically all responsibility upon the parent enterprise. (In the "small-enterprise" section of the Yearly Itinerant Meeting of Hungarian Economists held in 1983, a long-drawn out discussion was conducted on the question whether enterprises can be prohibited or not to restrict the outside work of the VGMKs. Enterprise managers and the officials of higher authorities alike arrived at the conclusion that such a ban would mean the winding up of the VGMKs.)

On the other hand, the VGMK cannot decide on the sort of job it can and cannot contract to do. In the "market" it is faced with one single "buyer", its own enterprise. Thus it is entitled to take a decision—and in this it can bargain with the enterprise—on whether it undertakes to perform the job offered and for what price. Hence, the alternative is not simply a yes or no; in this case, it may somewhat increase the contract

price, but this is far from being an autonomous option depending on profit. Moreover, if the enterprise does not need the activity of the VGMK, it will not offer it any opportunity. (At an enterprise of the instruments industry a VGMK was founded with the aim to rapidly satisfy the special demands of the domestic buyers by a transformation of the instruments stored. But this activity was urged only by the VGMK and not by the enterprise, which was interested in keeping up domestic excess demand. It did not want to keep the VGMK engaged, and it was soon dissolved. [10]

The VGMK membership was nowhere expected to invest money—which was, by the way, neither possible nor necessary.

The members do not take the machines of the enterprise on lease, do not buy materials,—all this is completely superfluous as the enterprises only claim their working time and labour power. (In this situation, all central instructions relating to how to account the leasing rent and overhead costs become meaningless and only complicate administration.) Therefore, the members of the VGMK only collect the costs needed for the establishment of their partnership (typically 1.000 forints* per head). Nobody expects the VGMK to take risks. Even in the case of personal income, only the *measure* of using surplus working-time is risked. (It is characteristic that those having an extra income considered to be appropriate have not even entered the VGMK.)

Exceptions to the general practice are just a few dozen examples. Such are waste recycling and all cases—sporadically occurring—when the enterprise undertakes for its employees (for example for its workers and designers engaged in its plants of tools manufacture) orders *from outside.* These are invoiced by the enterprise, which lets its employees, performing extra work, have a share in the returns—in the form of a contract fee paid to the VGMK.

The establishment of work brigades

At least as many circumstances made the enterprises willing to support the organization of work brigades as those which made them reluctant to do the same with the "ventures". This and not more did the enterprises want to realize of the VGMKs without reservation.

The interrelated and mutually reinforcing *environmental* factors—of which we shall explore the labour and wage situation in more detail—show, despite a variety of changes, *a virtually constant state of the conditions of enterprise operation. The VGMKs have, in fact, become work brigades because the enterprises have remained interested not in establishing work partnerships but in the results that can be attained with the accustomed endowments and operations within the prevailing dependency relations and the narrow limits set to enterprise autonomy.*

The assumption of the invariability of economic circumstances can be rejected primarily by those economic organizations which fight a permanent struggle against

*Less than $ 20 at present exchange rates Ed. note.

import restrictions, against the difficulties of selling products in foreign markets, while the taxing away of profits, the frozen funds, the lack of development resources and the constraints of the strictly regulated wage rates greatly narrow down their scope of movement. The circumstances, however, even if they are more difficult than before, have remained *the same.*

This becomes evident if we think of the expected effects of recession. In the early 1980s, the world-market situation, the extraordinary difficulties of repaying debts, and, consequently, the declared decrease in the growth rate and with it the curbing of investment anticipated the possible perspective of a significant decline–occasionally of a frightening proportion–of economic activities in Hungary.

But the recession was not accompanied by the expected effects. Although economic growth did fall significantly, it was *output* rather than *demand* that declined and thus augmented the shortages. The long-lasting non-satisfaction of domestic demand kept occasionally surviving the sellers' position even of the loss-making enterprises. Certain enterprises in the crisis-ridden sectors–metallurgy, for example–were not able to fulfil domestic orders. In the building industry, despite a significant cut in investment, the volume of unsatisfied demand was still conspicuous. In industry, it was the manufacture of import-sensitive products that declined in the first place. But the irregular delivery of imported materials also made it necessary to keep the workforce at the level needed for full-capacity production. As a well-known concomitant of short supply, the belated arrival of many other materials also gave rise to the same effect. Domestic excess demand was strengthened by the export compulsion of the economy. Various allowances were instituted to stimulate the boosting of exports to a steadily growing extent.

In this situation, the yardstick of economic efficiency did not, understandably, become stricter (indeed, it got looser in the case of many export products as it was at least possible to sell them, even if at a price lower than effective inputs). Many deficiencies of the range of domestic products (of both producers' and consumers' goods) ran–for lack of alternative sources of procurement and independent again of economic efficiency–counter to the abandonment of production. And the closing of workshops, of plant units, was out of the question.

Accordingly, instead of the assumed reduction of the workforce, the shortage of personnel perpetuated in several fields. The economic organizations were not only unable, but also unwilling to renounce their employed personnel, and the demand for skilled workers–especially in the shortage trades–became permanent.

The labour situation

The slow-down of economic growth in 1982 brought about some change in the labour situation: the general demand for labour, which had not been met for several decades, was mitigated to a certain extent and concentrated in a few well-definable areas (Budapest and the regional industrial centres). In a few–least industrialized–counties, a

labour surplus made its appearance, and there still are some strata, whose members (unskilled women, young people with secondary school certificate) find it hard to obtain a job.

Part of the enterprises–especially in the provinces–held their workforce to be sufficient. (But nowhere did they consider their employees to be "too many".)

In 1983, the labour troubles became more accentuated. Primarily, because–as a result of the trend experienced ever since 1975–the number of active earners fell by 12 600 in 1982 and by a further 35 000 in 1983. At the same time, in 1983–partly owing to the population flow into other sectors of the national economy–the loss of the workforce employed in industry was almost the same, 34 800, while that of the construction industry was 10 800.

Enterprises with labour shortage can be divided into two large groups.

One of them is made up of the economic organizations of the above-mentioned industrial centres in Budapest and the provinces, where labour of all kinds is really in short supply (at least under the given conditions of management). The other group–in all parts of the country–consists of enterprises in which only a few, but specially qualified workers are missing, typically the experienced skilled workers of the maintenance trades (locksmiths, electricians, set-up men, etc.).

In this situation surplus work performed by competent specialists organized in VGMKs meant a multiple advantage. First of all it amounted to a replacement of part of the missing workforce. If we assume–and this assumption seems to be justified in the light of experience–that the VGMK members perform 60 hours of surplus work a month, then this is equivalent–reckoning with the work done by 65 000 members on a yearly average–to 3.9 million hours' work done by 24 375 people (assuming 160 hours' working time a month) in all sectors of the economy in 1983. Surplus working time means in the case of specialized teams in cooperatives–applying the same method of calculation–an additional workforce of 6 600 employees at the same time.

Hence, the additional labour gained through the VGMKs (and specialized teams) and even through all the other forms of small ventures could not cover the fall in the number of active workers in the years 1982–1983. According to estimates, they make up all in all, for about 30 to 33 thousand workers out of the 48 thousand missing.

Thus, industry was able to replace about half of its missing workforce in 1983, and in 1984, approximately, the other half. Construction which more or less managed to replace its loss of labour in 1983, hardly increased the number of VGMKs in 1984. But the demand for *increasing* staff persisted: enterprise plans envisaged an increase in employment of 70 to 80 thousand workers even in 1983. (11)

It is a different question whether the interest of the economy really needs this increase of labour in the given activity spheres. Economists and official circles have been emphasizing for a long time that "our industry, compared to its achievement, still

employs—also by international standards—more than the necessary number of people."* But besides voicing the wish, nothing worth mentioning has been done as yet to reduce the demand for labour. The pursuit of extensive economic activity with an increase (and waste) of the available labour force is a consequence of the unchanged system of interests of economic organizations.

The enterprises began to employ additional labour not with the VGMKs. For several decades now, subcontracting work done by outside firms (mainly complementary or auxiliary units of cooperatives in agriculture), part-time subcontracts concluded with own employees in recent years (as long as the practice to cover their charges were not changed) and the employment of foreign guest workers have provided additional sources of labour.

The VGMKs have only added new possibilities to all this, and their share is only a fraction of the surplus labour gained by the "traditional" inclusion of labour sources. (Recent examples, resulting partly from our own explorations although not of a conclusive force, can be regarded as typical [12]. There are case studies prepared at the Institute for Labour Research by Ildikó *Bakcsi,* László *Neumann,* János *Póta* as well as by Károly *Szabó.* According to our findings, about 80 percent of the working-time fund (total man-hours) used by the enterprises is provided by the hours worked in regular working time and only 20 percent by the additional labour resources.) The volume of additional labour is increasing year by year, it is at most only its internal proportions that—as a result of the changing regulations—have shifted. In 1983, for example, when the charges of part-time contracts concluded by the big enterprises on a relatively large scale with their own employees could no longer be charged to the "other" wage costs but had to be paid according to the general wage regulations, part-time jobs were transformed into VGMKs on a massive scale. The VGMKs replaced occasionally outside subcontracting, that is, a source of labour already drawn upon, but of an equally additional, external nature.

The calculations have not yet been made by means of which we hope to find the common traits: whether, for example, the scale and value of output, the export volume, etc. can explain in what enterprises, with what endowments VGMKs have, and in what enterprises they have not been established. But even without these calculations it can be ascertained that those enterprises are likely not to be interested in VGMKs which are satisfied with the extent and the earlier forms of drawing on external labour. If, for example, they have old-established and tested subcontracted outside work partnership relations which prove to be appropriate and can be expanded, then they will not risk these partnership relations for the sake of the perhaps only temporary advantages of the VGMKs.

The keeping of the existing labour force may be equivalent for the enterprises to employing new labour.

*Béla *Rabi,* state secretary of industry, expounded this view in the Parliament's Industrial Commission. Quoted by Csaba *Vértes* in his article [11].

Among those, who have not reckoned seriously either with the recession, or with the possibility of the resulting labour surplus, the old reflexes reviving at the time when small ventures were established, immediately gave rise to the view that the new forms—not unlike the auxiliary plants of agricultural cooperatives—would draw away labour from the state and the cooperative industry. Since that time it has become obvious that these ventures have not brought about any appreciable outflow of manpower from these sectors (neither have they created new job opportunities).

What has ensued is rather the reverse of what was expected; even the members of civil law partnerships that can be regarded as private enterprises and those of the (private) business work partnerships have kept, with negligible exceptions, their employment relations in the socialist (state and cooperative) sectors, in their original jobs.

In the case of the VGMKs and specialized teams, with their combined workforce of 120 000 members, the new form has proved to be explicitly labour retaining. It is exactly this fact that constitutes one of the major advantages of the VGMKs for several enterprises.

According to available data about 15–16 percent of the income of VGMKs derives from turning out manufactures (making up for the missing staff, increasing at times the volume of exports, helping when peak workloads occurred etc.). 26–27 percent of the teams perform construction activities and almost 60 percent provide industrial and other services (from the manufacturing of tools to cleaning), and mainly perform maintenance work. [13]

Moreover, in a significant part of the "host organizations" of industrial enterprises and industrial cooperatives, VGMKs have been established exclusively for maintenance purposes. (For example, where just one VGMK exists at one plant site, it is typically of a maintenance character.)

The diffusion of maintenance VGMKs is accounted for by two interrelated and mutually reinforcing factors. On the one hand, the economic units have organized these VGMKs because, owing to the scarcity of funds, there is no possibility to replace or to exchange the machines, the equipment is becoming obsolete, and repair work is increasing. On the other hand, because in this way they can pay and keep the specialists of shortage skills, for whom there is a great demand everywhere. The income of maintenance workers is usually much lower in all sectors than that of those who perform regular production tasks. The possibility of surplus work—and surplus income, too—is functioning simultaneously as a spontaneous wage correction in the different trades. But this already leads to wage regulation, which we shall discuss only from the point of view of the VGMKs.

Wage regulation

For the economic organizations there exist various "hard" and "soft" forints: (the Hungarian currency) the "hardest" is the "wage forint" kept for years within the strict limits of wage regulation and handled in separation from the other inputs of production.

For several years, the reduction of the staff has been a source of the enterprises' wage rises. They have been able to use three percent of the wages of the job leavers to increase the wages of those who have stayed. Therefore, all enterprises have been interested (until 1984) in an annual 3 percent reduction of the workforce. To counterbalance, however, the workforce decreasing spontaneously or in a planned way, the above-mentioned more expensive sources of labour (subcontracting work of outside firms, part-time work done by the enterprise's own personnel, foreign workers) have been made use of to an ever-growing extent. In addition, they have been paid not from a rigidly regulated wage fund, whose limits cannot be transgressed (or, more exactly, whose transgression is heavily penalized), but from general overhead costs. The enterprises are—as commonly known—not particularly sensitive to the latter, because they can usually afford, among other things, to shift them onto the buyers.

The management policy of the enterprises is concerned primarily with wage costs while their sections administer *moving wage rates,* including mainly overtime, task bonuses, etc. And although the equally strict internal enterprise rules prescribe year by year the sum of the fixed and moving-wage rates that can be used by the individual plant units (an average of seven to nine percent of overall wages is spent to cover the moving-wage rates), the managers of the plant units, in order to prevent a fall in the labour force—and mainly in view of the limited possibilities of the wage-payment system—try to let their employees have surplus income in a number of ways.

Such a function is performed at many enterprises by *overtime.* Rational thinking generally assumes that overtime means work done in "off" hours. This is usually, but by far not always the case. "Overtime" may be allowed in return for urgent work performed in the regular working time—in which case it is a substitute for task-bonus payment. "Overtime", just as any other form of the moving-wage system, can be used in a number of ways and, as is also well-known to experienced workplace managers, the moving-wage fund may function as a bonus allocation and also as a simple complementary payment. Therefore, overtime allowance, although it is, in principle, a sum which can be precisely computed, has in fact often a fictitious value of a "guiding price" nature. But since it is a sum that cannot be transgressed, its "allocation has to be economized with" (in such a way, of course, that, as all allocations, it has to be spent). Moving-wage allocations, from which overtime is also paid, constitute today already a vested right, a wage-complementing sum of money which no manager renounces unless he is given the equivalent value in exchange for it.

An income-augmenting possibility was provided—as has already been mentioned—by the right to conclude a part-time work contract with its own personnel (which in enterprise parlance is often called black or concealed overtime—moonlighting—), which in several enterprises ensured a ratio of the working-time fund which was equal to, or occasionally even larger than, the overtime fund.

Then, in 1982, a further possibility was added to the existing ones in the form of an agreement to be concluded with the VGMKs, increasing the incomes of workers and other employees through surplus work. This method of increasing incomes also appeared to be

very suited for the workers ready to do more work for more money. Besides, the enterprises were also willing to pay the higher wage costs of outside labour out of the "softer", less controlled cost forints.

Reference has already been made to the fact that the costs of the various working-time resources show significant differences. Although the analysis below is rather superficial, yet it is, basically, in compliance with the calculations made by the enterprises.

According to these calculations, the wage costs of those employed in regular working time are—seemingly—the lowest for the enterprises. Here it is, generally, the average hourly wage rates paid in the sphere of manual work that are taken into account, leaving out of consideration the social costs of employing labour, although they are also part of the labour costs for the enterprises.*

Overtime costs are, in general, 160 to 170 percent higher than the hourly wage rates paid in full-time employment, but in the case of most enterprises needing overtime they are usually twice as high. The price of overtime work has increased: enterprises admit that the sacrifice of leisure-time has become more expensive, therefore they pay—wherever possible—the highest overtime rates. In addition, the social costs of labour employment are also to be paid after overtime wages.

The surplus working time gained by part-time job contracts can be accounted at a cost roughly identical with overtime costs. According to established practice, the hourly wage rate of the VGMKs (taking into consideration the hourly-wage earnings that can be made in the second economy) is two-and-half to three times higher than the base wage rate. In other words: it is somewhat higher than the overtime rate. But the enterprise does not pay taxes on these costs.

The costs of labour recruited from outside sources are much higher than the costs of internal labour (the hourly wage rate of the cooperations under subcontracting amounts to at least double the wage rate paid to the VGMKs, and the employment of foreign guest workers is even more expensive.) Precisely in order to make the employment of VGMKs more expensive for enterprises, beginning with 1985 a 10 percent surtax has to be paid after the wages paid to VGMKs—similarly under the heading of general overhead costs. The workteam is even thus cheaper for the enterprise than any other "external" labour.

The existence of the already six varieties of wage costs, as they have necessarily come to be established over the years (and of the great many allowances (benefits) complementing personal earnings) testifies to the impossibility of maintaining the wage regulation illusion and makes it possible for enterprises to manoeuvre with wages and to use the various forms according to their own interests. (Paradoxically, it is sometimes exactly this manoeuvring ability that is beneficial also according to the intention of the national economy when, for example, the enterprise prefers to rely on the cheaper

*E. g. social insurance contribution, wage-tax. *(Ed. note.)*

VGMKs rather than on an outside firm in subcontracting work, at half the costs charged by the latter. In other cases they only enforce their own interests when, for example, they rely on organized VGMK work instead of overtime.)

The rigid wage regulation system itself stimulates enterprises to search incessantly for forms and possible combinations advantageous for them. In this respect, the VGMKs have various advantages:

– without burdening the wage costs, the enterprise can acquire additional labour that is cheaper and more reliable than any outside workers;

– work assigned to the VGMKs spares moving-wage allocations, which makes it possible for workplace managers to stimulate and recognize full-time activities in a more differentiated way;

– surplus work performance attained by saving wage costs enables the enterprise to improve its wage position

Since it is the interest of the enterprise, which is rather insensitive to costs, to let its personnel earn as much income as possible (if only because thereby the higher executives can also have their share in wage increments), the provisions of the wage regulation have stimulated the employment of its own workers for doing surplus work rather than to establish a work partnership (venture) with its less reliable results.

In my view, the virtually unchanged circumstances of economic activities, the lasting demand for additional labour, the survival of wage administration separated from other input costs provide an adequate explanation for the practically unchanged enterprise interests; interests to which the idea of partnerships is rather alien, while the work-brigade concept is their natural concomitant.

It constitutes an *inside* reinforcement of enterprise interest that what workers want is nothing else but to increase their earnings even at the price of sacrificing their leisure-time. In an earlier paper I have already analyzed several interconnections of the socially conditioned causes of employee behaviour [14]. Here I only emphasize the role of the internal factor in shaping enterprise interest: the fact that it was the reconciled interests of the enterprise requiring surplus work and of the workers demanding surplus earnings that was responsible for the establishment of the VGMKs rather than the "enterprising spirit" of any of them.

The rules of wage control have changed in a part of enterprises beginning with 1985: cost reduction has obtained a greater role in the opportunities for increasing wages. Today it cannot yet be assessed how the interests of enterprises related to operating VGMKs will change in this scope of firms, whether they will reduce the employment of VGMKs or, conversely, they will replace through them the more expensive outside contracting or guest workers to a greater extent. In about half of the enterprises, where the annual increment of wages is secured from central sources, the interests related to keeping and replacing labour will hardly change.

Where to go on?

Now we have the established "work brigades". Their work is part of the daily activities of the economy. Their usefulness is beyond doubt. Their activities may contribute to the mitigation of the steadily increasing difficulties of production (with many secondary impacts) and of the delays demanding surplus working time, or rush work. At several workplaces they provide the surplus exports that are indispensable for the national economy. A more coordinated maintenance of the production equipment may spare the economy losses which would be hard to express in money terms.

Yet, the question marks are multiplying and proposals are formulated one after the other, indicating the need to face the situation, to carry out a kind of settlement and to take further steps.

One of these questions affects social perspicacity: shall the VGMKs be kept in the scope of "small ventures", possibly holding an advanced position in national statistics and promulgating the success of their dynamic development? Or, shall we accept them such as they have become: work brigades, and only those VGMKs should be included in the sphere of small enterprises which, in consonance with the original aims, provide already today not surplus working time for their parent firm, but offer surplus products and services for the consumers, communities and the population. And those working for their own enterprise should be freed from the ritual constraints of VGMK-founding and of being incorporated by the Court of Registration.*

I hold the view that it would be worthwhile, in the interest of social perspicacity, to put an end to a fiction. But it should be done in a way which ensures at the same time the possibility for us to help this form to attain its full competence, to strengthen its valuable and useful traits and also to weaken its undesirable effects.

I am fully aware of the reluctance of the Hungarian protagonists of the VGMKs to bring about any changes because even the smallest changes may trigger off the avalanche that has been threatening the VGMKs with destruction from the very beginning. Nor do they wish to recognize the work brigades for fear that if they were to get out of the safety belt of economic policy still protecting small ventures, the VGMKs would immediately be hamstrung by wage regulation or simply by a final prohibitive decision.

But realities require, sooner or later, a solution. It is worth noting that the proposals known to me are not of an economic but of a social nature: in different formulations, they equally emphasize the need for *publicity* and the demand for creating and increasing *equal chances*.

*This idea has already found its public formulation. Speaking of the activity of the Courts of Registration, the Vice President of the Budapest Court of Law said: "...it is worth considering whether it is expedient to include the enterprise business work partnerships (VGMKs) among the enterprises in the Register of Firms. Their members can only come from an extremely narrow circle, ...and, what is more important, a contract concluded for the establishment of such VGMKs is only valid if the enterprise is ready to take financial responsibility for their activities." [15]

The demand for equal chances is formulated in various forms. For example in such a way that instead of the present-day VGMKs brought about largely by enterprise initiatives, the initiatives should be taken by the employees: as many VGMKs should be formed as the *workers* wish to establish (without the enterprise taking responsibility for employing them). On the other hand, the enterprise should declare at an open competitive bidding (tender) the surplus work deemed to be necessary and make it possible for any number of work brigades, organized as occasional or permanent teams, to tender their offers.

The groups with different interests expect different results from open competitive biddings, from changing the position of the VGMKs capable of monopolizing the surplus earning with extra work.

At the levels of management *above* the enterprise level it is the prevention of the outflow of incomes, and at the *social* level the *protection of the public morals* that make these endeavours particularly attractive.

No doubt, at some enterprises–which organized VGMKs in order to *keep* their workforce–the fictitious demand for expanding the working time fund has also appeared. That is, they assign not only such work to VGMKs as can by no means be performed in the regular working time available to them (I would call it real demand); but also such work as could also be done within the existing working time fund of the organization (i.e. the demand is fictitious).

The proportions of real and fictitious demand cannot be measured. Experiences and estimates made in a number of ways appear to indicate that a larger ratio of surplus working time created by the establishment of the VGMKs (and specialized teams) unambiguously satisfied real demand.

But the danger does exist. Although productive activities may also be based on fictitious demand (if they are performed not in the regular working time but in overtime by the VGMKs and specialized teams), the appearance of fictitious demand can be ascertained mainly in the sphere of two activities: in placing orders for intellectual and maintenance work. As the working time need of these activities cannot be measured even in the enterprise's full-time work, it is mostly here that the additional time requirement (manpower demand) of those placing the order can create fictitious demand.

The principal danger inherent in fictitious demand is that it causes the outflow of uncovered purchasing power. (Obviously, surplus purchasing power does not raise any problems if it is brought about, directly or indirectly, as the contervalue of labour *increasing* the commodity fund, or if it satisfies real–personal or public–demand).

But fictitious demand only arises where organizational or personal interests are attached to it. (It is, for example, organizational interest that requires to keep the skilled labour of various trades operating in maintenance work.)

Among personal interests it is direct material interest (often corruption) that brings about fictitious demand. I should not like to overemphasize this phenomenon, but it is sure to exist. (Here is a passage from the assessment of a sectoral trade union: "In the work communities (teams) there are senior and junior foremen, heads of sections, party

secretaries, members of the party leadership and also trade union officials. The employees disapprove and find it incompatible that the members of the VGMKs are often persons in responsible positions who direct and organize productive work in regular working time, or assess the activities of the given units, distribute rewards, task bonuses, wage rises.") We ourselves have found such a "central" VGMK, whose members, medium-level enterprise managers, "offered" all VGMKs to do their administration for 3.000 forints a month. The VGMKs, being aware of the consequences, have accepted the offer and keep on paying.*

And although the cases of incompatibility are regulated by special provisions (e. g. leaders in specified positions cannot be VGMK members), yet top managers, who are entitled to give exemption from the rules, do not always deliberate judiciously, which means that the rules, for lack of adequate economic and social control, can be eluded.

The termination of certain managers' illegal income-increasing possibilities, deriving from their being engaged in senior positions, is required, primarily, by the protection of public morals–but it is also a precondition for forcing back fictitious demand.

But a basic, old problem of uncovered wage outflow continues to exist: the enterprises are not sufficiently interested in minimizing production costs, in using additional labour and in employing manpower to the extent needed to satisfy real demand, or in pressing down labour-market wages. Their interest–especially owing to the provisions of wage regulation–stimulates them to employ labour that is not paid out of the wage-fund, and their surplus demand for it, particularly fictitious demand, itself becomes a wage-increasing factor.

It stands to reason that as long as no essential change takes place in the factors of enterprise interest (among them in wage regulation), the sensitive equilibrium between purchasing power and available commodity stocks must also be protected by the containment of fictitious demand. On the other hand, however, it appears to be expedient to reckon both with surplus wage demand and with the emergence of additional commodities also in planning income outflow (accepting realities, first of all a decrease in the number of active earners), or else the plan targets cannot constitute an appropriate yardstick to bring about equilibrium.**

At the enterprise level it is hoped that partly the tensions between those who are left out of the VGMKs and those who monopolize surplus work (and mainly surplus income) with the VGMKs, will decrease, partly the reserves of higher performance will come to the surface (while the most optimistic-minded also expect advantages that can be realized in regular working time conditions).

*It is worth noting that one of the important motives of this obviously unfair step was the intention to *control* the VGMKs; management thus wanted to look into the time inputs, that is, to reveal loose norms.

**The problems relating to income regulation are more intricate than that as they are aggravated by a great many other problems. But from the point of view of income regulation its main problem is that it is only concerned with income increments. This in itself requires a steeply progressive taxation which necessarily exerts a restrictive effect on the incentive system.

The endeavour of the enterprises experimenting with finding an appropriate solution is clear: if there are many VGMKs and the work to be performed is made public at an open competitive bidding (tender), then it is possible to let those willing to undertake it compete, which may also press down the prices of offers to a still real, yet to the lowest possible level. (The natural response to this step is—as also shown by the examples—that the VGMKs form cartels. The experimenting enterprises, however, are hopeful that in the case of a large number of competitors the cartels will not prove to be viable.) And, if for undertaking the fulfilment of a given task there exists only one single group in a "natural monopoly position" (a kind of work requiring special skill and competence), open and detailed information about the task and the price for its fulfilment may also help to avoid abuses and tensions. This provides the possibility for the community to check the correctness of the agreement and also help thereby the reconciliation of the performance reserves and the contract sums.

The performance reserves are undoubtedly substantial. Hundreds of examples demonstrate that experienced performance-oriented VGMK members, who are more competent than anybody else to organize concrete work tasks, are more capable than the average of fulfilling the norms set by the big enterprises. Moreover, experiences testify that the higher VGMK earnings are due not primarily to the hourly rates, which are only slightly higher than the overtime rates, but have to be attributed to the performance reserves inherent in the work tasks and brought to the surface by the VGMKs.

It is this recognition that has led to the often voiced requirement and to the enterprises' hope that the experiences gained by the VGMKs in work organization ought to be utilized in the regular working time. But such a demand appears to be an illusion. Primarily, because the special performances could be attained partly because the work to be done was separated from the traditional work organizations. The whole mechanism of a system of the division of labour based on the given hierarchic dependence relations excludes exactly the possibility of an independent work organization. And work performed with extraordinary intensity cannot be remunerated by the wage system. There is a close interconnection between high labour intensity and high earnings (also doing justice to sacrificing leisure). But it appears to be an illusion mainly because both the VGMK members and those employed in the traditional work organizations are equally *counter-interested* in disclosing the performance reserves of the regular work cycle.

The performance reserves may come to the surface, if not in the regular working time, then in the "off" hours, especially if many compete for them.

And *the employees,* who have been left out of the possibility of doing surplus work but would be willing to perform it, have been requiring, for a long time, equal chances. The VGMKs, as indicated by the data of the table shown earlier, are concentrated today in three sectors of the national economy and include just a fraction of the labour force. (People employed in the VGMKs of industry constitute 9 percent of the labour force working in the socialist state and cooperative industry, 8 percent in construction and about 2 percent in the personal and economic services sector). Thus, it would not only be

possible but also necessary to make the chances more equal. Their voluntary organization would at the same time preserve one of the greatest assets of the VGMKs: cooperation of people who have trust in one another, are well-tested, competent and expect hard performance of one another, and are also capable of organizing work.

The activity and income of the VGMKs are generally under the strict control of the immediate environment. Income earned by hard work is held by the environment to be justified. (In any case, according to the income figures for the year 1983, 21 percent of the members of the VGMKs in industry earned at most 2,600 forints on a monthly average, 71 percent between 3,000 and 4,000 forints, 3,335 forints on average. High incomes–over 4 000 forints–were earned by only 445 VGMKs, or 8 percent of their overall number.* Human physiological endowments make possible a maximum of 100 to 120 hours of continuous surplus work a month, the earnings of which may range from 6.000 to 12.000 forints assuming 60 to 100 forints of hourly wages. Considering the extraordinary efforts made, they cannot be regarded as extremely high.) The more equal chances for earning higher income promise an unambiguously positive effect.

The cognition of the response of the VGMK members–depending on their enterprise position and circumstances–(which will necessarily also include the protection of monopoly positions, manoeuvring and cartel formation, etc.) is the subject matter of a separate study. As much can be foreseen that both competitive biddings and the equalization of chances are opposed to the interests of many VGMK members. The consequences of this opposition, however, are hard to predict (the question, for example, whether the new situation will be accepted, or their response will perhaps, be increased fluctuation).

It is a common trait of the ideas approximating reality that efforts are being made to resolve the tensions and to preserve the result attained within the limits of the *existing* enterprise interest. These are necessarily superficial and partial changes. The solution would be a change in enterprise interest itself.

References

1. Varga, Gy.: A kisvállalkozás (The small enterprise). *Valóság*, 1982. 9.
2. Lengyel, L.–Csillag, I.: Kisvállalatok és alapítóik (Small enterprises and their founders). *Pénzügyi Szemle*, 1981. 1.
3. Kalász, I.–Szepesi, Gy.: *Kisüzemű gazdálkodás új formái* (New forms of small-scale business). Kossuth Könyvkiadó, Budapest 1983.
4. Csillag, I.: Az új „vállalati" szervezet alapvonásai (The basic features of the new "enterprise" organization). *Valóság*, 1983. 3.
5. Vezetés és vállalkozás (Management and enterprise. An interview with Ede Horváth, general manager of the Rába Hungarian Railway Carriage and Machine Works). *Figyelő*, March 15, 1984.

*For information: the average monthly earnings were about Ft 5 000 in Hungary in 1983. –Ed. note.

7. Schumpeter, J.: *Unternehmer. Ein Handwörterbuch der Staatwissenschaften.* 4th, revised edition. pp. 476–487. Jena 1928.
8. Weber, M.: *Gazdaságtörténet. Válogatott tanulmányok. Fogalmi bevezetés* (Economic history. Selected studies. Conceptual introduction). Közgazdasági és Jogi Kiadó, Budapest 1979. pp. 9–22. (Selected from: *Wirtschaftsgeschichte.* 3rd ed. Duncker und Humblot, Berlin 1958; *Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte.* J. C. B. Mohr (Paul Sieveck), Tübingen 1924; *Wirtschaft und Gesellschaft.* Kiepenhauer und Witsch, Köln-Berlin 1964; *Essays in sociology.* Oxford University Press, New York 1958.)
9. Weber, M.: *Gazdaság és társadalom.* Szemelvények (Economy and society. Selections). Közgazdasági és Jogi Kiadó, Budapest 1967. pp. 125–136. (Selected from: *Wirtschaft und Gesellschaft.* Kiepenhauer und Witsch, Köln–Berlin 1964.)
10. Bakcsi, I.: *A VGMK és a vállalati érdek. Esettanulmány egy műszeripari vállalatnál* (The VGMK and enterprise interest. A case study of an enterprise in the instruments industry). Munkaügyi Kutatóintézet, Budapest 1983. (Mimeo)
11. Vértes, Cs.: Vállalati munkaerőtervek. Csodára várva (Enterprise plans for labour development. Waiting for a miracle). *Figyelő,* July 14, 1983.
12. Révész, G.: Enterprise business partnerships (VGMK) in Hungary–A case study. *Acta Oeconomica,* Vol. 33, Nos 3–4. (1984) pp. . .
13. *A kis szervezetek 1983-ban és 1984 I. félévében* (The small organizations in 1983 and in the first half of 1984). Központi Statisztikai Hivatal, Budapest 1984.
14. Laky, T.: Small enterprises in Hungary–Myth and reality. *Acta Oeconomica,* Vol. 32, Nos 1–2. (1984) pp. 39–63.
15. Mi a cégbíróság? (What is the Court of Registration?) *Népszabadság,* March 16, 1984.

ХОЗЯЙСТВЕННЫЕ ТРУДОВЫЕ ТОВАРИЩЕСТВА НА ПРЕДПРИЯТИЯХ И ИНТЕРЕСЫ ПРЕДПРИЯТИЙ В ВЕНГРИИ

Т. ЛАКИ

С 1982 г. в Венгрии могут учреждаться несколько видов мелких хозяйственных организаций, так называемых мелких предпринимательств. Из возникших к концу 1984 г. около 27 000 новых хозяйственных единиц более 60% составляют хозяйственные трудовые товарищества на предприятиях, в которых заняты собственные работники предприятий. В производственных кооперативах, работающих в промышленности и сфере услуг, также образовались подобные коллективы, т. н. специальные группы. Две эти формы вместе составляют 72% новых мелких организаций.

В момент их создания предполагалось, что новые мелкие единицы будут функционировать как мелкие предпринимательства, приспосабливающиеся к спросу и предложению. Опыт двух лет показывает, что ни товарищества на предприятиях, ни специальные группы не стали совместными с предприятиями предпринимательствами; и то и другое превратилось в специфические трудовые бригады, выполняющие сверхурочные работы на собственных предприятиях и включенные предприятиями в иерархическую систему разделения труда.

В статье анализируются приведение к тому, что первоначально задуманные как форма предпринимательства товарищества превратились в трудовые бригады. Анализ исходит из интересов предприятий. Предприятия при данных условиях своей хозяйственной деятельности, в

узкой сфере действия, определяемой отношениями субординации, незаинтересованы в хозяйственных результатах, которых они могут добиться благодаря предпринимательству. А, следовательно, и в том, чтобы товарищество стало автономной организацией, находящейся в отношениях партнерства с предприятием, и совместно с ним налаживало производство дефицитной продукции и удовлетворяло различные потребности народного хозяйства.

Элементарные же интересы предприятий были связаны с восполнением недостающей рабочей силы, а также в сохранении кадров квалифицированных, опытных рабочих, в основном работающих по ремонту оборудования, которые имеют широкие возможности для выбора места работы. Благодаря товариществам появилась возможность использовать внерабочее время собственных рабочих для восполнения недостатки рабочих рук. В условиях жестких ограничений регулирования заработной платы это было выгодно и предприятиям, т. к. затраты по выполненной товариществами дополнительной работе обременяли не жестко ограниченный фонд заработной платы, а гораздо более «мягкие» общие издержки, которые можно переложить на покупателей. Таким образом, товарищества стали одной из применявшихся и раньше — различной по затратам — форм восполнения недостающей рабочей силы.

Выполняемая за счет внерабочего времени и оплачиваемая выше сверхурочной работа удовлетворяла и требованиям работников. Однако существование отлично работающих трудовых бригад — наряду с очевидными результатами — привело к разнообразным конфликтам. Однако предложения, направленные на разрешение столкновения интересов государственных органов управления, предприятий, членов товарищества и не участвующих в них работников (составляющих в промышленности 90%), обещают лишь частичные и поверхностные результаты, поскольку они ищут возможность решения в рамках существующих отношений. Решение может дать лишь изменение отношений заинтересованности, в частности, интересов предприятий.

Acta Oeconomica, Vol. 34 (1–2). pp. 51–64 (1985)

J. BÁRSONY–I. SÍKLAKY

SOME REFLECTIONS ON SOCIALIST ENTREPRENEURSHIP

In the authors' opinion two conditions ought to be met if the Hungarian economy is to develop further: a) the organic relations with the world economy have to be restored, and b) the way must be cleared for ventures in every field. They try to find a way how the administrative or wage worker behaviour can be turned into a responsible entrepreneurial one and how the right to lease units in social ownership can be secured to everyone. After a clarification of the notion and the historical place of enterprise they establish that the substance of socialist entrepreneurship consists of that, as against the appropriation by private capitalists and other kinds of monopolistic appropriation, the latter relies on the use of social property by individuals and groups, where the condition of use is the undertaking of the highest performance. They critically examine the forms of socialist ventures established in Hungary up to now (contractual operation, economic teams within the enterprise) and those experimented with. The key to socialist entrepreneurship is the solution to three major problems: a) lasting interest in innovation; b) guarantee given by the entrepreneur; c) competition for the possibility of venture. In what follows they make propositions for the internal ventures. Finally, they weigh up the chances for implementation under the prevailing conditions of mixed economy.

It has become a strong belief in Hungary that a way out of the economic difficulties can only be found through a more consistent further development of the reform of economic control and management, started in 1968. The general acceleration of international processes and the change of era in the world economy, also affecting the socialist region, request a reconsideration of the problems and a search for even unusual new ways.

It is urgent to catch up with the accelerated process of world economic development, to adopt the achievements of the scientific and technical revolution and to thus enhance our export capacity and competitivity in the world market. All of the above are indispensable for a more intensive participation in the mainstream of the world economy in spite that international conditions have turned unfavourable.

This objective also requires a profound change in economic approach and the amendment of economic control methods. The methods of directive economic control, the consequential clumsy bureaucracy and the trends that produce and maintain monopoly positions must be abandoned. The preoccupation with safeguarding enterprise wealth, maximizing taxes for the purpose of central objectives and levelling incomes is no longer sufficient.

Under the contemporary circumstances of accelerated growth the profitability of capital invested increases at a high rate all over the world, which is another reason why uninterrupted innovation is required.

International capital seeks realization in ever newer forms of modern enterprise. In areas of traditional nature and standards world market competition has become sharper because of the growing participation of developing countries. The marketing opportunities of the CMEA countries, including Hungary, are thus becoming more and more strongly obstructed.

It follows that Hungary's situation has turned more difficult not only in the procurement of raw materials and primary energy but also existing fixed assets have lost much of their value. Most of the factories are obsolete: running factories with outdated technologies and product patterns has become a losing business by world market standards. This, too, demands large-scale structural changes in the development of products and production. However, the stagnating national income does not allow any major investment project. Once conditions are such, it must be considered to better exploit the available fixed assets and to readjust and innovate our factories in the framework of new kinds of technologies and a less rigid organization. This must be accompanied by an efficient regrouping of the available workforce. Nowadays our comparative position *vs.* competitors in the world market can be improved especially in the sphere of human expertise and inventiveness, provided that these can be mobilized by creating new and stimulating conditions.

In view of the above, the two big tasks to be solved are the following:

1. restoration of relations with the mainstream of the world economy;

2. giving green light to entrepreneurship in every field. (The second task is at the same time a precondition to the first one.)

In this paper it will be attempted to find ways and methods for changing the bureaucratic, and wage-worker, attitude into a responsible enterprising attitude (managerial, or self-management team or individual, but by all means with personal responsibility and interest); furthermore, how to assure the right for any one citizen with such intention to lease under contract units in public property for the purpose of enterprising. (This latter point is of special importance for the young and those who lose their workplace, and who are not in a position to accumulate private wealth for the purpose of enterprising in advance and who might lose perspective if the opportunity of socialist enterprising were not provided.)

Enterprising–socialist entrepreneurship

It would be interesting if sociologists found out what the "man of the street" in Hungary today thinks when he hears the term "enterprising". We are afraid that the associations of many of them would be things like "extortion", "greed", "manipulation", "grabbing", "privateering". It should be achieved that by the time they grow up our children should think on hearing the word "enterprising" of things like "unity of freedom, responsibility risk", "inventiveness, flexibility, constructive adjustment", "permanent monitoring of demands and changes", "welfare depending on personal

performance", "freedom or assertion of reason", or "organized and free cooperation of people".

Enterprising, as we see it, is–beside being a decision (undertaking), or a form of economic organization–also a certain economic behaviour and attitude.* The person with a white-collar or wage-worker status is fitted in a hierarchical system of control and performs tasks set from above. As opposed to that, enterprising is the behaviour of an individual (a group) who (alone or with equal partners) seeks his chances, the unfolding of this talents, the exploitation of available opportunities, and the ways of achieving creative performances under the given conditions of the market and competition, who is personally responsible for his activities and enjoys the benefits of his success.

To continue to give shape to the subject, the main criteria and conditions of economic enterprise are formulated as follows (in this case criteria and conditions are quite inseparable):

– Flexible adjustment to the market (marketing attitude), permanent follow-up of developments in the domestic market and especially in the world economy; exploration and quick utilization of business opportunities.

– Recognition of our own faculties (chances); in the light of demands and opportunities the undertaking of tasks in a complex, risk-running, cleverly inventive, initiating and responsible manner.

– Evaluation of performances under competitive market conditions (success as reflected in price).

– Freedom of the enterprising person to use the profit he made–with reasonable regulations and with bearable and principled taxation.

– The economic control agencies ought to rely on the enterprises and support them with adequate statutory conditions, credit policy and foreign trade policy.

– The political leadership should work for democracy in enterprising and wage a powerful struggle against harmful monopolistic tendencies and for the freedom of competition.

Under conditions of capitalism, enterprising was based on private property, originally on small private property, then on the private ownership of capital that grew bigger and bigger and became better and better organized. By now it has become clear that entrepreneurship is not necessarily linked to capitalism. By now it is known that socialism, too, is a commodity producing economy and that public property can as well be the basis of enterprising. Moreover, in our opinion, enterprising could be the relevant form of socialist economic management (of organizing the social division of labour). Accordingly, enterprising ought to be promoted primarily on the basis of the socialist conditions of ownership, ie., as *socialist enterprises* (ventures). It is an essential feature of socialist enterprising that it is based on the use (possession) of *public property* by

*According to Max *Weber* enterprising means: organized activity aimed at profit to be earned through exchange.

individuals or groups of entrepreneurs and for this reason it may be regarded to be the opposite pole (alternative) to aspirations to private ownership.*

When we emphasize the characteristic features of the socialist enterprising to be unfolded in Hungary, we are, on the other hand, aware of having joined the general current in the contemporary development of world economy by advocating competitive enterprising. Earlier it seemed that the setting up of enormous manufacturing plants, where well-trained and organized "armies of workers" are employed under the supervision of managers, was the main trend of development. Nowadays, however, the idea is changing. Not only because services are proliferating and, by their very nature, accentuate the individual enterprise (responsible initiative), but also because the present-day new stage of development of the forces of production demands and creates new conditions.

In the process of the scientific-technical revolution, firstly, the role of enterprising teams has increased that bring about new achievements and solutions and, secondly, the obsolescence of equipment (capacities) has accelerated and continual and imaginative innovation has become decisive. The big organizations and big plants invariably play important roles, yet in their operation more and more important roles are cast to smaller internal constructive teams (internal ventures), and, besides, the cooperation of external ventures which are flexible, capable of innovation and liable for their performance, is widely relied upon. Entrepreneurial attitude and responsibility are also necessitated because an individual worker or a smaller team of workers are in charge of operating expensive equipment in the production process, where irresponsibility might cause enormous damages, while a fuller utilization and better maintenance of the equipment and a clever organization of the work process may be sources of substantial surplus gains. In the opinion of N. *Macrae* (a well-known journalist engaged in the subject), the smaller enterprising teams are the best suited to the creative tasks of the times [1]**.

*This is emphasized not only for the edification of some Western correspondents who inclined to welcome the socialist endeavours at enterprising as a restoration of capitalism. They meet the dogmatists of socialism in that both regard the activation of market conditions as a return to capitalism. But socialism is determined by an economy based on public ownership and not by some mode of economic management (of organizing the social division of labour). We also want to emphasize the nature of enterprising, relying on public property, to some of the Hungarian reformers who welcome the "tested" private small enterprises in the socialist mixed economy and believe that it is still these ones that represent the most efficient and safest form of personal incentive. Moreover, as these are claimed to be fitted into the socialist large-scale economy and to serve the interest of socialism with their work and taxes, they incline to classify them in the category of socialist private ownership. As far as we are concerned, we do not consider the forms of private ownership desirable because they raise monopolistic barriers (and produce abuses in this connection) and, therefore, diminish efficiency. In contrast, we advocate the freedom of enterprise competition based on public ownership.

**The article quotes an example of one of the most up-to-date Japanese car factories working almost without stocks and based on small enterprises which do outwork with clockwork precision. The deliveries of the latter are transmitted to the assembly department by quality inspection teams. Also the preparing of the finished product for delivery is assigned to special subcontractors who, under competitive conditions, do their work with devotion, dependably and for a reasonable price.

The spreading of enterprising is also necessitated at present by the unique position of Hungary. The economic structure is obsolete, a good part of the large-scale plants are incurring losses with their given product pattern and manufacturing processes. There is no money for new investments of major reconstructions; innovation requires a higher degree of flexibility and incentive of the enterprising mechanism. Consequently, there appears to be no other way of rehabilitation and innovation but mostly by making the existing assets, that have virtually lost their value in their actual use, available for *quasi*-enterprise use, by combining and exploiting them in the interest of new objectives and in new ways. That is, as against the static concept of wealth, the objective should be to realize the existing productive assets and factories in innovated enterprises that actually make profit. For this purpose the companies must be made interested in getting rid of unnecessary assets, equipment and stocks. Attempts toward this end are: the setting up of affiliates, sharing interests by issuing bonds, setting up of agencies for the utilization of superfluous equipment and stock. And if the "normativity" of regulation will really prevail, ie., the value judgement of the world market will also be applied domestically, then there will be no other escape but the mobilization of capital which is now fixed with unsatisfactory efficiency and which has become useless by normative requirements. Innovation and modification of the product pattern, to be accomplished in an entrepreneurial manner in a wide scope, are similarly indispensable.

What has been done up to now?

In recent years the Hungarian economy has made several important steps towards promoting entrepreneurial behaviour. After the latest developments in agricultural cooperatives (integration of household-plot farms and the setting up of auxiliary workshops) the first such step was the wide implementation of running shops *under lease* (mainly in the catering industry). Beside the advantageous traits also the weak points of this system are already known. One of them is attributable to the fact that the leasing contracts expire after 4 to 5 years which cuts short the way of lasting incentive (it is not worth while to increase the value of the enterprise as that would work towards a higher rent when the next contract is signed). Furthermore, the auction for the lease is aimed at maximizing the rent, i.e., those bidding compete not only against each other but also against their own interests. Moreover, they are also facing extra taxation. They are therefore more interested in concealing and manipulating the income. Under such conditions, obviously, only those will participate in the bidding who have inside knowledge about how the auctioned units could be quickly revitalized and/or about the chances of manipulation in the given circumstances (e.g. concerning favourable purchasing opportunities). That this system has still not discredited the socialist entrepreneurship is only due–beyond the good intentions of the initiators–to the fact that even this form has proven to be successful in terms of profitability. This also indicates how vast the reserves are that could be explored through enterprising as against bureaucratic control.

The second big step has been the spreading of *business partnerships (workteams)* set up internally at big enterprises. In this respect, however, the main concern of the competent enterprise managers is not yet the entrepreneurial position and attitude but rather questions like:

– whether to assign tasks to individual entrepreneurs or to self-managing teams?

– whether to allow ventures after the legal working hours (and thus keep the important workforce by assuring additional earnings and, at the same time, to have more exacting or additional tasks be accomplished, equipment utilized, "missing" labour substituted, and higher performance secured by guaranteeing the extra earnings all these require)–or to solve all the above during the regular working hours? Both are still cheaper than outworkers (e.g. employing auxiliary workshops of cooperatives or foreign guest workers).

– how to influence a favourable composition of the enterprise business partnerships (workteams) (VGMKs)* partly so as to let the competent leaders participate who are able to assure success, and partly so as to prevent too high income tensions among the workers.

– how to achieve improving performances during the legal working hours through the "regulated" extra income that can be earned with VGMK work.

In view of these, it is widely believed that the existing problems could also be solved without VGMKs with a more liberal wage policy. We are, however, of the opinion that although a more liberal wage system could greatly improve the present situation, yet it could not attain a degree and quality of improved performance that entrepreneurship can be expected to achieve. Also in the case of VGMKs functioning in big enterprises only entrepreneurial competition could put an end to manipulations. The assigning of tasks on the basis of preference for certain individuals as well as unfounded income differentials justly causing revulsion, the emergence of "allocated" and "apportioned" incomes could only be avoided in this manner.

The *experiments* probing into the possibilities and problems of socialist enterprising are considered to be significant achievements of the past years. From the point of view of this paper the experiments made in the "Ezüstkalász" Agricultural Cooperative of Baksa** and the "Felszabadulás" Agricultural Cooperative of Szentes are of prominent importance. (The precedence also means an order in time and development.)

Experiences so far have shown that three interdependent problems must be solved in particular from the viewpoint of the practice of socialist entrepreneurship. These are the following: 1. Lasting commitment of the entrepreneur assuring him *sufficient time for "running-in" and necessitating continuous innovation and further development of the enterprise, 2. Guarantee given by the entrepreneur, in part sanctioning his liability and in part providing guarantee for the case of bankruptcy, furthermore, providing a basis for raising credit; 3. The mode of implementing and maintaining entrepreneurial competition.*

*Abbreviation for the Hungarian „vállalati gazdasági munkaközösség"

**See the study by Ernő *Csizmadia* in this issue, p. 1–12.

The above problems are manifest in three organizational forms of socialist enterprise: a) on the level of big enterprises* b) on the level of small ventures within big enterprises (internal enterprising) and c) on the level of autonomous small enterprises (ventures).

In questions emerging on the level of big enterprises consenting views have more or less been developed as to the further development of the reform. (We mean first of all the promotion of market conditions as well as the planned new solutions to ownership and the organizational system of enterprise management. We are not going to discuss this sphere of problems any further. What is considered to be decisive is to let enterprising spread to cover every field of the economy, i.e., that it should not be restricted to the circle of small enterprises. We are convinced that if managers of big enterprises will become consistently and sufficiently interested in increasing profitability, then their motivation will also be sufficient to widely observe our recommendations concerning the internal organizational and incentive system of big enterprises.)

In the following part of this paper we make our proposition for developments to be accomplished in respect of small ventures within big enterprises (for the further development of the present leasing system and the enterprise business partnerships (workteams) VGMKs). Solutions to be applied in the case of autonomous small enterprises (ventures) can be developed in accordance with these.

We believe that these recommendations can already now be implemented, yet chances for their successful implementation will be the better the farther we make progress in establishing the entrepreneurial position and entrepreneurial position and entrepreneurial incentive of managers of big enterprises.

Proposition for the furthering of internal enterprising (ventures)

The units in social ownership** suited for enterprising (ventures), the tasks, the concessions would be given (put out to contract) to entrepreneurs by the competent economic (occasionally: social) organization (headed by sufficiently interested managers)

*In this paper those business organizations (state enterprises and cooperatives) are considered to be "big enterprises" which, owing to their size, are not considered to be "small enterprise" in the contemporary formal Hungarian terminology.

**By a unit in social ownership we do not simply mean the technologically justified combinations of assets owned by the enterprise but also the opportunities for enterprising (venturing) and for earning income attached thereto, i.e., to given economic situations. On the other hand the–mostly service–tasks that require neither assets representing a value nor special licenses, i.e., where entrepreneurship does not require the use of social wealth, are not considered to belong to the sphere of socialist enterprising. (To the latter belong, for example, fitting and repair work as well as intellectual creative activities.) In their case the way of legalization (emergence from the secondary economy) might be artisanry, partnership (workteams) or intellectual self-employment.

in the framework of tenders, the current value of the property to be ceded and the returns expected which the entrepreneurs will be required to pay in against the cession of the enterprise (concession, right to venture).

That is, the following can be ceded: existing works, workshops, bigger units of equipment, (scope of) task within the enterprise, as well as special licenses (for example to perform a certain service at a certain point when neither parallel activity nor monopoly position are desirable).

The business organization making the transfer (cession) for ventures may be an enterprise, cooperative, proprietary organization, bank, (local) council, or perhaps a social organization (e. g. Chamber or Fund).

The tender for enterprising will be in the form of auction where any person may participate and take possession of the enterprise by way of highest bid, without personal selection. Individuals or groups with shared liability (self-managing teams) may participate in the tender with equal chances and rights.

The property will be transferred (ceded) to the entrepreneurs not at book value but at market value and the entrepreneurs will only be liable for the value and not for the physical state of the assets. The entrepreneur will be entitled to use the property (or license) as well as to carry out modifications in the interest of maintaining or increasing the profitability of the enterprise* as he finds appropriate.

The transferring organization will specify the estimated returns it expects from the enterprise with the given conditions and opportunities in advance, bearing in mind the profitability until that time, including dues and taxes payable after the enterprise. This sum will be the "put-up price" for the auction, the fixed "rent" that the winner will have to pay to the transferring organization (ultimately to the state and society). When the price is set too high nobody will bid.

A concession will be won or maintained through public tender (by participation in the auction). The entrepreneur at the auction competes, or suggests that, expecting the enterprise to be profitable, he wishes to make the best possible use of the unit (or license) in social ownership in question by undertaking to make additional profit in excess of the "put-up price" (that is, the price set for the concession) and by paying this surplus bid as a fixed deposit (into a blocked account). When, say, the price is put up at one million forints of annual returns and this is raised in the course of the auction to 1,5 million, then the winner will also pay in half a million in addition to the one million, but this into his own blocked account. The amount thus accumulated will serve as a guarantee in case of bankruptcy. The interest after this deposit is credited to the entrepreneur indicating that the deposit is his. At the same time this deposit may also serve as a guarantee for the

*Consequently, he is not required to preserve the property ceded to him, since the inventory of an enterprise is not a museum inventory. Moreover, the entrepreneur is forced by competition to restructure the property of the enterprise from time to time. In the case of failure or other conflict he will be liable for the actual *value* of the original property.

purpose of raising credit, e.g. for completing the circulating assets, or for innovation.* If the entrepreneur dies, the amount of the deposit will, according to our idea, serve as a risk fund for another venture, to cover losses if any (that is, will be actually inherited by society as a whole).

This element of our proposition, putting the maximization of the amount to be deposited into the centre of competition amounts to abandoning the attitude of striving at *drawing* away the biggest possible share from the results of business activity. The changing of attitude is justified in this sphere, because excessive taxation partly compels to withhold performance (thus also causing loss to the budget) and partly cripples the enterprises by leaving no room for innovation, depriving them of the incentive that is indispensable for constructive efforts, and also induces alienation. If the entrepreneurs are almost "spied after" for what could be taken away from them, this will inevitably discourage them from enterprising, stepped-up performances and taking the implied risks.**

If efforts are to be made at enterprising and innovation, it is much more sensible to durably engage the majority of the profit that can be earned than to draw it away. In this case the entrepreneur will feel that the income is his, and so he will strive for maximum income. He will also be forced to do so by continuous competition, as it will be seen below; it will be unreasonable to withhold performance and still there will be no excessive outflow of purchasing power. On the other hand, the fixed deposit leaves the opportunity open to complete the supply of the enterprise with working assets as well as to raise credits for innovation. When the entrepreneur does not personally avail himself of this opportunity, it can be utilized by the patronizing bank (or another transferor) as a long-term loan.

The circumstance that the concession is given for a long, and in principle indefinite, term (only terminating with the death of the entrepreneur), provides security to the entrepreneur. It will be thus worthwhile for him to steadily promote, update, and reform the enterprise. On the other hand the entrepreneur may not part with it arbitrarily, considering that his liability lasts until the fixed (long-term) deadline of the concession, and, in the case of withdrawal, he will loose his accumulated deposit (which will serve as a guarantee also in this respect). If the entrepreneur dies, the concession will not be inherited but a new auctioning process will take place.

Permanent *competition* must be an important feature of socialist entrepreneurship, that inspires the entrepreneurs to keep being inventive, seek new opportunities and ways,

*Thus, Tibor *Liska*'s standpoint, to "let the bidder have his bid", could be implemented. As can be seen from the aforesaid, in making our recommendations for socialist enterprising we depended on the concept of socialist entrepreneurship of Tibor Liska [2]. However, some simplifications have been made to adjust to the practical conditions of the times and we disclaimed to use notions as unusual as "plan market value" or "moral capital".

Liska's entrepreneurial "technology" was found to be suitable for the more efficient running of small enterprises and internal units of enterprises also by Tamás *Sárközy* [3].

**The problems related to levies were pointed out by András *Bródy* [4].

and make maximum effort. The way of making sure that the entrepreneur does not just enjoy his laurels but makes the fullest possible use of social property or concession transferred to him is by continuous competition for the venture itself: anyone at any time may come with a new and higher bid if he finds a new and substantially better chance in the enterprise. In this event there will be two possibilities: 1. the initial entrepreneur cedes the enterprise, 2. the initial entrepreneur "stands the bidding". In the first case the new entrepreneur will pay a) the price of enterprising originating from the initial "put-up price", b) the surplus sum the initial entrepreneur undertook (which is actually the "pay" for the first entrepreneur's skill, innovations, and the building-up of goodwill) and c) the sum of his own additional bid. He will freely enjoy the income earned by him only above the said amounts. In the second case the initial entrepreneur will be kept but he will have to pay the difference between the initial deposit and the new bid into the blocked account of the overbidder to reward the new and more favourable business opportunities he has discovered.

Naturally, the "overbid" is only reasonable when the new entrepreneur finds *substantially bigger* chances in the enterprise and reckons with substantial additional profit, otherwise a negligible difference is not worth the risk of the transfer, moreover, the "adventurer" overbidder may well suffer a loss if the enterprise is given to him. Also in the event of a predictable success of the original entrepreneur an overbidding (i. e., the jeopardy to his concession and the seizing of the surplus income that could be earned) can be avoided by preventive "self-bidding", i. e., by voluntarily increasing the amount of the blocked deposit. Thus, when the business opportunities turn better, either due to changing circumstances or his own innovation, it is advisable that the entrepreneur voluntarily increases his deposit. In the final analysis this system inspires the entrepreneur to make maximum effort, to the benefit of society and himself.*

However, when an enterprise declines, the entrepreneur must be given the opportunity to decrease the amount of the deposit down to the amount of the bid preceding his one or, pending an agreement with the original transfering agency, to an even smaller amount.

The trend of market prices and the competition in enterprising outlined here (capital market) could secure the transfer of enterprise without personal preferences and manipulations as well as the efficient functioning of enterprises. The ventures coming about through internal competition in state enterprises or cooperatives could bring about a practice of *workshop democracy* which would be no longer aimed at levelling but would acknowledge the differentiation of incomes. This differentiation would be based on *tenders made under competitive conditions,* opening the way to entrepreneurial

*According to Tibor Liska the chance of an overbid is the "best auditor". This continuous way of competition for enterprising ,(also permitting overbidding) was tested in the course of the experiments conducted in the "Felszabadulás" Cooperative Farm of Szentes. However, when the entrepreneur wishes to transfer the enterprise for some reason, he will rather try to make bidding attractive for others, even by decreasing his own bid.

initiatives from below, assuring lasting incentive, as well as the unity of risk-taking, liability and personal income.

As it has been seen, the "put-up price" at the time of putting out to contract determines the fixed revenue of the state for a longer period which is necessary and equitable on the basis of the given enterprise and which will be normally higher than before (i.e., the charge of enterprising including the taxes to be paid by the transferor). On the other hand the share of the extra entrepreneurial income declared through bidding would be kept engaged durably for the development of the venture (or perhaps of other ventures). This would provide an additional resource for the development of the economy, a fund that could not come about without the system outlined. (In the case of a rising price level the amount of the pre-set and accepted fixed charge of enterprising could be "maintained" on the basis of the official price index.)

The chances for implementation

The above outlined system of socialist entrepreneurship could be well fitted to the conditions of the present Hungarian economic pattern. It could promote the unfolding of internal entrepreneurial systems in state enterprises (and agricultural cooperatives). The putting out to contract plants or workshops of big enterprises and the necessary competition through tenders could be organized by the concerned companies themselves and they could handle the fixed deposits paid in; by utilizing these deposits, they could also handle the necessary lending operations, eventually by drawing in also outside funds (e. g. through issuing bonds).

There might be, however, ventures (in the form of company or financial institute) that would take over the discharged equipment, unutilized or poorly utilized capacities of enterprises, the assets of wound-up enterprises and by putting them out to contract, they could, on the one hand, promote a better utilization of these capital assets that work with poor efficiency or are frozen and, on the other hand, help to get started experts who have no private wealth but are capable of and willing to venture.

Certain general economic conditions are, naturally, also necessary for developing the system of socialist entrepreneurship. The most important one is the working of real money and commodity markets (monetization of the economy). Some counter-arguments and aversions which the spreading of entrepreneurship has provoked in Hungary must, of course, be taken into account. There are opinions that the majority of workers prefer security and solid working conditions and do not wish to venture. In this respect it will be enough to argue that the *opportunity* and right of enterprising must be rendered free, the entrepreneurial attitude must be promoted while, naturally, it is not necessary for everybody to become an independent entrepreneur. However, others will also benefit from the proliferation of entrepreneurial spirit, because entrepreneurs interested in successful work offer more favourable working conditions, better chances and higher incomes also to their employees. Only those must be afraid of a more liberal

entrepreneurial system who do not work properly for their income today. Would it pay to give up the advantages inherent in the spreading of ventures just for their sake?

Others fear from overworking in connection with entrepreneurship, quoting the lessons of VGMKs working in overtime and of earning complementary income at weekends. In this context we should like to note that, with the given development level of the Hungarian economy, the standard of living achieved could not be maintained with the working attitude accustomed to and work done exclusively during the regular working time. On the other hand, the recommended entrepreneurial system could help in eliminating the present-day inconsistent situation because it would achieve better results through an innovative raising of efficiency and rationalization and not by extra work done after the "regular working hours" (which might entail idling and negligent work during the regular hours).

There is no need to "introduce" the socialist venture all at once, it is capable of gaining ground also in the usual way, step by step, initially through small ventures, contractual operation, VGMKs within big enterprises and cooperatives, *if it is left alone* (I. e., if it is not strangled with excessive tax burdens, bureaucratic prescriptions, or monopolistic discrimination), and especially if the entrepreneurial competition is asserted (without which the internal ventures would soon get discredited because of manipulations).* Through the unfolding of entrepreneurial competition the inconsistencies now distorting the ventures, producing anomalies and rooted in monopoly positions, could be overcome.

We hope the propositions outlined above could help the economic reform to break through company gates and to free the constructive forces now hamstrung by bureaucratic and rigid forms in big enterprises–and in a way that working people should be inspired by the recommended solutions to devise and carry out long-term strategies, to permanent innovation and to independent activity guaranteed by responsibility. Entrepreneurial competition is a vital basis thereof. Not least this is that can assure the necessary initiative and flexibility by which we can adjust to the changing conditions of world economy.

References

1. Intrapreneurial now. *The Economist* 17. 4. 1982.
2. Bársony, J.: Tibor Liska's concept, the socialist entrepreneurship. *Acta Oeconomica,* Vol. 28, Nos 3–4 (1982).
3. Sárközy, T.: Problems of socialist ownership and of proprietary organization. *Acta Oeconomica,* Vol. 29, Nos 3–4 (1982).
4. Bródy, A.: Ösztönzés és elidegenítés (Motivation and alienation). *Valóság,* 1982. 10.
5. Tardos, M.: Reform itt és most? (Reform, here and now?) *Mozgó Világ,* 1983. 2. p. 12.

*We can agree with Márton *Tardos* [5] who expects a real prosperity of ventures as against slogans discrediting the reform and pseudo-solutions. Among other things, he deems it necessary to make companies interested in transferring their non-profitable capacities to small enterprises or to their own affiliates.

НЕКОТОРЫЕ МЫСЛИ О СОЦИАЛИСТИЧЕСКОМ ПРЕДПРИНИМАТЕЛЬСТВЕ

Й. БАРШОНЬ—И. ШИКЛАКИ

Авторы видят два условия для успеха дальнейшего развития венгерской экономики: а) необходимо восстановить органическую связь с мировой экономикой; б) необходимо повсюду открыть дорогу предпринимательству. Они ищут возможности замены чиновнического или формального поведения наемного рабочего ответственным предпринимательским подходом, а также возможности обеспечения каждому лицу права распространения предпринимательской инициативы на единицы общественной собственности. После выяснения понятия и исторического места предпринимательства авторы определяют сущность социалистического предпринимательства в том, что в противоположность частнособственническому или другому монополистическому присвоению оно основано на личном или групповом пользовании общественной собственностью, условием которого является обязательство достижения наибольшего эффекта. Авторы критически рассматривают принятые до сих пор формы предпринимательства в Венгрии (эксплуатация на договорных началах, хозяйственно-трудовые коллективы внутри предприятий) и эксперименты в этой области. Основные проблемы социалистического предпринимательства авторы видят в следующем: 1. формирование прочной заинтересованности предпринимателя в нововведении, дальнейшем развитии предприятия; 2. гарантирование выполнения предпринимателем принятых на себя обязательств; 3. состязательность в получении возможности предпринимательства. Эти проблемы проявляются в трех организационных формах: а) на уровне крупных предприятий, б) на уровне мелкого предпринимательства внутри крупных предприятий (внутреннее предпринимательство), и в) на уровне самостоятельного мелкого предпринимательства.

Авторы в дальнейшем излагают свои предложения по решению проблем предпринимательства на уровне б) и в). Их суть состоит в том, что предприятия или другие хозяйственные организации организуют аукцион подходящих для предпринимательства единиц общественной собственности. Устанавливается текущая стоимость имущества и та выручка, которая должна вноситься за получение права на предпринимательство. Эта сумма является первоначальной объявленной ценой на аукционе. В аукционе могут принимать участие любые лица. Право предпринимательства предоставляется тому, кто берет на себя обязательство получения наиболее высокой, по сравнению с объявленной ценой, выручки, помещая добавочную сумму в качестве долгосрочного вклада (на закрытый счет). Накапливающаяся таким образом сумма служит гарантией на случай неудачи, а также может быть покрытием кредита на развитие. Годовые проценты по вкладу принадлежат предпринимателю, даже в том случае, если он по каким-то причинам прекращает свою предпринимательскую деятельность (и если вклад не был использован в качестве гарантии для покрытия ущерба). Превышающая объявленную цену и добавочное обязательство прибыль является доходом, которым может свободно располагать предприниматель. В случае смерти предпринимателя сумму вклада на закрытом счете наследует все общество. В этих случаях производится передача в новое предпринимательство. Конкурс предпринимателей постоянен. После аукциона в любое время любые лицо может предложить более высокую сумму добавочной выручки. В этом случае могут быть две возможности: 1. первоначальный предприниматель уступает свое право или 2. сохраняет за собой предпринимательство. В первом случае новый предприниматель выплачивает а) плату за предпринимательство, состоящую из первоначальной «объ явленной цены», б) добавочную сумму по обязательству прежнего предпринимателя (на эту сумму повышается закрытый вклад первоначального предпринимателя); б) собственную добавоч-

ную сумму (из этого образуется его собственный закрытый вклад). Во втором случае остается прежний предприниматель, однако он должен вносить сумму, соответствующую новому обязательству, на закрытый счет лица, предложившего добавочную сумму. Если первоначальный предприниматель сам признает возможность повышения прибыли и добровольно повысит свои платежные обязательства (самолицит), то добявочная сумма пойдет на его собственный закрытый счет. Если хозяйственные возможности ухудшатся, то предприниматель может уменьшить взятые на себя обязательства. В заключение авторы рассматривают возможности осуществления своих предложений.

Acta Oeconomica, Vol. 34 (1–2). pp. 65–77 (1985)

I. CSILLAG–E. SZALAI

BASIC ELEMENTS OF AN ANTI-MONOPOLY POLICY

The recoiling of the reform process in the seventies called attention to the privileged position of large firms, enjoying organizational monopoly on the domestic market. The socialist monopoly deviates from the classic interpretation of monopoly in several respects. An effective anti-monopoly policy has to devise its tactics both on the administrative market of government allocations and on the commodity market. The basic question of an anti-monopoly policy is whether the mechanism reproducing artificial monopolies persists, together with the administrative structure, circumventing the control by society and the market.

The contemplation of possible measures against monopolies and economic organizations impeding competition has a relatively short history in the socialist economies. This statement is especially true if we remember that describing socialist monopoly as a negative socio-economic phenomenon has been a venial sin only in recent decades. To describe historical changes in concepts of socialist monopolies is not a subject of this paper–if only for restrictions on space–yet, in order to understand our topic, the anti-monopoly attitude, a few brief remarks are indispensable.

On account of the ideology identifying the superiority of large-scale production with big organizations as well as because of the subordination of economic organizations to agencies of state administration, it has always been a prevailing concept in socialist economies that monopolies were integral parts of the socialist economic system–apart from short interim periods (the pluralist economy from October, 1917 to July, 1918 and the NEP-period in Soviet Russia). The fact that in a given country there is but a single organization for the production of one single product may turn the attention of this organization to producing as many products as possible with the least possible input. At the same time its business management viewpoints are not disturbed by rivals, what is more, it is not even burdened with the problem of placing unsaleable surplus products that would otherwise endanger its survival and "prosperity" owing to detailed and compulsory state plan targets. At the same time such a production organization–one product–one organization–is also advantageous for the agency of state administration exercising power over the economic organization, since–at least in principle–organizational and production aspects become simpler, they may be prescribed in plan commands and their control is relatively easy, too.

The negative consequences of the elimination of economic and social automatisms, and of the replacement of spontaneous relations by external control had soon appeared in the form of "micro-anarchy" and waste within the enterprises. Still a longer time was

needed until consequences of the entire economic organization, built on exclusivity and monopolization impeding overall socio-economic development, also became clear.

In Hungary the 1968 economic reform meant the first step in breaking up the economic organization legitimizing exclusiveness–involving privileges for producers and sellers, while defencelessness for consumers. Studies, articles and documents written at that time [1, 2, 3, 4] challenged the unambiguously positive judgement of socialist monopolies. What is more, they emphasized, in connection with the main line of the reform, the concept of a regulated market, the importance of competition as against the monopolistic structure creating "exclusiveness ensured by authorities". The authors of these writings expected that competition, developing as a result of the reform, would break the rule of monopolies and give a proper impulse to the gradual breaking up of the industrial structure based on big enterprises. At the same time, this view also reflected the compromising nature of the 1968 mechanism concept, meaning from this aspect that raising the necessity of a radical upsetting of the structure of big enterprises could have on the one hand, divided reformers, and, on the other hand, it would have turned ambivalent leaders of big enterprises against the reform already at the very beginning. Ambivalence meant that while leaders of big enterprises were partly glad that their independence would increase as a result of the reform, partly they also feared greater responsibility as well as that, with loosening connections to the controlling agencies, the comfortable position of their enterprise would become shaky.

The stopping short of the reform process in the 1970s had really drawn attention to the inner structure, incompetitiveness and privileged position of big enterprises among domestic economic organizations enjoying organizational monopoly in the artificially created domestic (national) market. It became clear, especially at that time, that we could not rely merely on general indirect regulatory tools influencing the economic environment when resources of the environment had been swallowed by the big organizations through the "hidden mechanisms of recentralization" (Teréz *Laky*). It turned out most sharply at that time that the basic principles, the institutional system and tools of an anti-monopoly policy were still waiting for elaboration. [5, 6, 7, 8, 9, 10, 11, 12].

In our article we undertook to contribute–even if to a modest extent–to these more and more topical endeavours. We cannot and do not try to find out new notions nor to prove each statement, since we did not make new discoveries, but only fitted results of previous research into our conceptual system for the analysis of the situation and the formulation of our suggestions. As a starting point we should firstly interpret the meaning and validity of monopoly and monopolization; interests attached to monopolization, anti-monopoly factors and, finally, the economic and social forms of anti-monopoly attitude.

The classical interpretation of monopoly

Monopoly means a market form using the notions of traditional equilibrium economies. Monopoly is such a market formation where some economic unit or

organization–in the lack of relevant rivals or opposition–can wilfully determine the production and sales conditions of a given product in the given market. Thus, the one enjoying this monopoly may draw away incomes and there is no effective limit to his aspirations at obtaining income (e. g. through price increase). Since monopoly is a market form, its structural features may be described from the side of distribution. In a monopolized market production factors are distributed according to the interests of the exclusive (most important) producer or seller; consequently, essential facts indicating the state of the market (prices, delivery terms, standards, etc.) are not important circumstances for them.*

Essential basic elements of a monopolized market structure are, therefore, 1. an economic organization in a *dominant* position; 2. *material norms* and techonologies *serving for the reproduction and maintenance of the dominant position;* 3. finally, formalized structures serving for the *justification and* legitimacy *of the dominant position* (e. g. blanket orders, privileges granted by the government, etc.).

The monopolized market form means the ousting of real and potential rivals. In the ousting of *real* rivals, market or economic forms (manoeuvres linked to the realization of goods, price reductions, changing quality, payment allowances, e. g. respite for payment, credit granting, etc.) as well as administrative tools do have a part (e. g. standards approved by authorities, as the permitted level of air pollution, etc.)

Potential rivals may be ousted by restricting the freedom of entry into the market and by raising the "threshold" (if certain materials, e. g. oil, can only be obtained to a limited extent, on the basis of quotas, and such quotas are only ensured for those already in the market). In the ousting of potential rivals non-market, administrative tools are usually stronger than market ones (e. g. exclusiveness is granted for production and sale to a given economic organization if this is allowed by national law).

It must not be forgotten that monopolization of the market is by no means merely an economic, but also a social phenomenon. Those holding monopolies evade not only the control of other participants of the market. They also evade control by the labour, capital and credit markets; avoid negotiation with institutions of social control, and escape the influence of trade unions and regional self-governments, too.

It is not only traditions, but also the recognition of the real defencelessness of society that made the famous forerunner of the American anti-trust legislation, Senator *Sherman*–who (and perhaps this is no mere coincidence) is a descendant of one of the five members of the committee entrusted to elaborate the Declaration of Independence

*The oligopolistic structure is somewhat different from monopoly, the market formation symbolizing exclusiveness and monocracy. In this case several economic organizations, present on the market–considerably exceeding average producers or sellers as regards output and size–divide production factors among each other (to the detriment of other, smaller ones, by applying unequal conditions). In this division–among dominant economic organizations preserving the oligopolistic structure–elements of competition may also be found, but these are replaced by solidarity against smaller units. Deviating means and tools of action of the leading and following oligopolists are not dealt with here.

of the United States–say the following: "If we will not endure a king in the political power, we should not endure a king over production, transportation, and sale of the necessaries of life." [3] Reference to the state of society and the political structure, though a detour, still belongs to the essence of monopoly and anti-monopoly policy, Merely administrative tools applied against the monopolization of the economy and the market are hardly promising without the presence and action of the extensive protective system of various interest groups and institutions of society. The economic monopolies, having acquired administrative and power tools (symbols of political rule), try to atrophy and atomize social institutions according to their own requirements. As a consequence, "professional" state organizations, organizing actions against market monopolies, are relying on this wide social basis in their anti-monopoly activity even if the existence of inexpert, voluntary public defensive organizations is frequently a source of several difficulties.

Monopoly in the socialist economy

The most important characteristic feature of monopolies of socialist economies is that they are artificial formations as regards their origin. They are not results of market competition and the concentration of production forces, they were not winners of market and technological competition, but were called into being by state decision. Most of them are artificial structures not only as regards their origin, but also concerning their inner structure, since they are administrative unities of various activities, isolated from each other. This is not identical with diversification trends to be observed in capitalist economies where, aiming at optimum scale of production, other products are associated with the manufacturing of a given product within a production branch. With our monopolies the variety of products expresses on the one hand the deconcentration of activities–i. e. within certain production branches work is often going on at small-scale level–and on the other hand it is connected with the underdevelopment of background industries and also with attempts at self-sufficiency.* When big, artificially created organizational units amalgamate into themselves each operation the efforts at keeping together smaller units fighting for their independence will replace production cooperation (which should be a combinative, calculative one). This does not contradict the fact that with big enterprises in monopolistic position efforts are also made to develop an inner structure built on real, organic relations among individual production units. It could be said that these enterprises are not equally far from the state of a real big company that is functioning not as an administrative unit.

Since monopolies in socialist economies came into being not in the market competition for the realization of goods produced, but through the central allocation and concentration of production factors, their monopoly position is more powerfully

*Attention is drawn to these contexts in [14].

attached to the sphere of state-dominated allocation and to problems arising in the sphere of distribution than is the case in capitalist economies. In this context, tactics based on shortage, deliberate or instinctive restriction of the supply offered by the monopoly are the main tools of maintaining or attaining a dictating position* and, though efforts aimed at attaining technological and production-organizational superiority may also be observed, these usually are only of secondary importance.

Shortage economy, the lack of adequate background industry and monopoly are interrelated phenomena continuously reproducing each other. It is perhaps the most negative feature of the state of monopolization of socialist economies that monopolies are braking the development of new organizations, combinations, technologies (ventures)–often even of their own background industries–and make their survival difficult. It is only of secondary importance that, in addition, they also try to get rid of their rivals–if any–in the field. The main reason for this phenomenon is connected with the particular functioning of the mechanism of central redistribution, allocating the monopolies resources drawn away from economic organizations, thus continuously making reproduction conditions more difficult or even impossible in fields outside the monopolies.

The interrelations among shortage economy–lack of background industry–monopoly may be completed by a fourth factor, namely, autarky. While the natural basis of capitalist entrepreneurship–is *world economy* and *world market*–prior to which only precapitalist *states* had been existing–competitive big economic units working in the form of ventures have been developing in socialist economies only to a limited extent and in contradictory forms, within narrow national boundaries. In economies squeezed between national boundaries economic organizations enjoy exclusiveness and privileges ensured by authorities in obtaining production factors and access to the market. Monopoly is therefore partly a consequence and partly a cause of autarky. It is a consequence, among other things, also because an autarkic development policy brings about such lasting problems in external equilibrium, under the circumstances of which it usually seems to be a less rational solution to liquidate an uneconomic monopoly, and substitute its products by imports than to maintain uneconomic production. The more strained the external equilibrium, the more this holds. At the same time, consolidation of the monopolistic structure of the economy itself becomes a factor stabilizing and reproducing the autarkic structure, since monopolies having differentiated possibilities to enforce their interests are interested in restricting imports identical with or substituting products manufactured by them.

The basis for the reproduction of the syndrom of shortage economy, the lack of background industry, the monopoly and the autarky is created by the feature of the socio-economic structure that there is no way for the institutionalized expression of partial interests. In consequence of this fact, the part of society not interested in the

*An enterprise in a dictating position determines itself what the central prescriptions, referring to it, should contain.

maintenance of monopolization, either does not even recognize this interest, or, lacking power, cannot properly act against the monopolies. (Interests of monopolies are not institutionalized openly, either, what is more, they appear mostly even in the form of some state (social) interest, thus making recognition more difficult.) With institutionalization lacking, opposing forces remain isolated and atomized, and they start action themselves–in the hope of better chances–in "disguise", in the guise of state or social interest.

In a traditional planned economy economic organizations, i. e. enterprises are the "addressees" of plans on the allocation of materials, manpower and development funds. As a consequence, their "market" position follows mainly from their place taken in supply plans. The organizational system developed in the course of implementation of detailed management and allocation plans (concerning materials, manpower, central investment resources) the structure based on big enterprises has, however, persisted even after such central plans had been abolished, as have the possibilities of monopolies to enforce their interests. From this viewpoint the major characteristics of the Hungarian economic mechanism after 1968 are the following:*

a) Economic units have contacts with several institutions of about the same importance for them.

b) They may influence the development of plans and measures of central institutions.

c) The implementation of plans or supply tasks can be made a subject of real bargaining (they may insist on their terms; in the case of an open or concealed order they may, for example, reduce the manufacturing of certain products).

d) They may evade the implementation of central measures.

The above possibilities are given first of all for enterprises in monopolistic position resulting from their economic and political importance, which have become independent actors of the administrative market in Hungary after 1968.** One of the most important characteristics of this market is that it not only performs redistribution between monopolies and other fields of the economy, but is also a scene of competition among monopolies and big enterprises. From this viewpoint the administrative market creates an oligopolistic situation for enterprises in monopolistic position in their own commodity markets. In their relationship unity and elements of competition are present simultaneously and it may change from time to time–depending on the economic situation–which of them will prevail.

Since the 1968 economic reform various new organizations in Hungary (e. g. auxiliary workshops of agricultural cooperatives, small enterprises which had not previously been recipients of allocation plans) have from time to time attacked the distribution system, developed at the time of the existence of allocation plans, and challenged the continued privileged position of former plan "addressees" (though in

*For details see [15].

**The notion of administrative market is dealt with in [16, 17, 18].

several respects developing differently). The latter may therefore provoke actions of central control agencies aimed at "classification". This was the case in 1972 when 50 big enterprises were given priority, while smaller forms of ventures and cooperatives were simultaneously pushed into the background.* It had, namely turned out by then that the appearance, strengthening the faster and more profitable development of smaller ventures–less restricted by authorities–meant greater disadvantages and competition, than what could have been compensated by benefits resulting from the increased autonomy of monopolies. It had turned out that further progress of the reform process would have endangered their previous privileges maintained also after the 1968 reform, while a part of them could not survive in the long run within the frameworks of normative regulation. Views proclaiming the superiority of large-scale production and big factories were the ideological expression of interests attached to the slow-down of the reform process, which were made use of, apart from certain managers of big enterprises also by other social groups interested in the reversal of the reform.

The role of ideology, which had previously identified the superiority of large-scale production with the exclusiveness of a single producer, is no longer significant in Hungary in the maintenance of monopolization.** But, as regards redistribution, big enterprises are in a more advantageous situation also further on. Despite the objectives of the proclaimed reform channels of redistribution are expanding, if shortage situations degenerate into "economic emergency", allocation plans–e. g. in respect of imported materials–are revived, that is, with the most serious bottleneck they are maintained lawfully (also acknowledged by the government).

Let us summarize the characteristics of the state of monopolization of socialist economies:

a) *Artificially* formed big enterprises placed into ruling position and working mostly as *administrative* (and not as management-production) units. The consequences are: lack or elimination of real and potential rivals as well as of background industries: this entails cooperation disturbances, loose contractual discipline.

b) *Redistribution* of production factors to the benefit of artificially created organizations. The result is that financial funds are drawn away from rivals and economic units serving as industrial background: new combinations or calculation became impossible and forced consumption appears.

c) Predominance of legitimate or concealed forms of redistribution to the detriment of the principle of normative regulation. The consequences are: weakening of partnership relations based on market publicity, making *inter-enterprise relations hierarchical.*

*In his study Kálmán *Kőhegyi* [19] properly characterizes the process around 1972, in the course of which principles of the cooperative reform–stating that cooperative and state ownership are of identically socialist character, that cooperative (small) enterprises have equal rights, self-management of cooperatives–were temporarily withdrawn.

**Reason for the pushing into background of the ideology supporting big enterprises are analyzed in detail in [20].

Tools to be applied against monopolies

It is a basic question of anti-monopoly policy whether the distribution mechanism creating artificial monopolies survives, and whether the administrative structure evading the control of the market and society may be reproduced.

The main form of anti-monopoly activity, starting from the economic sphere, is the expansion of (the formally not existing) allocation plans and of the circle of recipients. The main reason for this is that socialist monopoly also means a privilege legitimizing exclusiveness obtained from government.

Since the market form (monopoly, privilege) is based on the legitimate exclusiveness granted by the government, traditional anti-monopoly tools are likely to be efficient only if the management and institutional system establishing and reproducing monopolies also changes.

Restriction of privileges as well as replacement by something else of the system of granting privileges developed for the organization of production and sales, are basic questions. The granting of privileges is not decided at public tenders. Moreover, its traditional form had been less attached to enterprise endeavours. In the system based on plan directives plans on the distribution of privileges and the structure of "market" monopolies had been developed by "planners" deciding on capacities and needs. After stabilization of the position of monopolistic organizations established in Hungary in the period of great amalgamations between 1962–64, and then after the 1968 reform, enterprise aspirations have been more powerfully attached to concepts starting from the government sphere. As a consequence, production and sales organized in the spirit of privileges cannot be attributed exclusively to the government.

A phenomenon described already in the previous chapter is the "doubling" of the market. In the course of bargaining with control agencies characteristic forms have developed both in the administrative market of positions and in the commodity market. In the administrative market the preservation or acquisition of privileges, while in the commodity market those of monopoly are at stake.

An efficient anti-monopoly policy has to develop proper tactics in both markets. The "tow tactics" followed in the two markets ought to achieve that society regains its control over monopolies striving after the preservation of economic monocracy. Here "agitation by legal rules" alone (using Lenin's words) is of little importance, though this should not be underestimated, either. [21, 22, 23] (The knowledge that there exists some legal rule condemning economic superiority or some sanction against monopolists, at least on paper, has often a mobilizing force even if there is very little hope of practical application.) Anti-monopoly activity ought to be based simultaneously on state measures and on voluntary social organizations and institutions. Among the latter the "umbrella" of consumer protection, chambers of entrepreneurs, regional autonomy and trade unions, mitigating the defencelessness of labour, may hardly be neglected. All these are indispensable elements of an efficient anti-monopoly policy.

The most important and necessary change is to separate economic control from economic activity in general. The practice followed by control agencies, imposing responsibility for supply and thus creating exclusiveness (or monocracy) and, parallel to this, also forced operations, may be broken with the implementation of new orders under preparation, providing for the creation of autonomous enterprises free of state tutelage and to be controlled either by an enterprise council or an assembly of workers elected by the collective. It is a real danger, however, that "granting self-government" to earlier developed organizational and operational frameworks without any alteration–with anti-monopoly tools missing–will leave artificial monopolies unaffected. The Hungarian government has already recognized the harmful properties inherent in the structure of monopolized big enterprises since 1980, and the breaking up of big enterprises has begun, if with modest success. The new stage of the reform also reckons with the creation of a good "starting position" required for the stimulation of competition and with the loosening of the monopolized structure of enterprises. But the preservation of artificial monopolies may help the survival of the previous practice of planning and control, thus it may also hurt the principles of self-government as regards their contents through the continued enforcement of responsibility for supply. This might produce an undesirable feeling in agencies of state administration that intervention is necessary in the "given difficult economic situation", as it is frequently said in Hungary nowadays. In this situation the development of the system of anti-monopoly tools is particularly important.

No doubt, *the refined tools of capitalist countries serving for the preservation of competition* may be utilized, too. These tools are legal ones as regards their character. They mean that typical behaviours and situations, aimed at the elimination or restriction of competition, are declared to be unlawful. Among them, however, not only traditional situations mentioned in laws on competition should be enumerated, but also actions aimed at drawing the attention of administrative and social organizations to themselves. "Anti-trust" legal procedures aimed at the stimulation of competition ought to be public (i. e. not administrative) and anti-dictatorial, i. e. based on discussion between equal parties, not on official super- or subordination. Certain forms of arbitration may be used for this. [24]

Actions aimed at attaining monopolistic position and the ousting of rivals should be declared as unlawful in themselves. This would make their invalidity and prosecution dependent on the revealing of facts. (Later on the question may be raised when a mitigation of competition is rational and justified. At present, however, such finer regulation is not topical as yet.)

Among traditional tools as a general sanction fines and penalties should first be mentioned. These may be followed by prohibition of a given behaviour, finally by the elimination of the reasons enabling the behaviour–modification of the organization. A decision of the court, stating the fact of monopolization, may also recommend organizational measures to control agencies. In the course of these, however, the exact outlines of new enterprises cannot be accurately determined in the decentralization decision made by high-level control agencies. To determine such outlines should be left to

the enterprises concerned. A specific feedback control of decentralization decisions ought to be introduced. The argumentation cannot be accepted according to which decisions of state organs–referring to enterprise organization–may not be revised. On the one hand, these also should be subject to social and market control; on the other hand, the measure under preparation obliging the economically superior enterprises (in monopolistic position) to meet the demands of all customers is only "dead letter" and also contradicts the principles referring to the new stage of the reform process.

Among the anti-monopoly tools another major group are the measures and institutions required for actions within control and management. From this viewpoint the most important is that there should be no hierarchical classification in the connection of enterprises of various types with control agencies: control and enterprise forms should be of equal rank. In this matter it is also of importance whether the local (council) agency controls big or only smaller enterprises; whether directors will be appointed in the future by state administration or "only" elected by the enterprise collective; whether cadre authority and economic policy control concerning the manager are exercised by party organizations of the county or "only" by labourers of the enterprise. If enterprises were judged or "ranked" according to this wrongly interpreted hierarchy and larger enterprises led by managers appointed by administrative agencies and controlled by county organizations had advantages on the market of production factors, subsidies and allowances, then the danger would increase that artificial monopolies are reproduced. In order to eliminate this undesirable mechanism we submit our proposals, not assuming, of course, that we can take all theoretically possible tools into consideration:

a) If a rational combination of internal units is missing, institutional guarantees for the possibility of separation from the enterprise and an organizational mechanism based on them.

b) Exchangeability of enterprise forms based on coequality (e. g. enterprise council or elected management) and thus their application according to particularities and real circumstances.

c) Decentralization in party control, strengthening of enterprise party organs.

d) Establishment of institutions, independent of the management of big enterprises, for the safeguarding of interests of industrial workers of large enterprises. These institutions are, among others, indispensable forums for the reconciliation of interests connected with the decentralization of the structure of big enterprises (e. g. elected commissions for the modification of organization).

e) Elimination of open and concealed forms of responsibility for supply that strengthen monopoly positions.

f) Adjustment of the representation of enterprise interests to enterprise structures, a variety of organizations (e. g. creation of sections for big and small enterprises within the chamber, of sections for enterprises belonging to various branches, differentiations according to market orientation, sections according to fields of activity; representation of various lines of enterprise management–e. g. production organization, trade, etc.). The more varied the organizations representing interests, the greater the chance will be that an

enterprise in dominating position in one section may be subject to the control of enterprises associated in the chamber. Thus a reconciliation of interests based on the relative equilibrium of interest groups may develop within the chamber.

g) Reform of the price system tending toward contractual (free) prices.

h) Introduction of a programme for *public tenders;* the Consumers' Council and competent Parliamentary commissions should decide which products ought to be produced in a system deviating from the conditions of the market, etc. Tenders should be invited and conditions of privileges or monopoly should be clarified in public (chamber, Parliamentary commission).

i) *Transformation of enterprises in monopoly position* (e.g. in foreign trade or wholesale trade into a *joint enterprise* of the enterprises concerned if warranted by state interests.

j) Elaboration of yearly, medium- and long-term sectoral programmes on market organization and technological development by each sectoral ministry and chamber. These programmes would be elaborated not for the government, but for the complex economic Parliamentary (industrial, commercial, plan- and budgetary) committees, which, having approved them, would recommend them for implementation to the government, while the government would consider them as a guideline when elaborating its own programme.

Our suggestions constitute a comprehensive system, therefore we only deem their joint introduction expedient. The most important precondition for their realization is a consistent carrying out of the reform aimed at the development of market competition and the implementation of social control.

References

1. Wilcsek, J.: *Monopóliumok az új gazdasági mechanizmusban* (Monopolies in the new economic mechanism). Manuscript. Pénzügykutatási Intézet, Budapest February, 1966.
2. Wilcsek, J.: A gazdasági verseny helye és szerepe az új gazdasági mechanizmusban (Place and role of economic competition in the new economic mechanism). *Közgazdasági Szemle,* August-September, 1967.
3. Wilcsek, J.: Vállalat és gyáregység (Enterprise and plants). *Figyelő,* No. 5, 1967.
4. Wilcsek, J.: Modern small and medium-sized factories in Hungarian industry. *Acta Oeconomica,* Vol. 6, No. 4 (1970).
5. Wilcsek, J.: A népgazdaság vállalati struktúrája, különös tekintettel az iparra (Enterprise structure of the national economy with special regard to industry). *Gazdaság,* 1975. 4.
6. Wilcsek, J.: *A népgazdaság vállalati struktúrája. Vállalati funkció, vállalati struktúra* (Enterprise structure of the national economy. Enterprise function, enterprise structure.) Akadémiai Kiadó, Budapest 1977.
7. Inzelt, A.: A vállalati centralizációról (On enterprise centralization). *Gazdaság,* 1978. 2.
8. Mocsáry, J.: A hazai vállalat-rendszer centralizációjának hatása (Effect of the centralization of the domestic enterprise system). *Közgazdasági Szemle,* 1980. 11.
9. Révész, G.: Enterprise and plant size structure of the Hungarian industry. *Acta Oeconomica,* Vol. 22. Nos 1–2 (1979).

10. Varga, Gy.: Enterprise size pattern in the Hungarian industry. *Acta Oeconomica,* Vol. 20. No. 3. (1978)
11. Román, Z.: A magyar ipar szerkezeti rendszere (Organizational system of the Hungarian industry). *Ipargazdasági Szemle,* 1978. 3.
12. Laky, T.: *Érdekviszonyok a vállalati döntésekben* (Interest relations in enterprise decision). Közgazdasági és Jogi Könyvkiadó, Budapest 1982. Especially pp. 270–277.
13. Neale, A. D.: *The Antitrust Laws of the United States of America.* Second Ed. University Press, Cambridge 1970. p. 13.
14. Bagó, E.: Specializáció és diverzifikáció iparunkban (Specialization and diversification in the Hungarian industry). *Közgazdasági Szemle,* 1984. 6.
15. Szalai, E.: *Kiemelt vállalat – beruházás – érdek* (Privileged enterprise–investment–interest). Akadémiai Kiadó, Budapest 1981.
16. Lengyel, L.: A terv és piac szerepe a szocializmusban (Role of the plan and market in socialism). *Közgazdasági Szemle,* 1976. 1.
17. Lengyel, L.: Miért éppen a Magyar Hajó- és Darugyárban kutattunk? (Why did we carry out our researches precisely in the Hungarian Ship- and Crane Works–MHD?) In: *Egy nagyvállalat kapcsolati rendszere* (System of relations in a big enterprise). Pénzügykutatási Intézet, Budapest 1984.
18. Szalai, E.: A fogalmi keret kérdései (Questions of the conceptual framework). In: *Egy nagyvállalat kapcsolati rendszere.* [17]
19. Kőhegyi, K.: *Az ipari szövetkezetek összevonásai a 70-es években* (Amalgamations of industrial cooperatives in the 1970s). Szövetkezeti Kutató Intézet, Budapest 1983.
20. Szalai, E.: The new stage of the reform process in Hungary and the large enterprises. *Acta Oeconomica,* Vol. 29. Nos 1–2 (1982).
21. Meznerics, I.: A versenytörvények érvényre juttatása (Enforcement of laws on competition). *Jogtudományi Közlöny,* 1967. 9.
22. György, E.: A gazdasági verseny jogi szabályozásának nemzetközi magánjogi és összehasonlító jogi vonatkozásai (International civil law and comparative law aspects of the legal regulation of economic competition). *Jogtudományi Közlöny,* 1968. 1.
23. Meznerics, I.: A gazdasági verseny jogi szabályozása (Legal regulation of economic competition). *Jogtudományi Közlöny,* 1967. 8.
24. Vörös, I.: A gazdasági verseny, a piaci magatartás tisztessége jogi szabályozásának vázlata (Draft for the legal regulation of the fairness of economic competition and market behaviour). *Jogtudományi Közlöny,* 1983. 3.

ОСНОВНЫЕ ЭЛЕМЕНТЫ АНТИМОНОПОЛЬНОЙ ПОЛИТИКИ

И. ЧИЛЛАГ—Э. САЛАИ

Приостановка процесса реформы в Венгрии в семидесятых годах привлекла внимание к привилегированному положению крупных предприятий, пользующихся организационной монополией на отечественном рынке. Социалистическая монополия во многих отношениях отличается от классической трактовки монополии. Основной особенностью монополий социалистических хозяйственных организаций является то, что они возникли как искусственные образования. Большая часть их не только по своему происхождению, но и по своей внутренней структуре является искусственной конструкцией, административным единством изолированных друг от друга видов

деятельности. Монополия, дефицитная экономика, отсутствие промежуточной промышленности и автаркия — явления, постоянно воспроизводящие друг друга. Основу воспроизводства создает особенность общественно-экономической структуры, заключающаяся в отсутствии возможностей для институционального выражения частных интересов и тем самым — отсутствии препятствий осуществлению интересов монополий. Это проявляется прежде всего в перераспределении факторов производства в пользу искусственно созданных организаций.

Поскольку рыночная форма (монополия, привилегия) основана на гарантируемой правительственными органами административной исключительности, то традиционные антимонопольные меры могут быть, по-видимому, эффективными лишь в случае, если будет изменена организационная структура, создающая и воспроизводящая монополии.

Эффективная антимонопольная политика должна сформировать свою тактику как на административном рынке государственного распределения, так и на товарном рынке. Наиболее важное и необходимое изменение — это разделение управления экономикой и хозяйственной деятельности. Практика органов государственного управления, вводящая ответственность предприятий за снабжение, может быть сломлена созданием самоуправляемых, свободных от мелочной государственной опеки предприятий, что сейчас находится в Венгрии в процессе подготовки. Однако важно, чтобы не было иерархической классификации отношений предприятий различного типа к органам управления. Наряду с преобразованием управления можно использовать сложившиеся в капиталистических странах более тонкие методы поддержания конкуренции. Эти инструменты по своему характеру — правовые.

Основной вопрос антимонопольной политики состоит в том, сохранится ли воспроизводящий искусственные монополии механизм, или административная структура, уклоняющаяся от общественного и рыночного контроля. В статье содержатся конкретные предложения по изменению условий, ведущих к воспроизводству монополий.

Acta Oeconomica, Vol. 34 (1–2). pp. 79–97 (1985)

Z. ROMÁN

THE CONDITIONS OF MARKET COMPETITION IN THE HUNGARIAN INDUSTRY

The author discusses the existence or lack of market competition. In his empirical analysis he relies upon indicators characterizing the market share of the largest producers as well as the number of independent economic units taking part in the production of 637 commodity groups. He also analyses the effect on competitiveness exerted by foreign trade, taking into account the share of export-oriented production of the enterprises and the effects of competitiveness exerted by the imports on the home market. Finally the possibilities to strengthen market competition will be treated.

A "workable" market competition–"perfect competition" as described in theory cannot be found in practical life–has several prerequisites. If we wish to strengthen the role of the market and of competition–and in developing the Hungarian system of economic control and management this is one of the main objectives–we must clearly know which these prerequisites are, whether they exist or can be brought into existence. This paper summarizes some of the experiences of our investigations into these questions. The extent to which competition should be allowed to act and how it should be regulated are not subject matters of this paper.

The preconditions of competition

It is common belief that the main condition of market competition is the existence of several sellers/producers on the market. This is a *necessary but insufficient condition.* What is more, it may not even be absolutely necessary. In the case of free imports the foreign producer or, in the case of free and quick entry into the market, even the *potential* domestic producer may put up competition. According to a more rigorous economic analysis, the following can be the list of preconditions for workable market competition:

1. the freedom of sellers/producers (and buyers) in decisionmaking and choice;
2. a considerable number of sellers/producers (and such a distribution of their market share that none of them is dominant on the market);
3. no obstacles to enter the market;
4. the (free) movement of prices according to the market conditions;
5. the aggregate capacities of the actual and potential producers exceed the

aggregate demand (since in the case of shortage the buyers, not the producers are competing); and

6. to ensure the clear rules of the game, applying to each and everybody, to observe how they are kept and to guarantee fair competition.

Some remarks to supplement the above brief description of conditions:

ad 1.: It is also assumed that participants strive to increase (or, maybe maximize) their profit; this is not the only, yet a strong motivation and criterion of their decisions.

ad 2. and 5.: In view of these conditions the possibility of imports is fundamental. When and where this is unlimited, it substitutes for the role of domestic production or producers. The degree to which the economy is open is a basic issue even in a wider interpretation of this concept. In respect of the commodities exported—to (genuine) foreign markets—the competition goes on in the international market. If the economy is also open to the flow of factors of production, the competition in the national market preserves its specific and outstandingly important role, but it comes even more under the influence of the international market.

ad 3.: Entry into the market may be impeded by some administrative or institutional limitations, or by the great advantage of the producers already in the market (in respect of technology, sales network, information, costs); or by the circumstance that the new producer cannot expect an economical scale of production, or is isolated from the sources of raw materials and so on. Under Hungarian conditions, beyond the foregoing, prescribed areas to be supplied, central allocation of material quotas, earlier constraints of strictly defined product ranges, and, presently, lack of financial resources may also set some limits.

ad 6.: In market economies in order to prevent the development of organizational structures, excluding or delimiting competition, and behaviour opposing competition either openly or in a hidden form, the conditions of competition are safeguarded by provisions of law. Independent bodies of high authority control the activities of monopolies. In many countries not only mergers are subject—with a few exceptions—to registration by market surveillance but (in addition to written cartel agreements) even secret, informal agreements restricting market competition are prohibited and penalized. If we are to grant a broader scope to market competition, we must watch its fairness.* Under prevailing conditions it would be especially important to suppress clandestine, non-market competition going on for grants, subsidies, tax exemptions, special credit conditions etc.

I consider market competition to be a version of competition necessarily appearing in any economy—it has primary importance in the capitalist market economy, while it has been pushed to the background by the traditional economic system in the socialist

*In the meantime the National Assembly passed a law on the prohibition of unfair economic activity. Act IV of 1984 prohibits unfair competition, misleading the consumers, restriction of economic competition, "linking" commodities, abuse of superior economic power and the realization of unfair prices.

countries. Among the non-market forms of competition I make a distinction between formal and informal competition. Formal (open) competition means that in the course of planning and control, various proposals will be elaborated on development, investment projects, subsidies, which are then evaluated and ranked; some accepted, some rejected. The makers of recommendations, those submitting them, the representatives of the enterprises and institutions concerned then compete for a favourable decision. I call it informal (hidden) competition or informal (hidden) means of non-market competition when enterprises and institutions try to influence the decisions through personal connections and other clandestine means. The formal non-market competition may be efficient (especially with a market background) where selection from alternatives through the market is impossible or would cause greater losses than the source of error implied by a non-market competition. A too big weight of informal (hidden) non-market competition, however, deteriorates the workability of the whole system.

Market competition can only come about when all conditions are present and exercise their respective effects. However, they cannot be present in every field of the economy, even under capitalist market conditions. Natural or artificial monopoly positions are frequent; entry into the market may be prevented by several (again: natural or artificial) barriers; sometimes certain prices will be regulated by higher authorities. Violation of the rules of fair competition (e. g. clandestine cartel-like agreements) are an everyday problem. For this very reason governments in capitalist countries consider their task to monitor and ensure the conditions of competition, to prevent abuses of lacking competition, or, in certain cases–when, in view of the costs of competition, only minor advantages can be expected,–deliberately restrict or eliminate competition. Special institutions are set up for this purpose.

The most significant measure towards opening and promoting competition was taken in Hungary in accordance with condition No. 1 by increasing the autonomy of the enterprises in the course of the 1968 reform of economic control and management. In enterprise decisions–mainly as far as current production is considered–the profit motive has gained a determining role, but has been strongly limited (from the outset and even presently) by basis-period-centred considerations.* In this basis-period-centred attitude the profit achieved is always compared to that of the preceding period as a basis and is accordingly rewarded. Since the increase of wages is also similarly linked, the primary effort of the enterprise is to report a defined measure of profit–neither more, nor less–by greater performance or in any other way (by raising prices, through manipulations in accounting, etc.). (It is generally also questionable whether a capitalist company is willing to maximize its profit or rather aims at attaining a certain definite level. The prevailing opinion is that for the larger corporations the latter attitude is characteristic–especially of those directed by managers, not be the owners. This is certainly typical in the case of Hungary.)

*This procedure and attitude was called "incrementalism" by an American author. –Ed. note.

In addition to profit-orientation, enterprise decisions on development and investments were also motivated by intentions to grow and to adjust to central decisions, influenced also by themselves. They had to reckon with the appearance of potential competitors only very rarely* and the role of even these was in principle not clarified. The rest of the aforementioned conditions were realized only partially and were planned to be introduced gradually. However, all this proceeded more slowly than expected (owing to various circumstances analysed in several studies), and in the meantime condition No. 1, i. e., the freedom of enterprise decisions, also weakened.

The preconditions, the assertion or lack of competition in certain fields were analysed by several case-studies in Hungary, but no comprehensive picture about them is available. In the following I should like to render account of the first results of our survey of this kind, on market shares and the effects of foreign trade on competition.

The market shares and the number of producers

For examining the domestic situation of competition first of all the indicators showing the market share of the largest producers can be used—which have been so far neglected in Hungary. Such data are not published in Hungarian statistics but the Department of Industrial Statistics of the Central Statistical Office compiled for me such kinds of data on two occasions, for which I herewith express my thanks. The earlier computation by subsectors, covering 1975 [2] indicated that from the 54 subsectors of the manufacturing industry the share of the three largest producers exceeded 50 percent of the total output—beyond which one may speak about a dominant market position—in 38 sub-branches, in 24 sub-branches it exceeded two-thirds and in 16 it was even higher than 90 percent. The individual sub-branches, however, include several types of activities, from the aspect of competition they are too heterogenous units. For this reason, we continued this examination by product groups for 1982. This allowed us to approach competition more realistically but the degree of aggregation is still high and calls for great caution in drawing conclusions.

We examined 637 product groups in the Hungarian manufacturing industry whereby about 75 percent of manufacturing production were covered. The share of the largest producing economic unit within total production** (we treated trusts as single economic units) exceeded one-third in 509 and the limit of 50 percent in 419 out of the 637 product groups. In the case of 323 product groups this share was more than two-thirds and in 214 more than 90 percent. Taking into account the three largest

*The weakness of competition has already been revealed by a survey made in the autumn of 1968. 42 percent of the interviewed managers of manufacturing enterprises noticed no competition on part of domestic producers, 53 percent said the same of imports; serious competition was only mentioned by 10 or 13 percent of them [1].

**An indicator where exports would be deducted from and imports added to domestic production would give a more reliable picture on the situation concerning competition in the home market. Such data were, however, not available.

producers, the same categories of the 637 product groups included 568 (over 50 percent), 508 (more than two-thirds) and 390 (over 90 percent) product groups, respectively.

Table 1

Distribution of the product groups according to the share of the largest producer by groups of industrial branches

Groups of industrial branches	Share of the largest producer in total output					Total	No. of product groups observed
	under 33.3	between 33.3–50.0	between 50.0–66,6	between 66.7–90.0	above 90.0		
	percent						
Metallurgy, building materials industry	10.2	8.7	15.0	11.8	54.3	100.0	127
Engineering industry	15.5	18.7	18.3	21.1	26.4	100.0	246
Chemical industry	3.0	15.0	12.0	20.0	50.0	100.0	100
Furniture, paper and printing industry	44.4	5.6	8.3	13.9	27.8	100.0	36
Garment industry	43.3	14.9	7.5	17.9	16.4	100.0	67
Food industry	47.5	13.1	16.4	8.2	14.8	100.0	61
Total	20.1	14.4	14.8	17.1	33.6	100.0	637

Table 1 shows the distribution of the product groups by the share of the largest, and *Table 2* by that of the three largest producers. The concentration characterized by these indicators shows the following decreasing rank order (by aggregated groups of branches): chemical industry, metallurgy and building materials industry; engineering industry; furniture, paper and printing industry; garment industry; food industry. The differences are significant.

We have also performed the computations in such a way that the product groups were classified into size categories by the value of output. (See *Tables 3* and *4*.) This has shown that concentration was much higher in the product groups of smaller value, so that, summing up the values, lower indicators of concentration than the preceding ones would be obtained.

With the aid of another computation we found out how many economic units participate in the manufacture of individual product groups. From among the 637 product groups 133 are manufactured by a single producer who is, consequently, in monopoly position.

Again significant differences appear by branches. Monopoly position showed an outstanding high ratio in metallurgy and in the building materials industry and was much

Table 2

Distribution of the product groups according to the share of the three largest producer by groups of industrial branches

Groups of industrial branches	Share of the three largest producers in total output				Total	No. of product groups observed
	under 50.0	between 50.0–66.6	between 66.6–90.0	above 90.0		
	percent					
Metallurgy, building materials industry	7.9	3.9	11.0	77.2	100.0	127
Engineering industry	6.5	7.7	26.8	59.0	100.0	246
Chemical industry	2.0	3.0	12.0	83.0	100.0	100
Furniture, paper and printing industry	19.4	19.4	22.2	39.0	100.0	36
Garment industry	22.4	22.4	14.9	40.3	100.0	67
Food industry	31.2	18.0	13.1	37.7	100.0	61
Total	10.8	9.4	18.6	61.2	100.0	637

Table 3

Distribution of the product groups according to the share of the largest producer unit by size categories of the value of output

Value of output (Ft thousand million)	Share of the largest producer in total output					Total	No. of product groups observed
	under 33.3	between 33.3–50.0	between 50.1–66.6	between 66.6–90.0	above 90.0		
	percent						
–0.20	15.1	8.7	12.8	19.2	44.8	100.0	172
0.21–1.00	16.6	18.2	18.5	17.6	29.1	100.0	302
1.01–3.00	28.7	13.9	10.5	16.5	30.4	100.0	115
3.01–	39.6	12.5	8.3	8.3	31.3	100.0	49
Total	20.1	14.4	14.8	17.1	33.6	100.0	637

rarer in the garment and the food industries. The monopoly position was more frequent in the product groups of small order of magnitude and occurred less often in the groups with higher output values (see *Table 7.*). By examining individual products instead of product groups, clearly much more monopoly positions would be found!

Table 4

Distribution of the product groups according to the share of the three largest producers by size categories of the value of output

Value of output (Ft thousand million)	Share of the three largest producers in total output				Total	No. of product groups observed
	under 50.0	between 50.0–66.6	between 66.6–90.0	above 90.0		
	percent					
–0.20	6.4	7.0	15.1	71.5	100.0	172
0.21–1.00	8.6	9.6	22.8	59.0	100.0	302
1.01–3.00	16.5	11.3	15.7	56.5	100.0	115
3.01–	27.1	12.5	10.4	50.0	100.0	49
Total	10.8	9.4	18.6	61.2	100.0	637

Table 5

Distribution of the examined product groups according to the number of producers (autonomous economic units) participating in their production and by groups of industrial branches

Groups of industrial branches	Number of the autonomous economic units participating in the production of the individual product groups					Total
	1	2–3	4–6	7–15	16–	
Metallurgy, building material industry	56	32	20	14	5	127
Engineering industry	31	34	32	64	85	246
Chemical industry	29	33	22	12	4	100
Furniture, paper and printing industry	9	1	1	4	21	36
Garment industry	3	8	6	11	39	67
Food industry	5	8	10	17	21	61
Total	133	116	91	122	175	637

The picture is more promising if we look at it from the other side: in 61 percent of the product groups there are three, in 47 percent six, and in 27 percent of them more than fifteen producers. Competition has greater chances if there are more than six producers, this is the case in 77 percent of the product groups of the garment industry, in

Table 6

Distribution of the product groups according to the number of producers (autonomous economic units) participating in their production by groups of industrial branches, percentages

Groups of industrial branches	Number of the autonomous economic units participating in the production of the individual product groups					Total
	1	2–3	4–6	7–15	16–	
Metallurgy, building materials industry	44.1	25.2	15.8	11.0	3.9	100.0
Engineering industry	12.6	13.8	13.0	26.0	34.6	100.0
Chemical industry	29.0	33.0	22.0	12.0	4.0	100.0
Furniture, paper and printing industry	25.0	2.8	2.8	11.1	58.3	100.0
Garment industry	4.5	11.9	9.0	16.4	58.2	100.0
Food industry	8.2	13.1	16.4	27.9	34.4	100.0
Total	20.9	18.2	14.3	19.1	27.5	100.0

Table 7

Distribution of the examined product groups according to the number of producers (autonomous economic units) participating in their production by size categories of value of output

	Number of autonomous economic units participating in the production of the individual product groups					Total	No. of product groups observed
	1	2–3	4–6	7–15	16–		
–0.20	33.1	24.4	14.0	12.8	15.7	100.0	172
0.21–1.00	17.2	14.9	13.6	23.8	30.5	100.0	302
1.01–3.00	17.4	16.5	13.9	20.0	32.2	100.0	115
3.01–	8.4	20.8	20.8	10.4	39.6	100.0	48
Total	20.9	18.2	14.3	19.1	27.5	100.0	637

69 percent of the furniture, paper and printing industry, in 62 percent of the food industry, and in 61 percent of the engineering industry. The same indicator is uniformly 16 percent in metallurgy, in the building materials and the chemical industry. The calculation according to the size categories of output value shows that in product groups with smaller value of output the producers are relatively fewer.

Here I have no possibility to present further detailed data and it is natural that even product groups are too aggregate entities to assume simply the existence of convertible capacities and at least potential competition everywhere within them. Both kinds of computation indicate the peculiar situation that most of the product groups (and—very likely—a big part of the products) are manufactured at many places but the majority of production is concentrated to a few producers. Hence, my conclusion is that, presumably, competition would be strengthened not by involving even more manufacturers into the production of a product group (or product), but if some of the "small-scale" producers, with a higher specialization, would increase the production of certain product groups (or products); this could initiate competition in quality and price and thereby prompt the "big" competing partners to better their performance. Competition in price and quality, cost-sensitiveness in manufacturing intermediary products, components, and even in the sphere outside of basic production would stimulate increasing specialization.

The effects of foreign trade on competition

In the past decades the significance of foreign trade substantially increased in the Hungarian economy. According to the data of the input-output tables the exports of industry amounted to 16 percent of its gross output in 1959, to 19 in 1965, to 24 in 1972 and 1976 and to 26.6 percent in 1979. This is a high ratio even by internal comparison and means that a significant share of Hungarian industrial production is subject to assessment by external markets. Standards are stricter for exports settled in convertible currencies and frequently tolerant if settled in roubles.

The competitive effect of the high ratio of exports is weakened by the fact that the highly stimulated direct exports are concentrated to a small number of sub-branches and enterprises.

Table 8 shows that in 1982 50 percent of exports settled in convertible currencies came from 11 out of the 210 manufacturing sub-branches, while the same proportion of exports paid for in roubles from 8 and total exports originated in 12 sub-branches. We have also examined the distribution of 456 autonomous economic units, representing the majority of the state-owned sector in the manufacturing industry, by the share of their exports in 1982.* From the 456 enterprises, exports settled in convertible currencies exceeded 50 percent of their total production in 13, and one-third of it in 39 enterprises. Taking into account total exports, their ratio was higher than 50 percent in 62, and more than one-third in 119 enterprises. The share of exports settled in convertible currencies was less that 5 percent in more than half of the enterprises (237) and that of the total exports in one-third of them (169). (The distribution by groups of branches is shown in *Tables 9* and *10.*)

*Here too, we considered the trust and not its enterprises as the autonomous economic unit. Regarding the number of economic units the survey embraced 74, and, regarding the value of output, 84 percent of total export.

Table 8
Rank order of the 210 sub-branches according to their contribution to exports

Contribution to total exports (percent)	Number of the sub-branches in		
	exports settled in		total exports
	roubles	non-rouble currencies	
25	2	3	3
50	8	11	12
75	27	34	36
90	55	67	70
95	75	92	96
Remaining 5	135	118	114

Table 9
Distribution of the producers (autonomous economic units) according to the share of exports in convertible currencies by groups of industrial branches

Groups of industrial branches	Ratio of exports in convertible currencies in percentage of gross output value					Total
	–5.0	5.1–15.0	15.1–33.3	33.4–50.0	90.1	
Metallurgy	35.7	21.4	42.9	–	–	100.0
Building materials industry	73.3	10.0	6.7	–	10.0	100.0
Engineering ind.	53.6	21.8	18.2	6.4	–	100.0
Chemical industry	55.6	22.2	16.7	5.5	–	100.0
Furniture, paper and printing industry	72.2	20.4	7.4	–	–	100.0
Garment industry	29.1	37.2	22.1	9.3	2.3	100.0
Food industry	53.2	18.3	15.1	7.1	6.3	100.0
Total	52.0	22.8	16.7	5.7	2.8	100.0

We have also performed the computations for the 456 economic units of the state sector in the manufacturing industry by size categories of the enterprises. (See *Table 11* and *12.*)

According to our data the share of exports is higher in the bigger enterprises. The value of output was less than one thousand million forint in 290 from the 456 examined

Table 10

Distribution of the producers (autonomous economic units) according to the share of total exports by groups of branches

Groups of industrial branches	Share of exports in percentage of the gross output value					Total
	–5.0	5.1–15.0	15.1–33.3	33.4–50.0	50.1–	
Metallurgy	28.6	14.3	50.0	7.1	–	100.0
Building materials industry	60.0	16.7	10.0	–	13.3	100.0
Engineering industry	23.6	17.3	20.0	22.7	16.4	100.0
Chemical industry	36.1	25.0	19.5	8.3	11.1	100.0
Furniture, paper and printing industry	66.6	16.7	16.7	–	–	100.0
Garment industry	14.0	14.0	33.7	19.7	18.6	100.0
Food industry	47.6	8.7	19.1	8.7	15.9	100.0
Total	37.1	14.7	22.1	12.5	13.6	100.0

Table 11

Distribution of the producers (autonomous economic units) according to the share of exports in convertible currrencies by size categories

Value of output (Ft thousand million)	Share of exports in convertible currencies in percentage of gross output value					Total	No. of enterprises observed
	–5.0	5.1–15.0	15.1–33.3	33.4–50.0	50.1–		
–0.20	87.5	5.2	4.2	1.0	2.1	100.0	96
0.21–0.50	65.9	14.3	13.2	3.3	3.3	100.0	91
0.51–1.00	38.1	34.3	16.2	8.6	2.8	100.0	103
1.01–3.00	36.4	32.2	21.2	5.9	4.3	100.0	120
3.01–5.00	27.8	27.8	27.8	16.6	–	100.0	18
5.01–	17.9	25.0	46.4	10.7	–	100.0	28
Total	52.0	22.8	16.7	5.7	2.8	100.0	456

enterprises and it was more than that in 166 enterprises. The share of total exports was higher than one-third in 21 percent of the enterprises belonging to the first group and in 35 of those in the second one. It did not exceed 5 percent in 48 of the former and in 18 percent of the latter ones. In the exports in convertible currencies the difference is

Table 12

Distribution of producers (autonomous economic units) according to the share of total exports by size categories

Value of output (Ft thousand million)	Share of exports in percentage of the gross output value					Total
	–5.0	5.1–15.0	15.1–33.3	33.4–50.0	50.1	
–0.20	76.0	6.2	7.3	4.2	6.3	100.0
0.21–0.50	51.6	15.4	12.1	13.2	7.7	100.0
0.51–1.00	18.5	17.5	33.0	8.7	22.3	100.0
1.01–3.00	18.3	18.3	31.7	16.7	15.0	100.0
3.01–5.00	27.8	16.7	5.5	38.9	11.1	100.0
5.01–	10.7	14.3	35.7	17.9	21.4	100.0
Total	37.1	14.7	22.1	12.5	13.6	100.0

Table 13

Distribution of the product groups according to the share of complementary imports by groups of branches (in percent)

Groups of industrial branches	No complementary imports	Share of complementary imports related to the domestic production			Total	No. of product groups observed
		Below one-third	Between one and two thirds	Over two thirds		
Metallurgy, building materials industry	57.9	30.4	4.0	7.9	100.0	126
Engineering industry	18.6	43.5	15.1	22.8	100.0	232
Chemical industry	33.0	53.0	7.0	7.0	100.0	100
Furniture, paper and printing industry	44.4	30.6	13.9	11.1	100.0	36
Garment industry	23.9	59.7	13.4	3.0	100.0	67
Food industry	52.6	36.8	5.3	5.3	100.0	57
Total	34.1	42.7	10.4	12.8	100.0	618

smaller: a share higher than one-third was found in 7, and 11 percent, while it did not exceed 5 percent in 56 and 32 percent of the enterprises in the groups in question.

When evaluating the quoted data first of all two remarks should be made. First, enterprises can already notice how the foreign market appreciates their competitiveness on the basis of smaller amounts exported. But they are only affected by foreign market

competition and its influence if the regulatory system raises high requirements in respect of export efficiency and if the losses suffered in the foreign trade cannot be easily charged to the domestic buyers. Unfortunately, currently the situation is different. In order to improve the balance of trade, efforts to increase the volume of exports came to the foreground and export efficiency, which had been emphasized earlier, became a secondary issue. Furthermore, in today's system of economic control—owing exactly to the lack of domestic market competition—the enterprises can shift their export losses onto their customers in the home market without any difficulty. Secondly, it is an important circumstance in view of the effects of foreign trade that presently primarily direct exports are stimulated. The various preferences and bonuses are granted to the sellers of the export products. This is a source of permanent conflicts between them and the producers (suppliers) of raw materials, intermediate products, and the cooperation partners. The possibility recently given to exporters and the enterprises supplying them to divide the preferences and bonuses did not eliminate the conflicts, it merely opened up the way to futher bargaining. The input-output tables indicate that indirect exports—i. e., the work of the intermediary producers embodied in the exported products—are of about the same size as the direct exports. The competitive effect of export would thus double if it were validated to the indirect supplies.

Actual and potential imports, if they are not merely intended to fill a gap, may exert an even stronger competitive effect. No data or computations are known about the share of the imported products which are (or could be) manufactured in Hungary, i.e., which might be classified as competitive imports.

We tried to approach the assessment of the current competitive effect of imports from two sides. We asked for a statistical estimate on whether complementary imports can be found in the examined product groups, and, if so, in what proportions. According to our data, in 34 percent of the analysed 618 product groups (see *Table 13*) there is no complementary import at all. Complementary imports exist but do not attain one-third of the production in 43 percent of the product groups and exceed this share in 23 percent of them. Differences by branches are characterised by the fact that the indicator in question is much lower in the food industry (11 percent) and the chemical industry (14 percent) and markedly higher in the engineering industry (38 percent). Characteristic differences can also be found according to the size categories of output *(Table 14)*, in the lowest category the proportion of product groups where there is no complementary import, amounts to 50 percent, and in the highest one a greater ratio of complementary imports is rather rare. However, to draw definite conclusions from these data is particularly difficult because in every branch (especially in the engineering industry) the commodity groups examined are aggregates of a large number of products. By examining smaller groups or individual products it would certainly be found that domestic production is complemented by imports in a much smaller number of cases (and in much lower proportions). And, of course, we must not forget to consider whether the imports merely make up for a shortage in supply or might be able to replace domestic production. In our present situation—under pressure to improve the balance of trade—we can hardly

Table 14

Distribution of the product groups according to the share of complementary imports by size categories (in percent)

Value of output (Ft thousand million)	No complementary imports	Share of complementary imports related to the domestic production			Total	No. of product groups observed
		Below one third	Between one and two thirds	Over two thirds		
–0.20	54.8	16.7	8.3	20.2	100.0	168
0.21–1.00	27.3	45.7	13.5	13.5	100.0	289
1.01–3.00	24.8	61.1	9.7	4.4	100.0	113
3.01–	25.0	72.9	–	2.1	100.0	48
Total	34.1	42.7	10.4	12.8	100.0	618

allow competitive imports, for this would conflict with the principle and practice of import saving.

In another approach we reviewed the composition of imports in large aggregates. From the Ft 325 thousand million of imports in 1982—equal to almost one-third of domestic industrial output—Ft 65 thousand million of primary energy and electric power and Ft 42 thousand million of raw and basic materials amounted to almost one-third of the total. The Ft 110 thousand million of imports of components and semifinished goods, the almost 60 thousand million of investment goods and 23 thousand million of agricultural and food industrial products were for the most part commodities not produced at home, i. e., they complemented domestic production and did not compete with it. The same applies to a part of the Ft 30 thousand million of consumer commodities, from which e. g. 6 thousand million are imports of passenger cars.* From all this the conclusion may be drawn that under the present circumstances of strict import management the role of the actual and potential imports can only be very restricted from the viewpoint of competition.

How could competition be strengthened

If we traced to the end how the above mentioned conditions of market competition have developed in the Hungarian industry since 1968, essential progress could only be found in respect of the 3rd condition, i. e., in removing the barriers of entry into the market. The abolition of obligatory product ranges, the encouragement of entrepreneur-

*Passenger cars are not manufactured in Hungary. (Ed. note.)

ship and new organizational forms to appear in the market created a certain competition in several fields –let us add that mostly in the market of the simple, less capital-intensive products. This was also supported by the decentralization of the organizational pattern of the industry decided in 1980 but progressing only very slowly.

The organizational system of the Hungarian industry is characterized by the dominance of multiplant enterprises. In round figures 5000 plants are managed by 700 enterprises in the state-owned industry and 4000 plants by 600 cooperatives in the cooperative industry. It is well known that this restricts competition, yet the process of decentralization progresses slowly. The industrial activities pursued by organizations not classified as industrial ones (among others, agricultural cooperatives) are also significant. By our days their output exceeded 10 percent of the production of the state owned and cooperative industry. About 15000 units of 2500 non-industrial organizations carry on industrial activities. This is a source of some competition but it mostly fills up gaps in the market, or aids the work of large enterprises. Considering all establishments which carry on industrial activity, for the most part they have less than 500 or even less than 300 employees. Thus they could be *independent* small or medium-size enterprises, however, they themselves do not strive for separation, and prefer to remain under the protective shield of a larger organization. At present a consistent government program which, beyond certain particular measures, would really bring industrial organization closer to the requirements raised by market competition, is still missing.

Speeding up the organizational decentralization process would be very important for several reasons (among other things, for the sake of not keeping the management of large enterprises in uncertainty for years) but we must see that thereby only the number of participants in the competition would grow. The competition may only become more intensive if the rest of their conditions are also ensured. In this respect another result of our computations is also worth mentioning. For 246 product groups of the engineering industry and for 227 of metallurgy, the building materials and the chemical industries, altogether for 473 product groups, we calculated how they are distributed according to the number of the plants (establishments) manufacturing them. In the engineering industry more than three plants manufacture 85 percent and more than six 72 percent of the product groups belonging here. The same indicators for the two other branches are much lower: 38–40, and 24–27 percent, respectively. (A survey of the light and the food industries would very likely give a picture similar to that of the engineering industry.)

Comparing the enterprise and plant indicators, Table 15 shows that in the given sphere of the state-owned industry granting independence to all the plants (establishments) would eliminate 43 of the 119 monopoly positions in respect of the product groups in question. This is not negligible. Such a measure would essentially change the position of competition in several branches, while in others it would have no effect.

According to our computations, maximum three industrial plants manufacture 37, and maximum three autonomous economic units 45 percent of the examined product groups; hence, if all the plants were made independent this would raise the number of autonomous manufacturers above three in a further 8 percent of the given product

Table 15

Distribution of the product groups according to the number of enterprises and plants (establishments) participating in their production

	Number of autonomous industrial units and industrial plants participating in the production of the product groups					Total
	1	2–3	4–6	7–15	16–	
Metallurgy, building materials industry:						
Autonomous units	56	32	20	14	5	127
Industrial plants	33	46	18	14	16	127
Engineering industry:						
Autonomous units	31	34	32	64	85	246
Industrial plants	15	23	30	78	100	246
Chemical industry:						
Autonomous units	29	33	22	12	4	100
Industrial plants	25	35	13	22	5	100
Total:						
Autonomous economic units	116	99	74	90	94	473
Industrial plants	73	104	61	114	121	473

groups. Another example: more than six industrial plants manufacture 50, and more than six independent economic units 37 percent of these product groups. This means that in another 13 percent of the product groups the number of independent producers could be increased to more than six. In certain fields this might bring about considerable changes, and therefore deserves serious attention. In addition, the establishment of new small and medium-size enterprises also has to be encouraged by state support. As the smaller enterprises are less protected, thus forced to greater agility, this by itself would intensify competition.

The new organizational forms introduced in recent years brought a certain briskness into industry, but their weight is not yet significant. At the end of 1983 286 "small enterprises" and "small cooperatives" operated with a simplified accounting system, employing altogether 17000 persons. The independent economic (business) partnerships* may have 30 members each, but they mostly consist of part-time workers who make extra earnings here, in addition to their main job. They possess scarcity amounts of capital,

*They are different from the recent Western intrapreneurial groups, because of their strong dependence on the parent firm, and the lack of risk. See the article in this issue by T. Laky. *–Ed. note.*

invest it very cautiously, their external sources are limited and thus–similarly to the 50.000 private artisans–their activity is limited to not capital-intensive fields. The number of the intra-enterprise groups (workteams)* is rapidly increasing in the industry, by the end of 1984 it might have exceeded 10 000 with more than 100 000 members. Their contribution to total industrial output is about 2–3 percent.

This specific Hungarian form of organization is a voluntary association of the enterprise's workers to perform auxiliary activities, beyond the official working hours, with the approval and the assets of the enterprise, not for wages but under a special agreement. It is not subject to either over-time, or wage limitations, and they can earn much more than either in the normal working time, or overtime. At the same time–and this is an important positive experience–they work with considerably higher productivity (estimated to be 50 percent higher). From the viewpoint of market competition, however, they only play a limited role. Namely, these groups (teams) work mainly for their own enterprise, they do not turn to the market. In the majority they make up for the labour shortage in the basic activity of the enterprise. They may put up competition in the auxiliary, maintenance and repair activities which are otherwise ordered from outside firms, since they undertake (and can undertake) them for lower prices. A lot of discussion is going on about this organizational form, since on the one hand it is the embodiment of progressive management and organizational endeavours and, on the other, it shows a way out of the wage regulations keeping back performance, and brings to the surface a certain kind of a shadow economy (moonlighting).

While supporting the creation of new small and medium-size enterprises, new undertakings and new organizational forms, we must not forget that the possibilities, time-, and capital requirements of entering the market are extremely varied, depending on the characteristics of products, technologies and activities. In several branches of Hungarian manufacturing industry the size of the country excludes competition in the home market; the enterprises can compete in foreign markets or with imports. This depends not on the number of enterprises but on the hard restriction of their protection! In a significant sphere of enterprises this is at present the decisive condition of competition and it cannot be replaced by anything else.

Thus strengthening of competition calls for a double series of measures. The first one of primary importance has to improve the general system of conditions of market competition. This is now expected from a further complex development of the economic control and management system as well as from the improvement of external equilibrium. The other one is–if not so far-reaching as the preceding one, yet an important task–the continuous analysis and strengthening of the competitive position of the various branches and product groups (among other things, through organizational measures and imports).

Regarding the two main functions of market competition, in certain spheres results can rapidly be achieved by *stimulating performance* through competition. Slower will be the unfolding of its function in the regulation of the most significant economic

*GMK, using the Hungarian abbreviation.–Ed. note.

processes–which we wish to keep under continuous observation and control for the purpose of fitting them into the whole of the economic management system. From the analysis of the conditions of market competition the conclusion may be drawn that to develop the Hungarian system and practice of economic control and management, small and far-reaching measures are equally needed but, on the ground of realities, immediate great results cannot be expected from even the most significant ones. We are facing a long and difficult path and a great many tasks wait for solution by research.

References

1. Román, Z.: A vállalati magatartás és indítékai (Enterprise behaviour and its incentives). *Figyelő,* November 20, 1968. p. 3.
2. Román, Z.: A magyar ipar szervezeti rendszere (The organizational system of the Hungarian industry). *Ipargazdasági Szemle,* 1978. 3. pp. 7–50.

УСЛОВИЯ РЫНОЧНОЙ КОНКУРЕНЦИИ В ВЕНГЕРСКОЙ ПРОМЫШЛЕННОСТИ

З. РОМАН

Венгерская система управления экономикой стремится наряду с центральным планированием использовать стимулирующую и регулирующую — в рамках планирования — роль рынка. В статье рассматриваются возможности, открывающиеся для этого в такой небольшой стране, как Венгрия. Однако во введении автор указывает, что рыночная конкуренция наряду с большим количеством производителей имеет и целый ряд прочих условий; только их комплексное удовлетворение может привести к рыночной конкуренции.

В первой части статьи автор на базе статистического анализа показывает, как распределяется 637 групп изделий обрабатывающей промышленности, в зависимости от числа производителей и их рыночной доли. (637 групп изделий охватывает около 75 процентов продукции отрабатывающей промышленности.) На долю самой крупной производственно-хозяйственной единицы (если рассматривать трест как одну хозяйственную единицу) из 637 товарных групп приходилось по 509 группам изделий свыше одной трети, по 419 группам — свыше 50 процентов, по 323 группам изделий свыше двух третей и по 214 группам — свыше 90% валовой продукции. Другая сторона картины более обнадеживает: 61% из рассматриваемых торавных групп имеет больше 3,47% — больше 6 и 27% — больше 15 производителей. Однако в целом исследование показывает весьма ограниченные возможности рыночной конкуренции. В статье также приводятся данные в отраслевом разделе в группировке по величине предприятий.

Во второй части статьи рассматривается влияние внешнеэкономической конкуренции. Доля экспорта в продукции венгерской промышленности относительно высока, однако, согласно приводимым в статье данным, производство на экспорт отличается сильной концентрацией. Доля экспорта лишь у 8,5% самостоятельных хозяйственных единиц выше трети, у 25% — выше 15% продукции. Стимулирующее воздействие конкуренции на экспортных рынках усилилось бы, если бы ее эффект лучше передавался отечественным предприятиям-поставщикам и лучше ощущался в производстве на внутренний рынок.

Еще более интенсивное конкурентное воздействие на внутренний рынок может оказать фактический и потенциальный импорт, если он не только восполняет дефицит, но и ставит под угрозу возможности сбыта продукции отечественных предприятий. Однако в последние годы в интересах внешнеэкономической сбалансированности венгерской экономике необходимо было ограничить импорт, что ослабило и конкурентный эффект импорта.

В заключительной части статьи автор касается того, как можно усилить рыночную конкуренцию в венгерской экономике. С одной стороны, необходимо улучшить общую систему условий рыночной конкуренции, а с другой стороны, с помощью отдельных мер в некоторых областях можно также улучшить условия конкуренции. Для венгерской промышленности характерна весьма высокая степень концентрации производства. Это в первую очередь объясняется тем, что только часть заводов является самостоятельной, они не выходят на рынок, а являются производственными подразделениями более крупных предприятий. Разукрупнение крупных предприятий могло бы ликвидировать монопольной положение во многих областях и усилить конкуренцию.

Однако возможности выхода на рынок, необходимые для этого средства и сроки весьма различны в зависимости от характера продукции и видов деятельности. Во многих отраслях производства уже сами масштабы венгерского народного хозяйства исключают конкуренцию на внутреннем рынке. Для подлинной конкуренции на внешних рынках или с импортом в первую очередь необходимо, чтобы предприятия не пользовались бы чрезмерной защитой. Совершенствование системы управления экономикой, в частности, направлено и на это.

Acta Oeconomica, Vol. 34 (1–2). pp. 99–112 (1985)

A. KÖVES

THE IMPORT RESTRICTION SQUEEZE AND IMPORT MAXIMIZING AMBITIONS*

Some connections of East-West vs. intra-CMEA trade

The smaller CMEA countries, forced lately to cut imports from the West because of balance-of-payments considerations, tried at the same time to buy the largest possible quantities of the required commodities from inside the CMEA. In this article the motives, opportunities of and limits to the said import maximizing endeavours are analysed and, in conclusion, it is stated that the contradiction between dependence on Western imports and inadequate export capacity, one of the main reasons for the unbalanced development of East-West trade till now, has only worsened in recent years. On the import side this contradiction cannot be resolved in a politically and socially acceptable way. On the other hand it requires comprehensive economic reforms over a longer range to produce any significant improvement in export competitivity on the world market. Yet it is not quite improbable that East-West trade might get out of the post-1980 decline and show some degree of growth in the next years.

It is high time to think about the influencing factors and the way of possible dvelopment of East-West trade in the rest of this decade. This is, of course, much more difficult to predict than to tell what will not happen: the dynamic development of the middle of the past decade extending to almost every segment of East-West economic relations will obviously not come back. It is easy to justify this categoric statement. Firstly, "the boom of East-West trade in the early and mid-seventies developed as a result of the interaction of several factors and its recurrence can hardly be expected in the 1980s." [1. p. 51.] On the other hand the lopsidedness of the aforesaid boom certainly casts a shadow on the chances of the 1980s. It first of all meant fast increasing imports of the CMEA countries and this resulted in an unprecedented indebtness of theirs. Therefore, the main task of these countries for the coming years will remain to restore, preserve and improve their solvency. Thus, irrespective of any other conditions, the development of East-West trade ought to be envisaged with much greater caution and prudence than in the previous decade.

*This paper, published originally in German in the Vienna quarterly *Europäische Rundschau* No. 3, 1984, is based on the author's lecture presented to the Conference of Economists held in Budapest from 4 to 7 June, 1984 and organized by the Hungarian Economic Association and the Verein für Socialpolitik, Federal Republic of Germany.

The question is not whether the rate of growth will be slow or fast but whether East-West trade can be expected to grow at all. Can the falling trend of the early 1980s, necessitated by debt burdens, be expected to come, or to be brought, to an end? Whatever answer is given to this question, the zone of the probable development of East-West trade might be ranging from stagnation or further decline to moderate growth.

There is not much chance for a fast growth of trade. CMEA exports may develop in the most different ways, but will certainly remain a bottleneck. On the short range, namely, there is no likelihood either of any significant internal economic changes (in structure and efficiency) in the CMEA countries or in external economic development that could facilitate the vigorous expansion of exports. Also the opportunities of import financing will depend primarily on the export receipts in the future as well. This interrelation will not necessarily assert itself in a way that the CMEA countries will, as between 1982 and 1984, permanently have to achieve a surplus in the turnover with the West, which could result in import cuts all over again under the circumstances of export weakness, i.e., which could in itself entail a stagnation or decline of turnover.* It is nevertheless obvious that a new rapid increase of deficits in the balance of trade—shortly after two CMEA countries have had to re-schedule the repayment of their debts and also others have just escaped from acute payments problems—would immediately result in restrictive measures on behalf of both the CMEA countries concerned and their Western partners and would therefore produce a drop of trade instead of growth.**

Nor can it be expected that the Soviet Union will be an exception to the general trend and the rapid growth of its trade with the West will dynamize the whole of East-West trade. Namely, contrary to the pre-1981 period till the first oil price explosion, it can no longer reckon with favourable changes in world market prices for increasing its export receipts. Estimates forecasting a decrease also in the volume of oil exports are widely known [3; 4] while lost export revenue can only partly be balanced by gas exports revenue that increase at a slower rate than planned because of a moderate growth of world market demand. Even though on the basis of a rapid increase in the volume of Soviet crude oil exports to the West in the years 1982 and 1983 it seems to be more

*In the paper of Jochen *Bethkenhagen* and Heinrich *Machowski* [2] the likelihood of further import cuts owing to the pressure for surplus is given in support of forecasting persistent decline of East-West trade: "In the foreseeable future the Western commercial policies of CMEA states must regard the development of the current account balance as a cardinal viewpoint. The necessary surplus of the balance of trade cannot be achieved but through further import cuts because of the disadvantageous conditions of the economic frameworks. This way, however, East-West trade has little chance to expand and continuing real decline is much more probable."

**In assessing the financial situation of a country it is naturally not trade with Western countries but the balance of payments effected in convertible currency that is of importance. The two are known to develop in opposite directions in actual practice too: the latter may show a surplus despite a deficit in the balance of Western trade, provided that a sufficient amount of surplus has accumulated in trade with the developing countries or in intra-CMEA trade transacted in dollars, or in the items of services. However, East-West trade is the most important source of convertible currency receipts and the main area where convertible currency is spent.

likely now that exports to the West will not necessarily decrease (and will especially not drop significantly), provided that a substantial decrease of crude oil production can be prevented, it is quite probable that to balance the Soviet trade with the West might become a more difficult task than heretofore because of the invariably growing import requirements.

External economic alternatives

The alternative of decline or moderate growth is under the influence of several factors, including the role the CMEA countries will cast on trading with the West. Will the process of their more intensive integration in the global division of labour be carried on, even if more slowly and more clumsily than before and perhaps with even more detours, or will the process discontinue to give way to a turning inwards on regional (i.e., CMEA) scale?

It is well known that individual CMEA countries have given many kinds of responses to indebtness in their external economic policies. Some countries hoped to find the proper way in making world economic relations closer, despite—or more accurately: just because of—the difficult external economic situation. At other places other conclusions were derived as is shown by the renewed emergence of the slogan of "technological-economic independence" or "integrity" or by claiming that most of the Western import is "not justified" and must be "rationalized" [5]*. Considering the external economic political traditions of these countries and the cooling of East-West and, in particular, of Soviet-American political relations, the logic of this kind of response cannot be disputed. Yet, the conditions are in fact more disadvantageous now for enhancing self-sufficiency on the CMEA level than any time before**. Quoting Stanislaw *Gomulka,* Professor at the London School of Economics: "A disengagement from large trading with the West, probably in favour of a greater intra-CMEA cooperation, must be feasible, but at an economic cost that the countries in question are reluctant to accept." [6] It might be added that they are reluctant *because* if they accepted they would have to give up basic social and economic achievements and abandon essential political priorities at the same time, the implications of which are unacceptable or at least unpredictable.

The analysts who inferred from the rapidly growing indebtness of the CMEA countries that the policy of turning inwards was inevitable, were often guilty of a very simple mistake. They supposed that if the CMEA countries had to restrict Western imports this would in itself, and automatically, amount to turning inwards: they would

*Statements of this kind were also made after the radical curbing of imports between 1980 and 1983, although it resulted in grave economic disturbances in more than one country. (It is typical of the degree of cuts that, computed at current prices, Western imports in 1983 amounted to the following values in percentage of 1980: 33 in Romania, 44 in Poland, 67 in Czechoslovakia, 79 in Hungary, 86 in the GDR and 97 in Bulgaria.)

**For our earlier detailed reasoning see [7, 8] as well as [9].

increasingly depend on their "internal" trade in order to achieve their economic objectives. However, this apparently evident assumption may prove to be either true or wrong depending on the processes taking place in the meantime in intra-CMEA trade. Detailed data and estimates available, eg. the estimates of the UN Economic Commission for Europe (United Nations 1983), show that as early as in the second half of the seventies the growth in the volume of imports of the six smaller European CMEA countries (henceforth: the Six)* originating from the CMEA region slackened appreciably** and practically stopped by the end of the said decade. Between 1980–1982, a critical period from the point of view of payments effected in convertible currencies, this import even showed a drop (although the volume of their exports was steadily increasing, except for Poland where it decreased in the years of social and economic crisis). It is another matter that when the balance of payments situation turned critical, this also forced a strong reduction of their western imports (in Poland already beginning with 1977 and in the other countries later and, as a rule, not to the same extent as in Poland) which did not happen within the imports originating from the socialist countries.

Thus the share of western imports in the total imports of the Six decreased indeed during the past years while the share of intra-CMEA imports increased. However, in view of the aforesaid import trends, this change in proportions, also enhanced by the steep increase of intra-CMEA prices, indicates much more the barriers of western trade than the possibilities for turning inward.

Import maximizing endeavours in the CMEA

Although the Six have given a colourful multitude of external economic political responses to indebtness, one essential common feature can still be distinguished. Each of them (including Romania whose external economic policy shows the greatest number of peculiar features among the Six) tried to purchase the biggest possible volume of the commodities needed from inside the CMEA, while they were forced to cut down their Western imports becoming expensive and more and more out of reach.

Actually, this was a dual endeavour. Firstly, these countries tried to buy from CMEA partners commodities that used to be entries in the western import list. It is, of course, not an easy task to carry out such a change in the sources of buying. Let us recall the known features of CMEA cooperation which hinders the development of mutual trade in industrial products, or the fact that the CMEA countries have almost exclusively bought only such goods from Western countries which were not available elsewhere (at home or in other CMEA countries). On the other hand they wished to increase their intra-CMEA purchases of hard commodities. These endeavours, to be called hereafter import maximization or import maximizing attitude for convencience, are mainly

*Bulgaria, Czechoslovakia, German Dem. Rep., Hungary, Poland, Romania (–Ed. note.)

**For example in the case of Hungary the traditional growth rate established in the range of 8 to 11 percent between 1960 and 1975 decreased to less that its third. [9. p. 92.]

attributable to the assumption that purchasing conditions are more advantageous there than in the world market. As is known, namely, the CMEA prices follow world market prices with a time-lag and at times when the world market prices of raw materials and primary energy (which are considered to be hard articles in the first place) are steeply rising, such commodities could be bought much cheaper from within the CMEA. The intra-CMEA imports of precisely such commodities were the most important for the Six. In addition to lower price, also the chance of settlement in transferable rouble was a powerful argument for import maximization. The raw materials imported in intra-CMEA turnover could have only been sold at much less adnvantageous terms (or not at all) in the world market. No doubt, if the Six had had to purchase raw materials and fuels at world market prices against dollar payment and to sell at the same time industrial articles they manufactured for intra-CMEA export in Western countries, they would have had to face even graver economic difficulties in the post-1973 period than they actually underwent.

Import maximization, however, cannot be fully explained by the difference in the terms of trade inside or outside the CMEA, in favour of the former. This was namely not a sort of new trend of trade developing in response to the post-1973 world market situation but, on the contrary, it meant that the traditional foreign economic strategy carried on in this respect. The Six always strongly endeavoured to increase the imports of Soviet raw materials. From the first moment the exchange of their manufactures and, partly, foodstuffs for Soviet raw materials was the axis of intra-CMEA trade flows. Considering that the Soviet Union is rich in raw materials, while they are more or less generally short on them, this structure of trade naturally followed from the concept of intra-CMEA cooperation pursuing the best possible satisfaction of each others' needs—stated usually in physical terms—from intra-CMEA sources as a primary task. The economic development ideas and plans of the Six were mostly based on the quantity and kinds of raw materials available from the Soviet Union. The attitude of maximizing intra-CMEA imports remained typical, moreover, strengthened even when its limits became more and more obvious. The slackening economic growth rates of socialist countries, the growing internal economic strains of partner countries and their fast rising indebtness (or, more precisely, the restriction of imports and the forcing of exports with the purpose of managing the debt service) involved for each of them a growing physical limitation of commodity purchases from the CMEA region and the shattering of the old stability of purchases and sales. On the other hand, the delayed but consistent assertion of world market price proportions presumably brought about greater deterioration in the terms of trade than that faced in the turnover with countries not belonging to the CMEA.*

As the Soviet Union is the most important partner of them all, they have been sensitively affected by the slackening of Soviet economic growth and by its deteriorating

*For the main characteristics of slackening growth and its causes see the incisive analysis of *Szamuely* [10].

economic situation. Two points must be noted here in this context. Firstly, that with a practically unchanged economic system and growing efficiency troubles, the scarcity of resources has become the worst barrier to growth while the (re)distribution of resources has become perhaps the most important accessory of the economic political instruments. Secondly, that the slackening of economic growth also extended to the production of raw materials and fuels (what is more, brought to surface especially acute tensions precisely in the production of primary energy, in ferrous metallurgy and in the timber industry beside several other sectors).* Resources had to be regrouped in the late seventies and early eighties precisely in favour of the iron and steel industries and fuel production, among others. The failure of the intra-CMEA import maximizing behaviour of the Six was attributable to the *combined* effect of a general slackening of growth, the scarcity of resources and a disadvantageous trend of raw material production in the Soviet Union.

The development of Soviet raw material production itself delimits the opportunities of deliveries to CMEA countries, especially when the needs of Soviet domestic use are considered equally "objective" conditions as the need to distribute the exportable commodities among countries inside and outside the CMEA, where the main consideration is the Soviet demand for convertible currency. In this sense the trend of the Soviet deliveries of raw materials is mostly determined by factors outside and beyond the

*The growth problems of socialist countries are sometimes attributed to the depletion of resources of the so-called extensive development and the difficulties of shifting to the intensive stage, respectively, to the difficulties of energy and raw material production and supply. In our opinion, however, in the CMEA countries the problem of raw materials is rather a consequence than a cause of troubles. This follows from the pattern of industrial development, from the priority of the energy-intensive sectors of heavy industry, and from the poor efficiency of the manufacturing industry, owing to which not only its per unit consumption of energy and raw material is high but also its exporting capacities are weak. It is likely, however, that the said decision was mainly motivated by considerations concerning the Soviet balance of trade with the West. It is more important that Bethkenhagen is perfectly right to refer to the poor adaptivity of the Six, among others to the fact that economical imports, progress towards less energy-intensive structures of production and consumption, and a more efficient use of energy, i.e., everything that might be called adjustment, were neglected for many years because of their struggle to buy cheaper (but similarly gradually more expensive) raw materials. On the other hand it is somewhat surprising to consider the deficit in the balance of trade with the Soviet Union to be a proof of poor adaptivity since this deficit developed along with an enormous deterioration in the terms of trade: in spite of the decreasing volume of imports, the Six have proven to be capable of dynamically increasing the quantities of their exports to the Soviet Union. The Austrian Raimund *Dietz* [12] states that they compensated for 80 percent of their terms of trade losses towards the Soviet Union by surplus exports. This stepped-up expansion of exports which demanded far greater efforts than it used to was paradoxically one of the essential sources of their difficulties in adjustment. It is well known, for example, that the products manufactured by the Six for the CMEA market are normally not selling in the world market or need substantial changes or rebates to be saleable. The manufacturing of growing quantities of products that do not sell in Western markets makes microeconomic adjustment to changing world market conditions extremely difficult. The growing need for Western import materials, spare parts and semifinished products for their production while Western import is restricted only adds to the difficulties.

influence of the different importing countries, or of the Six as a whole. The actual volumes of the different kinds of raw materials exported to the different countries also depend on a number of other factors, for example on the compensation for Soviet raw material deliveries (on the composition, hardness and Western import content of commodities the partners can offer in exchange for a given volume or increment of raw material deliveries and on the contribution to Soviet investment projects). Moreover, these volumes themselves might depend on the balance of Soviet trade with the given country.*

The Soviet party referred mainly to the disadvantageous role of the raw material exporter and to the growing costs of raw material extraction and transportation as reasons why they could not increase the raw material deliveries *ad infinitum.* This reasoning fed a long-persisting assumption of the Six that the reduction of deliveries could be prevented, even if the trend of Soviet raw material production turned unfavourable. This seemed to be justified all the more as in certain highly important cases (gas, electric power) it was the Soviet party itself that initiated cooperation plans providing for the increase of shipments.

In fact, it may hold for each of the cases that the volume of imports is not *ab ovo* limited, and it is a matter of bargaining while the result of the bargaining only depends on reaching agreement about the conditions of import, compensation, etc. However, what holds for each case in isolation is not necessarily true for the aggregate of the cases. It has actually turned out that certain quantities of commodities were not available under certain conditions but they could be bought under other ones. Since these conditions were met in many cases, the Six can now import more raw material from the Soviet Union than they could if they had not accepted those conditions. However, their import maximizing behaviour could not halt the process of slackening raw material deliveries. Although perhaps their strongest external economic political efforts were aimed at maximizing the necessary imports, slackening became more and more manifest.

If there were a way to improve intra-CMEA cooperation more intensively than heretofore in a non-traditional structure, the narrowing of intra-CMEA trade opportunities in raw materials would not be such a grave problem. Also the Soviet party has for quite a long while reiterated the need for this change in structure, asking for shifting the platform of relations between the Soviet Union and the smaller CMEA countries from the exchange of Soviet raw materials for East European manufactured products to *mutual* trade in industrial products, that is, the latter countries ought to increase their purchases of Soviet manufactures in the first place.

*Jochen *Bethkenhagen* derives the following conclusion in one of his latest papers [11]: The East European countries' difficulties of financing (namely, the deficits accumulated in their trade with the Soviet Union–K. A.) resulted in the reduction of Soviet oil exports" (p. 631). His inference may be correct in the sense that among the motives of such measures, realized in 1982, owing to the Soviet economic situation and to the scarcity of resources, the indebtness of the Six might have played a role towards the Soviet Union.

This field, however, does not show much progress. Typically, the value of Soviet machine and equipment exports to the countries of the Six has not increased since 1978. The growth of the Soviet export of industrial products to CMEA countries depended traditionally not on the importers' intents or willingness to buy, and it especially does not depend on it now, when the necessary import originating from CMEA countries is hoped to be maximized in order to disburden the trade with the West. The intensity of development depends much more on the Soviet export offer, whether it is sufficient in volume and whether it meets importers'needs in respect of composition, assortment, terms of delivery, etc. Though not in their degree, yet in their nature the problems are quite similar to those that hinder the boosting of exports of industrial products to the West.

Moreover, the situation developing in the trade between the Soviet Union and the Six by the turn of the decade has not favoured the Soviet export of industrial products either. The prices of Soviet raw materials, and especially fuels, strongly increased also in the intra-CMEA trade. This produced such extra revenue despite the stagnating volume of exports which made the additional receipts, attainable through increasing the export volume of industrial commodities, negligible. The burdens of the Six increased so enormously, already because of rising raw material prices, that they became indebted also to the Soviet Union in spite of the much faster increase in the volume of their exports than of imports. Insistence on the Soviet export of manufactured articles would only have increased their indebtedness because of the limited ability of the Six to export whereas the Soviet party would prefer to decrease their indebtness.

Import maximizing and turning inwards

As already noted in the CMEA cooperation another process also took place in the meanwhile, namely, conditions have hardened from the point of view of the Six. This change originated from the asymmetry of trade among these countries, analysed from many aspects in the literature: the share of hard goods, marketable also for convertible currency, is much bigger in the Soviet exports than in the exports of the Six to the Soviet Union. Considering the assortment, quality parameters and technological standards of the latter, they could be sold outside the CMEA either with great difficulties and at unfavourable conditions or not at all. In addition, owing to the two oil price explosions, an enormous difference developed between the intra-CMEA and world market purchasing prices of raw materials (in particular of primary energy). This was seen to be one of the most important arguments for the maximization of imports: the premiss accepted in East and West alike says that the missing, or decreasing, volume of purchase from the Soviet Union for roubles inflicts a heavy additional burden on the economies of importing countries. On the other hand, for the Soviet Union it would be more fortunate if it could sell a growing proportion of its export products in the West, because it could obtain more

up-to-date products of better quality there and at better terms of trade.* This situation is the ground on which conditions must become more rigorous and the Six have to compensate for their purchases of raw materials from the Soviet Union by exporting "harder" commodities.

Let us note, by the way and differing interpretations notwithstanding, the said asymmetry does not mean that the deliveries of the Six are in any sense unwanted or unnecessary from the point of view of the Soviet Union. On the contrary: this import is essential for the Soviet economy, as in most of the cases it consists of goods alleviating the domestic shortage or of higher technological standards than the domestic products or at least of similar quality and complement the development opportunities of the given sector of the Soviet economy. Moreover, the substitution of Western imports for the deliveries of the Six, regarded to be less up-to-date and of poorer quality, is especially undesirable in the present Soviet foreign exchange position.

It closely belongs to this train of thought that the conditions become harder also as a result of the import maximizing attitude itself. No significant increase can be expected in the shipments of hard articles, what is more, the exporter tries to stipulate harder counter-deliveries even for maintained or eventually decreasing volumes of exports, arguing that otherwise the volume of deliveries must inevitably decrease further. However, this argument holds only if the import maximizing attitude of the partner can be taken into account. Otherwise it is much less convincing.

Of course, the bigger is the difference between CMEA and world market prices in favour of the first ones, the stronger are the arguments justifying the import maximizing attitude of member countries and their endeavour to solve their economic problems in the framework of intra-CMEA cooperation to as high a degree as possible, for it is more expensive and burdensome to choose external relations instead.

If crude oil costs—say—only half of the world market price inside the CMEA (and, in addition, it can be paid in roubles which can be relatively more easily acquired, though now it is already not easy at all) then nobody will take the decision to buy the oil (or even part of it) rather from Saudi Arabia at world market price. No doubt the cheaper intra-CMEA commodity will be chosen even if the price differences are much smaller than in the above example, as it is already typical today. Moreover, even if the intra-CMEA prices are nominally in agreement with world market prices, still intra-CMEA purchases will be preferred—as long as the terms of payment or settlement are more advantageous.

*The theory advanced by the American economists Michael *Marrese* and Jan *Vanous* [13] is based on the above reasoning. It states that the Soviet Union gives implicit subsidies to the Six of significant and growing sums. In their concept this "implicit subsidy" is a burden of the kind of "opportunity cost", i. e., it is the price of transacting a part of Soviet foreign trade with the Six not at world market prices but at intra-CMEA contract prices. This theory and the computations supporting it are hotly debated by many, for example by Dietz [12]. For a detailed critical review of the concept of "implicit subsidies", see Köves [14].

In spite of the above it is important that the enormous difference that developed between the intra-CMEA and world market prices, owing to the two oil price explosions, is supposed to be a temporary one and will cease to provide an independent argument for turning inward.

However, our arguments against an inward-looking strategy mainly concern the interpretation of the economic processes taking place inside the CMEA. Whatever the price differences may be, however reasonable it may seem for the Six to prefer intra-CMEA imports to imports from the West, such an alternative is simply not given to their economic policies. They are not in a position to take such decisions as are suitable for any appreciable influencing of the limitations the intra-CMEA purchasing opportunities for reasons beyond their power, and especially not in the case of the hard goods most important for them. This is one of the first lessons of the past decade as each of the countries tried to expand the purchasing opportunities or at least to prevent the shrinking thereof and to maximize the import of goods they need and which are available from CMEA partners.

Drop or moderate growth in East-West trade

What follows from the aforesaid for East-West trade and especially the Western trade of the Six? As obvious are the frameworks in which the endeavours and opportunities of the Six can be ranging as difficult it is to derive a concrete, forecast-like conclusion from the aforesaid. The intra-CMEA developments that are, in our interpretation, strong evidences for the persisting and even increasing dependence on Western imports could also be justly interpreted as factors hindering the increase of Western exports. Let us consider the whole host of problems related to the "hardening conditions". The process, analysed in this paper, sharpened contradiction further between dependence on Western imports and export weakness which is one of the main reasons why East-West trade has developed in an unbalanced way.

This analysis was hoped to show that this inconsistency cannot be resolved on the import side of the CMEA countries. There are no economic political instruments to diminish this dependence on imports in a politically and socially tolerable way. Resolution can only be imagined on the export side, by increasing the export capacity of the Six in the world market. Of course, there is no panacea either, by which to significantly increase export capacity and eliminate export insufficiency. Resolution can only be expected in the framework of comprehensive economic reforms that would make it possible and at the same time force continuous macro and micro-economic adjustment to the changing world economic conditions.

The problem whether such reforms can be expected (and where) is beyond the scope of this paper. It is also obvious that if such reforms were carried out in the rest of the eighties they would result in appreciably better export capacity only after the lapse of some time and not instantly.

In spite of all the said restrictive factors we believe that the alternative of a moderate growth of Western trade is not *ab ovo* closed to the Six.* As a rule, this contingency could be only ruled out if the international political tension turned more serious, whereas in the case of individual countries this could be made impossible by eventual foreign and/or domestic political crises. Two factors need to be noted that are found to support the possibility of moderate growth.

The first one is the predictable development of the world economic environment. Concerning the whole of the OECD region, not more than a moderate revival is expected for the rest of the eighties. In Western Europe, representing the lion's share in the Western trade of the Six, improvement will be still slower than overseas. The sales competition will not become easier in Western markets and especially not for the CMEA countries whose export offers are composed mostly of goods the effective demand for which is saturated. However, the Western world has recovered from the recession of 1980–82, the panic caused by the international debt crisis has been replaced by more sober-minded ponderation, and the changes of world market price proportions to the disadvantage of the Six have ceased. This means no less but that the ghost of becoming externally unviable due to world market reasons will be less menacing. Let us emphasize from the fact that in comparison with the past 3 or 4 years the world economic environment of the Six will become somewhat more favourable, it does not follow that the external economic and payments position will automatically improve—but it does follow that the efforts to consolidate and strengthen the positions are not *ab ovo* doomed to failure.

The success ,of such endeavours also depends on the Western partners. It is absolutely not certain whether they realize (and implement in their practical policy) the mutual interests attached to the development of East-West trade. This is shown e. g. by the little progress in lifting the political trade barriers hindering the increase of CMEA exports. Naturally, it provides a larger scope of manoeuvring for the CMEA countries that, as shown by numerous studies**, the external coercion of accumulating surplus in trade transacted in convertible currency is diminishing and the willingness of Western banks to lend is increasing, at least in comparison with preceding years when they nearly totally withdrew from granting credits to CMEA countries. The relieving of the credit

*What kind of moderate growth is imaginable as an alternative to stagnation or decline? By the logic of things, a moderate growth of imports in the first place, ie., that the imports of the Six would start increasing again, after the over 10 percent estimated annual decrease in 1981 and 1982 (United Nations, [15] and the further decrease in volume in the years 1983 and 1984, supposed to be of smaller degree. However, the notion of moderate growth must be given another interpretation in the case of countries where the volume of Western imports has showed relatively little drop, and of countries where import restriction has been long or especially strict. While in the former case an import growth even of insignificant quantity may be sufficient for the development of the economy, in the latter ones the normal functioning of the economy is hardly conceivable without an import growth of appreciable volume.

**See e.g. *Franklin* [16]

squeeze partly amounts to an acknowledgement of the achievements of the CMEA countries in the consolidation of their economic situation.*

The second factor concerns the economic political behaviour and aspirations of the Six. In the past 10 years, and mainly between 1979 and 1982, they accumulated enough knowledge about the chances and limits, the reasonability or perhaps unreasonability of this or that response to indebtness. Also about the fact that the development of intra-CMEA cooperation at the expense of East-West relations "is impossible in practice without great disturbances in, or even paralysis of the economic life of the CMEA countries" (Szamuely, 1984. p. 68) and that import restriction has grave implications. So, in these countries, measures discarded or postponed earlier can gradually push to the foreground and improve both the external and the internal conditions of their Western trade. The following must be considered to be such: joining international monetary organizations (Hungary), striving for the normalization of relations with other international economic organizations, very resolute policies aimed at the development of bilateral relations in the difficult international situation—the freshest and perhaps most important example of which is found in the relations between the GDR and the FRG—the new vigour of external economic propaganda, the furthering of many-sided (technical, scientific, cultural, social, touristic, etc.) relations with the Western countries and a growing interest for the outside world. No matter how slowly, there still is progress in (and still more quest for) the development of institutional relations between Eastern and Western companies, in the setting up of joint companies, functioning in the socialist countries, or in the organization of foreign trade, in marketing, and even in the mechanism and incentive system of foreign trade. It is even much more important—as it is a radical breach with the view that prevailed for several decades in Eastern Europe—to politically recognize and socially acknowledge the dependence of each country's economic development and public welfare partly or wholly on relations with the world, on success in the world market and on export performance. The questions are too numerous to predict whether this situation will really lead to an export-oriented economic policy. At any rate it indicates that what is regarded to be a relevant way of solution to the present socio-economic problems is not introversion.

References

1. Montias, J. M.: Aktuelle Tendenzen im Ost-West Handel. *Europäische Rundschau,* 1983. 4.
2. Bethkenhagen, J.—Machowski, H.: Ost-West Wirtschaftsbeziehungen: Weiterentwicklung oder Restriktion? Aus Politik und Zeitgeschichte. Beilage zur Wochenzeitung *Das Parlament,* 2 April, 1983.
3. Hewett, E. A.: The pipeline connection: issues for the alliance. *The Brookings Review,* Vol. 1. No. 1. 1982.

*However, the terms of raising credits have remained extremely rigorous and thus it is questionable how much the opportunities can be utilized. It is not incidental that for this reason many analysts keep stressing primarily the limits to raising credits (17, p. 91).

4. Bethkenhagen, J.: Oil in the USSR: small rise in production, decline in exports. *Economic Bulletin,* German Institute for Economic Research (DIW). Vol. 19. No. 12, 1983.
5. Родина, Л.: Экономическая интеграция стран СЭВ и деловое сотрудничество Восток-Запад. *Общественные науки.* 1983. 6. 51—63 стр.
6. Gomulka, S.: East-West trade and the Polish experience: economic assessment and policy implications. Paper presented at the *Trans-Atlantic Conference on East-West Trade.* Hoover Institution, Stanford, USA. 25–27 August, 1983. (Mimeo)
7. Köves, A.: Turning inward or turning outward: reflections on the foreign economic strategy of CMEA countries. *Acta Oeconomica,* Vol. 26, Nos 1–2. (1981).
8. Köves, A.: Alternative foreign economic strategies for the CMEA countries. *Konjunkturpolitik,* 28. Jahrgang, Heft 5, 1982.
9. Köves, A.–Oblath, G.: Hungarian foreign trade in the 1970s. *Acta Oeconomica,* Vol. 30, No. 1. (1983).
10. Szamuely, L.: The Eastern European economic situation and the prospects of foreign trade. *The New Hungarian Quarterly,* Vol. XXV. No. 95. (1984).
11. Bethkenhagen, J.: Erdöl und Erdgas im RGW-Intrablockhandel. In: *DIW Wochenbericht* 51–52 (83).
12. Dietz, R.: Advantages/disadvantages in the USSR's trade with Eastern Europe. The aspect of prices. Study prepared for the Joint Economic Committee, *US Congress compendium of papers on East Europe.* 1984. Washington
13. Marrese, M.–Vanous, J.: *Soviet subsidization of trade with Eastern Europe: A Soviet perspective.* University of California. Institue of International Studies, Berkeley 1983. XXVIII+254 p.
14. Köves, A: "Implicit subsidies" and some issues of economic relations within the CMEA. *Acta Oeconomica,* Vol. 31, Nos 1–2. (1983).
15. United Nations: *Economic survey of Europe in 1982.* New York, 1983.
16. Franklin, D.: The prospects for East-West trade: policies, indebtness, exports. The Economist Intellingence Unit. *Special Report* No. 154. 1983.
17. Шмелев, Н. П.: Кредиты и политика. К отношениям Восток-Запад. *Международная жизнь.* 1984. 3.

ВЫНУЖДЕННОЕ ОГРАНИЧЕНИЕ ИМПОРТА И СТРЕМЛЕНИЯ К МАКСИМИЗАЦИИ ИМПОРТА (НЕКОТОРЫЕ ВОПРОСЫ ВЗАИМОСВЯЗИ ТОРГОВЛИ ВОСТОК — ЗАПАД СО ВЗАИМНЫМИ ЭКОНОМИЧЕСКИМИ ОТНОШЕНИЯМИ В РАМКАХ СЭВ)

А. КЕВЕШ

Рассматривая возможности и трудности дальнейшего развития торговли между социалистическими и капиталистическими странами, автор указывает на некоторые взаимосвязи взаимной внешней торговли стран-членов СЭВ с торговлей Восток-Запад. Он подчеркивает, что небольшие страны-члены СЭВ, которые вследствие ухудшения своих платежных балансов были вынуждены ограничить импорт из развитых капиталистических стран, стремились к приобретению возможно большего количества необходимых им товаров из стран СЭВ. Статья анализирует мотивы, возможности и пределы этих стремлений по наращиванию импорта из стран-партнеров по СЭВ до максимума, а затем констатирует, что в последние годы усилилось противоречие между

зависимостью от импорта с Запада и слабостью экспортного потенциала стран-членов СЭВ, являющееся важнейшим объяснением характерного в прошлом сбалансированного развития торговли Восток-Запад. Стремление к разрешению этого противоречия путем дальнейшего ограничения импорта могло бы привести к нестерпимым политическим и социальным последствиям. С другой стороны, значительное увеличение экспортного потенциала мыслимо лишь как перспективный результат реформы всей экономики. Автор все-таки не исключает возможного выхода торговли Восток-Запад из спада начала 80-ых годов и умеренного ее роста в последующие годы. Этому способствует некоторое улучшение мирохозяйственных условий в 1983 и 1984 годах. Еще более важно, что из-за напряженной экономической ситуации, а также исходя из опыта внешнеэкономических поисков последних лет в некоторых странах-членах СЭВ на повестку дня постепенно ставятся ранее отвергнутые или отложенные шаги по улучшению внутренних и внешних условий торговли с несоциалистическими странами.

Acta Oeconomica, Vol. 34 (1–2), pp. 113–130 (1985)

A. SCHÜLLER–H. HAMEL

ON THE MEMBERSHIP OF SOCIALIST COUNTRIES IN THE INTERNATIONAL MONETARY FUND

Ever since its foundation in 1944, the IMF has worked towards a workable world-wide monetary system, with the participation of *every* country, notwithstanding its economic and political system. Starting with the main tasks of such an international monetary system, the interrelation problems between national and supranational monetary policies will be discussed with special reference to socialist member countries. In addition, the change in IMF principles of adjustment and financing policies based on various balance of payment theories will be examined. In the concluding chapter some current questions regarding the IMF membership of Hungary will be analysed.

In May 1982 Hungary gained membership in the International Monetary Fund (IMF) and the World Bank as the third member country of the Council of Mutual Economic Assistance (CMEA)–after Romania (1972) and Vietnam (1976). Further socialist member countries of the IMF are above all: Afghanistan, Cambodia, China, Korea, Laos, Yemen, and Yugoslavia. Poland asked for membership in November, 1981, but this has not yet been decided.

Although these nations only have 5.5 percent of the voting rights among the 148 member countries of the IMF, their membership raises several important questions which concern both the workability of the world monetary system and that of the socialist economic systems. Two questions are in the foreground in this context:

– To what extent can individual member countries acquire special advantages as against the community of the members?

– To what extent can the IMF restrict the framework of action of the national economic policy of the member countries in carrying out the tasks and competencies entrusted to it?

In the case of the socialist countries these basic questions gain particular weight, since on the basis of their economic and political constitutions they lay relatively great claim to their economic policy sovereignty.

It will be shown in this article that the IMF has had to face these questions ever since its foundation and, that, in the interest of a universal concept, it has always preferred compromises (Part I). Then the supranational and national elements of stabilization policy will be shown, the different combination of which is decisive for the solution to the basic monetary policy problems (Part II). In addition to the (hitherto unsolved) problem of agreed rules for a supranational stabilization policy (Part III), the

change in the balance of payments theories of the IMF in recent decades and its implications for the socialist countries will be examined (Part IV). The final question to be raised refers to the consequences of Hungary's membership in the IMF (Part V).

I. The universal concept of the IMF

The policy of the IMF has always aimed at promoting worldwide cooperation in questions of international monetary policy and payment transactions between countries. Even during the negotiations that led to the foundation of the IMF in Bretton Woods in 1944, efforts had been made to find regulations that would allow membership in the IMF for *every* country–independent of its economic and political system. It was intended to found a community in terms of monetary policy and the purpose to be achieved through the Fund was "to reconcile domestic and international objectives"; common interests in international trade and monetary policy would be realised to the mutual advantage and benefit of all members [1, II, p. 20; 2, p. 238].

A total of 44 countries participated in the negotiations about the foundation of the IMF, among them the big powers,the USA, the UK and the USSR. Two different proposals for the new international monetary system served as bases for the negotiations:

1. The British *Keynes Plan* "Proposals for an International Clearing Union" [1, III, pp. 19 ff] provided to establish a Currency Union, based on international bank-money, called "bancor", fixed (but not unalterably) in terms of gold and accepted as the equivalent of gold by the members of the Union for the purpose of settling their exchange balances with one another.* Countries having a favourable balance of payments with the rest of the world as a whole would possess a credit account with the Clearing Union and those having an unfavourable balance would have a debit account, while credits and debits would be necessarily equal for the Union as a whole. The volume of international liquidity was to be adjusted deliberately to the economic needs of world trade and, particularly, to the requirements of a steadily growing world economy with full employment. To prevent extreme indebtedness the debtor countries should be asked to take measures to improve their position and, on the other hand, creditor countries should be required to liquidate their surpluses by an expansion of domestic credit and demand, an appreciation of their domestic currency, by increased imports, capital exports, and punitive interest on credits. Only current payments were to be free, while the control of capital movements, both inward and outward, should be a "permanent feature". Besides these rules, the *Keynes Plan* favoured the commercial policy idea of an "orderly conduct of production, distribution, and price of primary products", as well as investment aid, both medium and long term, for the developing countries.**

*Obviously, it was the basic idea of the Clearing Union that served as a model twenty years later for the "International Bank for Economic Cooperation" founded by the CMEA and for the settling of CMEA trade in the "transferable rouble" as the unit of account. [3, pp. 65–88; 4, p. 369.]

**It was one of the explicit international aims of the Clearing Union that "the Union might become the pivot of the future economic government of the world". [1, III, p. 33.]

2. The American *White Plan* proposed an "International Stabilization Fund of the United and Associated Nations" [1, III, pp. 83 ff], equally with basically fixed rates of exchange. Contrary to the *Keynes Plan,* it accorded a fundamental role to gold as a base of the monetary unit "unitas" (equal in value to 137 1/7 grains of fine gold) of the Fund resources, and the international payment transactions. The volume of credit was to be limited by the contributions of the member states, the size of which was to be determined by national quotas and by possible loans. Countries with deficits were to get credit up to the amount of their quota; beyond that, credits were to be granted only if certain restrictions were met in the interest of restoring equilibrium of the balance of payments. The plan provided not only for direct limits to indebtedness for countries with deficits, but also for direct credit limits to creditor countries, and also laid down strict principles for balancing and adjustments in the interest of the international stabilization of the values of currencies and of a balanced relationship between creditors and debtors. The original potential of indebtedness of the *White Plan* was thus narrowed down to one fifth of that of the *Keynes Plan.*

It was common to both plans that they intended to create a multilateral and stable system of currencies with possible universal validity, while avoiding bilateral clearings and competitive exchange depreciation.

Both proposals were thoroughly discussed even prior to the beginning of the Bretton Woods conference, and problems of detail were debated between Soviet and American experst through a series of bilateral talks. Neither the proposals of J. M. *Keynes,* nor the plan of H. D. *White* were unconditionally accepted. Particularly the expectable influences on national economic policies were strongly debated. The Soviet delegation demanded a wide guarantee of its economic policy sovereignty by claiming a special status in the future Fund [4, pp. 370 f]. Since it justly discovered the intention of a systematic control of national economic activities of member countries through the Clearing Union in the functional mechanism and, particularly, in the trade policy concept of the *Keynes Plan,* the Soviet delegation preferred at first the *White Plan,* although it approached the concept of a world market economy more closely and demanded the avoidance of foreign exchange restrictions and bilateral settlement agreements.*

To what extent the Soviet demand for an autonomous economic policy was finally taken into account is shown by the Agreement of the IMF: It allows members to follow autonomously their economic policy objectives and also comprises further provisions as a result of negotiations with the USSR. With regard to the system-specific features of centrally planned economies, mainly the following special arrangements were agreed:**

*One of the causes might have been that the White Plan provided for a linking of the international monetary system to gold. How important the linkage to gold was for the USSR was shown by the later objections of Soviet economists to the introduction of "Special Drawing Rights" as the main medium of reserve. [5, p. 190.]

**Besides obtaining the Vice-presidency, the Soviet delegation also chaired the Committee for the "Operations of the Fund" by N. A. *Maletin* and the Committee "Furnishing of Information" by A. P. *Morozov.* [4, p. 371 f.]

– Into Article IV "Par Values of Currencies", Section 5, has been incorporated: "e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund."–This provision allowed far-reaching protection for the domestic currencies from foreign economic influences.

– The obligation of members to furnish information about holdings (at home and abroad) of gold and foreign exchange, production of gold, imports and exports, international balance of payments, national income, price indices, exchange controls, and other national data of importance according to Article VIII, Section 5 (a), was, however, restricted in Section 5 (b): "The Fund shall take into consideration the varying ability of members to furnish the data requested."

– The Sections "Publication of reports" and "Communication of views to members" were transferred from Article VIII (General Obligations of Members) to Article XII (Organization and Management) with the addition in Section 8: "The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members." [4, p. 372.]

A further propitious precondition of the membership of socialist countries–Czechoslovakia, Poland and Yugoslavia, in addition to the USSR, were represented at the conference–was the "Transitional Arrangements" of Article XIV, which allowed members to maintain foreign exchange restrictions and thus to avoid the obligations of Article VIII, Sections 2, 3 and 4 referring to restrictions on current payments and discriminatory currency practices and to the obligation of convertibility of foreign-held balances.

Finally, when entry-quotas were determined, the Soviet delegation managed to raise its own quota to 1.2 billion US-dollars and thus attained–after the USA (2.7 billion dollars) and the United Kingdom (1.3 billion dollars)–the third highest share of votes with 12.37 percent.* On the other hand, its attempt to reduce the contribution to be paid in in gold, on account of its being a war-torn country, was not successful.

Although the Soviet delegation approved the Agreement at the end of the conference, it was not subsequently ratified by the Soviet Union.** On the other hand, Poland and Czechoslovakia ratified the Agreement, but Poland resigned its membership in 1950 (after the foundation of the CMEA in 1949) and Czechoslovakia was required to withdraw from the Fund in 1954 ** Yet, the Soviet Union continued to follow the further

*On the basis of data given on gold reserves, national income, foreign trade and other economic data, for each country a quota was set which determined its share in votes, subscription payments and drawing rights.

**Even the prospect of a considerable credit offer from the USA in connection with a raw-material compensation deal to the amount of 10 billion US-dollars could not prompt it to ratification. This was an enormous sum relative to the total IMF quota of 8.8 billion US-dollars and to the later aid under the Marshall Plan of 13 billion US-dollars. [4, pp. 371 and 380.]

***Because it had changed the par value of the coruna without consulting the Fund and refused to provide information. [4, p. 377.]

development of the international monetary system with interest. This was demonstrated not only by its participation as an observer at the first meeting of the IMF in 1946, but also by later declarations of Soviet policy makers and economists, particularly after the collapse of the fixed exchange rate system and the gold standard in 1973 and the subsequent necessary reform of the monetary system [4, p. 373].

As could be seen from the Second Amendment of the IMF statutes, agreed upon in Kingston in 1976 and entering into force in 1978, the Fund obviously still endeavoured to keep open membership for socialist countries. The following modifications were particularly advantageous for these countries:

– According to the amended Article IV, Section 3 "Surveillance over exchange arrangements" the Fund is now expressly obliged to "respect the domestic social and political policies of members" and also to "pay due regard to the circumstances of members".

– The "Transitional Arrangements" of Article XIV, relating originally to restrictions on payments and transfers for current international transactions "in the post-war transitional period", were generalised; now only a "notification to the Fund" is required, whether a member "intends to avail itself of the transitional arrangements . . . or whether it is prepared to accept the obligations of Article VIII, Section 2, 3, and 4".*

– In the "Guidelines on Conditionality" for the use of the Fund's resources and for stand-by arrangements it is set forth that "in helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payment problems" [6, p. 134, Section 4].

With these modifications the Hungarian economists saw a change "for the first time in the history of the IMF conditions which might serve as a basis for further negotiations with the socialist countries" [7, p. 47]. On its part, Hungary had brought about relatively propitious internal economic conditions, namely by

– changing the economic mechanism through the introduction of market-related control elements into the socialist order of economy,

– adjusting the price setting of products step-by-step to product prices of the world market,

– concentrating investments on bottlenecks and the export industries,

– reducing the state subsidies to enterprises, and

– unifying the exchange rate of the forint and linking the rate of exchange to a currency basket weighted by 9 western countries [8, p. 76].

As opposed to the difficulties of Romania (and Yugoslavia) in implementing the international economic policies by the IMF in order to eliminate the high external indebtedness, Hungarian economists find a far-reaching identity between the goals of the Hungarian economic policies and those of the IMF. For Hungary, the "conditionality"

*90 of the 148 members are still availing themselves of the "Transitional Arrangements".

exercised by the IMF is a typical "self-imposed conditionality", and thus a continuation and support of the economic policy pursued [9, p. 7].

In the following the question will be discussed how the IMF membership of CMEA countries is to be judged in view of the requirements of a well-functioning international monetary order. The main tasks of the latter and the principal possible solutions will be reviewed before.

II. Main tasks and problems of the coordination of monetary policies

A well-functioning order of world monetary relations has to satisfy, above all, the following requirements:

1. an internationally most effective allocation of productive resources,
2. a satisfactory national solution provided by economic policy measures for an external economic equilibrium, and
3. an external economic stabilization policy, by which the pressure to adjust and the burdens of adjustment should not be applied one-sidedly either to creditor or debtor countries.

In solving these tasks the problem is first of all to harmonize national and supranational monetary and economic policies (see the following table). The starting point is that the international order depends on the nature of the national economic orders. It is the concept of national monetary and economic policy aimed at overall economic goals that determines which are the guideline data for attaining the intermediate target of external economic equilibrium or balance of payments adjustment: the balance on current account, the basic balance, the balance of foreign exchange, or the development of the exchange rate [10, p. 124].

External economic stabilization policy consists of a combination of supranational and national elements. When combining them, it has to be decided how long imbalances should persist, how they should be financed and through what measures they can be eliminated. The supranational elements consist of adjustment rules, financing rules, and organizational rules. The national elements are determined by the foreign exchange market policy, the overall economic control measures (fiscal monetary mix), the market and trade policies, as well as the planning and control of domestic and external economic processes. Every possible combination of supranational rules provides a framework of action with different scopes of authority for the national stabilization policy. The marginal positions are set by the system of fixed exchange rates relying on the gold standard and the system of flexible exchange rates:

– In a system of fixed exchange rates based on the gold standard, the balance of foreign exchange is the only guideline of external economic equilibrium. If the balance of payments adjustment is to function satisfactorily, it demands that the participating countries strictly observe the following rules: *first,* to waive autonomous national trade-cycle and employment policies, *second,* to renounce trade protectionism, *third,* to maintain high price flexibility and, *fourth,* to foster international confidence in the

Interrelations between national and supranational monetary policies

National monetary and economic policy		Supranational monetary policy	
Overall economic goals	Intermediate goal: External economic equilibrium or balance of payments adjustment	Framework of action	Framework of action, rules and regulations
		External economic stabilization policy	
1. Price level stability 2. Full employment 3. Growth	Guideline data: 1. Balance on current account 2. Basic balance 3. Balance of foreign exchange 4. Development of the exchange rate	1. Foreign exchange market policy – exchange rate policy – exchange market operations – exchange market regulations – foreign exchange state planning 2. Overall economic control measures – monetary policy – fiscal policy 3. Market and trade policies (serving foreign exchange policy) 4. Planning and control of domestic and external economic processes (serving foreign exchange policy)	1. Rules of adjustment a) Changes in exchange rates – fixed exchange rates (gold standard) – flexible target range (discretionary adjustment) – expansion of the currency band – gliding adjustment of parity – controlled (managed) floating – flexible exchange rates b) Exchange market control 2. Financing rules a) Supply of currency reserves b) Credit aid c) Securing confidence 3. Organization Rules a) Solution through funds (White, Plan, IMF, EMS) b) Clearing systems (Keynes Plan, EPU, IBEC) c) International cooperation in monetary policy (OECD, BIS, EEC CMEA, Club of Ten, Club of Twenty of the IMF)

observance of rules, specifically in the national economic policies aimed at external economic equilibrium [11, p. 224].

– With flexible exchange rates, the degree of autonomy of national monetary and fiscal policies formally attains its peak, but this does not amount at all to being free from the international intertwining of economic fluctuations. Although with a devaluating tendency, monetary reserves will not be lost, yet, depending on the rates of exchange, import goods will become more expensive in terms of domestic currency together with the financing costs of earlier credits and balance of payment aids, while export will become cheaper for foreign buyers. Conversely, although with a revaluating tendency, no currency reserves will be built up, exports will become more expensive for foreign buyers, while the costs of earlier credits and balance of payment aids will become cheaper, together with import goods. If the concomitant threat to the overall economic goals is to be precluded, attention should be paid to monetary and economic policies that support a stabilization of the exchange rate in regard to these goals.

In the first case external economic stabilization will occur through the adjustment of domestic prices and the money supply/income mechanism, and in the second case through the exchange rate mechanism. Both concepts of adjusting the balance of payments rest on a strict observance of rules and demand the waiver of discretionary state interventions, particularly of trade and foreign exchange restrictions.

However, the national stabilization concepts of most member countries of the IMF–also of those with market economies–are opposed to these requirements. Beyond this, in CMEA countries there are system-specific difficulties in observing such rules, particularly–as in the case of Romania–when the foreign trade plan is *directly* implemented by a comprehensive state control of foreign exchange–thus within a system of foreign trade that demands a discretionary and state-planned stabilization policy for eliminating an imbalance of payments. If, however, the foreign trade plan is implemented in an *indirect* manner, as in Hungary, there are also other, at least partially rule-linked, stabilization measures possible. In this context, first of all the following problems emerge:

1. It has to be decided to what extent the said rules of adjusting the balance of payments (changes in the rate of exchange, or domestic price adjustment and changes in effective demand) and the related national stabilization measures should be effective, while avoiding discretionary and state-planned methods of adjustment.

2. It has to be decided which supranational and national measures of external economic stabilization should be combined in view of the said main tasks of an international monetary order. If the flow of capital is to be supervised, a combination could be imagined in which a government restricts itself to the control of foreign exchange by maintaining a foreign exchange monopoly which is related to the international foreign exchange markets; it could collect all foreign exchange receipts and sell the foreign exchange–with granting any specific individual licencies–for import purposes and for payment of foreign services. The balance of payments could otherwise

be adjusted, while avoiding the direct central control of foreign trade, through the exchange rate mechanism or the money supply/income mechanism.*

3. In connection with the decisions to be taken according to point 2, it has to be determined whether external economic equilibrium should be oriented towards the balance on current account, the basic balance, the balance of foreign exchange, or the development of exchange rates.

4. Further, it has to be decided to what extent the indirect economic control should make possible the linking of national to international prices and to the price-controlled production processes. Depending on the horizontal and vertical effects of the international interdependence of prices, the required adjustment of real processes would already be achieved by the money supply/price mechanism; to the same extent the demands on the mechanism of the exchange rates and the money supply/income will be reduced.

5. In the framework of an international monetary system in which the supranational elements of adjustment and financing compete with each other, it has to be decided finally—on the basis of expediency—to what extent an imbalance of payments should be bridged over with credits, whereby adjustment is only delayed. It has to be considered that in the period of delaying adjustment the possibility of producers to increase exports will be reduced because the effects of currency appreciation or price reduction in the case of an immediate adjustment could not take place. Therefore, the imbalance of payments can be intensified in the period of deferred adjustment—depending on the use of foreign credits and on unchanged import requirements. In the case of a state monopoly of foreign exchange as assumed under point 2, the balancing effect of credits will be determined essentially by the ability of government agencies to channel credits into uses aimed at earning foreign exchange.

III. The question of reaching consensus in rules for a supranational stabilization policy

The framework-conditions of the IMF for stabilization policy consist of a mixture of rule-linked and discretionary elements of adjusting and financing. The difficult problem of a supranational stabilization policy, to find a combination of rules which are feasible and in which consensus can be reached, and which can stay in effect for a longer period of time, has not yet been solved. In principle, member countries will only accept such rules of stabilization policy which promise them long-term advantages. The most important advantage of international agreements can be seen in the fact that such rule-linkages reduce the uncertainties of national economic policies.

The readiness of member countries to conclude corresponding international agreements is likely to depend above all on the sensitivity to disturbances and the

*On the question of the economic expediency of these systems of adjusting the balance of payments under the conditions of the state monopoly in foreign exchanges. See: [12, p. 2.]

absorptive capacity of the domestic economy as against changes in exogenous data. As is known, these differ from country to country and vary according to the size, resource endowments, degree of industrialization and nature of a national economic order. The less sensitive an economy to disturbances, and the easier it absorbs changes in domestic and foreign economic data–e. g. because of large raw material deposits, slight dependence on foreign trade and protection from world market influences through direct state planning of economic processes–the less likely its readiness to enter into international agreements with rule-linkages restricting its sovereignty. This could explain, among other things, the lack of interest of the USSR in IMF membership. On the other hand, smaller countries, more dependent on the international division of labour, are much more in need of reliable (rule-linked) foreign trade relations for the most effective use of their productive forces. The readiness of these countries to observe supranational rules and to secure confidence depends however again on the existence of rules and thus on the transparency of the national stabilization policy.

Yet, from this the question follows whether the CMEA countries are not only willing but also obliged to adopt a rule-linked stabilization policy in the interest of a well-functioning international monetary order. As could be seen from the special arrangements reviewed in Part I, the scope for a national discretionary stabilization policy has widened in the course of IMF history. Effective rule-linkages for adjustment policy could be enforced less and less, thus leading to the collapse of the Bretton Woods system in the spring of 1973. Particularly the countries with surpluses tried to free themselves from the role of compulsory creditors by making the transition to flexible exchange rates and thereby securing what the IMF could no longer do: to enforce a reliable adjustment system in harmony with the main tasks of an international monetary order.

IV. The change in the orientation of the IMF towards balance of payment theories

Three phases may be distinguished in the IMF financing policy as regards orientation towards balance of payment theories [13, pp. 34 ff.].

First: With the introduction of the so-called stand-by arrangements in 1952 a credit line was established up to which members could avail themselves of the Fund resources. The principle of these arrangements was a kind of "aid to self-aid", i. e. the Fund assisted its members by providing credits to support a specific economic policy program aimed at the restoration of the external economic equilibrium. The implementation of the relevant programs, usually drawn up for a year, was strictly controlled by the Fund and was a precondition for the granting of further credits.

This policy of "conditionality" basically relied on the *monetary, supply-oriented and elasticity-optimistic balance of payments theory* which, observing the close interrelation between monetary policy and the development of the balance of payments, aimed at a strict control of the monetary demand expansion. The policy of the Fund was committed to the principle which–in short–one could call: *adjustment prior to*

financing. It was characterized by the unambiguous dominance of drawing possibilities with strict conditions.

In the fifties 57 stand-by arrangements, totalling almost 4 billion US-dollars, were concluded. In the sixties the number of such arrangements increased to 231 and the total amount to 14 billion US-dollars. The IMF traced this increase back to strong disturbances in the international monetary system, while in the fifties there had been a substantial global economic stability and thus a lower demand for such arrangements. The actual cause of this incease might rather be seen in the fact that in the sixties, owing to the enormous increase in currency reserves (starting above all in the USA) and to the introduction of looser conditions*, inflationary processes started. These unavoidably assumed, on the basis of the fixed exchange rate system and the privileges of debtor countries, worldwide dimensions and led, accordingly, to far-reaching monetary instability in the world. This was a consequence of the perceptible softening of the principle of adjustment in favour of expanding discretionary financing and adjustment possibilities.

Second: Finally, in the early seventies, prepared by a new Fund decision on conditionality in 1968, the hitherto prevailing principle of prior adjustment was replaced by the principle which one would characterize now as: *financing prior to adjustment.* With regard to its conditions, the Fund was increasingly satisfied with the promised good conduct of the debtor countries in respect of their stabilization policy, without strictly controlling their observance. In this it relied on the argumentation of the *elasticity-pessimistic, structuralistic or "motivated" balance of payments theory* [20, p. 223]: External or structural causes (e. g. lagging development, bad harvests, rising oil prices, failed economic reforms, or similar causes) were widely recognized as causes for balance of payments problems. Accordingly, the general quotas were raised, new facilities were created and the conditionality was softened according to the ambiguous principle of adjusting conditions to the "institutional particularities and circumstances" of the countries.**

With the changed orientation on balance of payments theory the Fund increasingly shifted its activity to the medium-term financing of development and structural policy projects. Between 1970 and 1975 alone it doubled its grants in real terms and raised them by a further 60 percent up to 1982. With this—quite in the sense of the original Keynes Plan—it increasingly assumed the profile of a development bank. The Fund imposed on debtor countries detailed economic programs with quantitative criteria of performance and control rights. The terms of repayment were prolonged up to 10 years. In 1981 there were already 17 arrangements of this kind to the amount of 6 billion "Special Drawing

*This was characterized by the fall in the share of drawings with strict conditions within the total liquidity supply of the IMF from 100 percent in 1955/60 to 47 percent in 1970. [14.]

**The share of drawing rights of the Fund with high conditionality fell to 16 percent by 1975. [14.]

Rights" (SDR). In addition, in the seventies a further 13 billion SDR were lent on the basis of 166 stand-by arrangements.

When the second rise in energy prices came in the late seventies and, linked to it, a strong redistribution occurred in the world economy, the member countries tried to a great extent to overcome their difficulties due to these developments by further financing, i.e. through new debts and rising inflation rates, i.e. through a *nominal* adjustment. The Fund facilitated this–among other things–by raising the quotas by 33 percent in 1978 and by 50 percent in 1980. The consequence of this inflationary development was a slowdown of real growth and a further sharpening of balance of payments problems.

On the whole, in the seventies the IMF played a leading role in the accelerating merry-go-round of indebtedness, although, in fact, after the unpegging of foreign exchange rates a decelerating development of its financing tasks might have been expected. It contributed with its policy of financing and conditionality to the situation that the debtor countries enjoyed privileges in the international monetary system and that the limits of an economically acceptable indebtedness were far transgressed.

Third: The extension of the general credit line and the creation of further credit facilities were considered as necessary but insufficient in themselves when the new "Guidelines on Conditionality" were set up in 1979. On this account, the overall demand management dominating in the seventies had to be complemented with measures that would effect the supply side. Thus, the Fund resources had to be used primarily for activating the production potential in the debtor countries. Nevertheless, the guidelines acknowledged the necessity of long-term stand-by credits to facilitate the implementation of adjustment programs in member countries, also in those cases "in which the imbalances are of structural nature and therefore particularly persistent". This permits the conclusion that the Fund since then has been oriented both towards the "motivated" and the monetary theory of the balance of payments, thus following a principle which can be described as: *adjustment as far as possible, financing as far as necessary.*

The first part of this principle is above all expressed in the valid economic policy conditions of the Fund, which relate particularly to the following criteria of performance:

– Setting of upper limits to the supply with money and credit, activation of the interest rate policy in order to boost domestic savings and improve the use of capital.

– Abolition of taxes and subsidies obstructing performance, reformulation of income policy with a view to stimulating individual performance and creating a real economic scope of action for the redistribution of incomes.

– Elimination of domestic cost and price distortions through wage and price policies reflecting scarcity conditions.

– Reduction of foreign exchange and trade restrictions in favour of a realistic exchange rate policy in order to effectively harmonize domestic and external stabilization.

– Limitation of new foreign debts.

In addition to these conditions oriented towards the principle of adjustment, the second part of the above mentioned principle–. . . financing as far as necessary–, determined by pessimism in respect of elasticity, still has considerable weight. This is shown, on the one hand, by the further raising of the quotas by 47 percent in February, 1983, after which the total amount of the IMF quota rose from 61.1 billion to 90 billion SDR. On the other hand, in January, 1983, the availability of credits on the basis of the "General Arrangements to Borrow" (GAB) increased from 6.4 billion to 17 billion SDR, that is, by 166 percent.*

To these broad financing competencies of the IMF further rights have been added since 1978 (with the Second Amendment of the IMF Agreement): stronger control rights (as a kind of replacement for the lost competence in respect of exchange rate policy), a wider scope in questions of currency reserve supply for the members (on the basis of the growing uncertainty of the amount of "adequate" international currency reserves), and a number of new tasks, some of them "alien to the system" [2, p. 246]. If we also consider the "right of jurisdiction" already granted to the Fund in Bretton Woods, according to which it can itself interpret definitively the articles of the Agreement [ibid., p. 241], the IMF possesses considerable powers of decision. It is thus obvious that the tasks of the IMF can no longer be explained merely from the viewpoint of balance of payments theories, but also–if not primarily, in the meantime–from that of the economic theory of bureaucracy.**

Accordingly, the decisive goal of the IMF could be seen less in the solution to the main tasks of an international monetary order (see Part II) than in efforts to expand its bureaucratic machinery with a growing volume of credits and discretionary competence to decide. Such a goal only can be attained with flexible exchange rates as a dominating system of adjusting the balance of payments through wide and growing financing tasks and control functions over the development of exchange rates and the economic policies of member countries. As regards the success of these efforts, it has to be taken into account that although the financing tasks are widely agreed on, the control functions meet rather with resistance–because of the related threat to the claim to economic policy sovereignty on the part of the member countries.***

In view of the fact that strongly floating exchange rates and unforeseeable changes in them have unfavourable effects on countries with direct and even on those with indirect state planning and control of the economic processes–depending on their

*Beyond that, the Bank for International Settlements (BIS) made special overbridging aids available to Hungary, Mexico, Brazil, Argentina and Yugoslavia.

**This is also supported by Kloten's statement [2, p. 246] that the Fund increasingly became a platform for debates "which turned more around the assertion of interests, specific for countries or groups of countries, than around the functionality of the monetary system".

***In this sense the performance of the IMF seems to possess–at least for the debtor countries–qualities comparable to those of "public goods". They wish to use the advantageous credit facilities without themselves contributing to the securing of a workable world monetary order.

participation in the international divisions of labour–the question arises whether the socialist countries are not particularly tempted already for this reason to take into account the bureaucratic self-interests of the IMF. According to Bakó [9, p. 5] at present the 10 socialist member countries possess, together with the 111 countries of the Third World, 39.5 percent of the voting rights, while only 15 percent are needed to exercise the right to veto. Since numerous countries of the Third World have political systems that agree with those of the socialist countries, this fact could have considerable importance for the course of stabilization policy and the workability of the world monetary order.

V. On the IMF membership of Hungary

After the admission of Hungary to the IMF on May 6th, 1982,* the first stand-by arrangement to the amount of 475 million SDR (127 percent of the quota) was concluded in December, 1982, with a duration of 7 years, and was paid out in several phases in 1983. It was linked to an adjustment program for the elimination of liquidity bottlenecks and for the consolidation of the current account balance, which provided for the following measures:**

1. Curbing aggregate demand;
2. reducing government investment expenditure and enterprise investments through
   – reduction of bank credits to firms,
   – raising of interest rates,
   – additional taxes on new investment projects (with the exception of export promoting and raw-material-saving projects);
3. curbing real demand for consumer goods through
   – restrictive wage policy,
   – raising taxes,
   – reducing subsidies;
4. reducing overall economic expenditure (in connection with a stronger stimulation of exports and only slightly rising imports) in order to disburden the balance of payments;
5. decreasing foreign debts through an "adequate" surplus in the balance on current account in hard currency up to the end of 1983 [16, pp. 399 ff.].

In fact, since then Hungary has seemed to follow a corresponding adjustment policy oriented towards the situation on the balance on current account.*** If, on the basis of the

*The entrance quota of Hungary was set at 375 million SDR; 78.3 percent was to be paid in forints and 21.7 percent in SDR (purchased) with convertible currency). In addition to the stand-by credit, the IMF agreed to a compensation credit to the amount of 72 million SDR for a term of 5 years, which could immediately be used and served first of all to compensate for losses of export receipts. [9, p. 8.]

**This adjustment program is connected with a package of further measures aimed at the stabilization of the Hungarian economy. [15]

***The first result may be seen in the fact that Hungary's debts to the West of 7,45 billion US-dollars in December, 1981 could be reduced to 4.5 billion US-dollars (net) by the end of March, 1983. [17]

comprehensive price reform, the number of tradable goods with international price contacts increased so as to have an important influence, the successive devaluations of the forint carried out in 1982 ought to entail a corresponding success in adjustment. In this case an important precondition would be given for an adjustment process according to comparative cost differences and a corresponding international division of labour. On this basis, for example, trade policy measures too, such as tariff changes and their consequences for monetary policy could be better evaluated. This again is important for the securing of confidence in international monetary cooperation.

In conclusion, a few open questions should be discussed in this context:

1. *How wide is the scope of action for a realistic approximation of relative domestic prices to world market prices?*

The impact of price-controlled processes on the balance of payments could be determined, among other things,

– by the volume of exchange preferences with the CMEA countries on the basis of bilateral accounting in transferable rubles,

– by the efforts of producers and representatives of their interests in ministries to disregard scarcity conditions in the organized price adjustments, and

– by the extent of state investment control, the quantitative export and import restrictions, the control of foreign exchange, and by the losses resulting from these measures in contacts with world market prices.

These factors together could lead to a reduction of the impact of relative cost differences on the composition of foreign commodity trade. In this case the export possibilities would become more uncertain and the danger of sliding into the "export illusion" typical of socialist economic systems greater [18, pp. 77f.]. This danger is also great because in its arrangements for stabilization programs the IMF is inclined to accept the national wishes for adjustment through interventionist measures for curbing imports.

2. *To what extent is the exchange rate of the forint realistic?*

Unification of the exchange rate alone is not an adequate criterion for attaining a more realistic formation of the exchange rate. It is much more decisive how the exchange rate contributes to the balance of payments adjustment.

3. *To what extent do adjustments of exchange rates* (instead of adjusting the balance of payments) *lead to the desired compensation of higher import prices and import subsidies?*

In such cases–similar to an expansion of domestic demand parallel to devaluation–an anomalous reaction of the current account balance could occur, i. e. the balance of payments adjustment might become more difficult.

4. *Is a stronger decentralization of the economic decision-making processes alone sufficient*—as the IMF [6, p. 58] believes—*to support market-oriented measures aimed at the external economic and internal structural adjustment?*

It was correctly pointed out by Csikós-Nagy [15, pp. 37 f] that price-controlled economic processes must be based on effective monetary and fiscal policies. This point deserves particular attention in view of the conditions of the rule-linked and thus confidence-inspiring method of the money supply/price mechanism and the money supply/income mechanism, if one assumes that these methods of adjusting the balance of payments ought to become effective in addition to the exchange rate mechanism (see point 4, p. 19). Thus, the decentralization of decision-making processes needs to be complemented by balance of payments-oriented monetary instruments. It is characteristic of a monetary policy oriented towards external economic stabilization that it influences both the domestic and the foreign economic trend. This means that producers and suppliers of factors of production must adjust to changes in demand, particularly external demand.

5. *Can Hungary shift,* if it simultaneously participates in the CMEA clearing system, *to a universal external convertibility* (according Article VIII of the IMF Agreement)?

In this case Hungary would have to settle its payments deficits with other CMEA countries in hard currencies, while—in the absence of agreements on hard currency transactions*—it would have to accept payments for trade surpluses in nonconvertible currencies or counter-deliveries of "soft" goods (which are difficult to sell on the world market). Thus, every CMEA country would try to attain a creditor position vis à vis Hungary, and if possible by delivering "soft" goods. This might entail that Hungary's foreign trade would be more strongly oriented towards countries with convertible currency.

In view of the CMEA commitments, only a *split* external convertibility of the forint can be imagined, with special payment restrictions in the CMEA exchange. This state of affairs might also determine Hungary's decision to abide by the "Transitional Arrangements" of the IMF Agreement. But this does not exclude that Hungary will suppress, more than has been hitherto the case, the discretionary measures which are disadvantageous from the viewpoint of securing international confidence, by means of a more strongly rule-linked mechanism of adjusting the balance of payments, above all with the aid of the money supply/price mechanism—either in connection with the exchange

*The significant trade transacted in hard currencies within the CMEA constitutes a kind of bridge by which the problem of settlement in hard against soft goods can be mitigated and the emergence of unwanted balances, or of those that cannot be settled, can be avoided. It is remarkable that Hungary's share of exports against hard currency within the total exports to CMEA countries was around 15 percent in 1983, and the corresponding share in total imports was 4 percent. [19, p. 374.]

rate mechanism or the money supply/income mechanism, or by a combination of the two.

References

1. Horsefield, J. K. (ed.): *The International Monetary Fund 1945–1969.* Vol. I–III, Washington, D. C. 1969.
2. Kloten, N.: Notenbanken und Internationaler Währungsfonds: ihre Kompetenzen und die Implikationen. In: Engels, W.–Gutowski, A.–Wallich, H. C. (eds): *Internationale Kapitalbewegungen, Verschuldung und Währungssystem.* Mainz 1984. pp. 235–260.
3. Schüller, A.: Osteuropäische Wirtschaftsintegration durch eine Zahlungsunion nach dem Vorbild der EZU? *Wirtschaftspolitische Chronik der Universität zu Köln,* 1973, 1, pp. 65–88.
4. Lavigne, M.: The international monetary fund and the Soviet Union. In: Levcik, F. (ed.): *Internationale Virtschaftvergleiche und Interdependenzen, Festschrift für Franz Nemschak.* Wien-New York 1978. pp. 367–382.
5. Hamel, H.: Zur Mitgliedschaft der RGW-Länder im Internationalen Währungsfonds (IMF). In: Schüller, A.–Wagner, U. (eds): *Aussenwirtschaftspolitik und Stabilisierung von Wirtschaftssystemen.* Stuttgart – New York 1980. pp. 177–194.
6. IMF–International Monetary Fund: *Annual Report 1979.* 1983. Washington, D. C.
7. Hungarian Scientific Council for World Economy: Main tendencies in world economy 1976–1990. Budapest 1977.
8. Pissulla, P.: *Der Internationale Währungsfonds und seine Bedeutung für die osteuropäischen Länder: Rumänien, Ungarn, Polen.* Hamburg 1983.
9. Bakó, E.: Die ungarische Wirtschaftspolitik und der Internationale Währungsfonds. *Marketing in Ungarn,* 1983. 2. pp. 4–8.
10. Gröner, H.–Schüller, A.: Konzeptionen und Praxis internationaler Wirtschaftpolitik. In: Cassel, D. (ed.): *Wirtschaftspolitik im Systemvergleich.* München 1984. pp. 117–142.
11. Lutz, F. A.: Goldwährung und Wirtschaftsordnung. *Weltwirtschaftliches Archiv,* 41 (1935), I. pp. 224–251.
12. Meyer, F. W.: Zum europäischen Währungsproblem. *Bank-Archiv,* 1941, No. 22, pp. 1–5.
13. Schüller, A.: Die Verschuldungskrise Polens als Ordnungsproblem. *ORDO Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft,* 33 (1982), pp. 3–38.
14. Vaubel, R.: The moral hazard of IMF lending. Paper prepared for the conference in memory of Wilson Schmidt: *The Future of the International Monetary Fund, World Bank and International Lending.* Washington, D. C., March 3, 1983.
15. Csikós-Nagy, B.: Die Bedeutung von Innovationen für sozialistische Wirtschaftssysteme in den achtziger Jahren. In: Schüller, A.–Leipold, H.–Hamel, H. (eds): *Innovationsprobleme in Ost und West.* Stuttgart–New York 1983. pp. 31–39.
16. IMF–*Survey,* December 13, 1982.
17. BIS–Bank for International Settlements: *Das internationale Bankgeschäft,* Basel 1983, 1. Quartal.
18. Holuman, F. D.: Some systemic factors contributing to the convertible currency shortages of centrally planned economies. *American Economic Review,* 69 (1979), pp. 76–80.
19. Fink, G.: Verrechnungssystem und Hartwährungshandel im RGW. *Südost-Europa,* 33 (1984), 6. pp. 341–351.
20. Willgerodt, H.: Die "motivierte Zahlungsbilanztheorie". Vom "schicksalhaften Zahlungsbilanzdefizit" und der Unsterblichkeit falscher Inflationslehren. In: Gröner, H.–Schüller, A. (eds): *Internationale Wirtschaftsordnung.* Stuttgart–New York 1978. pp. 215–238.

О ЧЛЕНСТВЕ СОЦИАЛИСТИЧЕСКИХ СТРАН В МЕЖДУНАРОДНОМ ВАЛЮТНОМ ФОНДЕ

А. ШЮЛЛЕР—Х. ХАМЕЛ

С момента своего образования в 1944 г. МВФ постоянно стремился к созданию универсальной концепции международной валютной системы, которая обеспечила бы в ней участие каждой страны независимо от ее экономического или политического строя. Суть вопроса состоит в том, в какой степени специфические условия МВФ учитывают условия действия экономической политики в различных странах, а также насколько могут они ограничить свободу ее действий в ходе выполнения задач.

В первой части статьи указывается, что с момента своего образования МВФ постоянно сталкивается с этой проблемой, хотя и тогда, а также при последующих изменениях уставных положений МВФ всегда предпочитал компромиссы. Во второй части статьи рассматриваются выводы, вытекающие из этого с точки зрения функционирования международной валютной системы. Освещаются международные и наднациональные задачи валютной политики и проблемы ее координации, прежде всего в зависимости от того, с помощью каких — прямых или косвенных — средств осуществляется государственное регулирование внешней торговли.

Из третьей части видно, что до сих пор еще не удалось выработать такие правила наднациональной стабилизационной политики, в которых имелось бы согласие, и которые страны-члены чувствовали бы обязанными соблюдать в их национальной экономической политике. В ходе своей истории МВФ ориентировался на различные теории сбалансирования платежного баланса. В четвертой части в связи с этим выделяются три фазы: если в пятидесятые годы основным принципом было приспособление национальной экономической политики к требованиям международной стабильности, что являлось условием финансирования МВФ в случае нарушений платежного баланса, то в шестидесятые и семидесятые годы доминировало в качестве основного принципа то, что финансирование предшествует приспособлению. С семидесятых годов кажется, что МВФ руководствуется принципом «приспособления по возможности, финансирования по необходимости». Наряду с этим представляется, что с ростом сферы действия дискреционной кредитной политики одновременно возрастает и возможность для ВМФ действовать в собственных бюрократических интересах, которые, как кажется, удовлетворяют и интересам социалистических стран.

В пятом, заключительном, разделе рассматриваются несколько таких актуальных вопросов, которые вытекают из членства Венгрии в МВФ, особенно то, какие возможные механизмы приспособления существуют для удовлетворения требований международной валютной системы в условиях, когда Венгрия должна одновременно выполнять и свои обязательства по отношению к странам СЭВ.

Acta Oeconomica, Vol. 34 (1–2), pp. 131–143 (1985)

N. KLOTEN

INTERNATIONAL INDEBTEDNESS: TRENDS AND PROSPECTS

The payments difficulties of Mexico, Brazil and a number of further countries were quickly given the name of "global payments or liquidity crisis". However, the problem of indebtedness is a country-specific one, demanding individual solutions. Through the concerted financial crisis management of the IMF, the central banks of issue and the international commercial banks, the collapse of the international finance system could be prevented, and time was won for the required real-economic adjustments. In the meantime there has been a not negligible improvement in the foreign economic situation of the debtor countries, first of all in consequence of economic upturn in the industrialized countries and the own efforts of the former. Recurrence of crisis situations cannot be precluded. In the field of monetary policy it has been shown that certain situations can be overcome even without new institutions. Progress should be made, among other things, in opening markets to the debtor countries.

I.

Over the past three and a half years, the agendas of the international commercial banks, the IMF and state authorities involved in the granting of credits to foreign borrowers have featured rescheduling negotiations more often than ever before, while these negotiations assumed at the same time hitherto unknown dimensions. Rescheduling applications have been increasingly submitted directly to the commercial banks. Until 1978, rescheduling agreements with banks were formally linked to the agreement reached within the framework of the Paris Club, an institution dating back to the restructuring of part of Argentina's foreign debt in 1956, together with that of Brazil in 1961 and 1962, and responsible for the foreign loans granted or guaranteed by public authorities. Only since 1982 have countries rescheduled foreign debts with credit institutions independent of the negotiations within the framework of the Paris Club. Poland showed the way, followed by Mexico, Brazil, Argentina and other countries.

In these countries, credits had been granted on a large scale by private commercial banks. Poland's payment problems, which came to light in February 1981, affected above all German credit institutions, which at that time had claims against Poland totalling around 6 thousand million DM. A sizeable proportion of these loans was unsecured; the fact that the state was the borrower or guarantor was considered to represent an adequate security, particularly as the "umbrella theory" had been tacitly assumed to apply in the Eastern Bloc. The sudden insolvency of Mexico–which had foreign debts totalling almost US$ 80 thousand million–in August 1982, by way of contrast, hit above all American

banks, whose involvement in this country, having become within only a few years one of the most important oil producers and exporters and an outstanding example of a country with promising medium-term and long-term prospects, was estimated at between US$ 22 and 26 thousand million. Mexico's payment difficulties gave rise to a shock wave which very soon affected other Latin American countries–first and foremost, in October 1982, Brazil, which had the largest foreign debt in the world. Its total debts at that time amounted to around US$ 88 thousand million, over US$ 55 thousand million of which was owed to foreign banks. Argentina, Colombia, Venezuela, Chile, Ecuador and Peru, among others, were likewise caught up in the rescheduling maelstrom. The list of countries with payment problems became longer and longer, and increasingly came to include countries in other regions such as Africa and Asia. In the meantime, almost forty countries had to file rescheduling applications. As a consequence, there was talk of a general debt crisis in the developing countries or even a "global payments or liquidity crisis". Such judgements were based on the assumption that the level of indebtedness which had been reached, particularly in the developing countries, required comprehensive corrective measures through the waiving of claims and increased provision of funds, primarily via the IMF and the central banks. The collapse of the international finance system was deemed to be otherwise unavoidable.

In the meantime judgements have become more sober and differentiated, for it has to date been possible to cope with the immediate crisis phenomena and there has been no collapse of credit chains accompanied by the feared widespread effects. Moreover, it is widely acknowledged that the problems and conditions in the individual countries differ too much to permit a general panacea to be found.

There are, however, still clashes of opinion. There is no lack of confrontation or attempts at laying the blame at others' doors. The latest example is the joint declaration by Brazil, Mexico, Argentina and Colombia in which they advocate a Latin American debt conference and demand the easing of repayment terms by their creditors. There is hardly anyone who still expects that the conditions imposed by the international Monetary Fund (IMF) can be fully met in these and other countries, particularly as readiness to do so does not always exist. New crisis situations can develop at any time–not only in the debtor countries, but also in the creditor countries. This is demonstrated by the case of the Continental Illinois Corporation in Chicago, whose insolvency can be attributed not least to its involvement in Latin American countries, albeit more to inconsistencies between lending and refinancing.

II.

The international debt problems have come into being through a complex development process set off by the two oil price hikes (OPEC I and II). The most important facts were as follows:

1. The foreign debts of the non-oil-exporting developing countries positively skyrocketed after OPEC I and continued to grow at a high rate after OPEC II, more than quintupling between 1973 and 1983, to reach a total of US$ 664 thousand million. The group of the 25 "major debtors" among the developing countries—as they are now shown in IMF statistics—accounted at the end of 1983 for over US$ 600 thousand million, almost half of which was attributable to Latin American states.

2. For many developing countries—particularly the newly industrialising countries—it was only too easy after OPEC I and even after OPEC II to obtain credits from the international banks, which were willing to act between creditor and debtor in the course of recycling the oil revenues. The bank credits, including export financing, granted to non-oil-exporting developing countries outside the Eastern Bloc have in the meantime amounted to over US$ 300 thousand million. As the IMF had been practically outmanoeuvred as a controlling and corrective body in view of the richness of the international finance markets, the choice between financing and adaptation—except in the case of the poorest developing countries—lay solely with the deficit countries. Despite balance of payments deficits amounting to a total of around US$ 100 thousand million, the non-OPEC developing countries were still able to increase their foreign-exchange reserves by US$ 38 thousand million between 1976 and 1978. The market-related pressure to adapt caused by dwindling reserves and falling exchange rates was thus overcome often enough. The instability of the refinancing system was also increased by the financial intermediation—typical of this phase—on the part of the banks in the development of international credit chains. Had the oil-producing countries themselves lent out their surpluses directly to a greater extent, the debtor countries would today be facing creditors in the case of whom the risk of the loss of claims would probably not have entailed a danger to the smooth operation of the international finance markets in the same way.

3. Until well into the eighties, development policy in the debtor countries was often determined by traditional ideas and by adherence to ambitious projects, even when it became increasingly obvious that many projects were no longer practical. An example is the Itaipu hydroelectric project; there are at present no consumers available for its planned output.

4. The denomination of credits in foreign currencies—above all in US dollars—involved additional risks: beside the general transfer problem that foreign exchange is required for debt servicing, direct dependence on the development of the exchange rate and interest rate for the currency in question ensues. The restrictive policy in the United States, which finally proved successful after many fruitless attempts, caused dollar interest rates to rise to a hitherto unknown level and the exchange rate for the US dollar to rise in a manner never expected. The interest payments alone of the "non-oil" developing countries rose by around 62 percent to US$ 63 thousand million between 1980 and 1982. Debt service payments as a whole increased in the same period by around 47 percent to US$ 108 thousand million. The Latin American countries were particularly badly affected.

5. The lengthy international economic recession which started in 1980 and the accompanying stagnation or decrease of world trade (in terms of volume: + 0.5 percent in 1981 and – 2.5 percent in 1982), together with falling raw-material prices, resulted in a rapid slow-down of the expansion of exports in the developing countries–from 26 percent in 1980 to 5 percent in 1981–and a decline in export earnings (in US dollars) of 5 percent in 1982. An important role was probably also played, however, by the deterioration of international competitiveness as a result of import substitution policies pursued in many newly industrialising countries with a massive input of public funds. Imports had nevertheless increased substantially, not merely on account of the major rise in the cost of oil imports.

The consequences of these developments then became apparent in 1981 and 1982:

– The debt service ratio (debt service expressed as a percentage of exports of goods and services) increased at a rapid rate, after sharply rising export earnings–with growth rates sometimes over 20 percent–had helped up to 1980 to prevent the debt service ratio from undergoing a dramatic deterioration even sooner. In 1982 this ratio–with regard solely to long-term loans–reached a record level of 25 percent in the case of the non-oil developing countries (1980: 18 percent). If interest payments on short-term loans (with an agreed term of up to one year) are included, these countries had to spend over half of their export earnings in 1982 (53 percent, compared with 38 percent in 1980) on debt servicing; the highly indebted countries of Latin America had to sacrifice as much as around two-thirds of their export earnings and some countries almost 100 percent.

– A major exodus of capital made the foreign exchange situation even more difficult in a number of debtor countries. Political uncertainty and the maintaining of unrealistic official exchange rates meant that fugitive capital accumulated outside these countries since 1980 in amounts estimated in some cases as corresponding to the foreign debt of the countries which had lost the capital. In Argentina, in particular, part of the foreign debt is regarded as a consequence of the exodus of capital.

– As the risks in individual countries became increasingly clear, market reactions occurred, leading to changes in the relationships between debtors and creditors. Many creditor banks endeavoured to withdraw from their obligations, while at the same time a considerable need for additional funds arose on the part of debtors. The risks in the individual countries were increasingly reflected in the credit terms. Attempts were made, through the use of new financing instruments, to obtain additional funds not accessible through traditional channels. In most cases, this led to a change in the structure of loan terms in favour of shorter terms. The proportion of the total debt accounted for by short-term loans thus rose from the figure of around 15 percent which had prevailed until the end of the seventies, to 25 percent in 1982; for some Latin American countries with large debts the proportion was in some cases substantially higher, e. g. 30 percent in the case of Mexico. Moreover, in 1982 between two thirds and three quarters of the loans granted to these countries involved variable interest rates. These changes in the debt structure were the result of negotiations between debtors and credit institutions within the framework of their debt management.

III.

The growing explosiveness of the debt problems called for political action on all sides:

1. Even before the acute payment problems arose, governments of the debtor countries had taken measures which they hoped would protect them against a decline in foreign-exchange reserves. Exchange controls were introduced to counteract the initially unrestricted exodus of capital; in the case of Mexico, these measures were followed by the nationalization of banks. However, even extensive and strict controls on capital movements failed to prevent the capital exodus, now concealed because illegal—on the contrary. In some countries, particularly in Argentina, imports were additionally restricted through the introduction of import deposits and exports encouraged through subsidies. Protectionist measures of this nature, along with exchange controls, were tightened up when the debt situation became acute in the countries concerned; this tightening-up undoubtedly did produce results as regards imports, but to all appearances did not bring about any major increase in export capacity and proved to have more of a counterproductive effect on the exodus of capital.

2. The sudden dramatic worsening of the situation in the summer of 1982, when Mexico was forced—without any warning—to declare itself insolvent, had brought an immediate reaction from the governmental and monetary authorities in the form of *ad hoc* measures. There was no "crisis management plan" for dealing with such cases. Such a plan had deliberately not been drawn up in the past and there will not be one in the future either, for the rule in this field is: If your movements are calculable you can be blackmailed. Crisis management in the monetary sector—which is in any case the only area in which international cooperation has really functioned in recent years—has so far proved successful; it has not been without intrinsic reason and exhibits a definite structure.

3. On account of the unexpectedness and extent of the payment problems, initially there was no other solution than that the central banks, and the BIS acting as their ag nt, come to the rescue. Together with the Fed and the SAMA, the BIS quickly provided interim credits totalling US$ 1.85 thousand million for Mexico and US$ 1.45 thousand million for Brazil. The facilities were, however, linked to negotiations with the IMF and were granted under the condition that they were to be repaid out of the first loan monies from the IMF. The central banks and the BIS had thus merely advanced funds on behalf of the IMF.

4. On account of the "non-performance regulation", non-payment by debtors involved ,particular risks for American banks, since if a debtor is in default with a payment by more than 90 days, the bank is required to write off the interest income on the credits in question immediately. The Institute for International Economics has worked out that the loss of debt servicing on the part of Argentina, Brazil and Mexico would in itself result in a loss of US$ 14 thousand million for the US banks involved in Latin America—an amount representing roughly three times their annual profit—and,

given the current capital-backing regulations, would force them to reduce their volume of credit by US$ 150 thousand million. This explains the pressure exerted by the Fed and the US Government on other countries, as well as their unusual reactions to the above-mentioned case of the Continental Illinois Corporation.

5. From the very beginning, however, the real centre of all efforts at international level has been the IMF. As an organisation which embraces practically the whole world—with the exception of the Eastern Bloc—and which is *à priori* not tied by special interests, it is a "born intermediary". The IMF is the only institution able to attach economic-policy conditions to its granting of credits to sovereign states and to monitor the fulfilment of these conditions, at least as far as the basic principle is concerned. Its main function was to act as a catalyst for further public and private funds; at the same time it is itself required—as a condition for the participation of the other parties—to grant funds within the framework of its facilities. The rescheduling package for Brazil, for example, consisted on the one hand of a credit package from the commercial banks comprising the following four projects:

1. Fresh money totalling US$ 6.5 thousand million,
2. Rescheduling loan totalling around US$ 5.5 thousand million,
3. Foreign trade credit lines totalling around US$ 10.5 thousand million,
4. Money market lines totalling US$ 6 thousand million,

and on the other hand of IMF credits of various facilities totalling US$ 6 thousand million.

As a result of its central role in international debt management, the use of the IMF's services has increased considerably since the debt situation became desperate. In 1983 its net lendings increased by around 83 percent to US$ 11.4 thousand million, almost eight times the 1980 total; just under US$ 10 thousand million went to developing countries, excluding OPEC states. However, this major increase in IMF lending would not have been possible without a considerable expansion of the Fund's facilities in the past, and in particular the policy—introduced in 1981—of increased access to the Fund's resources. This was intended to mobilize funds for structural adjustments, which require more time than cyclical adjustments; the Fund was also to be placed in a position enabling it to provide countries having large debts with more than just an insignificant amount of financial assistance. Drawing rights were increased for three years to 150 percent of the quota per year—i. e. 450 percent altogether—with a top limit of 600 percent of the quota for a country's total debt to the Fund. As it was likely that the Fund's ordinary resources would not be sufficient to finance the extended credit limit, the IMF concluded credit agreements with a number of central banks and with the BIS; however, refinancing was thereby in no way guaranteed. It was assumed that it would be possible to obtain further credits, if necessary, from member countries with a strong currency. In view of the fact, however, that the aim of "increased access" was only to expand the Fund's lending capacity beyond the limits imposed by its ordinary resources on a temporary basis, the credit requests now being submitted to the IMF as a result of the international debt problems could no longer have been met out of the subscription

payments on the basis of the prevailing quotas and existing credit agreements. The procurement of additional funds had for the IMF become a *conditio sine qua non* for meeting the obligations of existing standby arrangements and concluding new ones. In order to close the "credit gap", estimated by the IMF at 6 thousand million SDRs at the end of 1983, and in order to be able to continue ongoing credit negotiations, the Interim Committee agreed on 11 February 1983, after tense discussions, that the national quotas with the Fund should be increased by 47 percent to 90 thousand million SDRs. This was just as much as was necessary to maintain, in terms of volume, the drawing rights resulting from the increased access, but at the same time to reduce the drawing rights in relation to the quotas. With the increase in the national quotas, an increase in the lending facilities under the General Arrangements to Borrow (GAB) from 6.4 thousand million SDRs to 17 thousand million SDRs was also agreed; these funds may also be used by the IMF in future to refinance loans to member countries not participating in the GAB. These measures, together with the granting of various credit lines for the IMF, totalling 6 thousand million SDRs, by the Saudi Arabian Monetary Agency (3 thousand million SDRs) and the central banks of nineteen industrialised nations (likewise 3 thousand million SDRs) with the exception of the USA, considerably reinforced the financial basis of the IMF.

IV.

Even such a generous expansion of international liquidity cannot provide lasting solutions to the persisting desperate problems; despite this fact, many developing countries are still relying on it.

– At the most recent meeting of the Interim Committee of the IMF Board of Governors on 12 April 1984, the "Group of 24" once again demanded an extensive round of SDR reallocation (around 16 thousand million SDRs annually for three years), pointing out at the same time the falls of 4 percent and 7 percent in world currency reserves (excluding gold) experienced in 1981 and 1982. The industrialised nations–even France, albeit adopting a somewhat Janus-faced attitude–are of the opinion, however, that there is no proof of a worldwide liquidity shortage, expecially as non-gold reserves increased again by 6 percent in 1983 and reached US$ 388 thousand million.*

– Allocations on the scale demanded would give rise to fears of a new impetus to inflation at international level. Although the allocation of SDRs merely increases the potential liquidity of the member countries without initially creating money, the use of SDRs could lead to national liquidity effects in countries with freely convertible currencies if the IMF stipulates these under its designation rights for the conversion of SDRs offered.

*Although the volume of SDRs decreased by 23 percent in 1983, total non-gold reserves rose again by 6 percent by the end of 1983, as foreign-exchange assets increased by 3 percent and the reserve position in the IMF improved by 46 percent.

– Special allocations of SDRs for the purpose of discharging foreign debts would in the long run only lead to claims of private lenders being transferred to the central banks of the designated countries. The passing-on of freely convertible currencies would result, however, merely in a conversion of old debts without the need for the supply of "fresh money" being taken into account at the same time. For some central banks this would mean further impairment of the structure of their currency reserves. In the case of the Deutsche Bundesbank, 20 percent of the currency reserves already consist of claims against the IMF. This proportion would double if all liquidity commitments already entered into were actually called in. The discussions in the US Congress in conjunction with the raising of the quotas have shown that there is little readiness to make public funds available in order to bail out the banks.

– The industrialised nations also rejected the proposal discussed prior to the raising of the quotas that the IMF should obtain funds to refinance itself by means of credits on the international finance markets. The banks, it was claimed, would immediately take the inclusion of IMF papers in their portfolio as an opportunity to compensate for their problematic commitments. Since the IMF has no choice other than to more or less close the resulting gap, the outcome would be merely "debtor recycling" from the banks to the IMF. In this way the Fund would take the first steps towards becoming a "super-eurobank", which would impair the cooperative character of the IMF and inevitably influence the nature of its interests. In the control of international liquidity trends, ,greater importance might thus be attached to considerations as regards the financing of the IMF itself than to the potential dangers involved.

– There are still fundamental misgivings as regards the demand made once again by the "Group of 24" that the allocation of SDRs should be linked to development assistance purposes. As development assistance aims to transfer real resources, it requires lasting use of the SDRs. However, a country's international liquidity is only increased if it keeps the allocated SDRs as a reserve. If new SDRs were therefore used immediately for development assistance purposes or for debt repayment, the mechanisms of international money creation would have been employed for these purposes without improving the supply of currency reserves.

If this is the case, the only possible consequence can be to refrain from the demands. If the rules of a monetary system are to remain reliable, the system must not be used to bring about real transfers through the creation of money at will. The role of the IMF should therefore be clearly defined. *Ad hoc* measures, which would change the function of the IMF in qualitative terms, could sooner or later turn out to have a boomerang effect.

V.

Overcoming of the international debt crisis requires great stamina and circumspect action on the part of all those involved; the problems of debt management are likely to

remain at the focus of attention for the time being. More has been achieved in the meantime than is generally obvious at first glance.

In the course of the restructuring of old debts, bank credits granted to the developing countries, totalling around US$ 60 thousand million and due in 1983 and 1984, were rescheduled; together with parallel action on the part of the official creditors, expirations of almost US$ 70 thousand million were extended. Debt servicing by the developing countries was thereby reduced in 1983 by around 10 percent to approximately US$ 97 thousand million. However, it is doubtful how often such arrangements can be made in the future. Some debtors could continue to prove to be „awkward" and attempt to exert pressure, as was done by Mexico and Brazil in the past and more recently above all ,by Argentina. There are also many indications that cushioning operations, like that in the case of Brazil, are scarcely likely to be repeated in the same way. Without such successes it will be difficult to urge the banks to continue to provide cooperative assistance on as wide a scale as possible in the future. The IMF and a number of central banks have occasionally already exerted somewhat too much pressure on commercial banks in the past. Relations between the banks and countries of the Latin American subcontinent have sometimes been tense when debtors endeavoured to play off banks against one another or to use statutory regulations as a means of bringing pressure to bear. This, too, is an indication that the cushioning systems cannot absorb an unlimited amount of strain and that every effort must be made to stabilise the situation gradually. The possibility of chain reactions still cannot be precluded for the time being; what has been achieved already, however, brought a very useful gain in terms of time. Banks cannot do more than provide the time required to allow an adjustment process to take place—they cannot initiate the process themselves. [1]

If the debt crisis is to be overcome on a lasting basis, this postulates, in the final analysis, that the debt service obligations of the individual countries once again be placed in a better relationship to their economic capacity. Moreover, the developing countries must as soon as possible, again become net capital importers. In 1983, private lenders practically ceased to grant "spontaneous" loans to Latin American debtors; the influx of "fresh money" was the result of "organised" measures. Total net lending by private bodies to the non-oil developing countries decreased from US$ 70 thousand million in 1981 to US$ 36 thousand million in 1982 and to US$ 20 thousand million last year. The redemption payments of this group of countries were themselves far higher, amounting to US$ 52 thousand million in 1982 and US$ 47 thousand million in 1983. If both of these goals—more tolerable debt service obligations and adequate capital inflows—are to be achieved, the following measures are required:

– The debt structure must be improved beyond the situation already achieved, by means of longer amortisation periods and more favourable terms.* The new credits,

*Adjustment successes should, for example, be taken into account in the "spreads" for interest on rescheduled and new loans, so that the interest increases are reduced in those cases where economic progress has been achieved. [2]

together with the rescheduling, have already achieved much, above all a more advantageous due-date structure for the outstanding debts.* For the period from 1986 to 1988, however, there are already signs of an all the higher "mound" of debts falling due. Rescheduling operations will have to reckon with the debt servicing capability of the countries in question even more than before. [4] Between 1985 and 1990, for example, Mexico must spend on average around US$ 12 thousand million each year on repayments alone, corresponding to almost a third of its current exports. A longer term in the case of rescheduling agreements for bank debts would ease the situation and—by avoiding the annual rescheduling rounds—aid the return of the debtors to the markets. [5]

Risks continue to exist as far as interest is concerned; the interest increases in the United States since mid-March of this year have, for example, led to additional interest burdens, estimated at annual totals of US$ 1.0 thousand million for Brazil, US$ 0.9 thousand million for Mexico and US$ 0.6 thousand million for Argentina. It is thus easy to understand the recent protests.

The developing countries must therefore endeavour in the future to obtain once again—and to a greater extent—capital imports which are geared less to interest movements and more to earnings on the part of the country being financed, i. e. direct investments. It is in the interest of the debtor countries to do everything possible to attract foreign capital, particularly in the form of direct investments. In order to achieve this, however, many countries would have to eliminate or reduce at least administrative controls on such capital flows, including restrictions on profit transfer. [6]

– Creditworthiness and credit standings must be reinforced by means of a realistic development policy and internal political stability. This must include a strengthening of the internal forces of growth—the World Bank estimates that growth in the developing countries will be significantly higher than in the industrialised countries over the next ten years—and of the foreign trade position. Although the non-oil developing countries have reduced their cumulative trade deficit from US$ 82 thousand million in 1981 to US$ 29 thousand million last year, this reduction solely stemmed from the restriction of imports. Export successes, which to a large extent are dependent on a country's own efforts, have to date been recorded chiefly by East Asian countries which are likewise heavily in debt. Only in recent months have Latin American countries—particularly Mexico and more recently Brazil as well—also appeared to achieve visible increases in exports. With imports tending to stagnate, they have at any rate reported record trade surpluses, e. g. a total of around US$ 3.5 thousand million in the case of Brazil between January and April 1984.

– Necessary—albeit by no means sufficient—prerequisites for the developing countries' being able to regain an improved foreign trade position are an adequate revival of international economic activity, a renewed rise in raw-material prices and a refraining from protectionist measures on the part of the industrialised nations. The industrialised countries must only keep their markets consistently open to imports from developing

*The proportion of total foreign indebtedness accounted for by short-term debts fell by around 5 percentage points between the end of 1982 and the end of 1983. [3]

countries, but also must refrain from promoting their own exports. It would be fatal if the heavily indebted countries were to further restrict their domestic demand without achieving major increases in exports. The development process would be hindered and the losses in terms of real income, in any case unavoidable, would become even more marked. The success achieved so far in crisis management would be jeopardized.

– The *de facto* function of the United States as the "locomotive" of international economic activity proved helpful last year and will probably remain so for the time being. The IMF estimates the USA's 1984 current-account deficit at US$ 70–80 thousand million, assuming at the same time that the other industrialised nations will only benefit to a small extent as a result and that it is thus the developing countries which will profit most. In conjunction with the enormous deficits in the US budget, however, foreign trade deficits involve effects on interest rates which, as has again been the case in recent weeks, increase the interest burdens on debtor countries. This may be one reason for the paradoxical nature of the current situation, in which–despite encouraging progress–there is continued pessimism as regards the extent to which the debt problems can be solved.* The goal must at all events be a policy which leads to lower interest rates in the medium and long term. Credits with upper interest-rate limits, as proposed by distinguished exponents from the Fed and the US administration, which, in the case of market interest rates above the limit, provide for the capitalization of the excess part of the interest obligations, might at best be a temporary solution in individual cases. Such an option would make the credit-awarding procedure more complicated without there being a major practical difference from the supplying of fresh money. Wilfried Guth, one of the two spokesmen of the Managing Board of the Deutsche Bank, would be prepared to accept this arrangement, if it can preserve the essential solidarity among the creditor banks; however, an option compatible with the American regulation practice would then have to be found. [8] It should not be overlooked, however, that although capitalization of the excess interest postpones and extends repayment, it cannot eliminate the consequences of higher interest rates with regard to the severity and duration of the adjustment process. Moreover, the "interest capping" could, in the case of the major industrialised nations, reduce the sense of responsibility encouraging them to themselves make a contribution towards bringing about lower interest rates. [9]

It is doubtful whether the emerging developments will be sufficient to overcome the debt problems on a lasting basis and avoid setbacks. It is still possible that the waiving of claims will in the long run become unavoidable, particularly in the case of Latin American countries. Many commercial banks involved on the international scene–including German credit institutions (in some cases suffering considerable setbacks)–have apparently been able to make good use of the gain in time achieved so far in order to arm themselves better than before by means of adjustments in creditor-debtor relationships and value adjustments. Judging by the most recent events, however, this

*According to Jacques de Larosière, [7] each additional percentage point in interest rates increases the interest bill of the developing countries by US$ 3 1/2 to 4 thousand million each year.

does not apply to all banks to the same extent. As far as control of the banks by the bank supervisory authorities is concerned, new approaches will probably have to be used and courses already adopted continued in a consistent manner to ensure that "uncoordinated" international lending, inadequately backed with guarantee capital, as has been the case in the past, does not occur again. However, it is still totally open whether a cohesive network of objective observance will result or can ever result. There still are many unanswered questions as regards the nature of the procedures. Beyond what has been achieved so far, no more than continuing flexible reactions within the given framework can be expected from the IMF and the central banks. Adequate solutions cannot be achieved without the assistance of the market.

VI.

To sum up, it may be said that the present situation and the dimensions of the international debt problems still to be solved are characterised above all by the following factors:

– We are dealing with country-specific liquidity crises which, because of their scope, long-lasting nature and elements of surprise, have burdened and continue to burden the international creditor-debtor structures to the very limits of their capacity.

– All parties involved have so far, each in their own way, exhibited in the final analysis a sense of responsibility.

– The financial operations which have taken place can for the most part be considered to have been successful and to have achieved at least a gain in terms of time.

– Market factors have also played a highly decisive role.

– The monetary institutions have developed forms of cooperation which suggest that they will be able to continue to react to situations in an appropriate manner in the future.

– The importance of a clear division of tasks between the IMF and the central banks including the BIS on the one hand and the commercial banks and the World Bank on the other hand has become apparent.

– There is a growing consensus that what is required is not new financial institutions but rather further development of the existing system, although with logical and consistent sets of rights and obligations.

– Past experience suggests that also the majority of the most-affected countries will, despite many indications to the contrary, approach the problems in a more sober and pragmatic manner in the long run.

– There are still many sources of danger and the possibility cannot be precluded that crisis situations will continue to develop in the future.

– Even a consistent continuation of the courses adopted in the past by no means precludes the possibility of further-reaching concessions on the part of creditors, even though no one apparently knows exactly what form the claim-waiving procedure in particular should take.

If this lean period is to be overcome, perseverance and sound judgement on the part of all those involved are essential, coupled with an absence of large-scale international political complications.

References

1. Wriston, W. B.: *An address at the International Monetary Conference.* Philadelphia, June 4, 1984. p. 16.
2. Guth, W.: The role of commercial banks. Remarks before Session II at the *International Monetary Conference.* Philadelphia, June 4, 1984. p. 6.
3. Larosière, J. de: Remarks before Session II at the *International Monetary Conference.* Philadelphia, June 4, 1984. p. 3.
4. Guth, W.: op, cit. p. 3.
5. Larosière, J. de: op. cit. p. 7.
6. Ibid. p. 6.
7. Ibid. p. 4.
8. Guth, W.: op. cit. p. 6.
9. Ibid. p. 8.

МЕЖДУНАРОДНАЯ ЗАДОЛЖЕННОСТЬ — ТЕНДЕНЦИИ И ПЕРСПЕКТИВЫ

Н. КЛОТЕН

Когда Мексика в августе 1982 г. неожиданно объявила о своей неплатежеспособности и вынудила целый ряд других стран согласиться с отсрочкой платежей по кредитам, во всем мире начали говорить о «мировом кризисе платежей и ликвидности». Постепенно становилось все более очевидным, что кризис ликвидности в различных странах имеет различные специфические черты. Во всяком случае их глубина и затяжной характер до предела обременили международную кредитную систему.

Благодаря сотрудничеству МВФ, эмиссионных банков и международных коммерческих банков, которого потребовало создавшееся положение, финансовый крах удалось избежать. В этом центральную роль сыграл МВФ, который, в частности, взял на себя роль катализатора в рассрочке платежей и позаботился о притоке «свежих денег». Тем самым удалось выиграть время, однако кризис задолженности не может быть решен исключительно финансовыми средствами. Цель должна состоять в том, чтобы обязательства отдельных стран в связи с их задолженностью лучше относились бы с их экономическими возможностями. В этом направлении некоторые шаги уже были предприняты.

Достигнутые результаты показывают, что институты валютной политики нашли формы сотрудничества, благодаря которым они смогли соответствующим образом реагировать на ситуацию, не создавая новых финансовых институтов. Однако не исключено появление новых обострений кризисных ситуаций.

Экономический рост индустриальных стран и большая степень открытости их рынков перед товарами развивающихся стран и стран, достигших их порога индустриального развития может облегчить продвижение вперед. Необходима выдержка и умеренность со стороны всех участников для успешного движения вперед, а также избежание крупных политических осложнений.

Acta Oeconomica, Vol. 34 (1–2). pp. 145–164 (1985)

COMMENTS AND CRITICISM

J. KORNAI*

ON THE EXPLANATORY THEORY OF SHORTAGE COMMENTS ON TWO ARTICLES BY K. A. SOÓS

Much of the two articles by K. A. Soós [14, 15] discusses my book *Economics of shortage* [10]. My comments are related mostly to questions regarding which our works bear on each other.**

Agreement, pseudo-debate and genuine difference of opinions

It is usually said that asking certain questions is more important in the emergence of a theoretical school than the answers given. As we progress on the road to cognition, answers can and should be continuously refined. I was glad to discover the spiritual kinship in the two articles of K. A. Soós and in a background paper he wrote for the Institute of Economics [13]. He believes those questions to be important which I raised in my *Anti-equilibrium* [9] and *Economics of shortage.* His answers partly agree with, and partly differ from, mine.

Both K. A. Soós and I feel that the traditional pre-reform economic mechanism of the socialist economy is not the last word spoken by the socialist system. Thanks to the reform process we may obtain a mechanism that will be more efficient and more in accord with social justice as well. In this respect as well we share a starting position.

Many interesting ideas can be found in the writings of Soós. These contribute to our understanding of the operation of the economic mechanism before and after the reform. I will revert to some of them in my comments. By way of introduction, let me say no more than that many of Soós's propositions can be reconciled without any difficulty with the main message of *Economics of shortage.* I consider these results of Soós's as valuable additions to, or more accurate formulations and corrections of

*The paper has been written during the period when the author was F. W. Taussig Research Professor of Economics at Harvard in 1984–85. The support is gratefully acknowledged.

**Most of what I have to say deals with the article K. A. Soós published in Acta Oeconomica [14]. I will refer to his article in Társadalomkutatás (in Hungarian) [15] exclusively in the context of the budget constraint. Wherever I have not indicated otherwise, my comments always relate to what appeared in Acta Oeconomica.

emphasis in the ideas of Hungarian and international economists–including my own. Whenever in the future I am called upon to expound the theory of shortage in the lecture room or in print. I will certainly include those ideas suggested by Soós which seem convincing to me.

When it comes to Soós's argument with *Economics of shortage* it seems to me that it contains an amalgam of real and pseudo disagreement. Sometimes I feel that what appears as disagreement is merely an absence of conceptual clarity. Once conceptual clarification is carried out it will be discovered that much that Soós has to say agrees with, or at least does not clash with, the argument of *Economics of shortage.*

Another type of the pseudo-debate is setting up a straw man of one's own and arguing against his supposed views. It is my intention to persuade readers that, on many important points, Soós misinterprets *Economics of shortage* and then draws his sword not against what I have to say but against a phantom-theory constructed by himself.

Many of my comments are designed to eliminate the pseudo-debates. I am well aware that many are bored stiff by hair-splitting about concepts and insistence that: "I did not say that, what I said was. . ." I set about this part of the task reluctantly, trying to overcome my own internal resistance, because our knowledge will not be enriched by it, but only superfluous obstacles that bar the way to real progress will be removed.

There are differences of opinion between Soós and the argument of *Economics of shortage* even after the elimination of the pseudo-debates. Not too many–and in my opinion–not too significant ones. Yet they are sufficient to be worth discussing.

Friction and suction

To quote Soós: "And this is my main argument against Kornai who. . . deduces shortages onesidedly from the excessive volume of aggregate demand" [14, p. 312].*

This is a pseudo-debate according to both the above mentioned criteria (conceptual obscurity and straw-man adversary). First Soós "translates" my *friction* into *inelasticity.* The reader can check that *friction* expresses in my conceptual system *inelasticity* does in Soós's. Neither term is a sacred cow of economics. If Soós prefers *inelasticity* he is welcome to it. But, at least when he discusses *Economics of shortage,* it would be proper to make it clear for the reader that they are synonyms in this context.

Had Soós done so, it would immediately become clear that I do not in the least deduce shortage *one-sidedly* from the volume of aggregate demand. My book discusses friction in a separate chapter and in a separate mathematical appendix, in altogether 34

*The sentence, with the part now left out, runs: "And this is my main argument against Kornai, who, having determined aggregate supply at the level of constraints on resources and having derived the inelasticity of the structure of supply (the weakness of efforts to improve quality) from the feather-bedding effect of excess demand, deduces shortages onesidedly *from the excessive volume of aggregate demand.*" (Soós's italics) At this point I wish to argue against Soós's principal proposition (that my theory is allegedly onesided), and this is why I omitted the central part of his sentence. I will later return to the omitted part.

pages. In addition, as is evident from the subject index, the phenomena, measurement and impacts of friction, and its interrelations with other factors related to shortage occur in a further 46 places. Soós makes his readers acquainted with my ideas in a defective and distorted manner: he argues with a "onesided" theory constructed by himself, but not by me.

I cannot accept the terms "excessive volume of aggregate demand", "too large aggregate demand", as terms characterizing my own theory. In my book I argue at length and repeatedly against those who consider excess demand to be an easily measurable quantity and, in addition, as one that can be aggregated at the national level. I consider the forced adjustment of the buyer (user) to supply: forced substitution, forced spending, the putting off of purchase and forced saving as organic parts of the shortage syndrome. Forced substitution and forced spending continuously tap a part of excess demand. This is why it is frequently impossible to "grasp" or display "quantitatively" the gap between the original ("initial", "nominal") demand of the buyer and the actual purchase. In fact, the recurrent shortage situation compels demand to adjust to the expected supply in advance.

I mention in my book that an "almost insatiable demand" appears in several important fields of the economy. This is not an unambiguously measurable "quantity", but *an internal coercion, a tendency for the running away of demand.* As an example I refer here to its most suggestive and most important (though not unique) form, investment hunger.* This is not a definite "volume of demand" for investment goods. Investment hunger is, on the one hand, an ever present *propensity,* on the part of economic agents, from enterprise managers up to ministers, from local government council chairmen to heads of hospitals, from military commanders to presidents of universities to invest in the institution in their charge, if they can get their hands on the needed resources. Beyond that, investment hunger is not merely a propensity, but also an *effort:* the economic agent "fights" for resources. He fights with objective arguments, with well, or less well, founded computations, by lobbying and by exercising political pressure. Investment hunger–together with other social forces of a similar nature–constitutes the mechanism I term *suction.* In combination these produce the tendency of demand to "run away". It is the operation of these forces of suction which explains that in a shortage economy there always are potential buyers, claimants, users who ask for and demand resources, products, services for their economic units, and the sum of these exceeds what is available.

In one word, I do not consider myself as an exponent of some onesided "quantity theory of demand". This is a caricature of my line of reasoning. In reality *Economics of shortage* makes efforts to show mutual interaction, the dialectics of friction and suction.

Several interactions of this kind exist; I will quote merely two of them as an illustration: it is, e. g., a phenomenon of friction that uncertainty owing to the jerks and jolts in the replacement of materials and parts, or in the supply of the retail trade with

*On investment hunger see the 1975 article by Soós [12] and Bauer's book [1].

commodities, causes a tendency for hoarding. Enterprises accumulate materials and parts and households as well try to stock articles in short supply. This tendency for hoarding itself becomes a force of suction. And this suction, together with the other forces of suction—which are stronger and of greater impact—pump out of the system the output stocks of good composition, most searched for by the buyers (users), the existence of which would reduce friction.

Another example is the role of imports and exports. In periods of a forced acceleration of growth the drive for expansion is asserted on every level of economic control, from the centre to the enterprises, and this is coupled with the almost unbridled growth of imports (particularly of equipment needed for the implementation of forced investment programs). When the price has to be paid for this, and debts have to be repaid with interest, the tendency to export at any price appears in an acute form. In such cases the export drive of the foreign trade sector produces an almost insatiable demand for exportable commodities on the domestic market. This is one of the most important forces of suction. The export drive is usually coupled with a drastic reduction of imports. Both of these lead to ever more frequent and severe shortage phenomena on the domestic market. In their wake friction within the system is growing; expectations and forecasts relating to supplies with materials become more uncertain; *ad hoc* decisions become unavoidable and forced substitutions more frequent, together with deviations in production from the planned input-output combinations. Friction thus makes an efficient substitution for imports difficult, and does even greater harm to exports, endangering the keeping of terms of delivery and improvements in quality. The economy finds itself in the vicious circle of suction and friction also on this plane.

Let us now concentrate on one of the elements of this interaction, on friction. What is its cause? As a *first* approximation, we may say that there is friction in the economy—in *every* economy—because the information available to decision makers is deficient or faulty, because decisions are not optimal, and because not even the implementation of sound decisions is perfect. Rethinking the problem. I feel that *Economics of shortage* had rightly set out from this fact in the explanation of shortages and it is regrettable that Soós did not penetrate to this point in his analysis of the problem. A perfectly frictionless central planning, *computopia* is impossible, but a perfectly frictionless, perfectly decentralized market mechanism is no less impossible.

In the *second,* already more concrete approach, the former ought to be complemented by the following: friction appears in every actual economic mechanism *in a particular form,* and this form is determined by the *institutional conditions* of the system in question. It is to Soós's credit to have emphasized this, and to have done so even more forcefully than had been done in *Economics of shortage.* He rightly revives in this context a criticism by Hungarian and foreign economists of the old mechanism, that the aggregated plan indicators leave a distorted scope for manoeuvring open to firms, and that this gives birth to the tendency of planning in physical terms in detail. But the latter cannot be done in a reliable way because of the many kinds of uncertainty. Contradictions arise between the plan estimates in physical and in value terms. All that

unavoidably and repeatedly leads to upsetting equilibrium between supply and demand as envisaged in the plans, that is between output targets and the input limits.

These are ideas against which I feel no kind of internal resistance, if only because they coincide with my own experience described in 1955–1956 in a book [8]. I only regret that, while expounding these ideas, Soós again enters into a pseudo-debate. He creates the impression as if *Economics of shortage* deduced friction, the rigidity of supply reactions, their "inelasticity", *exclusively* from the relaxing effect of excess demand. But this does not hold water. True, my book establishes–rightly, in my view–that a chronic shortage considerably reduces the adaptability of the producer and the seller. The popular saying, "take it, or leave it, that's all there is!", tells us something very true about the attitude of producers (sellers) in a chronic shortage economy. But, while emphasizing this, I do not forget that the institutional conditions also *directly* lead to the phenomena of friction, not only indirectly, owing to the feather-bedding effect of shortages. The entire second part of *Economics of shortage* is devoted to discussing why the impact of the price signal is weak on the operation of the enterprise in the conventional (socialist) economic mechanism. One of the consequences of this weak impact is that changes in prices induce only sluggish supply and demand reactions; the price mechanism is unable to play its balancing role in a satisfactory manner.* The almost complete eilimination of the market mechanism reacting to price signals from the regulation of mutual adjustment among enterprises is one of the basic causes of friction, one that is explained by institutional conditions.

We find friction not only in the traditional pre-reform socialist economic mechanism, and it appears in particular, systems-specific, forms in consequence of the institutional conditions in all systems. Friction also exists in the capitalist economy based on private ownership; its forms are similarly systems-specific, and their explanation can similarly be deduced from the institutional conditions of the system. Decentralization of the economy narrows down the information base of every decision-maker. Every agent is uncertain about the way the others will act. Further friction may be induced by imperfect competition, by monopolies, oligopolies, cartels, by the existence of trade unions and, in consequence of their impact, by a certain rigidity and delayed adjustment of the price signals, i. e. prices, wages, interest rates and exchange rates which have key roles in economic control.

Even this brief reminder suggests a question: why is it that the frictions of the old socialist mechanism on the one hand, and those of the capitalist mechanism on the other, mostly lead to adjustment troubles *of different types?*

*See e. g. pp. 332–343 of *Economics of shortage,* and particularly the diagram on p. 333. The latter deduces the damping of the effect of the price signal not from "excess demand", but from the insufficient toughness of the budget constraint (that is, from truly "institutional" conditions). That in turn leads to friction, that is "inelasticity".

Before trying to answer the question, let us first describe the phenomenon to be explained more exactly. Since there is friction in every system, shortages and surpluses appear in every system parallel to and beside each other.* But their proportions are conspicuously different in different economic systems. In the pre-reform socialist economy shortage phenomena outweigh surplus phenomena. In most spheres a sellers' market is present. Even if there is more than needed, it is generally "unsaleable stock" which even a customer embittered because of shortages will not buy: an unexploited resource for the operation of which the complementary inputs are frequently missing. One may add, following Soós, that perhaps even such resources will be left unused which the firm concealed during plan-bargaining in the hope of a looser output plan, or which it did not exploit in the course of plan implementation lest higher performance be included in the base of the plan in the next round. But even taking into account the latter important group of phenomena does not alter the fact that we have here an economy which is usually constrained on the supply side and where products and services easily find a buyer.

Conversely, in a capitalist economy a buyers' market asserts itself in most spheres, and in almost every period of business fluctuations. Shortage phenomena are rare, while there are stocks of commodities to which a buyer would not object, but lacks purchasing power. In several fields we find together, or can easily draw into production, every complementary input: equipment, materials, labour–only demand is needed; a buyer who is willing to buy the output. What is the reason for this difference?

We have to rethink the nature of demand and supply. The traditions of economics have hammered into the head of every economist that these are symmetrical categories. Therefore, many must have read Soós heaving a sigh of relief, there the role of supply seemed to be "rehabilitated". In a written comment on Soós's discussion paper for the Institute of Economics, an outstanding young economist stated with relief that, now at last, in Soós's paper the inelasticities of supply and demand play equally important roles. "It puzzled me in Kornai"–the comment says–"why demand outstrips supply in this great competition between supply and demand, as regards the totality of firms."

The puzzle is simple to solve. True, both concepts express human *intentions:* supply expresses an intention to produce (to sell) and demand one to use (to buy). But supply has an unsurmountable physical upper limit: no more can be sold than the quantity of physically available products, and no more can be produced than the quantity for which physical resources are available. As against that, there is no physical upper limit to demand.** In a monetarized economy the upper limit to demand is the available

*For more rigorous mathematical treatment of the problem see J. W. *Weibull* [17] p. 45).

**From the viewpoint of the present argument we neglect two kinds of factors which still are of a "physical" nature and may restrict demand. In the case of productive inputs (even in the case of household purchases) storage capacity may set a limit. Beyond that, some detailed items of consumer demand may be restricted by the fact that certain concrete, specific needs may become saturated. But, even in this case, the demands related to the quality of the satisfaction of needs may grow and, in

quantity of money. If this constraint is loose or not effective, demand may "bolt". It is enough to consider this simple but basically important asymmetry to understand that supply and demand may play different roles in the emergence of chronic shortage.

Supply is finite in any event, whether its composition is sound or not, whether it has adjusted to the composition of demand well or ill, and it is made finite by the laws of *nature.* As against that, there is no law of *nature* that would force demand to be finite; it may even run away to infinity. Of course, the metaphor of "infinity" must not be understood in the strict mathematical sense. A sound manager does not demand infinite investment. I use the word "insatiable" figuratively, and mostly substitute it by "almost insatiable". What this term wishes to make clear is that demand may bolt if the money available to the buyer does not set a true, tough limit.

At this point—after several pseudo-debates—we have arrived at a real difference between the argument of Soós and that of *Economics of shortage.* What I said there was that it is impossible to understand the massive reproduction of wide, chronic and intensive shortage phenomena, if we do not accord a distinguished role to the forces under the impact of which several important components of demand are insatiable and inclined to "run away" again and again. None of Soós's arguments induce me to revise this view. Precisely because the nature of supply is essentially different from that of demand (a physically limited amount against a physically unlimited one), the behaviour of the two may also essentially differ.*

Demand control on the microlevel: the budget constraint

Let us now turn to constraints on demand. This has to be discussed on two levels. One is the *microlevel;* whether a *voluntary* constraint on demand is asserted in the elementary cells of the system, in households and firms. The other is the *macrolevel;* how aggregate demand is controlled by fiscal and monetary policies. In my view, one of the weaknesses in the argumentation of Soós is that these two levels become intermingled under the headings "demand control (regulation)" and "demand restriction". I should like to separate clearly these two levels. An analysis of the microlevel leads to the real problems: embedded into what kind of institutional system is and does the micro-unit operate? What kinds of property relations exist? How autonomous is the economic unit, to what degree does it depend on the state and on political institutions? In comparison

---

addition, ever newer needs are born. Lacking a monetary constraint the total of consumer needs is insatiable.

*Soós abandons the symmetrical treatment of the two sides only to the extent of half a sentence, when he describes demand as "upwardly elastic" ([14] p. 316). This is a peculiar and obscure notion. In my view, it does not make the true position of demand in the traditional socialist mechanism sufficiently palpable.

to that, the analysis of the macrolevel is much more attached to superficial phenomena: are the reins let looser or held tight by the fiscal and monetary policies in a given institutional system? Is it difficult or easy to obtain credit? Is the economy in an upswing or in a recession?

Let us then first discuss the microlevel. Discussing this problem, *Economics of shortage* stresses the importance of the degree of softness or hardness of the budget constraint. Arguing with my book, Soós also comments mainly on this problem.

It would please me if, in the conceptual debate about the budget constraint, the true meaning of my message were not lost. I, therefore, take the opportunity to expound again—without claiming to cover every aspect, yet stressing some details more emphatically—the main content of the idea.*

A household—both in capitalism and in socialism—can only live within its income, it can spend no more than the available money. It may perhaps get consumer credit, but this has to be repaid with interest. A household draws up its purchasing plans with that in view, it knows it has to pay for what it wishes to buy. Because of this, a household sensitively reacts to prices. A change in relative price ratios prompts it to change the structure of its demand; and, after a change in the rate of interest it will reconsider whether to ask for credit.

I call this simple princple (to live within one's income) the *hard* budget constraint of households. As long as this constraint asserts itself, available money will limit household demand.**

Let us now scrutinize a small family venture in private ownership. This, too, may be said to operate under a hard budget constraint—as long as the state does not lend it a helping hand in any form. It has to cover its expenses from income, and if income exceeds expenditure, then—after paying taxes—the profit will belong to the owners. They may ask for credit, and if the firm proves to be creditworthy they may easily obtain it. But credits must be repaid. Should the firm have liquidity problems, and should this state

*In an article written jointly with Ágnes *Matits* [11] we tried to expound the interpretation of the "budget constraint" again, taking into account the questions, comments and proposals put forward in discussions since the publication of *Economics of shortage*. The explanation in that article is more wide-ranging than the one given in the present comments; the argument makes it necessary at this stage to underline more emphatically some of the ideas.

**The "budget constraint" is a basic notion of neoclassical mikroeconomics. Those who have studied this theory and, in its framework, the modern microeconomics of consumption, demand, supply, price and market, know well the concepts of "budget line", "budget constraint", and their interrelations with price, income and demand.

Modern microeconomics invites criticism in many respects; I, too, am amongst its keen critics [9]. But this fact does not alter my conviction that every economist must be familiar with this theory. The category of budget constraint will not be foreign to one who knows it, but will lead him to definite associations. I build upon these associations when I complement and modify the notion of budget constraint (a term without an attribute in standard microeconomics) and speak about the hardness or softness of the budget constraint.

continue, the firm will fail. This "death" of a business may take several legal forms: the creditors may ask for it to be wound up, or the firm is sold to new owners, or it is incorporated by another firm. One thing is certain: ongoing losses and liquidity problems cannot be survived.

Here I have arrived at the substance of my message related to the budget constraint. I only had to speak about the hardness of the constraint to be able to confront it with *the tendency of softening of the budget constraint.* This occurs if the expenditure of the economic unit can, for some time, exceed the income deriving from the nature and standard operation of the unit without endangering the survival of the unit. But this is not sufficient. The real softening occurs when bailing out of economic units struggling with losses is sufficiently frequent for decision-makers *to reckon with it in advance,* with reasonable certainty, and this expectation becomes an organic part of their behaviour. The hard budget constraint gives birth to a feeling of anxiety, because financial failure may lead to a real catastrophe. The soft budget constraint resolves this feeling of anxiety because there is a safe protection against the consequences of financial failure.

In earlier works I mainly discussed the softness of the budget constraint of the socialist firm, but the phenomenon asserts itself in a much wider scope. It is also present in the case of state-owned enterprises in several capitalist countries, or government-financed investment projects in those countries. It is frequently reported in the Western press that, carrying out military projects, financing is available even if the original estimate is considerably exceeded. The softening of the financial constraints of the health service system in several countries is also an example. In many capitalist countries the budget constraint of regions, townships and villages has softened. We may also look beyond national frontiers: the particular softening of the budget constraints of the international credit system may be classified with these phenomena; international credits are granted in an unbridled way, in the hope that in case of grave troubles both the indebted country on the verge of a catastrophe and the creditor banks about to fail will be got out of the fix.

Here I will stop, making it clear that we are faced here with a tendency that does not occur exclusively in the case of state-owned enterprises under the old socialist mechanism.* It is now time to move on to our narrower subject, that is, precisely to these enterprises.

*This wide validity is one of the reasons why—in contrast with Soós—I do not consider the absence "of a compulsion to operate profitably" as a synonym for the "soft budget constraint". The tendency of softening appears not only with non-profit business enterprises, but also in many other kinds of organization: in government institutions, public bodies, and, to a certain extent, even in households where a welfare state operates. It is common to every case mentioned that they express, in a particular financial form, the paternalistic tendency present in the modern state.

One of the criteria of the feasibility of a notion is whether it can highlight some important common feature of a wide range of phenomena which are different from each other in other respects. I feel that, from this point of view, the notion of the "softening of the budget constraint" has proved itself workable.

Economics of shortage expounded the hypothesis that the budget constraint is soft in a state enterprise under the traditional (socialist) economic mechanism. I must here repeat what I have just said in connection with the asymmetry of supply and demand: I have not found a single argument or fact in either the work of Soós, or in any other writing I have read since the publication of *Economics of shortage* that would prompt me to modify this view. I recall what I emphasized in my book and what I have just stressed again: in judging "hardness and softness" the most important criterion is the fear of financial failure. An economic executive operating under the old mechanism may have had many reasons for being afraid, but financial losses were not amongst them. *They* could be easily survived. Even if there was a plan target for profit or costs, a deviation from such targets was never judged too seriously. (In contrast with other kinds of plan indicators, in the case of which a deviation from the plan could involve grave consequences.) I ought to add to this what I also emphasized in my book as another criterion of "hardness and softness": it is a sure sign of the softness of the budget constraint if the growth of the firm and its investment activity is not correlated with profitability. This is proved by thousands of facts.

According to Soós, it is more expedient to speak about the uncertainty of the budget constraint, and not its softness. In my view this is a false step. The constraint has softened just because the decision maker of the economic unit can very safely count upon his surviving financial failure, knowing that lasting losses are no obstacle to the growth of the unit. It is precisely this sense of safety that develops in him an attitude different from that of someone who cannot count upon such paternalistic support. Or, if we do not want to reason in terms of the extreme antagonism between "soft and hard", we may put it as follows: the budget constraint is the softer the more safely (with greater subjective probability) the decision maker can expect that he will be bailed out in spite of a loss, liquidity problems, a lasting gap between expenditure and income.

In his other article Soós argues that in a capitalist economy, where a profitable private firm easily obtains credit, the budget constraint is soft, while in a socialist economy, where the profitable enterprise in social ownership perhaps obtains credit with difficulty, or not at all, the budget constraint is hard. [15]

As opposed to that, when speaking about the credit system, my works emphasize that the budget constraint of a firm raising credit is hard, if the observance of the credit contract is always strictly enforced (whether the credit has been granted to a profitable or a less profitable firm.) The firm asking for credit can reckon with this coercion, and will thus ask for credit voluntarily only if it is convinced that it will be able to repay it. The hard budget constraint prompts a voluntary restriction of the demand for credit. The budget constraint is soft in the opposed case, when the breaking of the credit contract, and insolvency, are tolerated. This is why—and for a great many other reasons—I say the budget constraint of the classic capitalist private firm is hard, and about that of the socialist enterprise, that it is soft.

I hope it is clear that the debate here is not about substantial matters, but about concepts. I agree that a profitable capitalist firm is easily granted a credit, and Soós also

agrees that a capitalist firm has to observe the credit contract. I do not deny that in a socialist economy it is at times difficult or even impossible to obtain credit even for profitable investment projects. Nor does Soós deny that in a socialist economy credit is frequently used to save enterprises getting into financial trouble. In my view, Soós has again become involved here in a pseudo-debate. According to him, it is justified to have two—diametrically opposed—definitions for the hardness or softness of the budget constraint: one of the Kornai-kind, and another of the Soós-kind. What is hard according to one of the definitions, is soft according to the other, and *vice versa*.

There are concepts which can be freely interpreted by everyone. Economists may have different views about the meaning of the word "market", since the term was not coined by an economist, but was taken over by economists from everyday language. But the established usage of artificially construed technical terms, introduced by identifiable persons, is different. True, such concepts and their definitions are not protected by patent law. Yet the "twisting" of a concept, a 180-degree turn of its original meaning is not—to put it mildly—an accepted procedure. I should like to ask Attila Károly Soós not to use the concept "softness of the budget constraint" if he is irritated by it. Language is rich enough to construct another term to denote his ideas.

What he says about Yugoslav firms [15] seems convincing to me once we remove the pseudo-debate concerning concepts. It agrees with, or does not contradict, what I have learnt about the Yugoslav firms from the works of other authors. Several papers discuss, e. g., the investment hunger of Yugoslav firms, made possible, among other things, by the fact that the monetary and fiscal systems are generally ready to finance overspending and do not take strict measures to enforce financial discipline, when helping firms on the verge of bankruptcy. Yugoslav firms are masters of the procedure which Hungarian enterprises are just beginning to learn. The budget constraint can be made soft (this is the simplest and roughest way), if the firm purchasing inputs simply does not pay the producing (selling) enterprise. The firm denying payment forces the supplier to grant credit. If the latter gets into financial trouble on this account, he will not pay either—and liquidity troubles will thus snowball. It is worth noting here that several authors describe the phenomena just listed, with reference to my works, by saying that the budget constraint of the Yugoslav firms is soft.*

*L. D. *Tyson* [16] compares the Yugoslav and the Hungarian reforms and establishes that the indirect tools of the Yugoslav macropolitics are weak for several reasons. One of them is "...the continued 'softness' of enterprise budget constraints that reduced enterprise sensitivity to changing financial and monetary conditions". Later in his article, Tyson mentions the following as a condition of the success of the ,reforms: "Successful investment reforms must stipulate that the user of investment resources bears the associated financial responsibility and risk. The continuation of soft-budget constraints at the enterprise level undermines the success of other institutional changes in the investment system."

The title of F. K. Knight's paper [7] "Financial discipline and structural adjustment: Rehabilitation and bankruptcy of loss-making enterprises" sharply underlines the problem. The paper publishes a number of facts about the help given to firms on the verge of bankruptcy, about the spreading of interfirm credits. To quote "... successful completion of the country's structural

Unfortunately, this long digression on the conceptual aspects of the problem was unavoidable. It is time now to pass to what is really essential from the viewpoint of my principal point, the relationship between the budget constraint and demand. Soós has not adopted the simple interrelation existing between the softening of the budget constraint and the running away of demand. I can only hope that others will show themselves open to an understanding of this interrelation.* The more so, as we have here an interrelation experienced thousands of times by everyone; if we are honest with ourselves, we can observe it even in our own behaviour. Whoever expects to be able to spend safely, since in the case of overspending someone else will meet the bill, will easily engage in overspending. The more safely one can expect this, the less one feels that money truly restricts demand. Maybe, some economists would be more impressed by a more intricate reasoning which is more difficult to survey. I cannot help them, the relationship is that simple.

To avoid misunderstanding: it is not the soft budget constraint that produces investment hunger. In order to explain this, the motivation of decision makers, of officials on various levels of the administration, and of enterprise managers, ought to be discussed in greater detail.** But even if the soft budget constraint does not motivate investment hunger, *it makes the latter possible.* This explains why the claimant on the investment resource does not *voluntarily* refrain from asking for it. He does not pay out of his own pocket, he does not even risk his career, in fact, he does not even risk the growth of his firm, by carrying out a mistaken investment. In this sense, the investment is free of charge as far as he is concerned, he does not "pay" for a possible failure either with his wealth, or with his smooth, safe career, or with the collapse of the prospects of the firm. Or, take another example, foreign trade. It is not the soft budget constraint that

---

adjustment program requires stricter financial discipline to increase the economic pressure on enterprises to adjust. To use the term coined by the Hungarian economist János Kornai, the 'soft budget constraint' facing Yugoslav enterprises needs to be 'hardened'."

A similar line of reasoning is expounded by O. *Havrylyshyn* in his paper about Yugoslav foreign trade [5]. He describes that it is on account of soft budget constraint that the Yugoslav firm does not react sensitively enough to price signals and exchange rates.

J. P. *Burkett* wrote two papers on the Yugoslav economy [2, 3]. He uses a line of reasoning related to the softness or hardness of the budget constraint in both of them. He finds one of the main reasons for the Yugoslav economy's failure to react sensitively enough to the higher energy prices in the softness of the budget constraint. He criticizes the most recent reform plans also because they do not make satisfactory progress towards hardening the budget constraint.

*Earlier—even if using other terms—Soós underlined precisely this relationship; in an article written in 1975 he said: ". . . the 'investment hunger' of enterprises is not much more limited by the compulsion to be profitable in the new mechanism than in the old one" [12]. There, Soós was among the first to emphasize that the compulsion to be profitable had been weak in the old mechanism and that it did not become essentially stronger in the new mechanism, either. It is an irony of fate that Soós, one of the forerunners of the idea of the "soft budget constraint", now refuses to accept this idea.

**I do not agree with the comments by Soós on motivation, but I cannot discuss this subject since space is limited. Nor is this necessary from the viewpoint of my argument.

produces export suction, but *it makes* this suction *possible.* The state-owned foreign trade company is ready to take over the product from the producer, cost what it may. The only constraint is the readiness of the foreign purchaser to buy. Is he willing to buy the commodity exported, at least at a reduced price? If so, the demand of the foreign trading company for the product in question will certainly not be restricted by the consideration whether or not the transaction is profitable, reckoning with the domestic profit.

The reproduction of shortages can be explained with a complicated chain of causality, involving many kinds of interactions. The *final* cause is not the soft budget constraint, since the latter is itself a consequence of deeper rooted causes. Yet it is my conviction that it has a highly important role within the chain and interactions of causality, and that in two directions. On the one hand because it makes possible powerful suction processes, "almost insatiable" demand in several spheres and, on the other, it dampens the sensitivity to price and, with this, the supply and demand reactions to price signals. These two-way impacts then mutually reinforce each other.

The macro-level control of demand: monetary and fiscal policy

Let us now turn to the macro-level control of demand. I have already mentioned that in Soós's case problems of the micro- and macro-level control of demand get intermingled in several places.

Soós argues that money *does* have a role in the old mechanism, since the central bank's supervisory role over enterprise asset management will not remain ineffective. In this context he refers to what is the case in the GDR and in Romania. This is a surprising line of reasoning, quite different things follow as far as I am concerned.

If the budget constraint is hard, the debtor will think twice before asking for credit, whether it is worth raising the credit at the given interest rate and credit terms. Will he not get into trouble, will he not become insolvent? (Let us remember that financial failure is nothing else but that the economic unit becomes insolvent in relation to its creditors.) If he feels that it is not expedient to apply for credit, he will *voluntarily* miss this opportunity. Even a half-percent rise in interest rate reduces the aggregate demand for credit.

What Soós quotes as a proof of the "activity" of money in the GDR and Romania, proves in my eyes that the price of credit, i. e. interest, is not high enough there to prompt the enterprise sphere to restict demand *voluntarily.* A genuine bank never sends inspectors to control how its debtors manage inventories. It only cares that the credit be repaid according to the agreement, in adequate instalments and with interest. What was called "supervision by the bank" in the old mechanism, was, in reality, an administrative-bureaucratic activity. The true market role of money, price and interest is replaced by the supervisory activity of such central officials who happen to get their salaries from an institution called a bank. With some reorganization, it could be arranged

that they get their salaries, say, from the inventory management department of the Ministry for Industry.

The lesson, in my view, is that in those spheres where the budget constraint is soft on the micro-level, no real monetary policy can be implemented on the macro-level, either. Under such conditions the use of resources can be kept between limits only by applying administrative controls. For such administrative restriction, of course, aggregated indicators have to be resorted to (such is e. g. the total inventory of the enterprise, or the ratio of inventory to output etc.) But this is an organic part of bureaucratic-administrative control and has nothing to do with what the true signalling and stimulating role of price, interest rate and exchange rate mean.

We are here faced with a vertical process: the ensemble of superior authorities (within it the authority called "bank") regulate the subordinated organization. The horizontal relationship that would exist between an enterprise carrying on banking activity and another enterprise carrying on productive activity where, in the framework of a mutually advantageous exchange transaction, the one grants credit and the other pays interest for the use of the money lent–is out of the question.*

Let us now look into another scope of problems of macro-control. I think that the analysis given by Soós about the restriction periods in the socialist economy is useful and to the point. In such cases, not only aggregate demand is curbed, but also–intertwined with it–supply. Both restrictions and curbings take place with creaks and amidst much friction. Both the reduced supply and the reduced demand are of a rigid composition. They are inelastic and they poorly adjust to each other. Under such conditions several shortage phenomena persist in spite of the restrictions and part of them may even become more intensive.

All that is indeed so. I only do not understand who Soós is arguing against here. Certainly not me. At most–again as a pseudo-debate–he fights a "onesided quantity theory of demand" constructed by himself. I have never stated that supply is given once and for all, or that it is completely independent of demand. I cannot avoid referring to some parts of the book. Chapter 7 reviews a mathematical model we worked out jointly with András *Simonovits*. In this there is a chronic shortage: supply reacts to signals from the buyer, while the normal intensity of shortage persists. Supply can grow or decline in the model jointly with demand. Chapter 9 also discusses investment cycles. In this I mainly rely on *Bauer* [1], and also on other authors, among them on Soós [12] and *Gács* and *Lackó* [4]. The exposition does not treat the restriction of investment demand at all, but emphasizes that a brake is put on investment activity itself. Projects in progress are slowed down and the number of new starts is reduced. Chapter 19 of the book, on the

*I should like to call attention to the fact that above, and also in an earlier part of the article, I have italicized the adjective *voluntary*. The hard budget constraint is not the only, yet an indispensable necessary condition of more consistent decentralization. If the economic unit does not voluntarily restrict demand, it has to be forced by bureaucratic instruments to do so: with quotas, rationing, permits and the administrative allocation of inputs.

macro-level planning of consumption, considers the hypothesis that planning does not make radical efforts at the elimination of shortages but adjusts to each other the supply of consumer goods, the money income of the public and the consumer price level in a manner that the usual, normal intensity of shortage is meanwhile maintained. The same idea recurs in an article discussing the car market [6], which I wrote in collaboration with Zsuzsa *Kapitány* and Judit *Szabó*. This research confirmed that in determining supply the decision makers do not make radical efforts to eliminate shortages, but only to keep shortages within the usual limits, tolerated by the buyer and seller, that is, within a normal zone.

All these observations and hypotheses described by myself and my colleagues, as well as those made by Soós related to the restrictions complement the following statements, but do not contradict them.

Central monetary and fiscal policy can effectively implement the regulation of macro-level (aggregate) demand in those spheres where it strictly controls the outflow of income, and where the micro-unit is subjected to a hard budget constraint. Thus its money income indeed sets a limit to demand. Such is, first of all, the sphere of households. In other spheres, (mainly that of state-owned enterprises), the effectiveness of restricting demand with monetary and fiscal measures depends on the hardness of the budget constraint. The softer this constraint, the more ineffective the "transmission" between the monetary macro-level monetary constraint and the power of "suction". If this is true, then the restriction of demand through money plays only a complementary, secondary role, or not even that much, and creates merely the illusion of restriction. The contraction or deceleration of activities actually occurs through administrative measures: with the aid of quotas, input limits, formal or informal permit procedures. We may also put it in the following manner: the supply of resources, that is, of inputs is restricted by administrative measures, because the curbing of micro-level demand in the microsphere has not really been successful. The enterprise does not *voluntarily* reduce its investment intentions, its demand for imports, its efforts to hoard inventories or to raise wages on the reception of signals of the ineterest rate, exchange rate, or relative prices and wages.

We may add that, if the "curbing" is already in full course, the reduction of investment, import and production activities also entails a voluntary restriction of some items of demand on the part of the firm. If, for example the restriction has stopped the imports of materials, parts and machinery, then, obviously, also the demand for complementary inputs has to diminish. If the enterprise is refused investment credits and/or subsidies, its demand for investment goods will diminish. But, even if this is really so, the "almost insatiable" constant "hunger" survives on a micro-level, as does the glowing embers below the ashes. They will promptly flare up when the phase of restriction comes to an end.

The resource-constrained economy

I have kept Soós's critique on the category of "resource-constrained economy" for the end of my comments. According to him, the fact that the firm keeps a part of its capabilities in reserve refutes the proposition about the resource-constrained economy.

I mentioned, in this paper as well, that in the traditional socialist economic mechanism the firm will make attempts—sometimes unsuccessfully, sometimes with success—to conceal or withhold a part of its capacity. But does this phenomenon refute the contrasting of the "resource-constrained economy" with the "demand-constrained economy"? For a clearer survey, let us describe these two constraints by simple formulae:

$$\underline{x} \leqq \underline{R} \tag{1}$$

$$\underline{x} \leqq \underline{D} \tag{2}$$

where $\underline{x}$ denotes output, $\underline{R}$ is the limit to performance determined by the production resource with the narrowest bottleneck, and $\underline{D}$ is demand.

Let us now modify the inequality (1) as follows:

$$\underline{x} \leqq \alpha \underline{R} \tag{1a}$$

where α is the "reserve factor". If the reserve is not successfully withheld or concealed, then $\alpha=1$; otherwise it is somewhat smaller than 1.* The question can still be asked whether $\alpha\underline{R}<\underline{D}$, or, conversely, $\underline{D}<\alpha\underline{R}$. In the first case it is production that is constrained by resources (or by the part of resources intended to be used by the manager), while in the second case it is demand that restricts output. Even after the modification of (1a) the question remains: which side proves to be the effective constraint regularly, recurrently

*I will leave the question open by how much it is smaller than unity in the average of firms. *Economics of shortage* makes a distinction between mobilizable and non-mobilizable slack. In momentary adjustment such slack is not mobilizable for which the complementary inputs are missing. According to the definitions used in the book, on a micro-level the firm runs up against resource constraints if it has no *mobilizable* slack.

The question now arises whether, in the old mechanism, the enterprise can easily afford to leave a considerable quantity of mobilizable slack unused. We find everything together: labour, materials, machinery—and yet they do not produce? Is it not to be feared that there will be someone, or an institution within or without the firm, that will notice it and report it to the higher authority?

I believe that a deliberate withholding of performance, even if it exists, does not belong to the main weaknesses of the old mechanism. Many other circumstances contributed to ensure that the old mechanism could not guarantee an efficient utilization of resources, a faster growth of productivity and more advantageous combinations of inputs and outputs.

and characteristically, with an essentially greater frequency, considering millions of elementary events in production and trade.

Here we are up against an epistemological problem. How much abstraction is permissible in economics? Certainly, such a confrontation of economic systems is extremely rough even after the correction of (1a). It frequently occurs in the traditional mechanism that production can indeed not be increased because of a lack of orders: nor is it rare in a capitalist economy, particularly at times of booms, that the growth of production is impeded by the lack of some input. In addition, R and D are not static magnitudes, but mutually affect each other in the dynamics of the economy. And yet I hope that this rough, gross confrontation grasps something essential and general, and characterizes the difference between two abstract systems, two "models".

The contrasting of male and female is rough in many respects. There are women with masculine mental and physical features and men with feminine mental and physical features. Even the fact that men have nipples is a baffling feminine feature. Homosexuals and hermaphrodites exist. Operations are carried out which produce transsexual changes. Yet the usual division into men and women has stood the test, in spite of transitional or problematic cases and inconsistencies.

Economics is full of classifications, periodicizations and dichotomies which are rough and approximative relative to reality. We have to be aware of the abstract nature of such dichotomies and classifications, abstracting from many kinds of concrete facts and implying many kinds of simplifications. Nevertheless, even if we know that it would be a pity to give up their use, since their elimination would make it difficult or even impossible to construct abstract theories, or pure lines of reasoning, with the pure conclusions that can be derived from them.

References

1. Bauer, T.: *Tervgazdaság, beruházás, ciklusok* (Planned economy, investment, cycles). Közgazdasági és Jogi Könyvkiadó, Budapest 1981. (Forthcoming in English.)
2. Burkett, J. P.: *Search, selection and shortage in an industry composed of labor-managed firms.* Mimeographed. University of Rhode Island. 1983.
3. Burkett, J. P.: *Stabilization measures in Yugoslavia: An assessment of the proposals of Yugoslavia's Commission for Problems of Economic Stabilization.* Mimeographed. University of Rhode Island. 1984.
4. Gács, J.–Lackó, M.: A study of planning behaviour on the national economic level. An attempt at analysing a few correlations based on Hungarian data. *Economics of Planning,* 1973. 2.
5. Havrylyshyn, O.: *Yugoslav trade liberalization: An economic background.* Mimeographed. George Washington University. 1984.
6. Kapitány, Zs.–Kornai, J.–Szabó, J.: Reproduction of shortage on the Hungarian car market. *Soviet Studies,* Vol. XXXVI, No. 2. Apr. 1984.
7. Knight, P. T.: Financial discipline and structural adjustment: Rehabilitation and bankruptcy of loss-making enterprises. *World Bank Staff Working Paper* No. 705, 1984.
8. Kornai, J.: *Overcentralization of economic administration.* Oxford University Press, Oxford 1959.

9. Kornai, J.: *Anti-Equilibrium.* North-Holland Publishing Co., Amsterdam–New York–Oxford 1971.
10. Kornai, J.: *Economics of shortage.* North-Holland Publishing Co., Amsterdam–New York–Oxford 1980.
11. Kornai, J.–Matits, A.: Softness of the budget constraint–An analysis relying on data of firms. *Acta Oeconomica.* Vol. 32, Nos 3–4. (1984) pp. 223–249.
12. Soós, K. A.: Causes of investment fluctuations. *Eastern-European Economics,* Vol. 14, No. 2 (1975–1976).
13. Soós, K. A.: Gazdasági reformok és rövid távú szabályozás (Economic reform and short-term regulation). Mimeographed. Institute of Economics, Hungarian Academy of Sciences, Budapest 1983.
14. Soós, K. A.: A propos the explanation of shortage phenomena: volume of demand and structural inelasticity. *Acta Oeconomica,* Vol. 33, Nos. 3–4 (1984)
15. Soós, K. A.: A reformok utáni magyar és jugoszláv gazdasági mechanizmus néhány fontos közös sajátossága – „Tőkepiac", tőketulajdonosi funkciók, költségvetési korlát (Some important common characteristics of the post-reform Hungarian and Yugoslav economic mechanisms–Capital market, capital ownership functions, budget constraint). *Társadalomkutatás,* 1984. 2.
16. Tyson, L. D.: Investment allocation: A comparison of the reform experiences of Hungary and Yugoslavia. *Journal of Comparative Economics,* 1983. 3.
17. Weibull, J. W.: A dynamic model of trade frictions and the disequilibrium in the housing market. *Scandinavian Journal of Economics,* Vol. 83, No. 3, 1983.

K. A. SOÓS

A REJOINDER TO JÁNOS KORNAI

As I indicated in a longer paper [7. p. XI.] referred to in Kornai's comment, I am a member of that generation of Hungarian economists which learnt a great deal from János Kornai's works. Still, I think that Kornai's theorems need further elaboration and even discussion on certain points. I tried to do that in my articles [8] and [9].

As for article [8], unpublished in English, Kornai's comment quotes some words and half-sentences from it; this is not the place for me to present the reflections of the article. And I do not see any need to repeat or to modify the ideas of article [9] substantially.

I restrain this rejoinder to the discussion of the first substantial statement of Kornai's comment: after some introductory remarks he quotes a sentence from my article [9], and he finds two "pseudo-debates" in it. [5, p. . .]

One would be a "conceptual pseudo-debate". According to Kornai, I did not mention that what I call the *structural (institutional) inelasticity of supply* and what I believe to be the basic explanatory variable of shortage, is similar to "friction" as used in *Economics of shortage.*

Well, I did not inform readers about the fact that he refers to a certain phenomenon under the name "friction" – this is true. But is this terminological aspect really

important? The "jolts" in the adjustment of supply to demand are usually called "rigidity", "inflexibility", "inelasticity". Let me refer here to two reviews of *Economics of shortage* which give an account of Kornai's concept with these conventional terms, without referring to his new term. [2, p. 410]; [6, p 97]. If I did as the reviewers, that was hardly any (pseudo- or not pseudo-) debate. But did I actually do so? Or maybe the rub is that I passed over the fact that the notion appears in Kornai's book – under whatever name? My sentence, as quoted by Kornai, does not include any reference to the notion in question. However, the reference does appear in the original sentence – which mentions that Kornai makes use of the *"inelasticity of the structure of supply"* – but Kornai quotes by omitting that part of the sentence. And he quotes the complete sentence in a footnote, with the remark that he does not propose there to argue with the omitted part.

As far as the other "pseudo-debate" is concerned: according to my sentence quoted by Kornai, *Economics of shortage* gives a one-sided excessive quantity-of-demand explanation of shortage. Kornai stresses in his comment that this is not true: his book had attributed an important role to "friction" in the explanation.

Well, I could have misunderstood the book; and my fault would *not* be lessened by the reviewers same "misunderstanding" of the book (cf. e.g. [1, p. 199]; [2, p. 408]; [3 p. 88].

But I think there is hardly any misunderstanding here.

What do we mean by shortage?

One probably cannot buy an elephant in Chicago on Christmas Eve. This obviously is shortage; shortage exists everywhere in the world. However, in today's socialist economies there are typical frequent, intensive shortage-phenomena. *Economics of shortage* made a clear distinction between the explanation of the everywhere existing shortage (let us label it shortage I) and of the frequent, intensive shortage in today's socialist economies (shortage II); "... there is no real economy without friction. Even where stores are packed with goods... there may be a buyer who happens not to find some product... This book seeks to identify the mechanisms that amplify this *everywhere existing friction-caused shortage* (shortage I – K.A.S.), and reproduce *frequent, intensive shortage-phenomena* (shortage II; my italics – K.A.S.). [4, p. 185]. So, according to *Economics of shortage,* everywhere existing shortage I is, but shortage II in today's socialist economies is *not* "friction-caused". And, *tertium non datur,* it is excess-demand-caused: the "mechanisms" mentioned, which explain shortage II, amount to excess demand, to the "nearly insatiable demand of enterprises", as discussed in further chapters of the book. When the reviewers stated that *Economics of shortage* explains shortage by excess demand, they obviously meant shortage II, and in this sense their interpretation was perfectly correct. And so was mine. I would never undertake to develop an explanation of shortage I. In the first two sentences of my article I defined my topic as the explanation of the massive shortage phenomena in today's socialist economies (shortage II). And I challenged Kornai's one-sided excess-demand-explanation of the latter. It was *not* a "pseudo-debate". My mistake was that I did not foresee that

the distinction between the explanation of shortage I and shortage II, which had been clear in *Economics of shortage,* would retroactively disappear in Kornai's comment.

Ending this rejoinder, I should like to express my belief that the problems discussed in our articles are worth of further scientific argument.

References

1. Andorka, R.: Economics of shortage by J. Kornai. *Acta Oeconomica,* Vol. 26, Nos 1–2 (1981).
2. Hare, P. G.: Economics of shortage and Non-price control. *Journal of Comparative Economics,* Vol. 6, No. 4 (1982).
3. Hoch, R.: Recenzió Kornai J. „A hiány" című könyvéről (A book review on "Economics of shortage" by J. Kornai). *Szigma,* 1981. 1.
4. Kornai, J.: *Economics of shortage.* North-Holland Publishing Co., Amsterdam 1980.
5. Kornai, J.: On the explanatory theory of shortage. Comments on two articles by K. A. Soós. *Acta Oeconomica,* Vol. 34, Nos 3–4 (1985).
6. Levine, H. S.: Book review (Kornai, J.: Economics of shortage). *Journal of Economic Literature,* Vol. XXI, No. 1 (1983).
7. Soós, K. A.: Gazdasági reformok és rövid távú makroökonómiai szabályozás (Economic reforms and short-term macroeconomic control). Institute of Economics of the Hungarian Academy of Sciences, Budapest, 1983. (Manuscript)
8. Soós, K. A.: A reformok utáni magyar és jugoszláv gazdasági mechanizmus néhány fontos közös sajátossága (Some important common features of the Hungarian and Yugoslav economic mechanisms after the reforms). *Társadalomkutatás,* 1984. 2.
9. Soós, K. A.: *A propos* the explanation of shortage phenomena: Volume of demand and structure inelasticity. *Acta Oeconomica,* Vol. 33, Nos 3–4 (1984).

Acta Oeconomica, Vol. 34 (1–2), pp. 165–173 (1985)

REVIEWS

E. SURÁNYI–ZS. JÁRAI

BONDS IN HUNGARY

Several types of securities are known in economic history and the practice of other countries.

Securities are classical instruments of capital flows, in principle they prove and embody two sorts of rights:

– the *right of participation,* namely that the part-owner is authorized to decide jointly, as a partner, on any common issue and to have a share in its results or risks. Such are shares which represent a part of the equity of an undertaking or a joint stock company, with the respective right of decision and/or intervention, as well as define a certain ratio of capital in some investment fund;

– the *right of claims;* i. e., that the owner of the security must recover a definite sum after a certain period of time, and that during that time he receives the interest and/or other services determined on the security itself in question. Such may be government and public utility bonds and debentures.

Until quite recently securities played no essential role throughout the era of socialist economy in Hungary. According to our present interpretation, the so-called Peace-Loan bonds issued in the 1950s were no genuine securities, since they served not for motivating natural savings but were used *quasi* as tools for restricting the purchasing power; in addition, they were non-negotiable. The circumstances of issuing them produced such negative reactions which largely contributed to the elimination of bonds from the financial arsenal.

In the cooperative sphere there have been and still are some kinds of shares which resemble securities in many aspects (they serve for temporarily putting the savings of members at the disposal of the cooperative for development purposes). The regulation of these, however, contains several limitations and deviations (e.g. in respect of interests or negotiability) because of which these cooperative shares may not be considered as genuine securities.

As initial and experimental measures, so-called communal (public utility) bonds linked to specific investment purposes were issued at the end of 1981, and similar government bonds in 1982. These financial transactions were already based on careful considerations regarding the original functions and the essence of securities, within these, of bonds. The timeliness and expediency of issuing bonds in a broader range was supported by the economic situation evolving in the early 1980s, and by the requirements

of a rational use of resources. Successful development has been achieved in Hungary under the earlier more favourable economic conditions with an even narrower arsenal of financial instruments. The deteriorating conditions, the demand to restore external equilibrium, however, necessarily called for the utilization of every possibility as a result of which economic resources can be mobilized. A possible, though not fundamental tool of this aim is to issue bonds. This became possible in Hungary according to definite rules as from January 1, 1983.

The justification of bonds in a socialist economy

The introduction of bonds had been preceded by discussions. The basic question was whether the issuing of bonds can be fitted into the framework of socialist economy and how it can be interpreted within the system of socialist income distribution. Since then, practice has proved that, with appropriate regulation, bonds—as well as market, money, credit and, in general, the categories of commodity and value—can be well fitted into socialist planned economy. The bond transactions based on mutual advantages unequivocally serve—in addition to credit which also fulfils a determining role in the allocation of resources—for realizing the targets of economic policy. It was also questioned whether it is justified in our economy to obtain income generated not by the owner's own activity but from investment of money at other places. However, the interest on a bond does not essentially differ, either in content or from, from the interest on credit which has been an income-increasing factor in the socialist economy from the outset. Substantially, bonds are instruments of money movements and income redistribution within the scope of state ownership, regulated and controlled by government, whereby no privately owned productive capital can come into being and, at the same time, the resources of enterprises and the population, mobilized in this way, might aid the development of the most effective areas.

Since new orders came into effect and the opportunity to issue and negotiate bonds has been open, about 30 various bonds were put on the market in Hungary, in a value of about one-and-a-half thousand million forints.

The success of bonds is greater than expected. From the bonds experimentally issued before the relevant orders were passed, only about half had been purchased, hence the initial experiences seemed unfavourable. The impetus later on has largely refuted this experience and by today bonds have come to be irrevocable elements of the Hungarian economy, built into the system of capital flows.

The birth and existence of bonds assist in solving one of the old troubles concomitant with socialist economy, namely, the very slow pace of capital flows.

In line with the tightening investment sources available to the national economy, and with the restrictive investment policy, the *best possible utilization* of the relatively small capital and investing it in the best way become ever more important. As the investable amounts cannot be increased, the only way leading to strengthening the

efficiency of the economy can be a better selection and a more rapid and effective flow of capital, than was earlier the case.

The mechanisms which could successfully serve for withdrawal of capital from uneconomical activities and reallocating the sources into economical operations are mostly missing from the Hungarian economy. In recent years several restrictions, which expressly impeded reallocation, have been lifted and some new forms and instruments aiding this flow, have been developed. Lending, transfer of capital by enterprises among each other have become possible; funds, small banks serving for the acceleration of capital flow have been established, allotting state-equity has become ever more widespread and, later on, even the possibility of banks and enterprises to allocate capital has increased. Among the new forms of capital flow developing only recently, bonds and, in a wider sense, the circulation of securities evolving in our days create a more rapid and efficient flow of capital.

Bonds only constitute *one* of the forms of capital flow available to the economy and also mean only one form of applying securities—characterized by specific features. It would not be expedient to overstress the significance of this form and attach exaggerated expectations to its introduction and application. It means the use of an instrument which may contribute to a higher efficiency of economic processes but in itself it is not enough to achieve this. Therefore, its weight and significance can by no means be determinant. The form of bonds is not too significant in collecting sources for investments even in capitalist countries with most advanced capital markets. The amount of the annually issued bonds does not normally exceed a few percents of the annual investment of the year. This means that entrepreneurs only obtain a small percentage of their investment sources on the bond market. This ratio reaches not even one percent in Hungary today, the value of bonds sold in two years on the bond market was less than one percent as compared to the yearly investment outlays.

Even in spite of this relatively insignificant share it would not be correct to underestimate bonds. On the ground of experience to date it seems to be realistic that this form of capital flow will play a larger part in the future, it may contribute to withdrawing capital from unprofitable fields, to regrouping it to the most dynamic spheres, and thereby to the acceleration of economic growth. Therefore it might increase the productive capacity of the economy.

Bond as a form of credit

The bond is one of the classical elements in the system of financial instruments, it serves for *temporarily* reallocating financial sources—collecting them for definite purposes. Regarding its substance, issuing bonds is a *credit transaction,* the issuer being the *debtor* and the purchaser (owner) the *creditor,* and a bond is a security embodying the debt and other obligations of the issuer,—i. e., the amortization (redemption) due to the creditor, as well as the interest and other contributions or occasional services. It may

be payable to bearer or may be a registered bond; one of its substantial elements is negotiability (only limited in exceptional cases—generally with registered bonds).

Hence, as far as its economic substance is considered, the bond is a form of credit or, viewed from the other side, a form of saving. This is how it fits into the system of financial policy instruments aimed on the one hand at increasing the propensity to save, and on the other at strengthening the role of credit in the flow of capital. This interpretation makes it clear that bond is originally linked to generating, allocating and extending credit sources and this determines—and also delimits—its possible sphere of operation and its volume as well.

The issuer of the bonds, essentially *borrows money from the purchasers* and pays a predetermined interest, and obliges himself to pay a definite amortization, as the price for the loan. The bond differs from the classical bank credit in that the borrower is not in direct relationship with one or a few creditors but faces, in general, a large number of bond purchasers. There are also some formal differences between the bond and other forms of credits; the period of grace, amortization time, the conditions of interests, etc., are deviating.

From the sources collected by selling bonds, investment projects are usually implemented, and this brings us to the problem of demand management. The question is how this relatively free opportunity of obtaining sources—i. e., issuing bonds—fits into the conditions under which the investment purchasing power is strictly regulated. From this viewpoint, considering the present proportions, bonds play as yet no significant role, since such small part of the purchasing power is generated by selling bonds which lies within the limits of error in planning or regulation. It is imaginable, however, that the purchasing of bonds will gain in the future a much wider popularity than it enjoys today, and then it will be necessary that economic regulation and planning also "handle" this instrument. If credit granting will be subject to *real banking, and, behind it, central banking regulations*, this will cause no serious difficulty. Namely, bonds can only be purchased from savings accumulated in some form, which will at the same time reduce the sources of bank credits. If less savings are deposited with the banks, their possibility to extend loans will also decrease. Hence, the impact of bonds on the investment purchasing power can and should be taken into account through the changing ratio of deposits to credits in the banks. If bank loans will more closely depend on the stock of deposits in the future, the problem of regulating the purchasing power will automatically be solved; solution will be brought about by fitting it into the monetary regulation by the bank of issue.

For purchasers, the bond is essentially a *saving*. By having introduced it, the range of the opportunities to save widened, both for enterprises and for private persons. New earlier not available alternatives of saving can also be chosen. Since the new alternatives are more favourable than the earlier ones, it may be expected that the total amount of savings realized in the economy will increase, or, respectively, the structure of savings will change in a direction favourable for the national economy.

Beside several open questions of the socialist theory of saving, interrelations between savings and investment are as yet unexplored in the Hungarian economy. But it is unquestionable that in the present situation it is desirable and advantageous to increase savings. Hence, if bonds, as a new alternative of saving, result in a growing amount of total savings, this in itself is a sufficient reason to use them. Even the fact that it causes changes in the structure of savings can be highly significant. Bonds are meant in general for long terms—7 to 15 years,—hence, the liquidity of savings decreases by buying them.

Bonds issued by various states (governments), local bodies of state administration and by banks represent a considerable weight among all the bonds in circulation on the capital markets of the world. Especially state bonds are considered safe and stable investments, since their repayment and the promised interests are guaranteed by the governments. Slightly less safe are those issued by local state organizations and by banks, first of all by the big banks, since these are usually backed by a high amount of assets as a guarantee. Bonds are regularly issued for example by the World Bank as well as by the big banks of the individual countries, which this way also obtain sources for financing their investment projects.

Differing somewhat from international practice, the proportion of bonds issued by enterprises is relatively high in Hungary. The provisions of law allow the government to issue bonds with certain limitations, but private persons are not allowed to hold them. Therefore, state bonds can only play a part in the capital flow between enterprises and the state. Local state bodies, i. e., the local councils may also issue bonds to private persons. By selling them, they may earlier realize their development objectives and ideas, acquiring thus earlier the sources needed for implementing the projects aimed at satisfying infrastructural demands of the local inhabitants. They can amortize the bonds from sources available to them later. The bonds issued by local councils are not significant as yet. Beyond the aforementioned experiments, gas bonds were issued by some of them.

Brisk interest can be experienced on part of the enterprises in issuing bonds. Many of them strive to obtain the funds which might enable them to solve their most urgent development problems on the bond market.

According to current regulations the money collected by selling bonds is not too cheap for enterprises. Taking into account the usual expiration of 7—10 years and 11 to 15 percent interest rates, the issuers have to attain 30—35 percent profit with the investment projects financed through the sale of bonds. First of all the interests must be paid from the profit, then, from the remaining part and the depreciation allowance an undivided interestedness fund has to be formed, at least of a size sufficient to cover the amortization of the bonds. It is only natural that other sources generated by the enterprise can also be involved for paying interests and amortization. Yet, it is a realistic expectation that the investment project financed through the sale of bonds pays back itself by yielding the money needed; or, at least it does not diminish the other resources of the enterprise, the latter should be resorted to only under extraordinary circumstances.

The money collected through the sale of bonds cannot be deemed cheap even if compared to the normal terms of credit. True, the 14 percent interest on bank loans is higher than the average interest on bonds, but the expiration of loans is today mostly longer than that of bonds on the average. What is then the cause for the great interest raised by the issue of bonds? It can mainly be explained by the relatively narrow possibility of enterprises in Hungary to raise loans, i. e., by the restricted *credit quotas.*

The mode and conditions of issuing bonds

Taking into consideration that the issue of bonds is essentially raising credit, the issuing enterprise must normally make a feasibility study about the project to be financed, similarly to the case of applying for a loan from the bank. A plan of issue has to be drawn up which must be approved by the manager of the issuing enterprise if the bonds are to be sold merely in the enterprises sphere, but if holders may also be private persons, the plan of issue has to be submitted to the Ministry of Finance for approval. The banking institutions engaged in the management of bonds assist in drawing up the plan of issue and in every technical operation linked to the issue of bonds.

According to the rules of law, *any bank* may be requested *to manage the issue of bonds* and, in practice, several banks actually pursue such activities. In issuing and/or managing 70 percent of the bonds in circulation in Hungary the State Development Bank has taken part, but the National Bank of Hungary, the Hungarian Foreign Trade Bank Ltd., the National Savings Banks and savings cooperatives have also transacted the issue of some bonds. Practices of the individual banks and financial institutions may differ from one another, but in judging the reality of the enterprise's intentions the tasks of the banks, or—in the case of bonds purchasable by the population, those of the Ministry of Finance—are surely rather significant. They have to examine, by all means, the *security* of interest payments and amortization, and this essentially requires investigation weighing and appraisal by the bank which is similar to project appraisal prior to granting a loan. In addition, they have to assess and know the market from the viewpoint of chances for selling the bonds to be issued.

The banks only undertake to manage the issue of bonds under the following conditions:

– if the financial position of the issuing enterprise is stable, its management is reliable and the business policy, leadership and profit perspectives of the enterprise may be deemed promising;

– if the envisaged high profitability of the investment to be financed can realistically be attained and it can be expected to produce sufficient coverage for interest payments and redemption of the bonds;

– if, also taking into account the factors of uncertainty, the issuer warrants the repayment of the bonds by other means, too (mainly by possessing enough liquid assets or such as are easy to make liquid);

– if the risk is comparatively low, i.e., the total value of the issue does not exceed 20–30 percent of the enterprise's equity capital;

– if the conditions of the issue, the market position and goodwill of the enterprise among the purchasers allow the selling of the bonds.

A thorough appraisal by the bank is necessary in the case of bonds purchasable both by enterprises and by private persons. Though in the former case the interest payment and redemption are guaranteed by the total capital and income of the issuer, yet none of the banks would lend its name to some action involving too much uncertainty. In the case of bonds which can also be purchased by the population, interests and repayment are guaranteed by the state; nevertheless, both the issuing enterprise, as well as the managing bank strive to avoid the necessity of resorting in fact to the fiscal guarantee.

Unconditional state guarantee for bonds held by the population, prescribed by the rules of law, perhaps provides purchasers an *exaggerated safety,* so that holders of bonds take practically no risk at all. In case the issuing enterprise could not fulfil its obligations, the guaranty of the state comes automatically into effect and the state budget will pay instead of the enterprise. Hence, the total risk is borne by the budget. Thus the bond comes closer to the savings deposits which are also guaranteed by the state, and judging the market position of the issuing enterprise looses much in significance. In our days, however, when strengthening confidence in them is one of the most important conditions of spreading the bonds, it is by all means expedient to maintain the institution of state guaranty. In the future, when the "position" of bonds will grow sufficiency stable, it may be imagined that in order that investors carry greater risks, a change in the system of guaranty will be justified, which, of course must not affect the guaranty of earlier issued bonds. Anyhow, the willingness of the population to buy bonds now may presumably also be attributed to this condition.

Propensity to buy bonds

The interest and readiness of enterprises and cooperatives in buying bonds are rather moderate. This may be attributed to the fact that in Hungary today the interest and objectives of an enterprise are concentrated on its own growth, on increasing production and so it is reluctant to invest money into the growth of another undertaking. Increased purchasing of bonds by enterprises can only be expected in the future if, in the wake of a further development of economic control, management and regulation, entrepreneurial attitude and thinking in terms of equity capital will develop, and the objective of investment will not be to increase the investor's own capacity but to produce–anywhere–the highest possible returns.

In addition to paying interest, the readiness to buy bonds can be stimulated by *other advantages,* too. Practically, almost all enterprise bonds currently in circulation are accompanied by some additional service. For example, the buyers of gas-bonds are given some advantage in being linked to the national network of gas pipelines; those of the telephone bonds will receive their telephone extension out of order; the holders of the

COMPORGAN and SZÜV bonds* can receive the computer programs prepared by the issuers free of charge or at favourable prices.

In the bond market of the population fewer such incentives are needed. The fact that the interest of private persons, rather languid in purchasing the experimental communal or the gas bonds with low interest rates at the outset, *enormously increased* after having improved the terms, indicates that the interest rates play a decisive role. The bonds with favourable interest rates (11 percent per annum) and with an expiration of 7–8 years are today bought up, so to say, within hours after their issue. The number of people queuing for the bonds shows that the population's confidence in this form of saving is strengthening. On the other hand, this rapidly increasing and today already very vivid interest indicates that the population is the *stratum of money holders* unequivocally interested in the most favourable investment of their money.

The elastic change in the demand of the population adjusting to the conditions of bonds is reflected by the following facts. Sometimes, for selling the earlier issued communal (public utility) bonds, with interest rates of 5.5 to 7 percent and expirations of 5–6–7 years, canvassing was necessary. From the population's gas bonds with an interest rate of 7.9 to 9 percent almost half of the total amount issued has been purchased; the bonds with interest rates of 9 to 10 percent, amounting to Ft 30 million have already been sold, though it is true that it took about almost half a year to sell them, while the bonds which pay a yearly interest of 11 percent are extraordinary well selling.

The two-digit interest rate is not too high if we take into consideration that from the viewpoint of the issuer the bond means *permanently tied-up money.* The holders of the bonds may freely sell and buy them, the issuer, however, must redeem them only at the predetermined pace. This relatively safe, long-term tying up of money is by all means worth 1–2 percent additional interest. The recently developed interest rate is unquestionably favourable for the population, though in reality it means paying for the stable tying up of the money. It becomes truly advantageous if a realistic possibility of selling the bond prior to its term of expiry emerges, namely, if it is negotiable not only by law but also in practice. In this case the holder will be able to regain his money, even prior to maturity, though it is true that only at the currently prevailing prices, taking the risk of losses caused by price changes. In such cases the high interest rate means *paying for the risk* involved.

Negotiability belongs to the essence of the bond; this is one of its particular features distinguishing it from other forms of deposits. Bonds can generally be freely sold and purchased in accordance with the provisions of Hungarian law. At the outset the institutional conditions of this were missing, though in the meantime a significant portion of enterprise and population bonds changed hands. The enterprises sold and purchased bonds through the mediation of banks, and private persons did it by themselves, among each other. Though this turnover was not significant, yet it became necessary to provide

*COMPORGAN System House and SZÜV (KSH Számítástechnikai és Ügyvitelszervező Vállalat) are two computer techniques, systems and administration organizing firms.–Ed. note.

the institutional possibility as well. From among the banking institutions the State Development Bank was the first one to undertake the institutional promotion of circulation, both among enterprises and private persons. The State Development Bank is engaged in the sales of *all* bonds issued in Hungary, irrespective of the issuing enterprise and the bank involved in the issue.

Taking into account that the State Development Bank does not aim at investing significant amounts into the purchase of bonds, the bank only buys them for the purpose of re-selling them. The selling and purchase prices are each time set according to the current relations between demand and supply. The prices of the less popular, low-interest bonds with unfavourable conditions and long expiration may even sink below the nominal value, while those of more popular and favourable ones may rise some percents above the nominal value. Owing to the low demand, the State Development Bank takes over enterprise bonds only on commission, the enterprise wishing to sell the bonds will receive the countervalue only when the bank has found a purchaser for them.

The secondary turnover of bonds was not really brisk in the past few months. That is a matter of course, since the holders of bonds originally reckoned generally with a period of 7—10 years for investing their money and hardly one year, or a half have passed yet since they had purchased the bonds, consequently they are not willing to sell them as yet. Circulation in the bond market, currently significant only in principle, will certainly play a more important part in the future. If there will be more bonds on the market, demand and supply will also certainly increase.

* * *

The two years passed since the legal conditions of bonds were established, have been too short a period to judge the role of this form of capital flow in the socialist financial system, from the viewpoint of economic history. It is, however, clearly visible that bonds usefully widen the arsenal serving capital flows and create greater vigorousness exactly at a point where they clear the way for the most profitable undertakings. A regulation of general type offers a wide range of possibilities and concrete ways for issuing bonds, at present not at all exploited. Continuous evaluation and public monitoring of experiences may aid in the spreading of bonds and in that bonds fulfil their role in redistributing the incomes between enterprises and the private sphere, and in the flow of capital among enterprises.

Acta Oeconomica, 34 (1–2), pp. 175–176 (1985)

OBITUARY

ERNŐ CSIZMADIA

1924–1984

The early departure, at the height of his creative powers, of Ernő Csizmadia is a painful loss to both science and agricultural policy. He was equally respected, esteemed and loved by his colleagues and disciples for his simplicity, unselfish readiness to help, and deep humaneness.

He graduated in 1950 in agricultural economics at the University of Economics where he had been an assistant lecturer as a graduated student. Later he was appointed assistant professor at the University of Agricultural Sciences. His first book–submitted as a dissertation for the degree of Candidate of Sciences–was published under the title of "Two paths, two worlds" in 1962. In the course of his career active participation in research, education and social and public life became inseparably intertwined. Whatever post he was called upon to occupy, the central questions of his activity were always the scientific cognition and exploration of the laws of agriculture, the socialist system of agriculture and the food industry and, relying on them, the establishment of a socialist agricultural organization, applicable to Hungarian conditions, operating efficiently and capable of continuous rejuvenation according to its own laws. He was editor of *Társadalmi Szemle,* head of department at the Secretariat of the Council of Ministers, deputy head of section at the Central Committee, HSWP, university professor and, beginning in 1979, Rector of the Karl Marx University of Economics.

At the beginning of his career one of the basic problems was in agriculture to find a Hungarian cooperative model that would stand the test of practice and harmoniously fit into the economic system. Ernő Csizmadia's analyses were based on experience in Hungary and abroad as well as on his theoretical erudition, and were essential contributions to the models then established and continually improved. He analysed the basic problems of the operation of cooperatives, particularly their internal accumulation, extended reproduction and the ways of making direct producers financially interested in production, the necessity of which he had been one of the first to recognize. To these he linked the outlines of the main features of a corresponding agricultural policy and, when the reform of economic control and management was worked out, the examination of how the principle of equal economic partnership could be asserted in practice. He was among the first who, looking beyond the traditional sectoral frameworks, and with a view to scientific and technological progress, formulated the modern system, basic features and laws of food production transgressing the boundary of agriculture.

He published his researches, experiences, analyses and proposals in several books and numerous articles, textbooks and other materials used in teaching, enriching, deepening and propagating Marxist economic thought. His talents as researcher and author were frequently called upon by this periodical and he also aided the work of the Editorial Board.

The Hungarian Academy of Sciences acknowledged his activities by electing him corresponding member in 1973 and ordinary member in 1979.

He was 60 years of age when he received his last government decoration, the Order for Socialist Hungary.

A career rich in creative activity has come to an end which has left lasting traces in the views of his contemporaries and the economic policy concerned with socio-economic development in Hungary.

Acta Oeconomica, Vol. 34 (1–2), pp. 177–188 (1985)

BOOK REVIEWS

PÁSZTOR, S.: *A külgazdaság és a fejlesztési politika kapcsolata* (Foreign trade and development policy). Közgazdasági és Jogi Könyvkiadó, Budapest 1983. 263 p.

Sára *Pásztor* discusses in her book the most timely problems of Hungarian economic development. Having explored the facts and their interrelations, she arrives at the conclusion that Hungarian economy has reached the point where further development becomes impossible without actively joining the international division of labour. This is the basic message of the book. The authoress thoroughly investigates the preconditions needed for realizing this target as well as the circumstances and factors which act in the opposite direction.

For proving her basic theorem the authoress discusses the problems of a country open to world economy, the conceptual definition, measurement and computation of openness, and especially its character. She analyses the difference between openness caused by economic constraints and that due to rational economic considerations, as well as the rather legal than economic concept of "institutional" openness. She finds that the closer or looser linkage between foreign trade and development policy depends on the "economic" openness of the country.

Sára Pásztor correctly presents and also outlines the basic theorem of foreign economic problems related to development, saying that the more developed a country, the more intensively it participates, or has to participate, in the international division of labour; consequently, it becomes more dependent on its factors, i. e., on the effects of foreign economy. There is no alternative to this dependence or to becoming dependent, (there are, at most, degrees of it), because only a country which renounces development, can be economically independent. It is also stated that an adequate development or development policy results in mutual dependence. She also finds–and it is difficult to refute it–that, owing to historical causes demonstrated and analysed in detail, the structure of Hungarian economy is characterized by a certain autarky even today. To maintain this situation is, however, irrational, since it would mean disregarding the country's supply with factors of production. Autarky makes all the factors of production more expensive by deconcentrating their use, dispersing them to all fields of economy and thus preventing their efficient utilization. Despite all this, the Hungarian economy is an open economy. In our case this phenomenon is not antagonistic, since autarky has no grounds, while openness is an economic necessity.

The treatment of the degree of concentration and/or deconcentration in Hungarian exports and imports, as one of the factors determining the extent of economic openness, as well as the related computations broken down to the level of enterprises and products, deserve particular attention, because they are methodologically correct and, what is more, convincing. The scientific survey of these questions has thus been enriched by new, so far undiscovered elements. Regarding the connections between imports and exports, the work also reveals interrelations, following them down to the level of subsectors, which have not yet been numerically examined. The final conclusion of these detailed analyses is that the organization of Hungarian export is centralized but not concen-

trated, or, as the authoress says with a witty paradox: concentratedly deconcentrated. By examining the deconcentration in Hungarian exports, Sára Pásztor draws the self-evident conclusion,—which others did not dare to draw sometimes—that without orientation to the foreign economy, which unavoidably entails a narrowing down of the range of products turned out, economic development remains essentially extensive despite the high degree of openness. She very convincingly proves that extensive industrialization was carried out in Hungary at the expense of agriculture and services. There is a rich literature of critical studies on this economic area and approach which have not yet completely been transcended. Still, I have rarely met such a succinct formulation enlarging on every relevant detail as in the present study. Her conclusion is that, in the final analysis, a continuation of the development trend followed so far would entail for Hungary that she would rather increasingly suffer the disadvantages than enjoy the advantages of the international division of labour. Thus, participation in it would rather be a compulsion and involve increasing defencelessness than advantages deriving from rational economic considerations.

The authoress—correctly—sets out from the fact that the degree of economic openness is influenced by the balance of the international exchange of commodities, by the debt resulting from the negative balance of exports and imports and by the extent of the cumulated stock of debts deriving from the permanent difference. She treats therefore the development and extent of the stock of debts of Hungary and, in general, the definition of the upper limit to the stock of debts in detail. As far as the degree of indebtedness is concerned, Sára Pásztor has had no easy job, since the relevant data are classified in Hungary and must not be published. This circumstance compelled the authoress to find out the stock of debts by way of estimation based on publicly known data. Despite this fact, she arrived at such numerical results which, in my opinion, must be close to reality. The authoress's merit is just the working out and application of this method of computation, a new scientific achievement in itself. This applies even more to the explications concerning the upper limit to the debt stock and to the methodology of findings in this subject. In our case the decisive question is what the loans asked are used for. Thus, I agree with the authoress's opinion that, with the present effectiveness of development, increasing the stock of debts would be unbearable in the long run and in order to slacken it, efficiency has to be raised. This will, no doubt, require a transitory restriction of the growth of domestic end uses.

In connection with estimating the stock of debts the authoress points out the reasons why it may differ from the amount estimated. Among these she mentions that, in addition to other factors, on the one hand money market operations, on the other hand, spontaneous changes in exchange rates on the money market may influence the composition of the stock of debts. On my part, I would complement this by saying that the two emphasized factors are normally intertwined; the purpose of money market operations is just to exploit the "spontaneous" changes in exchange rates in order to diminish the amount of debts. This is exactly one of the most important targets and means of foreign exchange policy, and it is well known that the National Bank of Hungary as well as any successfully operating central bank, consciously makes use of this tool. Sára Pásztor also discusses the impact of the interest burden on the stock of debts. The central bank strive to exert a favourable influence on this interrelation too, on the one hand through diversification of the currencies in which they borrow or lend major loans, and on the other, by continuously employing the means of interest arbitrage.

The work deals intensively with the relationship between regional integrations and the international division of labour, first of all by analysing the role of the socialist economic integration, the CMEA. It states that, owing to well known and identical historical reasons, the working mechanism and the system of development criteria of the CMEA are, as also in Hungary, of an autarkic character. It is a basic interest of the Hungarian national economy that the relationship within the CMEA become more intensive, the condition of which is that a type of regional division of labour be created which asserts the mutual advantages more effectively

than has been hitherto the case. Widening and deepening the intra-CMEA division of labour postulates at the same time an active participation, by both the particular national economies and the whole region, in the world-wide international division of labour.

So far I have presented the diagnosis established in the book on the asynchronous character of Hungary's foreign trade relations and her system of development criteria. I did not touch upon several questions of detail discussed by the authoress which deserve attention not only from theoretical but also from practical points of views. As examples I only mention the investigation of the issues of hard and strategic articles or that of cooperation and counter-trade.

In conclusion I have to speak about the therapy recommended by the authoress, as regards the criteria of a future economic development policy. Maybe, the attribute "future" is not justified. Sára Pásztor strongly emphasizes that the implementation of this desirable development policy will certainly be accompanied by sacrifices, also described by the authoress, but these sacrifices will become the graver, the later the necessary changes will be carried through. Owing just to these unavoidable sacrifices the authoress envisages two possible alternative directions. One of them is harder, more radical, the other one is rather based on compromises. Both alternatives set out from the fact that Hungarian development policy has so far been linked to the value judgement of the world market only indirectly and to a very low degree. The solution lies in that from now on development policy should set out *exclusively* from the value judgement of the world market and accept it as the only economic criterion of development (radical alternative), or in that it should assert, *much more than up to now,* at least with equal weight, the world market's value judgement, in addition to taking into account the domestic conditions of economic efficiency.

Policy is the science or, maybe, the art of possibilities. This also applies to development policy, especially if its basic criterion is adjustment to the value judgement of the world market, since that is influenced not only by internal, but also by external factors. Precisely for this reason, I am rather inclined to adopt the less radical solution. At any rate, the book by Sára Pásztor bears witness to the fact that further economic development brings us into a position compelling us to take new steps.

I. GYÖNGYÖSY

LŐRINC–ISTVÁNFFY, H.: *A nemzetközi kölcsöntőke-áramlások és a hitelpiacok* (International flows of loan capital and the money markets). Budapest, 1983. Közgazdasági és Jogi Könyvkiadó, Budapest 1983. 367 p.

By the early 1980s the international monetary system repeatedly came to the focus of interest of experts engaged in the research of the long lasting recession of world economy. Repeatedly, since the first clefts and, later on, smaller or larger crashes in the building of the economic system, established after World War II, occurred around the turn of the 1960s and 1970s, on the side of financial cooperation. The two basic principles of Bretton Woods, i. e., the official linkage of the monetary system to gold, and fixed exchange rates already became untenable prior to the 1974–1975 depression, and this has largely contributed to the uncertainty and incalculability which took possession of the international economic relations.

The international financial discussions of the seventies were, for the most part, dealing with the collapsing system of fixed exchange rates, namely, how far the broken-up system was suitable for serving foreign trade. Would it not be expendient to return in some form to the official establishment and/or protection of the exchange rates of foreign currencies? What advantages might be expected if, instead of official ("bureaucratic") fixing of the exchange rates the relative prices of currencies were formed by market forces? Would it not be possible to avoid thereby the penetration of inflation? (One of the main objections against the system of fixed exchange rates was, namely, the almost automatic import of inflation.)

The economic recession caused by the two shocks of the world economy and by the repeated oil price explosions pushed the debates about the system of exchange rates (practically

still in progress) somewhat into the background and, instead, the incredible accumulation of debts has advanced to the first place, as problem number one of the international monetary system.

The unbelievably rapid rearrangement of world economic positions, the dramatic changes in relative prices forced huge amounts of money to set out and a part of them to jump over national frontiers at an almost untraceable speed and frequency. This mobility is so enormous, so many channels of capital flows have developed (together with multidirectional "infiltrations" among them), so many are the double countings in the published data, the statistics contain so much uncertainty and often differ from one another to such an embarrassing degree, that one indeed needs to be an expert to find one's way in this whirl of international monetary movements. The authoress, Mrs. Hajna *Lőrinc-Istvánffy* has successfully solved just this task in her book; she has found the ordering principles which, either formally, or informally, control the international flows of capital.

The first chapter, presenting the *main characteristics of the international flows of loan capital,* explains the rapid swelling of these flows which by our days brought about changes in quality in the circulation of capital with the deep transformation of the structure of the world economy; with the magnitudes of the sources indispensable for the transformation, which exceed the internal capacity of an individual national economy. The capitals growing international, the strengthening role of the multinational corporations and disturbances in the operation of the international monetary system also contributed: "The extent, direction and method of the international regrouping of capital are no longer, or, not primarily, determined by demands of world economy. The substantial increase of credit turnover within the banking sphere—i. e., the financial and monetary sphere,—is an unquestionable evidence for this. Furthermore, it is verified by the increasing weight of autonomous capital movements within the balance of payments, too... In the last quarter of the twentieth century the hierarchy of international economic relations has changed fundamentally: the international commodity relations lost their hegemony" (p. 13).

Examining the birth and operation of the international and the xeno-capital markets, the authoress necessarily finds herself faced with the problems of regulation. The significance of that question reaches beyond international finances and contributes to the self-regulating ability of the economic processes—a question under discussion in both East and West. In our days, namely, the ideal type of a free market is best approached by the international money market, since here the subject of sale and purchase is "homogeneous", many actors are demanding and offering the same commodity; access to the market is relatively easy, informations are far-reaching and cheap to obtain. (Though it is also true that the central banks of issue sometimes distort the "play of market forces", e. g. by influencing the interest rate through certain restrictions, or through some market operations of political or economic-policy motives: furthermore, certain relevant informations are not available to everybody.) In the fight between those demanding and opposing regulation, practice seems to support the arguments of the latter, since the network of private banks proved appropriate to perform the considerably increased tasks through their hardly regulated operations. In the meantime, however, the role of the official organizations of capital flows has further strengthened; the central banks of the advanced industrial countries have spread a "safety net" below the private banks (as recommended by Mr. H. Kissinger in the mid-70s), to prevent the proliferation of bankruptcies, one or two of which occurred ten years ago—and recently again. Therefore it is justified that, as regards the claim of regulation, Mrs. Lőrinc formulates rather cautiously, saying: "...the efficient working of the international loan capital circulation would by all means require a certain degree and form for regulating the xeno-markets which transact an ever increasing turnover in our days. We do not stress the necessity of regulation in general. It is obvious that an over-regulation, involving complicated administration, would annul just the reason for the existence of these markets" (pp. 59—60). The chief argument supporting regulation is that the xeno-markets allow an uncon-

trolled creation of money, and the credit-pyramid developed in this way is one of the most important external nourishing factors in inflating the leading currencies. But an over-regulation would also create a greater possibility of asserting political viewpoints in the international credit operations than is the case today.

Those urging the regulation of international capital movements are also right when they stress that, with the current extent of foreign-market disequilibria a well considered, conscious and *coordinated* intervention, which takes into account the interests of all the affacted participants of the international economic system, is unavoidable.

The various regional, and universal international (financial) institutions also play such roles in the reconciliation of interests, though they are far from always fulfilling these requirements. The second chapter introducing the *organizational framework of the international flow of loan capital* searches precisely for the reason of this non-correspondence and investigates how these institutions could approach the demands of world economy. Common characteristics of the aids granted by the two most important organizations of the bilateral flow of loan capital, DAC and OPEC, are,—though the latter was established for other purposes,—that they are lagging far behind the expected level and that the financial aids are given more or less with political conditions.

The two most significant institutions of the international flow of loan capital are the International Monetary Fund (IMF) and the World Bank. We should like to stress two ideas from those characterizing their activity, or, rather, the principles and views underlying their activity mentioned in the book.

1. Since the interests of the United States, Western Europe and Japan often clash, it is no longer to be feared that the interests of the advanced industrial countries will be determining all questions in the activity of these organizations.

2. "... a 'package plan' elaborated by an international organization seems to be an impermissible interference in the domestic economic affairs of the country in question. In fact, however, a violation of the country's sovereignty is out of question, since the stabilization measures—although formulated by a committee of the IMF—are necessitated by objective economic conditions. A permanent and increasing disequilibrium is a constraint setting really narrow limits to economic policy action. It is obviously not easy to put up with it, but there is no other alternative to restoring equilibrium" (p. 123). What is more, for countries in need of borrowing from the IMF it must be expressly advantageous if an international team of experts assists them in finding the way and direction of right actions in their economic policy.

To be acquainted with the lending activities of the World Bank (in contrast to that of the IMF) may also be directly interesting for the managers of the Hungarian enterprises.

The third chapter tracing *the international flow of loan capital* analyses separately the indebtedness of the three large groups of countries in the world. We think it unnecessary to call the attention of the reader particularly to this part of the book. We merely note that the authoress discusses here the credit policies of the socialist countries, the extent and distribution by sources of the loans borrowed, and the burdens of debt service in detail. This almost fifty-page part of the book of Mrs. Lőrinc is indeed a *"hapax legomenon"* in Hungarian literature. We must agree with her argumentation: "Many consider the indebtedness of the socialist countries a 'delicate affair'. The problem is really rather intricate, to understand it realistically a wide consideration of foreign and domestic economic factors is needed. To keep silent on the problem may cause at least such a disturbance as does a deliberately dramatic handling of the question. There is no question of extraordinary indebtedness. Numerous countries (regions) of the world economy are in a similarly serious or an incomparably graver situation as regards indebtedness" (p. 259).

Chapter four ("Risk in international crediting") is theoretically and professionally the most thrilling part of the book. It makes us familiar with the possible losses linked to foreign currencies and/or to changes in their exchange rates, it also gives an overall view of the many-sided and complex measuring or, rather, valuating

methods concerning the country risks coming ever more to the foreground in the past ten years.

The question of questions of the international flow of loan capital is how long the huge mountain of accumulating debts may grow, and whether the collapse of the credit pyramid can be avoided. From a certain viewpoint the authoress's opinion is optimistic: "...There is no such generally valid limit to be described with concrete conditions, beyond which there is no opportunity to borrow any further. The discussions about the limits of indebtedness became strained earlier in some cases, in others, however, much later. The relativity of the 'final limit' may be characterized by the fact that in some cases the position of some borrower was deemed inacceptably weak by one of the creditors, while another undertook the granting of further loans" (p. 338). "The increasing level of indebtedness has brought about up to now practically not the narrowing–or, perhaps total closing down–of the credit sources, but resulted in credits becoming more expensive" (p. 339).

With its proportionate structure, analysing the international movements of capital from a proper distance, the clear-cut book by Mrs. Lőrinc is a good assistance to the demanding reader in finding his way among the currently rather chaotic international monetary, furthermore economic, processes of the world.

T. HALM

Jiři KOSTA: *Wirtschaftssysteme des realen Sozialismus. Probleme und Alternativen.* Bund-Verlag, Köln 1984. 268 S.

Theodor BERGMANN – Peter GEY – Wolfgang QUAISSER (Hrsg.): *Sozialistische Agrarpolitik. Vergleichs- und Einzelstudien zur agrarpolitischen Entwicklung in der Sowjetunion, Polen, Ungarn, Chine und Kuba.* Bund-Verlag, Köln 1984. 258 S.

Wirtschaftswissenschaftler an der und um die Frankfurter Universität meldeten sich 1984 mit zwei interessanten Veröffentlichungen, die Probleme, Entstehungsgeschichte und Alternativen der sozialistischen Wirtschaft und eines Teilbereichs dieser Wirtschaft, der Landwirtschaft behandeln.

Professor J. *Kosta*'s Buch beschreibt die thoeretischen Grundlagen und praktischen Erfahrungen der sozialistischen Wirtschaftspolitik von den literarischen Anfängen von Marx und Engels über das erste praktische Beispiel der Sowjetunion bis auf die neuen, Alternativen suchenden und den konkreten und spezifischen Gegebenheiten angepassten Einzelfälle. Wir lernen hier nicht nur das Weiterleben und ständige Veränderung der theoretischen Ansätze und praktischen Lösungsversuche kennen, sondern bekommen ein vergleichendes Bild der Wirtschaftspolitik in allen europäischen RGW-Ländern, Jugoslawien und der Volksrepublik China. Die dem Werk zugrunde liegende zweifache Methode – einerseits die wirtschaftshistorische Grundlage, andererseits die komparative Basis – bringt eine Reihe interessanter Aussagen, Hypothesen und Alternativen und läßt das Buch als ein Standardwerk für Experte und Studenten, die sich mit den sozialistischen Wirtschaften beschäftigen, empfehlen.

Im ersten Abschnitt, in dem die Marx-Engelssche Sozialismusauffassung beschrieben wird, stellt Kosta fest, daß die bewußte Planung ökonomischer Prozesse den Markt mechanismus nicht überall verdrängt hat. Es gibt Bereiche, in denen die zentrale Planung und andere, in denen die Marktmechanismen die Wirtschaftsprozesse überwiegend steuern. Die Erfahrungen in den letzten Jahren legen es nahe, daß die Planbarkeit ökonomischer Prozesse insbesondere im Bereich des raschen technologischen Wandels immer schwieriger sein wird, und den von unten kommenden Initiativen eine wachsende Bedeutung zukommt.

Die theoretischen Grundlagen bilden den Ausgangspunkt des zweiten Kapitels, die die Entwicklungsgeschichte des sowjetischen Wirtschaftssystems schildert. Der Verfasser behandelt die Merkmale des Kriegskommunismus, der neuen ökonomischen Politik und geht auf Einflußfaktoren ein, die sowohl von innen, als auch von außen her die Weiterentwicklung des sowjetischen Wirtschaftssystems gegen Ende der 20er Jahre stark mitbestimmt haben. Die interessanten statistischen Angaben veranschaulichen einerseits die raschen und zweifellosen Erfolge des neuen Wirtschaftssystems und der zentralen Planung, machen jedoch andererseits auch die wachsenden Disproportionen (zwischen Industrie und Land-

wirtschaft, zwischen Schwerindustrie und Konsumgüterindustrie, usw.) deutlich. Der organisatorisch-institutionelle Rahmen des Systems wird eingehend behandelt und am Ende des *Kapitel 3* ein Fazit gezogen, in dem die wichtigsten Merkmale und Erfahrungen der ersten Jahrzehnte sozialistischen Wirtschaftens zusammengefaßt werden. Zwar beziehen sich die Feststellungen auf die Vorkriegsperiode, lassen sich schon hier einige Merkmale beobachten, die in den letzten Jahren, unter schwierigen weltwirtschaftlichen Bedingungen zu ähnlichen Problemen und Dilemmata in den europäischen RGW-Ländern geführt haben. Um nur einige dieser Punkte weiterzudenken, stellen sich fogende Fragen:

– in welchem Maße wird die gewählte Wirtschaftsentwicklung von historischen Gegebenheiten (und Traditionen), sowie von der geerbten Unterentwicklung beeinflußt;

– kann man eine Unterentwicklung durch klassisch-traditionelle Mittel überwinden oder bedarf man sich dazu anderer Konzeptionen, die zum Durchbruch verhelfen;

– nach dem geglückten Durchbruch – und das ist aus heutiger Sicht vielleicht das wesentlichste – sollte man sich auf die "normale" Bahn zurückstellen, auf welchem Punkt der gestarteten Wirtschaftsprozesses und mit welchen Mitteln ist es aber zu erreichen ohne dabei auf die erzielten Erfolge – sowohl in der Wirtschaft, als auch in der Gesellschaft verzichten zu müssen;

– die neue weltwirtschaftliche Lage hat manche, schon damals dagewesenen Engpässe noch deutlicher zum Ausdruck gebracht: das Anreizsystem funktioniert nur bei besserem Angebot, insbesondere deshalb, weil einerseits die Anreize im technologischen Wandel höher sind, andererseits die demonstrative Wirkung kapitalistischer Wirtschaften nicht mehr ausgeschaltet werden kann; die vernünftige Anwendung von Ressourcen hat wegen der physischen Grenzen vieler Rohstoffe und der zu teuren und deshalb nicht konkurrenzfähigen Produktion an Bedeutung zugenommen; statt – oder neben – sozialer Gerechtigkeit genießen die Effizienzsteigerung – und selbstverständlich auch die ihm zugehörigen Mittel – Priorität.

Der "klassischen" sozialistischen Wirtschaftsentwicklung, wie sie in der Sowjetunion und in den 50-er Jahren auch in den europäischen Volksdemokratien ablief, folgt die Vorstellung anderer Modelle. *Kapitel 4* behandelt den maoistischen Versuch eines basisdemokratischen Wirtschaftssystems, während *Kapitel 5* die tschechoslowakische Alternative der 60er Jahre (demokratisch-sozialistisches Konzept) darstellt. Mit Recht stellt Kosta fest, daß es innerhalb des kapitalistischen wie auch des sozialistischen Wirtschaftssystems zahlreiche individuelle Fälle gibt, die einer wenig flexiblen, verallgemeinerten Theorie nicht untergeordnet werden können. Die praktischen Erfahrungen gehen weit darüber hinaus, was in der Theorie enthalten ist. In kritischen Perioden ist es immer wieder die praktische Wirtschaftspolitik, die sich ändert, und die theoretischen Rahmen sprengt.

Die katastrophalen Folgen des "großen Sprungs" in China beweisen, daß historische "Sprünge" – wenigstens mit den hier angewandten Mitteln – ohne Erfolg bleiben, ja sogar das Gegenteil bewirken: sie vertiefen die Unterentwicklung und verschärfen die an und für sich vorhandenen Spannungen. Ausführlich werden die Vorbedingungen der tschechoslowakischen Wirtschaftsreform behandelt (Entwicklungsgrad, Industrialisierung, Knappheit an bestimmten Produktionsfaktoren, usw.). Die statistischen Zahlen weisen auf die Beschleunigung des Wirtschaftswachstums um die Mitte der 60er Jahre hin, eine Tatsache, die – unter anderem – auch der eingeführten Wirtschaftsreformen zu verdanken ist.

Im *Kapitel* 6 werden die Wirtschaftssysteme Jugoslawiens, der DDR, Ungarns und Polens skizziert. Die Unterschiedlichkeiten der Wirtschaftspolitik in diesen, wie auch in den im voraus untersuchten sozialistischen Ländern bestehen in drei Bereichen: in den wirtschaftstheoretischen Ideen, in den ökonomischen Strukturen und in den politischen Machtverhältnissen. Kosta sieht das Hauptproblem in der fehlenden Partizipation der Betriebsangehörigen. Sicher kann man diesen sehr wichtigen Aspekt nicht außer acht lassen. Es fragt sich jedoch, ob die Herausforderungen der aktuellen Situation (Strukturwandel, technologischer Fortschritt, Umverteilungszwänge) auf diese Weise am besten beantwortet werden können. Es geht hier nicht um einen grundlegenden Meinungsunterschied, es

ist, ja, klar, daß der längerfristige Fortschritt ohne Kostas Vorschlag wenig vorstellbar ist. Es geht vielmehr um den "timing" der Entscheidungen und um die richtige Gewichtung der Einführung dieses Elements. Der Verfasser selbst weist anhand des jugoslawischen Beispiels auf mögliche Schaden hin, als er feststellt, daß Gruppen oder Genossenschaften sich ein System von Monopol- und Oligopolpositionen gegenüber den Konsumenten ausbauen können (wie auch die zentrale Planung solche Monopolstellungen hervorbringt und festigt). Der Lernprozeß hat in allen europäischen RGW-Ländern in letzter Zeit dazu geführt, daß zahlreiche objektive Wirtschaftsgesetze anerkannt werden. Das gegenwärtige Problem besteht vor allem darin, daß die theoretischen Erkenntnisse auf der einen Seite, und die tatsächliche Leistungsfähigkeit einer unter anderen Bedingungen entwickelten Wirtschaft, auf der anderen, nicht auf einmal und beiweitem nicht ohne Schwierigkeit koordiniert werden können.

Nach den hauptsächlich theoretischen Abschnitten beschäftigt sich der Verfasser im 7. Kapitel mit den Erfolgen und Problemen der RGW-Länder in den letzten Jahren. Nach der Darstellung der allgemein verschlechterten Lage und der Beschreibung der notwendigen (kurzfristigen) Kurskorrekturen schildert Kosta kurz die Wirtschaftsentwicklung in den RGW-Ländern einzeln. Mit Recht hebt er hervor, daß die ungarische Landwirtschaft eine große Rolle bei der Stabilisierung der Wirtschaft gespielt hat, und zwar nicht nur direkt, durch die störungsfreie Versorgung der Bevölkerung und durch vermehrte Exporte, sondern auch indirekt, durch die Einführung neuer Betriebs- und Leitungsformen, die neulich auch von anderen Sektoren übernommen worden sind. Sich auf Professor Bognár berufend hebt er mit vollem Recht hervor, daß die notwendigen und noch ausstehenden Reformen eine verstärkte gesellschaftspolitische Risikobereitschaft voraussetzen, bzw. bedingen. In der Zusammenfassung des Kapitels schildert Kosta Möglichkeiten und Grenzen der Wirtschaftsreformen und geht auf die entscheidende Rolle der Entwicklung der sowjetischen Wirtschaft ein. Er vertritt die These, daß die sich in den letzten zwei Jahren abzeichnende langsame Erholung der RGW-Wirtschaften die sonst seit langer Zeit fälligen Wirtschaftsreformen hinausschieben könne, und erst gegen Ende der 80er Jahre mit neuen, radikalen Schritten zu rechnen sei.

Im abschließenden Kapitel 8 versucht der Verfasser – angesichts der Entwicklung der RGW-Länder – die wirtschaftspolitischen Optionen für die Bundesrepublik klarzumachen. Mit Recht stellt er fest, daß die Rezessionsjahre das Arbeitslosenproblem in den einzelnen OECD-Ländern recht unterschiedlich betroffen haben. Vor allem kämpfen die EG-Länder mit hoher und noch wachsender Arbeitslosigkeit, die heute in den meisten Ländern an erster Stelle der wirtschaftspolitischen Probleme und Therapieoptionen steht. Kosta empfiehlt für die Bundesrepublik Deutschland eine gemischte Therapie von Marktmechanismen und Plan, die einerseits die Erfordernisse des Strukturwandels berücksichtigt, andererseits die Umweltproblematik aufgreift. Sowohl die Keynesianische Theorie als auch zahlreiche "linke" Modelle haben versagt: die erte kann mit dem technologischen Fortschritt und der Inflation nicht fertig werden, die zweite mußte erfahren, daß die „bloße Enteignung der Kapitalisten und die Überführung der Produktionsmittel in Staatsbesitz... die Interessengegensätze von Individuen sowie Gruppen ebensowenig beseitigt wie die Errichtung selbstverwalteter Kollektivbetriebe..." (S. 246). Es wäre in diesem Kapitel interessant gewesen, wenn der Autor – auf der Grundlage der reichen Erfahrungen und der anregenden Thesen – die Aussichten der Wirtschaftsbeziehungen zwischen der BR Deutschland und den europäischen RGW-Ländern skizziert, und dabei die handels- und kooperationsfördernden, bzw. -hemmenden Faktoren auf beiden Seiten herausgestellt hätte. Dies ändert freilich nichts daran, daß der Leser ein aktuelles Buch bekommt, das Entstehungsgeschichte, Entwicklung und historisch-wirtschaftlich bedingte Alternativen des sozialistischen Wirtschaftssystems in einer Form behandelt, die einerseits die Vielfalt und die spezifischen Züge hervorhebt, andererseits aufgrund gemeinsamer Wesensmerkmale zur vergleichenden Untersuchung veranlaßt.

Die Agrarpolitik hat in den sozialistischen Ländern immer eine sehr wichtige Rolle gespielt. Sie hat einerseits zur politischen Stabilität, wirtschaftlichen Versorgungssicherheit und außenwirtschaftlichen Spielraumerweiterung beige-

tragen. Andererseits haben agrarpolitische Fehler die ganze Wirtschaft und auch nicht-wirtschaftliche Bereiche der sozialistischen Länder mehrmals in Mitleidenschaft gezogen. Das von mehreren Autoren verfaßte Buch behandelt in den einführenden Kapiteln die allgemeinen Probleme der sozialistischen Agrarpolitik, und geht dann auf konkrete Beispiele über.

Peter *Gey* und Wolfgang *Quaisser* fassen Konzeptionen und Ergebnisse sozialistischer Agrarpolitik zusammen. Die vergleichende Studie hebt die Erscheinungsvielfalt der sozialistischen Landwirtschaft hervor, der natürliche, demographische, historische, aber auch wirtschaftspolitische und betreibswirtschaftliche Faktoren zugrunde liegen. Sie behandeln die Rolle der Agrarreformen, den Beitrag der Landwirtschaft zur Industrialisierung, die Modernisierung des Agrarsektors, die Rolle der Kleinbetriebe und die unterschiedlich formulierten Reformansätze. Man kann mit den Verfassern übereinstimmen, daß die Bodenreform eine notwendige, aber keine hinreichende Bedingung für die Lösung der Agrarfrage darstellt, wie auch "aufwendige Investitionen kein Ersatz für fehlende Produktionsanreize und Vermarktungsmöglichkeiten sind". (S. 66).

Theodor *Bergmann* untersucht einige Probleme der Agrarpolitik in sozialistischen Ländern. Dabei geht er auf die individuelle Hofwirtschaft als integrales Element der Agrarstruktur ein. Im Gegensatz zu manchen Behauptungen macht er klar, daß man keineswegs von einer „Überlegenheit des Privatbetriebs" die Rede sein kann, es geht hier nämlich un eine strukturierte Arbeitsteilung, um einen intensiven Austausch von Produktionsfaktoren, ohne die die Privatbetriebe entweder ihre Tätigkeit aufgeben müßten oder aber nur unter viel schwierigeren Bedingungen und selbstverständlich zu teuer produzieren könnten.

Peter *Geys* Aufsatz über die Theorie der „einfachen Warenproduktion" und ihre agrarpolitische Bedeutung stellt einen theoretischen Exkurs dar, ohne den man jedoch die Entwicklung der sozialistischen Agrarpolitik nicht gründlich genug untersuchen könnte.

Dem wirtschaftstheoretischen Beitrag folgt ein soziologischer: Stephan *Merl* behandelt Differenzierungsprozesse des sowjetischen Dorfes im Vorfeld der Kollektivierung.

Im zweiten Hauptteil des Bandes sind konkrete Einzelstudien über die Agrarpolitik bestimter sozialistischer Länder enthalten. Theodor *Bergmann* analysiert die Leistungen und die Mißerfolge der sowjetischen Agrarpolitik. Letztere führt er auf klimatische, wie auch organisatorische und wirtschaftspolitische Gründe zurück. Um die Mängel zu beheben schlägt er organisatorische, ökonomische und politische Schritte vor, die – im Gegensatz zu einigen Kritikern – nicht die sozialistsichen Grundstrukturen zerstören, sondern ihre Leistungsfähigkeit durch neue Produktivkräfte erhöhen.

Einen vom sowjetischen abweichenden Weg hat die polnische Landwirtschaft durchgemacht. Eigenarten und Probleme der überwiegend privatwirtschaftlich arbeitenden polnischen Landwirtschaft bilden das zentrale Thema für Wolfgang *Quaissers* Aufsatz. Nach der Darstellung der Gründe, warum die polnische Führung nach einer Zeit auf die Kollektivierung der Landwirtschaft verzichtet hatte, untersucht der Autor die Leistung der polnischen Landwirtschaft in den 70er Jahren. Die Erfahrungen zeigen, daß die Eigentumsverhältnisse an und für sich die Leistung nicht bestimmen: wenn die staatliche Wirtschaftspolitik die Landwirtschaft vernachlässigt und die Betriebe – egal ob staatlich oder privat – nicht modernisiert werden, spitzen sich Versorgungs- und Exportprobleme zu.

Gyula *Varga*, als einziger ausländischer Autor des Buchs schildert die neuen Produktionsbeziehungen der ungarischen Landwirtschaft. Nach einem kurzen historischen Rückblick untersucht er die landwirtschaftlichen Produktionssysteme, und die Entwicklung der Kleinproduktion, wobei auf die Arbeitsteilung zwischen Groß- und Kleinbetrieben eingegangen wird.

Die Reformmaßnahmen, die in den letzten Jahren in der chinesischen Landwirtschaft zu wirken begannen, haben weltweites Interesse erweckt. Johny *Erlings* Studie bringt eine ausführliche Darlegung der wichtigsten Reformgründe und der praktischen Reformschritte. Nach 1978 haben diese Reformen sehr positiv auf die Leistung der chinesischen Landwirtschaft, sowohl auf die mengemäßige Entwicklung, wie auch auf die Produktivität und die Einkommenslage der Bauern ausgewirkt. Die Zukunft wird hier mit gewissen Vorbehalten beurteilt, denn der Binnenhandel (Vermarktungsorganisation) habe mit der

beschleunigten Agrarreform nicht Schritt halten können. Andererseits seien manche ideologischen Fragen nicht geklärt und Erfarhungen im Umgang mit marktwirtschaftlichen Beziehungen (noch) eine Mangelware.

Die wechselhafte und besondere Rolle des privaten Agrarsektors der kubanischen Wirtschaft wird im letzten Abschnitt behandelt. Peter Gey verfolgt die Entwicklung bis auf die erste Agrarreform (1960) zurück und macht den Leser mit Spezialisierungs- und Integrationsplänen der 60er Jahre, der kurzen aber nachhaltende Spuren hinterlassenen Entökonomisierung des bäuerlichen Sektors ("Sino-Guevarismus") und der Reökonomisierung und Kollektivierung der privaten Landwirtschaft bekannt. Im abschließenden Teil werden die nach 1980 unternommenen Schritte untersucht, ohne dabei eine eindeutige Wende der kubanischen Agrarpolitik erblicken und diese Einzelelemente in ein kohärentes System einordnen zu können.

A. INOTAI

ANTOLA, E.–TUUSVUORI, O.: *Länsi-European integraatio ja suomi* (West European Integration and Finland). Publications of the Finnish Institute of International Affairs, Turku 1983.
MÖTTÖLÄ, K.–BYKOV, O. N.–KOROLEV, I. S. (ed.): *Finnish–Soviet Economic Relations* MacMillan Press in association with The Finnish Institute of International Affairs, London 1983.

Two quite recently published books deal with the central phenomena of Finnish economic relations: integration with Western Europe and the Finnish-Soviet trade. The first part of Esko *Antola* and Ossi *Tuusvuori*'s book concentrates on the theory of integration in general and integration in Western Europe in particular, both from the viewpoint of political science. The rest of the book discusses Finland's integration with Western Europe. According to Antola and Tuusvuori four periods can be distinguished in the development of this integration. During 'the period of bilateralism' (1944–1955) Finnish economic relations were first and foremost bilateral and regulated. However, during this period Finland signed the GATT agreement (1949) and took part in the OEEC's work as an observer. Furthermore, the writers suggest that during this period the decision to become a part of the western economic system was actually made in order to satisfy the needs of the traditional Finnish export sector, i. e. woodprocessing. This became only too obvious during the following period, 'the period of deregulating trade' (1956–1959) when a gradual liberalizing, based on a separate agreement concluded with the OEEC countries, of Finnish Western trade took place. This also meant that Finland, together with e. g. Sweden, started off on the West European market somewhat belatedly. Characteristic of this period was also Finland's interest in Scandinavian integration. The other Nordic Countries, however, were more interested in a wider West European integration and this interest resulted in their EFTA memberships. After some difficulties in home and foreign affairs, Finland, again belatedly, concluded a separate agreement with the EFTA and became an associate member in 1961. This event and the preliminary phases to the EFTA membership started the third period (1960–1973) which the writers call 'the period of active free trade policy'. This period ended in the EC agreement, again concluded by Finland later than the other EFTA countries, except for Norway. The next period bears a self-explaining name: 'the period of maintaining wide integration'. integration'.

The above described events inspire two questions. Firstly, why has the integration development of Finland been like this? The book does not offer any new explanation but settles for introducing some of the current theories. The most successful of them appears to be the distinction between the economic and the political imperative suggested by Klaus *Törnudd*, a Finnish scholar. By economic imperative he in fact means that the most important competitors Finland has, should not be allowed to gain such advantages on other markets that the Finnish exporters do not have. The political imperative means taking the position of Finland in international politics into consideration and it explains, at least to some extent, the tendency to conclude separate agreements and the long deliberations. Another important question is the consequences of integration. In this case, again,

the writers settle for discussing the already known *ex-ante* and *ex-post* studies. The overall impression one gets is that the importance of the Finnish EFTA agreement was considerable. However, it should be kept in mind that the increase in the EFTA trade concerned mainly the trade with Sweden. The share of the original EEC decreased accordingly, whereas the impact of the agreement Finland concluded with EC merely seems to have maintained the situation preceding the agreement. The writers' market-share calculation, among other things, seems to suggest this. As far as Finnish export is concerned, the result is appropriate because Finland's main competitors on the West European market were granted the same reductions in tariffs.

The book edited by Kari *Möttölä*, O. N. *Bykov* and I. S. *Korolev*, contains 22 articles written by Finnish and Soviet experts on East-West trade. The spectrum of the articles on Finnish economic relations is wide. I will concentrate merely on one of the central themes: why Finland is trading with the Soviet Union and what the impacts of this trade are on the economy of both parties. Two Finnish economists, Veikko *Reinikainen* and Urpo *Kivikari* employ the well-known principle of comparative advantage to explain this type of trade. Many economists are, however, relatively unanimous in that this classic model and its enhanced modifications, e.g. Heckscher and Ohlin's model, are only applicable to a certain sector of trade. As A. N. *Manzhulo* and Yu. V. *Piskulov* suggest in their article, the export of oil from the Soviet Union to Finland can, up to a point, be interpreted through comparative advantage. (It is true though, that this type of exchange of energy and raw materials for Finnish manufactured products does form the majority of trade between the two countries.) But they do not think it possible to apply this theory to the exchange of similar products. In fact, Manzhulo and Piskulov leave the question of the reasons for this kind of intraindustry trade open, merely stating that theories suitable for market economies should not be applied directly to centrally planned economies. Indeed, it seems quite apparent that the new intra-industry theory developed in the studies focused on West–West trade, being very clearly consumer- and demand centered, cannot interpret the Soviet foreign trade.

Professor Yu. I. *Yudanov* discusses in his article the mutual benefits of bilateral trade between the Soviet Union and Finland in more concrete terms. He quotes the following facts about its impact on Finnish economy. Firstly, it has a favourable effect on employment through the increasing demand for Finnish products. This is only true, however, if the growth in the Soviet-Finnish trade coincides with a reduction in demand for Finnish products in other countries. This, indeed, was the case in the middle of the 1970s. The most significant effect of the Soviet-Finnish trade from the Finnish point of view is, according to Yudanov, that it makes changes in the Finnish economic structure possible. By this he means the growth in the production of highly sophisticated technology i. e. machinery and equipments, especially at the expense of the products of the woodprocessing industry. It is well-known that the latter is becoming more and more subject to international competition, its less processed products in particular. This argument could perhaps be developed even further than Yudanov has done. At least in some branches, the Finnish-Soviet trade has made it possible for Finnish industry to expand to an extent that the advantages gained through large-scale production have promoted successful export to the West. On the other hand it might well be that the trade with the Soviet Union keeps alive no longer competitive branches of industry.

Yudanov emphasizes two facts in particular when he discusses the effects on Soviet economy. Firstly, the technologically advanced Finnish firms can help Soviet industry to adopt more developed means of production, in other words, the Soviet Union imports both investment goods and technological know-how from Finland. Secondly, the joint projects concerning machinery and equipment increase Soviet export to other countries. In conclusion, the main advantage from the Soviet point of view is that the import from Finland develops the Soviet production structure. Satisfying the growing demands of consumption with consumer goods

and food products imported from Finland are given very little notice in this article.

What is then to be said of all this from the Finnish point of view? Generally speaking, Finland should obviously concentrate on the export of technologically highly sophisticated products and services. In the future, and already even today, the less developed products of Finnish industry meet with keen competition posed by countries where wages are low. Thus, investment goods being technologically demanding, the fact that the Soviet import concentrates on them may, at least in the long run, be very beneficial to Finland. As has already been mentioned, the Soviet market may offer the above mentioned products 'extended domestic markets' through which, after a sufficient amount of experience will have accumulated, export could be expanded to other countries as well.

Y. TOLONEN

BOOKS RECEIVED*

BOTOS, B.–PAPANEK, G.: Kérdőjelek iparunk fejlesztésében (Problems of the industrial development in Hungary). Közgazdasági és Jogi Kiadó, Budapest 1984. 391 p.

CHYLINSKI, E. A. (ed.): Soviet Central Asia: continuity and change. South Jutland University Press, Esbjerg, Denmark 1984. 150 p.

CSÁKI, CS.: Simulation and systems analysis in agriculture. Akadémiai Kiadó, Budapest 1985. 261 p.

CSEPELY-KNORR, A.: A mezőgazdasági beruházások jövedelmezősége: lehetőségek és feltételek (Profitability of investment in agriculture). Mezőgazdasági Kiadó, Budapest 1984. 159 p.

FARKAS, J.: Az innováció társadalmi-gazdasági akadályai (Social and economic obstacles to innovation). Közgazdasági és Jogi Kiadó, Budapest 1984. 350 p.

FODOR, L.: Gazdaságirányítás és a vállalati szféra (Management and control of the economy and the enterprises). Kossuth Kiadó, Budapest 1984. 201 p.

FÖLDES, K.: External and internal economic conditions in Eastern Europe: The case of Hungary. Institute of Economics HAS, Budapest 1984. Studies, 25. 149 p.

GRIFFITTHS, A.–WALL, S.: Applied economics. An introductory course. Longman, London–New York 1984. 511 p.

KAPOLYI, L.: Nyersanyag- és energia-gazdálkodásunk (Raw material management and energy economy in Hungary). Közgazdasági és Jogi Kiadó, Budapest 1984. 340 p.

KARDOS, P.–SZATMÁRI, T.: Külföldi licencek a magyar gazdaságban (Foreign licences in the Hungarian economy). Közgazdasági és Jogi Kiadó, Budapest 1984. 204 p.

KULCSÁR, K.: Contemporary Hungarian society. Corvina, Budapest 1984. 291 p.

MÁRTON, J. (ed.): Javaslatok az élelmiszer-gazdaság fejlesztésére (Suggestions to develop the food economy in Hungary). Agrárgazdasági Kutató Intézet, Budapest 1984. 279 p.

NØRGAARD, O.–OUGAARD, M. (ed.): Den anden kolde krig. Sydjysk Universitetsforlag, Esbjerg 1984. 120 p.

POLGÁR, M.: A vezetői érdekeltség szabályozása (The regulation of managers' interest). Pénzügykutatási Intézet, Budapest 1984. 217 p.

RADNÓTI, É.: Árpolitikai koncepció és gazdaságunk fejlődése (Price policy conception and the development of the Hungarian economy). Közgazdasági és Jogi Kiadó – MTA Közgazdaságtudományi Intézet, Budapest 1984. 234 p.

SCHMIDT, P.-G.: Internationale Währungspolitik im sozialistischen Staat. Gustav Fischer Verlag, Stuttgart–New York 1985. XII+447 S.

TATAI, Z.: Iparunk területi szerkezetének átalakítása (Regional restructuring of the Hungarian industry). Kossuth Kiadó, Budapest 1984. 248 p.

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

VOSZKA, É.: Érdek és kölcsönös függőség: átszervezési tapasztalatok (Interest and interdependence: experiences with reorganization). Közgazdasági és Jogi Kiadó, Budapest 1984. 274 p.*

Wage bargaining in Hungarian firms. Vols 1–2. Institute of Economics HAS, Budapest 1984. Studies 23, 24. 112+131 p.

WALSH, B.–GRANT, M.: Public health implications of alcohol production and trade. World Health Organization, Geneva 1985. 55 p.

*To be reviewed in Acta Oeconomica.

AUTHORS

dr. Katalin FALUS-SZIKRA, see Vol. 33, Nos 1–2.

dr. Teréz LAKY, see Vol. 32, Nos 1–2.

dr. Jenő BÁRSONY, b. 1923. Cand. of Econ. Sci., senior research worker at the Institute for Industrial Economics, formerly Director-general of the College of Foreign Trade, Budapest. Author of studies on economic management in Bulgaria, in the German Democratic Republic in Hungarian and "Tibor Liska's concept, the socialist entrepreneurship" (A. Oec. Vol. 28, Nos 3–4.)

István SÍKLAKY, b. 1927. Economist. Research worker at the Institute for Industrial Economics. Author and co-author of several studies and books on plotting technical and economic processes, on the management modul system (1976), on the model of Szentes (on Liska's concept) in Hungarian and "Ein Weg zur computerunterstützten EDV-Systemplanung" (1976) "Methodologische Grundlagen für die Planung der logischen Ebene fertigungstechnischer Datenbasen" (1981).

dr. István CSILLAG, b. 1951. Economist. Head of section at the Ministry of Finances. Author of studies on the theory of production relations and on the new enterprise structure in Hungarian.

dr. Erzsébet SZALAI, see Vol. 29, Nos 1–2.

dr. Zoltán ROMÁN, b. 1924. Doctor of Economic Sciences. Director of the Research Group for Industrial Economics, Hung. Acad. Sci. Formerly advisor at the United Nations. Author of "Productivity and economic growth" (1982) (in English), books e. g. on industrial economics (1978), industrial policy (1981) in Hungarian and several studies on the measurement of productivity, structural changes, on industrial economics both in English and Hungarian.

dr. András KÖVES, see Vol. 33, Nos 1–2.

dr. Alfred SCHÜLLER, b. 19 . Professor of the University of Marburg, Director of the Research Institute for Comparative Economic Systems of the Philipps University, Marburg. Author of "Osthandelspolitik sals Problem der Wettbewerbspolitik" (1973) and co-editor of "Innovationsprobleme in Ost und West" (1983), "Aussenwirtschaftspolitik und Stabilisierung von Wirtschaftssystemen" (1980), "Internationale Wirtschaftsordnung" (1978)

Dr. Hannelore HAMEL, b. 1930. Vice-director of the Research Institute for Comparative Economic Systems of the Philipps University, Marburg. Author of "Democratic centralism in the economic system of the GDR" (1966 in German) and several studies, e.g. on the socialist enterprise concentration and the performance of managers and editor of books on workers' self-management in Yugoslavia and on the comparison of social market economy and socialist planned economy.

dr. Norbert KLOTEN, President of the Land Central Bank of Baden-Württemberg, member of the Central Bank Board. Formerly guest lecturer at the Johns Hopkins University, Bologna Center, Professor of Economics at the University of Tübingen. Chairman of the German Council of Economic Advisers (1970–1976). Author of numerous publications on the foundations of economic policy, monetary and international economics, regional and development problems and methodological aspects of science.

dr. János KORNAI, see Vol. 32, Nos 3–4.

Károly Attila SOÓS, see Vol. 33, Nos 3–4.

Erzsébet SURÁNYI, b. 1941. Deputy head of department at the Ministry of Finances.

dr. Zsigmond JÁRAI, b. 1951. Head of department at the National Developing Bank.

TO BE PUBLISHED IN OUR NEXT ISSUE

F. HAVASI: The Economic Situation of Hungary and the Tasks to Be Faced
J. BOGNÁR: Evolution of Conception about Economic Policy and Control in Hungary in the Past Decades
T. VÁMOS: Problems and Responses in the Mirror of Technical Progress in Hungary During the Last Forty Years
B. KÁDÁR: Hungarian Industrial Development in the Light of World Economic Changes
T. BAUER: The Reform Policy in the Complexity of the Economic Policy
L. ANTAL: About the Property Incentive
I. TARAFÁS: The Possibility and Conditions of an Antiinflationary Economic Policy in Hungary
K. LÁNYI: Hungarian Agriculture: Export Surplus or Superfluous Growth?
K. DYBA: Adjustment to International Disturbances: Czechoslovakia and Hungary
S. RICHTER: Trade with the Soviet Union. The Case of Austria

REVIEWS

É. SZABÓ-MEDGYESI: Non-Agricultural Activities of Agricultural Enterprises in Hungary
GY. VARGA: Thirty Years of the Research Institute of Agrarian Economics

BOOK REVIEWS

BOOKS RECEIVED

PRINTED IN HUNGARY
Akadémiai Kiadó és Nyomda, Budapest

ECHO
The Hungarian Economic Information Service

ECHO, the Hungarian Economic Information Service, is an independent group of Hungarian economists, operating at the Editoried Office of *Acta Oeconomica.*
Presented in an easily accessible format and tailored to the reader's individual needs, ECHO offers objective and up-to-date information on the Hungarian economy to academic institutions, businesses and banks.

Our services have been specially designed to free you from the time-consuming and costly search for the information you need, whether it be the most recent data on agricultural production or a clear analysis of complicated legislation.

We offer:

1. *Topic Watching:* ECHO will search dailies and academic and business specialist journals for articles in your specific area of interest. A summary of an article, a complete translation or a photocopy of the text are available upon request.
2. Lists of the most recent *legislation* affecting foreign businesses in Hungary. Brief summaries of specific legislation may be obtained upon request.
3. *Main Economic Indicators:* Selected statistics based on publications of the Central Statistical Office.
4. *Translations* of publications from Hungarian into English or German upon request.
5. *Specialist Studies and Statistical Reviews:* Even on short notice our experts can provide academic or business-oriented analyses of various aspects of the Hungarian economy.

For detailed information on specific services please call or write:

ECHO, The Hungarian Economic
Information Service
H-1112 Budapest
Budaörsi út 45.
Hungary
telephone: 852-395
telex: Ecnat 227030

Please send me details of ECHO, The Hungarian Economic Information Service

Name: .....

Address: .....

REVUE TIERS–MONDE

Tome XXV, n° 100, Octobre–dècembre 1984

LE DEVELOPPEMENT EN QUESTION

s sous la direction de Serge LATOUCHE

Préface d'Edgard PISANI 725
Le développement en question par Serge LATOUCHE 729
I. – Del'impasse industrielle an miragu de l'aménagement rural: Les échess concrets de développement.
Marc MANGENOT: Le malentendu industriel: le cas de l'Algérie 735
Claude REBOUL: Barrages contre le développement? 749
Edgar RYNAUD: Paternalisme international et/ou développement agropastoral autonome 761
II. – De la critique du mimétisme aux propositions alternatives concrètes.
Yves LE COADIC: Coopération scientifique et technique et néocolonialisme 773
Philippe ADAIR: Technologie appropriée et besoins essentiels 779
Daniel THÉRY: Le biais mimétique dans le choix des techniques: un facteur d'asphyxie du développement autocentré en Tanzanie 787
Ignacy SACHS: L'explosion urbaine et la théorie du développement: cinq propositions de recherche 801
II. – La crise du développement: une remise en cause des assises imaginaries de l'ordre mondial.
François PARTANT: La crise du développement dans la crise mondiale 809
Jean CHESNEAUX: tiers Monde «offshore» ou Tiers Monde quartmondisé et libération du troisième type 817
John FORJE: Béatitudes et commandements de la technologie 827
Hassan ZAOUAL: La crise du paradigme du développemetn: critique des discours critiques par un économiste du Tiers Monde 829
Tahar MEMMI: Sous-développement et décadence: l'Islam face à l'Occident 837
Pierre ACHARD: Le développement ou l'école des Nations 843
Michel ADAM: Signes et développement 855
IV. – Déculturation et rejet du développement.
Gérald BERTHOUD: Le développement contre la vie (le cas du Nigéria) 871
Serge LATOUCHE: L'échec de l'occidentalisation 881
Philippe LE ROY: Du marchandage à la marchandise, de la communication à l'échange: l'exemple du Congo 893

Léo DAYAN' Du bon sauvage au sous-développé ,. 901
Robert JAULIN: Ethnocide, Tiers Monde et ethnodéveloppement 913
CHRONIQUES BIBLIOGRAPHIQUES
Roland BRETON: Le rapport planétaire 929
Jena-Pierre BERLAN: La faim dans le monde 937
ANALYSES BIBLIOGRAPHIQUES
Ouvrages de la FAO; de C. UABERT; NGUYEN-HUN-TRU; T. S. EPSTEIN, M. N. PANINI, M. N. SRINIVAS, V. S. PARTHASARATHY; J. d'HERBES et J. TOUSCOZ; M. S. GILL . . . 945
TABLE GÉNÉRALE DU TOME XXV (1984) 951

Rédacteur en chef: Mme G. Tricot

cRÉDACTION ET ADMINISTRATION
INSTITUT D'ÉTUDE DU
DÉVELOPPEMENT ÉCONOMIQUE ET SOCIAL
Secrétaire de rédaction: Mme C. Salomon
58, boulevard Arago, 75013 Paris – Tél.: 336-23-55

ABONNEMENTS et VENTE
PRESSES UNIVERSITAIRES DE FRANCE
Service des Revues: 12, rue Jean-de-Beauvais, 75005 Paris
Tél. 326-22-16 – Compte Chèques Postaux : Paris 1302-69-C

Abonnements annuels pour l'année 1985. – France: **244** F; Etranger: **330** F

EL TRIMESTRE ECONOMICO

COMITE EDITORIAL HONGRARIO: Emilio Alanís Patiño, Emigdio Martínez Adame, Raúl Ortiz Mena, Felipe Pazos, Raúl Prebisch y Raúl Salinas Lozano.
COMITE EDITORIAL: México: Gerardo Bueno, Edmundo Flores, José A. de Oteyza, Leopoldo Solís M., Carlos Tello y Manuel Uribe Castañeda. *Brasil:* Celso Furtado y Francisco Oliveira. *Colombia:* Constantino V. Vaitsos, Chile: Jacques Chonchol, Fernando Fajnzylber W., Alejandro Foxley y Osvaldo Sunkel.

Director: Oscar Soberón M.
Secretario de Redacción: Guillermo Escalante A.

Vol. LII (1) México, enero – marzo de 1985 Núm. 205

Sumario:

Osvaldo Sunkel y José Leal: *Economía y medio ambiente en la perspectiva del desarrollo*

Ricardo Lagos E.: *El precio de la ortodoxia*

Marta Bekerman: *Efectos de la situación internacional de los años setenta sobre un gran deudor latinoamericano: El Brasil*

Josef Steindl: *Teoría del estancamiento y política estancacionista*

Simón Teitel: *Indicadores científico tecnológicos: La América Latina, países industrializados y otros países en vía desdesarollo*

Tamás Peñaloza Webb y José Juan de Olloqui González: *El ritmo de las economías capitalistas y el ciclo Kondratieff*

Magnus Blomström: *Aspectos teóricos de un modelo macroeconométrico para la economía mexicana*

Sergio Boisier: *El comportamiento de las empresas nacionales y extranjeras en México. Una revisión del estudio de Fajnzylber y Martínez Tarragó*

Asdrúbal Baptista: *Un difícil equilibrio: Centralización y descentralización en la planeación regional*

Gasto público, ingreso petrolero y distribución del ingreso: Una nota adicional

DOCUMENTOS – NOTAS BIBLIOGRAFICAS
REVISTA DE REVISTAS – PUBLICACIONES RECIBIDAS

Fondo de Cultura Económica – Av. de la Universidad 975 – Apartado Postal 44975

ACTA OECONOMICA

A Magyar Tudományos Akadémia
idegen nyelvű közgazdaságtudományi folyóirata

Szerkesztőség: 1112 Budapest, Budaörsi út 45.
1502 Budapest Pf. 262.

Megjelenik évi 2 kötetben. Megrendelhető az Akadémiai Kiadónál (1363 Bp. Pf. 24.) a külföld részére a Kultura Külkereskedelmi Vállalatnál (1389 Budapest, Postafiók 149).

ACTA OECONOMICA

Журнал Академии наук Венгрии

Публикуется в двух томах в год.

Статьи публикуются на английском, русском и немецком языках.

Адрес редакции: H-1502 Budapest P.O.B. 262

Заказы принимает предприятие по внешней торговле Kultura (H-1389 Budapest, P.O.B. 149) или его заграничные агентуры.

ACTA OECONOMICA

Zeitschrift der Ungarischen Akademie der Wissenschaften

Aufsätze erscheinen in englischer, russischer und deutscher Sprache, in zwei Bänden pro Jahr.

Redaktion: H-1502 Budapest, P.O.B. 262

Bestellbar bei Kultura Außenhandelsunternehmen (H-1389 Budapest, P.O.B. 149) oder seinen Auslandsvertretungen.

Periodicals of the Hungarian Academy of Sciences are obtainable at the following addresses:

AUSTRALIA
C.B.D. LIBRARY AND SUBSCRIPTION SERVICE
Box 4886, G.P.O., *Sydney N.S.W. 2001*
COSMOS BOOKSHOP, 145 Ackland Street
St. Kilda (Melbourne), Victoria 3182

AUSTRIA
GLOBUS, Höchstädtplatz 3, *1206 Wien XX*

BELGIUM
OFFICE INTERNATIONAL DE LIBRAIRIE
30 Avenue Marnix, *1050 Bruxelles*
LIBRAIRIE DU MONDE ENTIER
162 rue du Midi, *1000 Bruxelles*

BULGARIA
HEMUS, Bulvar Ruszki 6, *Sofia*

CANADA
PANNONIA BOOKS, P.O. Box 1017
Postal Station "**B**", *Toronto, Ontario M5T 2T8*

CHINA
CNPICOR, Periodical Department, P.O. Box 50
Peking

CZECHOSLOVAKIA
MAĎARSKÁ KULTURA, Národní třida 22
115 66 Praha
PNS DOVOZ TISKU, Vinohradská 46, *Praha 2*
PNS DOVOZ TLAČE, *Bratislava 2*

DENMARK
EJNAR MUNKSGAARD, Norregade 6
1165 Copenhagen K

FEDERAL REPUBLIC OF GERMANY
KUNST UND WISSEN ERICH BIEBER
Postfach 46, *7000 Stuttgart 1*

FINLAND
AKATEEMINEN KIRJAKAUPPA, P.O. Box 128 *SF- 00101 Helsinki 10*

FRANCE
DAWSON-FRANCE S. A., B. P. 40, *91121 Palaiseau*
EUROPÉRIODIQUES S. A., 31 Avenue de Versailles, *78170 La Celle St. Cloud*
OFFICE INTERNATIONAL DE DOCUMENTATION ET LIBRAIRIE, 48 rue Gay-Lussac
75240 Paris Cedex 05

GERMAN DEMOCRATIC REPUBLIC
HAUS DER UNGARISCHEN KULTUR
Karl Liebknecht-Straße 9, *DDR-102 Berlin*
DEUTSCHE POST ZEITUNGSVERTRIEBSAMT Straße der Pariser Kommüne 3–4, *DDR-104 Berlin*

GREAT BRITAIN
BLACKWELL'S PERIODICALS DIVISION
Hythe Bridge Street, *Oxford OX1 2ET*
BUMPUS, HALDANE AND MAXWELL LTD.
Cowper Works, *Olney, Bucks MK46 4BN*
COLLET'S HOLDINGS LTD., Denington Estate *Wellingborough, Northants NN8 2QT*
WM. DAWSON AND SONS LTD., Cannon House *Folkstone, Kent CT19 5EE*
H. K. LEWIS AND CO., 136 Gower Street
London WCIE 6BS

GREECE
KOSTARAKIS BROTHERS INTERNATIONAL BOOKSELLERS, 2 Hippokratous Street, *Athens-143*

HOLLAND
MEULENHOFF-BRUNA B. V., Beulingstraat 2,
Amsterdam
MARTINUS NIJHOFF B.V.
Lange Voorhout 9–11, *Den Haag*
SWETS SUBSCRIPTION SERVICE
347b Heereweg, *Lisse*

INDIA
ALLIED PUBLISHING PRIVATE LTD., 13/14
Asaf Ali Road, *New Delhi 110001*
150 B-6 Mount Road, *Madras 600002*
INTERNATIONAL BOOK HOUSE PVT. LTD.
Madame Cama Road, *Bombay 400039*
THE STATE TRADING CORPORATION OF INDIA LTD., Books Import Division, Chandralok 36 Janpath, *New Delhi 110001*

ITALY
INTERSCIENTIA, Via Mazzé 28, *10149 Torino*
LIBRERIA COMMISSIONARIA SANSONI, Via Lamarmora 45, *50121 Firenze*
SANTO VANASIA, Via M. Macchi 58
20124 Milano
D. E. A., Via Lima 28, *00198 Roma*

JAPAN
KINOKUNIYA BOOK-STORE CO. LTD.
17-7 Shinjuku 3 chome, Shinjuku-ku, *Tokyo 160-91*
MARUZEN COMPANY LTD., Book Department, P.O. Box 5050 Tokyo International, *Tokyo 100-31*
NAUKA LTD. IMPORT DEPARTMENT
2-30-19 Minami Ikebukuro, Toshima-ku, *Tokyo 171*

KOREA
CHULPANMUL, *Phenjan*

NORWAY
TANUM-TIDSKRIFT-SENTRALEN A.S., Karl Johansgatan 41–43, *1000 Oslo*

POLAND
WĘGIERSKI INSTYTUT KULTURY, Marszalkowska 80, *00-517 Warszawa*
CKP-I W, ul. Towarowa 28, *00-958 Warszawa*

ROUMANIA
D. E. P., *Bucuresti*
ILEXIM, Calea Grivitei 64–66, *Bucuresti*

SOVIET UNION
SOJUZPECHAT — IMPORT, *Moscow*
and the post offices in each town
MEZHDUNARODNAYA KNIGA, *Moscow G-200*

SPAIN
DIAZ DE SANTOS, Lagasca 95, *Madrid 6*

SWEDEN
GUMPERTS UNIVERSITETSBOKHANDEL AB
Box 346, *401 25 Göteborg 1*

SWITZERLAND
KARGER LIBRI AG, Petersgraben 31, *4011 Basel*

USA
EBSCO SUBSCRIPTION SERVICES
P.O. Box 1943, *Birmingham, Alabama 35201*
F. W. FAXON COMPANY, INC.
15 Southwest Park, *Westwood Mass. 02090*
READ-MORE PUBLICATIONS, INC.
140 Cedar Street, *New York, N.Y. 10006*

YUGOSLAVIA
JUGOSLOVENSKA KNJIGA, Terazije 27, *Beograd*
FORUM, Vojvode Mišića 1, *21000 Novi Sad*

HU—ISSN 0001—6373 **Index: 26.033**

ACTA OECONOMICA

PERIODICAL OF THE HUNGARIAN ACADEMY OF SCIENCES

EDITORIAL BOARD

M. SIMAI (Chairman)
P. ERDŐS
T. ERDŐS
F. FEKETE
J. FEKETE
I. HAGELMAYER
I. HETÉNYI
R. HOCH
I. HUSZÁR
J. KORNAI
F. KOZMA
A. NAGY
G. PÁRNICZKY
Z. ROMÁN
J. SZABÓ

EDITOR
T. FÖLDI

AKADÉMIAI KIADÓ, BUDAPEST

VOLUME 34
NUMBERS 3–4
1985

ACTA OECONOMICA

ECONOMIC PERIODICAL OF THE
HUNGARIAN ACADEMY OF SCIENCES

Editor:

TAMÁS FÖLDI

Editorial office: H-1112 Budapest, Budaörsi út 45. Hungary
H-1502 Budapest, P.O.B. 262

Published in two volumes a year. Orders can be placed with Kultura Foreign Trading Company (H-1389 Budapest, P.O.Box 149) or Akadémiai Kiadó (H-1363 Budapest, P.O.Box 24).

CONTENTS

F. HAVASI: The Economic Situation of Hungary and the Tasks to Be Faced 193
J. BOGNÁR: Evolution of Conception about Economic Policy and Control in Hungary in the Past Decades 205
T. VÁMOS: Problems and Responses in the Mirror of Technical Progress in Hungary During the Last Forty Years 219
B. KÁDÁR: Hungarian Industrial Development in the Light of World Economic Changes 241
T. BAUER: Reform Policy in the Complexity of Economic Policy 263
L. ANTAL: About the Property Incentive 275
I. TARAFÁS: The Possibility and Conditions of an Anti-Inflationary Economic Policy in Hungary 287
K. LÁNYI: Hungarian Agriculture: Export Surplus or Superfluous Growth? 299
K. DYBA: Adjustment to International Disturbances: Czechoslovakia and Hungary 317
S. RICHTER: Trade with the Soviet Union: the Case of Austria 339

REVIEWS

É. SZABÓ-MEDGYESI: Non-Agricultural Activities of Agricultural Enterprises in Hungary . . . 361
GY. VARGA: Thirty Years of the Research Institute of Agrarian Economics 374

BOOK REVIEWS

L. CSABA: Eastern Europe in the World Economy. Adjustment and the Economic Mechanism *(Á. Török)* 383
L. BÉLLEY: Economic Control and Development of the Infrastructure *(M. Mátrai)* 386
B. BOTOS–G. PAPANEK: Question Marks of Hungarian Industrial Development *(L. Kállay)* . . 388
I. DOBOZI: Raw Materials and Fuels in the World Economy *(B. Balkay)* 391
S. WICKHAM: L'économie mondiale *(E. Kemenes)* 394
G. SOKOLOFF: L'économie de la détente: l'USSR et la capital occidental *(I. Kőrösi)* 396

BOOKS RECEIVED

Acta Oeconomica, Vol. 34 (3–4), pp. 193–204 (1985)

THE ECONOMIC SITUATION OF HUNGARY AND THE TASKS TO BE FACED*

F. HAVASI

The author reviews the features characteristic of the development of Hungarian national economy, its achievements and difficulties, with special regard to the period that has passed since 1980. It analyses the activity aimed at improving the external and internal equilibrium of the economy and outlines the economic policy objectives for the coming years, paying special attention to the efforts of welfare policy.

Results and difficulties of the last five years

While making decisions on preserving all the important elements of its policy, the 12th Congress of the Hungarian Socialist Workers' Party, held in 1980, directed attention to the necessity of changes in the practice of economic policy suited to restore the equilibrium of the Hungarian economy, to maintain the living standards, as well as to bring about the conditions of a subsequent dynamic economic progress.

In spite of unfavourable external economic conditions, in recent years Hungarian economy has been developing in accordance with this decision. Financial equilibrium was restored, and solvency maintained. However, the other main objective: to maintain living standards has not been fully realized. In 1985 an export surplus corresponding to 5 percent of the national income is to be reached as against an 11 percent import surplus of 1978. Hungary's liabilities in convertible currencies will be reduced by nearly 15 percent by the end of 1985. All this is achieved through a dynamic, nearly 30 percent, increase of exports, settled in convertible currencies, and by keeping imports at the 1980 level. As for trade accounted in rouble, it is expected to be balanced in 1985.

The economic growth rate is lower than envisaged in the 6th Five-Year-Plan, covering the years from 1981 to 1985. National income will probably only grow by 11 percent instead of the planned 14–17 percent, and industrial output only by 12–13 percent instead of the 19–22 percent as planned. The production of agricultural goods is growing, as envisaged, by about 13 percent. Within it, the levels of cereals and of meat production envisaged for the last year of the Five-Year-Plan were already achieved in 1984.

Since the improvement of the external equilibrium consumed 2–8 percent of the national income, its domestic uses had to be curbed, which affected investment in the

*Based on the address of the author to the 13th Congress of the Hungarian Socialist Workers's Party held between the 25th–28th March, 1985.

Acta Oeconomica 34, 1985
Akadémiai Kiadó, Budapest

first place. In the last five years, 15 percent less than the envisaged investment has been implemented.

As a result of the policy directed at protecting living standards, living conditions are improving, the population's real income and consumption are growing by about 7 percent—approximately the envisaged rate—, but real wages are going down by about 6–7 percent as compared to 1980. The faster than average rise in consumer prices reduced the purchasing power of social monetary benefits and the ratio of council flats within housing fell to a critical level.

Lately, evaluations of the economic situation and of the progress made in Hungary have come, of course, into the focus of interest. Questions such as the following are often heard: Have we made a mistake? If so, when and where? Why is it that the improvement of the economic equilibrium takes so long a time? Do we not endanger our future by curbing? Some question the correctness of our foreign economic policy and efforts, others press for the boosting of economic growth.

Causes of the troubles and difficulties

In the 1970s the deteriorating terms of trade alone—just one of the challenges of world economy—caused a loss equal to almost a year's national income. This has complex reasons, to be traced back to the last decades.

Between 1948 and 1953, mostly on political considerations, those sectors of the Hungarian economy were developed in the first place for which the country lacked the natural resources, as well as the technical and special knowledge, what we call the necessary "work culture". Within the industrial sector, the ratio of energy- and material-intensive industries, relying mostly on imports, grew beyond reasonable limits. The subsequent extensive development policy preserved this production structure, which resulted in an increasing material intensity of the Hungarian economy.

Difficulties were made worse by the practical implementation of the energy policy conception of the late 1960s, based on the then prevailing price conditions, which led to a disproportionate share of crude oil and to a delayed modernization of coal-mining. Nuclear energy utilization also suffered a serious setback. The share of hydrocarbons within energy consumption had risen to more than 40 percent by the end of 1978. The explosion of raw material and energy prices made the functioning of Hungarian economy—already highly material- and energy-intensive—much more costly. The troubles of the manufacturing industry are also mostly related to these problems. Because of the lack of the necessary technical-technological developments, the competitiveness, up-to-dateness and quality of its products are inadequate and thus it could not compensate for the losses. The deterioration of the terms of trade has therefore confirmed, practically unchanged, since 1973.

The difficulties were also increased by the fact that in the mid-1970s the reform process of the economic control and management system was inconsistent. The economic

management system introduced in 1968 produced good results in the first years. Later on, even though basic principles remained in force, practice deviated from them. The objective kept in view was not prompt adjustment to external changes, but mitigation of their unfavourable impacts—correct in the case of the population's burdens—, and the protection, at any price, of the economic units.

In the mid-1970s neither economic policy, nor the Hungarian public were prepared for action corresponding to the changed conditions. Up to 1979, economic policy had maintained the elements of the extensive development path, a dynamic economic growth and accumulation, and relatively stable prices. Thus, neither enterprises nor the population were directly affected by the changes in world economy. The rapidly growing costs of imports were financed mainly by the budget and what was missing, by credits. As a consequence, the country's foreign debts reached by 1978 a level which already endangered further development. Therefore, earlier priorities had to be given up: emphasis was now transferred to the restoration of external equilibrium, and for this end, the domestic uses of national income and the rate of economic growth had to be curbed.

It is evident from this short review, that the present difficulties and equilibrium disturbances of the Hungarian national economy, and the limits to growth and consumption are mainly rooted in the last decades. We cannot say as yet that the debt problems have been solved, but debts have been in fact reduced, and this has been achieved so that in the meantime the mutual confidence between Party and people, and domestic political stability have been successfully preserved.

The main problem is that the slowing down of economic growth has not been accompanied by the necessary structural changes. The necessary progress has not been achieved in the improvement of efficiency, either. Although productivity has increased, the organization of work has not improved to the necessary extent, and no genuine result has been achieved in liquidating the sources of loss. Within the scope of curbing investment, selection has not become efficient enough, the efficiency and structure of investment have hardly changed at all. The average gestation period has not shortened, the order and organization of implementation have not improved, the ratio of machinery is still low. From all this the conclusion has to be drawn that without qualitative changes it would be in vain to reinstal a high rate of investment in the old structure. Growth may be thus speeded up, but we would have to reckon with the recurrence of earlier tensions. If, however, investment projects are selected and implemented in a good structure and asserting the requirements of the intensive development, even a relatively lower rate of accumulation can provide for faster progress. It is, therefore, a task of primary importance to identify correctly the development targets, and to improve the efficiency of investments.

The factors of achievements

The achievements and results of Hungary accomplished during the last five years have gained international recognition. Hungary could remain solvent at a time when more than 50 countries became insolvent and asked for a rescheduling of their debts. That Hungary could hold its ground even under the well-known unfavourable circumstances was the combined effect of several factors.

The most important of these were the efforts and, if it was necessary, even the sacrifices, of the Hungarian people, a good atmosphere in domestic politics, and a general consensus to support government policies. A considerable part of the burdens was borne by the well functioning socialist large enterprises. This helped to achieve short-term targets but hindered us in increasing the income producing ability of the national economy.

It is an important stabilization factor that the tested cooperative and agrarian policy could be further pursued, the peasants' financial interest and their disposition towards production maintained, that the state and cooperative large-scale farms are well integrating the activities of the one and a half million household-plots and auxiliary farms, and that agriculture and the food processing industry could satisfactorily supply the domestic market as well as increase exports.

Another important factor of the achievements is that Hungary could further rely on economic cooperation with the Soviet Union as well as with the other friendly socialist countries. Without our belonging to the socialist region of world economy and without the CMEA cooperation, Hungary's burdens and losses would have been much greater.

In the improvement of Hungary's balance of payments and in the maintenance of its solvency a role was also played by the specialized international financial institutions of the UN, of which Hungary has been a member since 1982.

In recent times, voices are heard that say there is a growing Western orientation in Hungary's foreign economic relations. Those who say so forget that it has not been in recent years, but in the 1970s that we incurred debts and that in the last years we have liquidated a good deal of those debts; that the financial equilibrium of the economy has not been upset in recent years, either, but in these years it has been restored; that Western imports have not been enlarged but, on the contrary, reduced in the last years and so has been the vulnerability of the entire economy. In the years in question Hungary has remained an active participant in the development of the CMEA integration, in the widening of mutual economic relations and in the improvement of multilateral cooperation. For Hungary, each market has its specific role, irreplaceable by any other one. At the same time, as it has been several times explained, the security of the country's economic development plans is not dependent solely on foreign markets, but on the foreign political environment as well. Hungary wishes to maintain relations based on equality and mutual advantages also with non-socialist countries. That is why we have undertaken contractual obligations and acquired certain rights, too. These rights have been, however, more than once violated and we have found ourselves to be suffering

from politically motivated objectives and measures. Against this, a security is provided by our cooperation with the socialist countries, first of all the Soviet Union.

The disputes about how to build up the economy are, obviously, often concerned with our interpretation of socialism, and the picture of future society. The earlier picture of socialism formed on the basis of well intended revolutionary illusions is now being changed. Earlier, it was believed that economic development would be smooth in socialism, the rising of living standards unbroken and that the economic and political crises of capitalism could not affect the socialist world. It was assumed that with the progress of socialism frontiers and the nationality question would lose their importance. It was thought, too, that the generations brought up in socialism would not be infected by nationalism, anti-semitism, and petty bourgeois mentality, that religion and bourgeois views would have no effect on them.

Each socialist country now draws up a balance of its present stage of development and considers ways of the future. In K. U. *Chernenko*'s paper published in 1984, as well as prior to it, in M. S. *Gorbachev*'s speech delivered at the ideological conference, and even in J. V. *Andropov*'s contribution at the Central Committee meeting of June 1983, the question was discussed, in which stage of the socialist development the Soviet Union was. It was being increasingly recognized that the perfection of advanced socialism needs a long historical period and that the socialist countries are only at its beginning.

A lot of consequences follow for, among other things, the development of the production relations, the distribution principles of the goods produced, socialist democracy, and the political institutional system. Theoretically, it has not been questioned at all that commodity (market) and money relations ought to be better utilized in the course of building socialism. It remains a question, whether the practical consequences of this recognition have been drawn. Socialism is a commodity producing society itself, in which there exist state, cooperative, private and personal property, in which there exists not only use value, but also value in exchange, and an important role is played in it by money, credit, and other economic categories. In socialism, commodity production and market are under the direction and control of the national economic plan. The laws of commodity production cannot be put out of action or ignored under socialist circumstances, either. Prices can be deflected from value, yet in the knowledge that it will have consequences, that long unsatisfied demand leads to distortions in economy, politics, and even in minds, i.e. to undesirable phenomena.

For all these reasons, the national economic plans, the whole economic control and management system, regulation and the political institutional system have to take into account the multisectoral character and the development level of the economy.

It is in the nature of socialism to care for people's welfare, to improve the working and living conditions of man building socialism and to provide for his many-sided development. From this derive in socialism such specific features of commodity (market) and money relations as the unity of plan and market, and the parallel existence of the planned central control of economy and enterprise autonomy. The widest social forces have to be united with a view to building socialism, and social justice has to be evolved.

This society must not be a society of shortage and poverty. Socialism is a society of work to which the lack of discipline and the failure to fulfil one's obligations are alien elements. The road leading to socialism is, however, rougher than we had thought, involving a lot of by-passes and failures. It does not matter, therefore, or is even to our advantage, if we get rid of illusions and strengthen our belief in the truth and feasibility of our ideals.

Perspectives of a more dynamic economic development

In the decision of the 12th Party Congress, held in 1980, it was a requirement of historical importance that the dangerously high rate at which the country was running into debts should be halted. The Congress realized that if we wished to gather again momentum, we had to slow down first. And then it was an important task of the 13th Congress to outline the programme of a livelier economic development.

A higher growth rate can only be allowed, however, with a simultaneous assertion of several requirements. Only such growth is to be realized, which at the same time stabilizes the country's equilibrium, promotes the structural development of economy, and feeds on intensive types of sources. It is by all means the value-producing ability of the economy that has first to be made more dynamic and only on these grounds can consumption follow.

The 7th Five-Year Plan, covering the years 1986–1990, is being drafted in compliance with these requirements. It gives preference to efficiency, income-producing ability, and international competitiveness. For the attainment of these ends, it assigns an increased role to the acceleration of technical progress, to a wide propagation of up-to-date technological processes. Economic development has to be founded by central development programmes as well as by austerity actions.

The speeding up of economic growth and the evolvement of more favourable processes may only be attained gradually. For the first years, the growth rate planned for 1985, i.e. a 2.5–3 percent annual increase of the national income, can be envisaged. This can provide for a small growth of the domestic utilization of national income, and within it for maintaining the level of investment and real wages. From 1988 on, the growth of national income may somewhat exceed 3 percent p.a. and on these grounds domestic consumption may also grow somewhat faster: first at a rate approaching that of national income and then at a practically identical and perhaps a little higher rate. This allows some enlargement of the scope of living standards policy: to increase real wages and to maintain the real value of social benefits in a wider sphere.

In the state and cooperative sectors Ft 850–900 thousand million can be spent (at 1981 prices) on investment in five years, a higher amount than that in the years between 1981–1985. In investment policy, those projects are given priority which can modernize the economy, promote structural changes and reduce inputs (mainly of materials and

energy) per unit of production, as well as the replacement, complementation and modernization of investment projects. The development of production is to serve two objectives at the same time: the boosting of exports and a profitable substitution of a part of imports. Only this can help the economy to fit into the international division of labour in a manner advantageous also in the long run.

It is important to use the available natural resources to a better effect, or, to process the available materials into products of the highest possible value and the best possible quality. In the production of industrial basic materials, for example, in ferrous metallurgy and in the chemical industry, the production of high-quality special items must be expanded. In the manufacturing industry, and particularly in mechanical engineering, it is a task of primary importance to strongly improve exportability. Development projects have to be carried out not in accordance with yesterday's, but with today's and tomorrow's requirements; for example, in the manufacture of electronic appliances, in biotechnology, in robot techniques, in pharmaceutics, cereal and meat production, energy utilization, and in the utilization of secondary materials.

The production of agricultural and food industrial products is planned so as to provide for adequate domestic supply, and in accordance with profitable sales perspectives in the non-rouble markets as well as with our obligations undertaken in compensation for material and energy imports in the rouble markets. Fundamental tasks are the improvement of quality and structure, the reduction of inputs, and a flexible market adjustment.

The tasks of the building industry are growing in volume. These will have to be accomplished, however, in a better quality than before, in shorter times, reducing per unit inputs, with an improved work organization, also supported by adequate organizational changes.

Efforts to improve the living standards and social welfare

The living standards policy is expected to promote and stimulate economic development better, to reduce social inequalities, to mitigate tensions in the social welfare situation, to be more just, and help to create a better general and proportionate sharing in taxation. In income policy, the principle of "from everybody according to his ability and to everybody according to his work" must be consistently asserted.

About two-thirds of the incomes of the population are labour incomes in Hungary. The improvement of distribution according to work can never be struck off the agenda. It has to be achieved that the work accomplished within the legal working hours be better organized and more honoured, and that outstanding achievements should be given sufficient moral and financial recognition. This has a better prospect now with the modified system of wage (earnings) regulation. There is further need for activities and small ventures carried on after legal hours. Their increase, however, should not be an end

in itself, but they must develop in harmony with national economic interests. It is our endeavour that incomes earned during legal working hours and those earned in overtime in the framework of small ventures should equally conform to actual performance, and that their difference be socially acceptable. With this in view, what is to be done is not to apply general restriction, but to wind up activities that are against rules and the valid legal regulation.

As for welfare policy, the question has often been raised in Hungary lately, that while the budgetary expenditure on welfare has continuously been growing, social tensions have not lessened, but, on the contrary, have grown sharper. At present, 26 percent of Hungary's national income is spent on social benefits in money and in kind. This ratio is in proportion with the development level of the country and can, on the whole, not be increased in the coming years. The trouble is that, because of an accelerated rise in price, the purchasing power of monetary benefits has fallen. The level of social benefits, their inner proportions, the conditions of receiving them, and their regional distribution also are unequal. While also the well-to-do groups of the population receive social benefits, a part of those in need of such benefits do not receive adequate help. Therefore, various demands are made on welfare policy, first of all that distribution should be more just and help more those who need it. Tensions can only be eased if we do not rely solely on the increment of national income, but provide for a more just distribution of the resources that are now being spent on social benefits. It may be stated on the basis of the welfare policy conception now under preparation, that even a fairer distribution can already improve the living conditions of those mostly in need of help.

Labour incomes and social insurance benefits will remain the main pillars of the security of existence. It is an important condition of the latter that the purchasing power of pecuniary social benefits should be maintained in a wider sphere and on a socially more acceptable level. In a more favourable economic situation perhaps even the real value of some of the benefits can be increased. It is an important element of welfare policy to help those in a disadvantageous social position, or, to assert the principle of helping those who need it.* At present, all we can do is to assert more consistently the principle and the aspects of granting help to those in need of it, in consideration also of entitlement by citizens' right. In a longer perspective, however, it is the entitlement by citizens' right that will have to be made prevalent. It serves the security and, moreover, the strengthening of equal chances, of the members of society that the basic health service and public education are free of charge and will remain so in the future. Gratuitousness has to be asserted within a certain sphere more consistently. At the same time, the charges for a few services outside the sphere of the basic services must be fixed in a more differentiated manner than they are now.

Of the elements of welfare policy affecting the different groups of the population, we hold the following to be the most important:

*A sort of means test is meant. – Ed. note.

It is favourably affecting the financial situation of families with children that the child-care grant is being gradually extended from one year to three years of age;* that the purchasing power of the family allowance is maintained; and that there will be more grants in kind for families with three or more children. Young people founding a family will get higher allowances and support for the acquisition and maintenance of their first dwelling, especially if they and their family lack the means.

The number of pensioners in Hungary approaches 2.3 million. Their situation is varying according to their age, health, ability to perform any activity, the amount of their pension and complementary income, and their family and financial conditions. 76 thousand of those in pensionable age are still employed fulltime, and 430 thousand work beside receiving pension. 60 percent of the pensioners have incomes from householdplots or auxiliary farms. However, old people unable to work, living alone, and receiving low pension are in a difficult social situation. Half a million pensioners are solitary. The majority can count on their children or other relatives. First of all those should be given help who cannot rely on their family. At the beginning of 1985 a country-wide investigation was made of the elderly persons in need of help. The investigation has revealed such new problems of which the most serious ones will have to be eased still in the current year.

The social security of the elderly people is basically determined by the pension regulations and the network of social workers. Various rumours are being spread about the amendment of the pension regulations. Indeed, an amendment is envisaged, for we wish to correct the much criticized deficiencies of these regulations. The right to pension is obtained through work and contribution to the superannuation fund, and is an irrevocable achievement. It is our endeavour that the pension regulations account better for the work accomplished, be more flexible and provide for a greater social security. The amendments, should they take effect, must not affect future pensioners unfavourably. According to our conceptions, the existing pension regulations and the new, amended regulations should be in operation parallel to each other through a few years. Those reaching the retirement may choose the version that is more advantageous to them.

We have for some time been making efforts in Hungary that prices should be expressive of inputs in conformity with the market value judgement, and improve thereby the efficiency of production, and promote a better coordination of demand and supply. We cannot do without the role of prices deeply influencing the development of economic processes in the future, either.

During the 6th Five-Year-Plan (1981–1985) both producer and consumer prices have been rising at a rate higher than planned. In the last five years–the rise of 1985 also taken into account–producer prices have been rising by 31–32 percent, consumer prices by about 38 percent, while average earnings have been growing by more than 30 percent. And yet unjustified price subsidies could not be essentially reduced. A step has been

*This has recently been introduced in an amount equalling the regular sick-pay and replaces the earlier lower child-care aid. – Ed. note.

taken towards developing a two-level price system: in 1985 consumer prices surpass the level of producer prices by 7 percent.

The high rise in prices has had both favourable and unfavourable impacts on the economy. It has promoted a dynamic growth of exports and helped to maintain equilibrium between domestic demand and supply. At the same time, it has protected economic units with low performance, negligent and badly organized work, distorted interests, exerted an adverse effect on economic relations between enterprises, and entailed some conspicuous social and political disadvantages. The unfavourable social and economic impacts of the price rises compel us to make efforts to gradually slow them down, and not artificially, with administrative methods, but by an economic policy curbing inflation.

We are aware that the changes in prices are rooted in the economy. We cannot give up a correct development of relative prices, the parallel movement of producer and consumer prices, and the reduction of unjustified consumer price subsidies in the future, either. The function of prices is to be strengthened by a deliberate development of market conditions, and of the armoury of economic management. We wish to reduce the price rises perceptibly: to about 5 percent p.a., therefore, we think it necessary to work out an appropriate anti-inflationary programme. The programme will have to include the conceptions regarding the conditions and means of eliminating the primary causes of inflation, the political, governmental, and economic tasks, as well as the tasks of management, regulation, and control.

A reduction of the rise in prices can only gradually be achieved. It cannot be excluded for the coming years, that increases in consumer prices—some of them central—should take place. We wish, however, to develop the correct price proportions in a way that the rise in the price level be socially bearable.

We shall further develop the economic control and management system

The objectives and efforts of economic policy and living standards policy are also served by a further development of the economic management system. This has enterprise activity at its centre. Our aim is that enterprises and cooperatives be the main economic agents and that all the important legal, economic and political conditions should help them in doing their utmost in production.

The development of economic management accomplished so far has encouraged the enterprising spirit and stimulated performance. It has yet to be achieved that workers' attachment to the socialist ownership become stronger, that they become interested in the profitable operation and also in the augmentation of the property in their charge.

The new forms of enterprise management, and the increased interest of workers' collectives will be a considerable progress in the development also of social democratism.

It will be well in harmony with the steps already taken and with those we are planning to take in the future.

The elements of self-government, democratism, and the right of a say will be strengthened in all fields of public life: in the social and mass organizations, in the cooperative movement, in parliamentary and council work, in enterprises and chambers. Important forums of the institutional reconciliation of interests are such bodies as the National Council of Consumers, the National Council of Social Insurance, the Wages and Labour Council, the National Labour Safety Committee. The activities of these bodies are to be developed so as to allow genuine exchanges of opinion, revealing of interests, mediation, and reconciliation. At all forums interests must be allowed to conflict and consensus must be found through disputes. The working people, or their collectives, will not always execute resolutions made at a higher level, but an increasing number of decisions made by themselves. Even central conceptions can be better implemented, if the workers—as owners of public property—feel more "initiated" in managing their own affairs.

The radical change in the internal and external conditions of economic growth and the gaining ground of the intensive type of growth have put the question of developing the economic management system on the agenda also in the other socialist countries. We cooperated with them in the period of extensive development. We have to find the possibilities and forms of cooperation also in the new phase of development. The realization of this fact was characteristic not only of the last high-level CMEA meeting, but it is also manifest in a better understanding of each other's difficulties. If more of us recognize the need for change simultaneously, if we pursue an economic policy in conformity with our potentials, national character and common interests, and if we develop national economic planning, economic armouries, plan coordination and also the mode of reasoning accordingly, this all may guarantee that our common efforts will lead us faster to the right way out of the difficulties.

ПОЛОЖЕНИЕ ВЕНГЕРСКОГО НАРОДНОГО ХОЗЯЙСТВА И ЗАДАЧИ ЕГО РАЗВИТИЯ

Ф. ХАВАШИ

Статья написана на основе речи, произнесенной на состоявшемся 25—28 марта 1985 г. XIII. съезде Венгерской социалистической рабочей партии.

В первой части статьи дается характеристика основных черт, результатов и основных проблем развития венгерского народного хозяйства за последние пять лет. В этот период народное хозяйство — несмотря на неблагоприятные внешнеэкономические условия — достигло ощутимого развития, хотя оно шло более медленными, чем раньше, темпами. Важнейшим результатом является восстановление финансового равновесия, сохранение платежеспособности страны, уменьшение накопившейся за минувшие годы внешней задолженности. Однако сохранения уровня

жизни — второй основной цели — полностью осуществить не удалось. Хотя реальные доходы и потребление населения росли в соответствии с планом и улучшились жизненные условия, однако реальная заработная плата снизилась. Анализируя проблемы венгерской экономики, автор указывает, что затруднения с поддержанием сбалансированности развития и замедление темпов роста — наряду с неблагоприятным изменением внешнеэкономических условий — связаны с трудностями перехода от экстенсивного развития к интенсивному развитию.

В следующей части статьи излагаются цели экономической политики на последующий период, задачи периода 1986—90 гг. и требования программы оживления экономического развития. Автор констатирует, что в Венгрии желательно такое развитие, которое одновременно укрепляет внешнюю и внутреннюю сбалансированность народного хозяйства, способствует структурной модернизации экономики и происходит за счет интенсивных источников, повышения эффективности. Автор отмечает, что необходимо прежде всего динамизировать способность экономики к производству стоимости, и только на этой основе можно динамизировать потребление. В связи с политикой жизненного уровня основным требованием является то, чтобы она в будущем лучше способствовала, ощутимо стимулировала развитие экономики, снижала общественное неравенство, смягчала социальные напряженности. Необходимо добиться того, чтобы трудовые доходы росли в соответствии с действительными результатами, пропорционально исполненной работе. В последующие годы необходимо совершенствовать систему социальной политики, более последовательно соблюдать принцип оказания помощи действительно нуждающимся в ней. Особенно важно улучшение положение семей с детьми, молодежи, начинающей трудовую деятельность, и пожилых людей, персионеров.

Целям и задачам экономической политики и политики жизненного уровня хорошо служит всестороннее и постоянное совершенствование системы управления экономикой. Цель его состоит в том, чтобы предприятия и кооперативы стали основными субъектами экономики, и в том, чтобы все правовые, экономические и политические условия способствовали наиболее эффективной деятельности хозяйственных единиц, в интересах эффективного, успешного развития венгерской экономики.

Acta Oeconomica, Vol. 34 (3–4), pp. 205–217 (1985)

EVOLUTION OF CONCEPTION ABOUT ECONOMIC POLICY AND CONTROL IN HUNGARY IN THE PAST DECADES

J. BOGNÁR

The author examines how a revolutionary power having strong ideological bases and possessing a definite system of hypotheses about the future society formulates and develops its own system of reasoning and economic action under the impact of experience, the changes in the international economy and scientific thought. Historical experience bears it out that a modification in the economic policy conception must be followed by adequate adjustments in the control system.

From this viewpoint the last four decades can be divided into four stages: The period from 1949 to 1956, from the establishment of the dictatorship of the proletariat to the counterrevolution. In 1957 a revision of the economic policy and the control system applied up to then was undertaken and, in the final analysis, this led to the 1968 reform of the system of economic control and management. The reform process was pushed to the background and the conservative trend gained the upper hand. This led to grave imbalances and the danger of unfeasibility emerged. The adoption of a new economic policy in 1979 started a real adjustment process and a comprehensive further development of the system of control and management, both still in process in our days. The economic leadership revalued the conditions deriving from the foreign economic relations.

The evolution of conceptions about economic policy and control (management) and the interactions between them may be examined from various viewpoints, thus–among other things–they may also be analysed on the basis of economic history or the history of ideas (the history of theories). In conformity with my scientific views I rather strive to demonstrate how a revolutionary power, with strong ideological foundations and a definite system of hypotheses about a future society, forms and develops *its system of thinking (reasoning) and actions in the economy,* influenced by experience, the situations it lived through, the changes occurred in the international economy, and by the revolutionary changes in the scientific way of thinking. Obviously, reaction to the above mentioned experience, situations, external changes, or applying the results of scientific revolutions do not amount in themselves to a new policy, since the interpretation and understanding of the new situation and, especially, the devising of new systems of action require the initiative and collaboration of the public power. Hence, a conception can only be replaced by a new one if it practically causes economic disturbances, imbalance, backwardness, or its further application leads–in more serious cases–to bankruptcy.

Acta Oeconomica 34, 1985
Akadémiai Kiadó, Budapest

Social determination of economic policy and economic control

A modern economy, throughout its operation, has to meet several systems of requirements. Thus first of all satisfaction of the needs of society on a high level has to be provided for through developing the economy while maintaining a relative (dynamic) equilibrium (including technological development, too), creating advantageous links between the national economy in question and the world economy, preserving and strengthening its international position.

Owing to the strong interactions and the system of mutual dependency between the politico-economic system and the economy, as well as between national continuity and economy, in order to meet these requirements, society has to create such conditions as to keep up the legitimacy of the system and the identity of the nation, or else grave political conflicts may arise.

When the position of economy within society and its judgement are established it is necessary to reckon with the fact that this system of requirements can only be met under a definite, specific system of conditions. It may lead to heavy disturbances and mistakes, if the economic objectives are approved and accepted, but the system of conditions needed for realizing them are rejected.

The economy has to satisfy the needs–since this provides the basis for the survival and development of human society–but this can only be done by profitable undertakings. Economy must secure the assertion of *public interest;* this is only possible, however, through adequately stimulating individual and group interests. (This may presumably be also related to information coded in the genes of individuals.) Economy must develop rapidly but a steady development is only possible by maintaining dynamic equilibrium. In a socialist economy, too, exchange values are produced, i.e., economic needs can only be satisfied through the intervention of the market. Activities in foreign markets may involve a lot of economic advantages and benefits, but in a world economy where different socio-economic systems coexist, and which is made up of far more than a hundred national economies, and extraordinary keen competition prevails in which we may lose if we do not properly adjust to external impacts.

Of course, the processes and mutual determinations cannot be understood from one day or one year to the next, and not exclusively by theoretical reasoning or logical inferences, but through perceiving and analysing the systems (cycles) of action, consecutive in time but different in their nature. If disorders emerge in a system of actions–perhaps following more favourable outcomes of an earlier epoch–the economy (but also the whole society) is forced to work out a new system of actions. It is only natural that the new system cannot be perfect either; namely, from the set of objectives some will be contradictory, some may delimit one another or can only be attained by observing certain proportions. Nor are the necessary tools always available. Contradictions may also occur between the aims and actions governed by interests. Finally, compromises come into being not among things but among political power groups. It

must also be taken into account that in the case of a rapid technical progress or a revolution in communication the concrete objectives become obsolete very fast. Thus, after a certain time the system of actions introduced earlier will involve more trouble than the advantages inherent in it. Thus—depending on the political situation and on power relations—another system of actions will be substituted for it. Such cycles of actions may well be identified in the history of socialist economy, too, appear in various forms. In some cases "upswing" and "braking", in others periods of broadening or narrowing the socio-economic basis and, under again differing circumstances, periods aimed at introducing reforms and others slowing down or impeding this process are alternating.

The relationship between economic policy and the control system

The notion developed by various economists and economic schools of thought about economic policy are rather different. Within the scope of the present study it is not possible to present the various views or to expound our own ideas in detail. For the sake of a better understanding we note, however, that we always apply this term to the national economy; although we are aware of the fact that it can also be used in a micro-sense. But if policy is considered as power wielded by the government, it is obvious that in a socialist society the formulation of a general policy and its combination with other kinds of policy is a government task. Namely, in the early decades of introducing a new system, political power plays an especially substantial part in devising the legal framework of economic action, and the relations based on a certain consensus between the national economy in question and other national economies also belong to it.

It follows from the foregoing that by economic policy we not only mean the summarizing of rational development objectives in a unified system of actions, because the established or planned structures in themselves, without the actual economic relations (cost, efficiency, competitiveness, equilibrium relations) are meaningless. Namely, it is obvious in this context, too, that a sound structural development is only possible on the basis of dynamic equilibrium relations.

Ever since the mid-sixties, the economic mechanism has been considered an economic control system which, as a whole, has to satisfy various conditions—sometimes restraining one another. Some elements of the control system may be derived from the characteristic features of the socio-economic system (e.g. in the socialist economy from the principles of social ownership, and distribution according to work). The rest of the elements are, in turn, stemming from the role of and changes in the relations and categories present and acting in a society based on the division of labour and commodity production (prices, wages, profit, interest).

Clearly, the elements classified into the first group are relatively stable and occasional changes in them occur within a narrow range. Those ranked in the second one

are, however, flexible, and, throughout development, their relative weights change or can be changed in the various processes. Economic relations, i.e., the economic environment basically influence the behaviour of the participants (individuals, enterprises, the national economy) in economic life. We set out from the practical experience that—under normal conditions—those taking part in economic life adjust in their behaviour and decisions to the requirement system of rationality. Thus, in the course of formulating the economic policy the economic environment and relations have to be assessed carefully, since certain constituents of the earlier established relations will not comply with future-oriented development objectives. Some elements of the economic environment are variable, others, however, those linked to the international economy, must be considered as given conditions which we have to accept in some form in our system of actions. Through various combinations of economic relations on the one hand different economic policies, on the other hand differing economic results (equilibrium relations, income distribution, efficiency, export capacity, etc.) come into being. From their own endowments and advantages, as well as from their positions and relations in the world market, the national economies compose an economic policy which is not—and cannot even be—in absolute harmony with the economic relations developed in the past. For this reason the changeable elements of the economic environment have to be modified so that they should contribute to attaining the development targets and proportions included in the composition. The nature of the economy must also be taken into consideration; e.g. that the processes must take place under dynamic equilibrium conditions, or, that the market follows its own laws of movement. Finally, it must be stressed that, for the time being, only those working in the control sphere can obtain a comprehensive view of the real economic results, while other participants of business life can measure and judge the success or failure of economic management mainly through their own incomes and living circumstances.

It is obvious that the results—both in the micro- and macro-sense—depend on the economic processes, hence, if essential deviations occur from the development objectives or from the economic circulation which must be considered as a postulate, both the policy and the control system have to be revised.

Periods of economic policy and economic control

I divide the development of the relationship between Hungarian economic policy and the control system, and of the connections and interactions mutually assuming each other's existence, as well as of the ideas developed by the society about economy into the following *'four periods'*,

a) the initial period falls between 1949 and 1956, though the differences in the mode of socio-economic reasoning of the new power had come to be perceived already from 1953 on;

b) the period following 1956 which led to the far-reaching reform of the control and management system in 1968;

c) the pushing into the background of the reform movements and the strengthening conservative tendencies between 1972–1978 which caused serious imbalances and led to a crisis;

d) adoption of the new economic policy in 1979 which initiated a new reform of the mechanism and resulted in a revaluation of the system of conditions deriving from the system of external relations of the economy.

Let us now briefly examine the characteristic features of these periods.

a) In the initial period a special and contradictory combination of the original expectations and the Soviet example came into being in the government's system of actions. The original expectations came from the theory, the most important assumptions of which were such as a society of homogenous structure without conflicting interests, transparent socio-economic relations, production directed to cover immediately social needs, administration of matters instead of people, doing away with political economy, the exonomists' becoming unnecessary, and so on. In turn, the Soviet example–unlike these expectations–involved planning in physical terms, a centralized system of decisions, plan-instructions covering all phases of economic activities, industrialization concentrated on the heavy industry, import substitution and isolation owing to blocades and embargoes, as well as a one-sided preference for the public interest. The mechanical following of the Soviet example had, of course, a number of negative consequences, since economic policy is always a concrete issue, i.e., it is inseparable e.g. from the size of the country and the market in question, from the availability of natural resources, and the degree of dependence on the world market.

On the other hand, however, the following of the Soviet example safeguarded the economy from Utopian mistakes which could have presumably been made by a leading group of people with strong ideological commitment and no experience in government.

In that period the problems linked to transforming society and economy, ownership relations and the political system were predominant. In addition to production, the far-reaching changes also extended to finances and credit as well as trade. The main economic objectives were industrialization concentrated on the heavy industry, the socialist reorganization of agriculture and *complete transformation* of the system of foreign economic relations of the national economy.

The implementation of these objectives of economic policy and social transformation within a short time required the concentration and, later on, the monopoly of the various sorts of power,–starting from the internal power structure up to the guidance of culture.

In the first part of the period the leadership of the country was *relatively united,* since the emerging relations and disturbances were qualified by everyone as "temporary"; although certain power groups expected a development which would result in the suppression, and, later on, the cessation of the "economic bases" of the national economy,

while other groups, in turn, expected political stabilization to result in the normalization of economic relations, i.e., in a return to the requirements of economic rationality.

Following this, the overcrowding of development objectives both in terms of quantity and time, the pushing of economic factors into the background, the disregard for the nature of the economy, the wasting of resources, the abolition of structures that had earlier played significant roles in satisfying the needs (e.g. small-scale production), the pushing of individual and group interests into the background, the chase after conspicuous results, all created a situation which became intolerable both economically and politically.

As a result, an economy of shortages (i.e., an economy which reproduces the various kinds of shortages through its own circulation) developed, technological development slowed down, the quality of products deteriorated, agricultural production declined to an unprecedented degree which caused serious troubles in supply, i.e., the economy fell into decay and moved towards bankruptcy.

Under such adverse economic conditions the political system could only be maintained—especially in the period of transformation—by *increasing force.* This increasing force was said to be unavoidable owing to the activities of internal and external enemies, the same explanation was given for the ever more powerful economic troubles. If force is used in such a wide and general scope, unlawful measures necessarily afflict the leading group, too.

In the course of the economic and political crisis, the earlier collaboration within the ruling stratum (group) collapsed and from that time on, the differences in handling the economic issues also came to the foreground. The forces craving for change required the reduction of administrative and bureaucratic methods, the restitution of revolutionary legality, moderation of the policy of exaggerated investment and industrialization, and a more rapid development of agriculture.

Later on, the *struggle for power* among the groups representing various tendencies grew extremely fierce and led to the well-known events of 1956.

b) After 1957 the "bankrupt's estate" caused by the dogmatic, conservative economy policy had to be abandoned and new driving forces had to be introduced into economic development. This requirement was also recognized by the new political leadership which had set up an expert committee in order to elaborate recommendations of comprehensive importance. These recommendations included the modification of the producers' price system of industry, the abolition of state subsidies, the reform of consumer prices, a stronger adjustment to world market prices and, in compliance with this, suitable exchange rates of foreign currencies. The conceptions advised to make the methods of material management more market-like, to introduce a system of profit-sharing, to pay charges for using the fixed assets, to regulate the average wages instead of the earlier control of the wage funds, to assert the principle of interest in returns received in foreign currencies and to apply customs duties.

However, in 1957–1958 the progressive power centres of the political leadership had not yet sufficient predominance for introducing a comprehensive economic reform.

Thus, for the time being, no such comprehensive reform had been implemented, yet several essential elements of the recommendations were accepted, while other elements promoted the development of economic thought.

From among the substantial changes we wish to mention the following ones, i.e.,

– an economic policy built on Hungarian conditions was formulated;

– a national consensus was brought about which meant the formulation of an alliance policy and thereby brought new powers and value systems into politics;

– the compulsory delivery system in agriculture was replaced by the system of free procurement;

– the national economic role of agriculture was recognized and appreciated, control was decentralized and new cooperative forms and methods were developed;

– the number and scope of compulsory plan indicators was substantially reduced;

– a new industrial policy conception and the financial stimulation of technological development was developed;

– the right of direct exports was granted to certain industrial enterprises;

– science, especially social sciences were given freedom and encouragement in studying the real economic and social relations.

Towards the end of the decade and in the early sixties the economic situation, owing, in addition to the above mentioned changes, also to the more favourable trends in international policy, rapidly improved. This improvement also contributed to the development of East-West economic relations, producing positive effects in the Hungarian economy which is especially sensitive to foreign trade.

After 1963 it was increasingly felt that in the economic policy which was correct and rational in its main lines,–supported by national consensus and also considering the interest relations–characteristic mistakes of the earlier period were being reproduced. As a result of these phenomena, growth again slowed down, the efficiency of investment projects ceased to improve, stocks and investments in progress again increased and the growth of production was again achieved by involving additional labour, thus aggravating the shortage of labour.

In other words, a sound and realistic economic policy continued to produce such results in the system of plan instructions which were intended by nobody. As it turned out, the shortage economy reproduced itself (shortage appeared in commodities, services, capital, labour, capacities, import products, etc.), technological development remained slow, and, owing to the low efficiency, the standard of living was not based on secure foundations either.

At that time as yet no bankruptcy or collapse was threatening but both the economic policy makers and scientific researchers felt that the control and management system based on central plan instructions and prompting extensive development had been exhausted and became an obstacle to introducing the model of intensive growth. It became obvious that a comprehensive reform of the control and management system was inevitable. At the end of 1965 the Central Committee of the HSWP also took a stand for working out and introducing the necessary reforms.

After such antecedents, the introduction of the reform came to pass in 1968; one of its characteristics was that it intensively searched for a possible harmony between the endeavours of economic policy and the control system (i.e., the economic environment). It hoped that by achieving harmony positive interactions, strengthening one another, might be brought about between economic policy and the economic environment. It was also a definite endeavour that among the interests of individuals, groups and society a system of connections mutually supporting each other should be developed, since in the case of conflicts individuals and groups (enterprises) hold back their performance and look for systems of actions that will serve their own interests more effectively.

In addition to abolishing the system of central plan instructions, perhaps the most important elements of the reform were that the compulsory paths of commodity circulation were abandoned, trading in the means of production was introduced, tax connections were created between the budget and the enterprises, the profit proportionate to assets was accepted as an indicator of economic success, it was acknowledged that the economy has sectors with different ownership relations; the system and possibilities of financing enterprise investments was changed, the right of direct exports and imports, as well as partially free prices were introduced. In the year following the reform economic growth accelerated, productivity increased annually by 6 percent, the infrastructural investments significantly developed and substantial improvement could be felt in the market of consumers' goods and services. Besides, both the collective farms and the household plots of the cooperative members achieved considerable results in commodity production.

Little development was experienced, however, in the engineering industry. Owing to the too wide range of products the sectors constituting the background to its production hardly made any motion at all and the services to the producers also made very slow progress. Under such conditions it became clear that economic pressure on the large industrial enterprises had to be strengthened; implying that it was no longer expedient to protect them from the real economic relations, since from the aspect of the real market relations and economic equilibrium, the national economy spent more on their production than it received in return.

c) The circles protecting the economic preferences enjoyed by the large enterprises joined in this critical period of time with the various opponents of the economic reform. The representatives of the *temporary* political power centres thus coming about equated the difficult situation of the large industrial enterprises with the *uncertainty of existence of the working class,* raised objections to the "market principles" of income distribution and to the operation of those sectors and units (such as the household-plots and the private sector) which are situated in the marginal spheres of socialist economy.

Thus, owing to the counter-pressure dividing even the political centre of power, a "deadlock of action" developed around the reform, inasmuch as the supporters of the reform had no sufficient strength to continue the reform and those representing the counter-pressure dared not to undertake its "open liquidation". Of course, certain actual

economic situations require decisions even in the case of a "political deadlock". Yet, in respect of the daily decisions the opposing tendencies were stronger; thus, in this period (1972–1978) mostly such economic decisions were made which, under the pretext of "correcting deficiencies of the reform", were aimed at abolishing the reform. It was under the pressure of the political power groups representing this opposed trend that the individual favours, subsidies, wage rises not backed by performance granted to big industrial enterprises, investments, subsidized disregarding the criteria of efficiency, delimination of the useful activities of the profitable auxiliary (complementary) workshops in agriculture, the introduction of a tax system putting a brake on small-scale production, exaggerated taxes on household-plot farming, etc. could all gain ground.

It was at that time (at the end of 1973) that the "economic earthquake" caused by the changing epoch in world economy, i.e., the *first oil price explosion,* occurred. This event and its rapidly unfolding effects not only caught us unprepared, we not only reacted to them slowly, but the *economic policy formed by the opposing currents pushed the economy in the opposite direction.* For a while they took no notice of even the fact that in 1974 our import prices soared by 31 percent, while our export prices could only be raised by 14 percent. The terms of trade deteriorated in 1975, by a further 12 percent. Deducting this from the national income, the sources that could be allocated grew in 1974–1975 merely by 2–3 percent, while domestic consumption (primarily investment and the accumulation of stocks) increased by a round 20 percent.

The means needed for the surplus allocation carried out despite declining results were financed by loans from abroad. This practice was followed up to 1978 when it led to the well-known problem of indebtedness. In this period even the reform of the so-called regulators (adjustment of producer prices) was irrealistic, for the intention was to implement it "gradually", by breaking it down to "phases", at a time (1976) when the *waves caused by the changing epoch in the world economy were already dashing over our heads.*

To stop the process of running into further debts entailing dangerous tendencies, to eliminate the general imbalance, to drive economic development to a new path was only possible through a *turn in economic policy.* This case also proved that a one-sided economic policy, breaking up the system of rational economic circulation, would sooner or later force a turn, i.e., it prepares the coming into prominence of aims and means contrary to its own declared objectives and methods. The graver the mistakes, distortions and errors made in economic policy, the more radical a turn is needed in order to restore the system of rational circulation in the course of corrections.

d) The general imbalance was the resultant of internal and external factors; therefore, such an equilibrium-restoring policy had to be implemented which would take into account both groups of factors. An imbalance–depending on its quality and order of magnitude–can temporarily be eliminated by a radical regrouping of assets, but the causes giving rise to the imbalance *can only be changed by the joint reform of the economic policy and the system of economic control and management.*

Hence, in 1979 it became clear that, beside a radical transformation of economic policy, it is also needed to unswervingly continue the reform process which came to a halt in the early seventies. In the course of this process such significant questions would actually find a solution as creating a capital market, the introduction of bonds, bringing into existence new forms of enterprising, promotion of efficient undertakings, liquidating uneconomical activities, the abolition of monopoly positions, fostering competition, reform of the banking system, establishment of economic organizations for the promotion of innovations, strengthening the small and medium-size establishments exploiting the possibilities inherent in the various sectors of the economy, introduction of new forms of ownership and lease, transformation of the system of material incentives and even some others could be enumerated. From among these very significant changes I wish to point out one, i.e., the development of a *new strategy in foreign trade,* which is in progress.

The new foreign trade strategy

The formulation of a new foreign trade strategy is needed because of the joint impact of several highly important factors. It is obvious that in the current state of the Hungarian and world economy the internal and external processes cannot be any more separated from each other, i.e., the external economic processes have become factors in the domestic economic relations. This unambiguously means that the right concepts of economic policy and development follow from the best combinations of internal and external factors. *Thus, the Hungarian economy has became an economy to be guided (and be made more dynamic) by exports and the decisive motive power of growth is the expansion of exports.* The social aims of economy, and those closely linked to the economy, requiring considerable material inputs can only be achieved in the case of successful and increasing exports.

It must be stressed, however, that the world-economic constituents of transforming the foreign trade strategy are also very powerful. They are inherent in the changing epoch of world economy, i.e., in the fundamental relations basically influencing the economic, political and social opportunities of the coming decades. From these I wish to emphasize the factors chiefly influencing the economies, i.e., *the birth of global problems, the acceleration of world economic processes and the new conditions of adjustment (adaptation).*

From among the global problems I wish to stress above all those linked to the relationship between man and nature, since the possible alternatives of–national, regional, continental, intercontinental–economic development are more strongly influenced by the effects exercised on natural systems than hitherto assumed by the theories of social sciences.

The relations of mutual dependence (interdependency) are currently among the most characteristic features of world economic processes. Of course, in an *asymmetric*

world economy interdependency cannot mean a symmetry. This means that the economically weaker countries (e.g. the indebted and the slowly developing countries of the Third World) depend on the stronger economies to a higher degree than it is the case conversely. It is, however, undeniable that the lending countries also depend on the debtors.

Reasoning in national economic categories, it is obviously the sovereign right of any country or government to make budgetary deficits. But if world economic problems caused by the budgetary deficit (e.g. high interest rates) restrict the development of other economies, clearly the international community must,–in some form–deal with the problem.

The speeding up of world economic processes is linked on the one hand to the extremely dynamic, scientific-technical progress, and, on the other hand, to the tripling of the number of national economies.

Every country is prompted by its economic interests to adjust rapidly to changes in world economy, or else it will fall behind. Adjustment to the new scientific-technical revolution and adaptation of technological changes are connected with several socio-economic factors and structures. World economic experience in the past one or two decades has proved that Japan and some other South Asian countries attained a speed in adaptation that is hard to follow by others, and this cannot be left out of account by other participants in the world economy.

The components of the new system of world economic conditions (appearance of the global problems, mutual dependency relations, shortening of the time needed for adaptation) strongly influence not only the Hungarian economy, but the economies of the other socialist countries, too. Taking into account the changed standpoint of the leadership of the Soviet Union regarding the present stage of the Soviet socio-economic system (namely, that it is the building up of a developed socialist society and not the transition to communism that is on the agenda), considering the current international power relations and the "lengthening" parallel existence of several systems, it is clear that we are facing *several decades of a very long but very dynamic coexistence of and collaboration between different socio-economic systems.* It would be unreasonable for the socialist countries to renounce for decades the advantages inherent in adjustment to the world economic system and to maintain the forms of "barter trade" involving a lot of disadvantages for them, only because earlier, under other conditions, they had no other possibility.

It stands thus to reason that developing a new foreign trade strategy entails tasks to be urgently solved, and not only for the Hungarian national economy.

* * *

On the basis of analysing the changes in economic policy and in the control and management system and considering the interrelations between the two factors we may draw the following lessons.

1. The control system constitutes the rational framework and conditions (environment) of economic action; therefore it has a decisive impact on the development of economic processes.

2. The control system (economic environment) decisively influences the behaviour of individuals, groups and enterprises.

3. In a socialist economy the government has to direct its efforts to creating harmony between economic policy and the control system, or a system of effects which approximates this harmony.

4. In the past, the endeavours aimed at reforming the control system were born from the dramatic situations that came about in the economic system. The forms of appearance of these situations may be rather varied, they may vary from a concealed or open bankruptcy through imbalance, up to reshaping the links with the world economy.

5. Since the issues of economic policy and the control system are at the centre of power, it is clear that this transformation entails a shift in the centres of gravity and in the power relations. Experience shows that the power centres unfavourably affected by the shift in power relations tend to prevent the shift and to restore the previous power relations. Therefore, there always exist some *tendencies opposing* the introduction and unfolding of the reforms, even though the fundamental framework of the basic alliance system remains unchanged.

6. It must also be taken into account that the *basic issues of power* find their answer within the framework of the political structures and mechanisms—even in the case when the motives and inducing causes of problems and the changes are found in the sphere of the economy.

7. Thus, the fate of the reforms depends on the results that can be achieved in a society striving for *consensus* and compromises, while it recognizes the diversity of interest relations and endeavours, and secures, within the structures developed by the system, the possibility of unfolding them.

It thus seems justified to pay more attention to the issues of political structure and mechanism in the analysis of interrelations and interactions between economic policy and the control system.

To pursue this analysis is, however, the task of another study.

РАЗВИТИЕ КОНЦЕПЦИЙ ЭКОНОМИЧЕСКОЙ ПОЛИТИКИ И ХОЗЯЙСТВЕННОГО УПРАВЛЕНИЯ В ВЕНГРИИ В ПРОШЕДШИЕ ДЕСЯТИЛЕТИЯ

Й. БОГНАР

Автор рассматривает, каким образом революционная власть, располагающая серьезными идеологическими основами, системой гипотез в отношении будущего общества, формирует и развивает систему действий в хозяйстве и сам способ мышления под влиянием коренного преобразования, опыта изменений, происшедших в мировой экономике, а также с учетом развития науки. Исторический опыт свидетельствует о том, что, хотя и экономическая политика и система управления имеют определенные постоянные целевые установки, точнее постоянные элементы, им необходимо следовать за видоизменением общественно-политической концепции с целью соответствующей адаптации к ней системы экономического управления.

Acta Oeconomica, Vol. 34 (3–4), pp. 219–240 (1985)

PROBLEMS AND RESPONSES IN THE MIRROR OF TECHNICAL PROGRESS IN HUNGARY DURING THE LAST FORTY YEARS*

T. VÁMOS

The history of technical progress in Hungary in the last four decades has been closely related to the history of the industry itself. Periods: that of reconstruction between the liberation of the country and 1948–49, then the forced march up to 1953, crisis and new start between 1953–62 then the preliminaries of economic reform between 1962–68 and its further ups and downs are analysed. The lessons of both the problems and their solutions emerging from these periods indicate further development of the reforms and stimulate processes likely to create a favourable environment.

What one may call a historical perspective depends on the subject the history of which is being examined. In geohistory, a period may extend over millions of years, the political history of nations may be studied in the perspective of centuries, while in the history of industry 40 years are by all means to be considered as a historical epoch. I think it is justified to use such a historical scale if, within the period under examination, essential changes are found, which completed their course within that same period, while also new and different processes have started in it.

The present article deliberately refers to the study Iván *Berend* T. prepared for the session of the Hungarian Academy of Sciences, discussing the evaluation of the past 40 years. [1] It endeavours to demonstrate that, though the political and economic-historical aspects of social development indicate the qualitative changes in the forces of production only as reflected by a longer phase, the 40-year period we are going to review is, from the aspect of our own investigations, much better measurable and can be considered quite closed as for its consequences. Thus, the questions put by these short phases to society, their understanding and the answers given, provide more authentic lessons to us, witnesses as well as actors of the period. They oblige us all the more to clearly recognize today's currents and to find answers that are valid today and will hold for tomorrow as well.

From whichever aspect we look at the past 40 years, at least three new generations of the technology applied in industry may be distinguished in that period. This was clearly followed, with a delay, by the educational structure of the Budapest University of

*The author wishes to express his thanks for the careful critical comments of Pál *Bánsági*, Éva *Ehrlich* and János *Sebestyén*, as well as for their advice of which good use has been made in the present study. He also thanks József *Hatvany*, Mátyás *Horváth* and György *Vajda* for reviewing the article and their help.

Technology: the general instruction of mechanical engineering was completed by the faculty of electrical engineering as late as in 1949; the subjects of the modern semiconductor technology and telecommunication were introduced some time in the late 1950s; and the instruction preparing in some way for the present revolution of computer technology and telecommunication started in the early 1970s. During the last four decades at least three generations of the representatives of technical progress, i.e. engineers have followed one another who differed not only in their basic training, but also in their approach to technology, to the relationship between technology and economy, and between technology and society. The vast majority of the technologies and of the range of manufactures with which today's industry works did not even exist 40 years ago, and the tools or product bearing the same name as 40 years ago are radically different in their parameters, in the services they provide and in manufacturing processes. If we had the money to set up a finely arranged technological museum, in which the representation of workshops and products could recall some moments of this short period of the past, even those would be surprised who were working through those forty years as engineers.

The changes in the history of industry are also indicated by the summary parameters. Although in Hungary we do say, for example, that industrial output has grown to eight- or ninefold during that period, we hardly think of the fact that these data are of rather uncertain content, so much have the scales of things altered. There is no monetary or any scalar indicator by means of which to compare the 3+1-tube radio of 40 years ago with today's hi-fi tower or the multi-channel colour television also relaying teletext news; in the same way, a milling machine or turning lathe of 40 years ago may not be compared with the modern machining centre, nor the rayon mill with today's plastics industry, nor the 1945 tractor with today's machine lines used in agriculture.

If, therefore, we accept that this period can be measured by the scales of history, it is also our duty to measure it with the aid of such scales. It is only such evaluation of the processes that can help us to foresee something of the future tendencies, too, and not only to give account of the past, but, evaluating the prevailing situation in terms of its self-regulated movement, also to say something authentic and useful to the coming generation.

History assigns ever newer and constantly changing tasks to societies. That is why some societies produce extraordinary and admirable results in certain periods, while others drift along with the currents of history, and yet others–perhaps the same ones that earlier had set an example for other nations–are unable to produce the appropriate answer through a long historical period and lag behind the development of the world. In this analysis, therefore, attention is centred on the answers the Hungarian industry could give to the demands raised by world development.

We need some further explanation at this point. First, why do we measure the Hungarian industry by its answers to questions posed by the world, and not by its attitude taken towards the Hungarian (domestic) needs? The answer is simple and familiar: in today's world there exists no socio-economic system that could be considered

autonomous, not even that of the largest states, thus even less that of Hungary which, on account of its situation and dimensions, can only function within an international system of relations. Also, there is the demand that the measure should, as far as possible, be independent of the phenomenon measured; and that we should try to measure our progress against those who are in any way comparable to us.

The second explanation is concerned with the subject of the present study, which is the relationship between industry and technical progress. The two are inseparable and, if they separate even for a short period, the industry will be stagnating in respect of technological development: either in its technology, or in its range of products, or in the professional basis, the intellectual abilities of industrial managers, and soon a general decline will follow. The history of industry is practically the history of technological development, of technical progress. The economic parameters are its symptomatic manifestations, just as body temperature indicates a normal or an ill state of health. Technological development is such a basic feature of industrial life, as is the constant changes concomitant with adaptation in organic life. These similes can serve, of course, only for illustration and not as a proof. The main objective of the present study is precisely verification.

From the liberation of the country–to 1949: reconstruction

The division into periods reflects the aspects of our discussion. Let us, therefore, not consider the following analysis as an absolute one, but rather as an experiment in approach. The first period covers the years from the liberation of Hungary, from 1945 to 1949, in which the primary task was to restore the pre-war level of production and it may be safely stated that the Hungarian industry duly fulfilled this task. Hardly any technological development took place in that period, that had not been among the objectives and would not have been realistic, either. Like Hungary, other countries of Europe just started to awake, some were even slower than Hungary. There was a time when the dynamic force of the Hungarian reconstruction put the country into a relatively better position than that of several more advanced countries, which, however, had become more apathetic because of the war and the ensuing events. The reconstruction, however, did not take place on pre-war European standards in general, but on Hungarian standards, which were then quite considerably lagging behind the leading world standards, bearing the consequences of the permanent Hungarian political and economic crisis of the interwar period. That is why the Hungarian industry relied between 1945–1948 in several respects on equipment installed before World War I and often on production technologies of that period. Another important negative feature of that situation was that, in sharp contrast to the enlightened leaders of the nation's industry of the end of the 19th century, the technical knowledge and mentality, and the knowledge of languages in the counter-revolutionary state of Hungary between the two World Wars hardly went beyond the limits of

the German technical cultural complex. Therefore, Hungary had hardly any idea of the rapid technological advance and international changes, in which the main role was already played by the United States and which already laid the foundations for its world leading position, lasting to our days.

The successful reconstruction period can show up, however, an important value to be stressed for its still valid lesson: the policy toward the engineers, which, by granting these people the due financial and social appreciation and charging them with tasks serving national interests, was the most successful–in comparison with all other social battlefields–in coordinating the political and economic aims of the honest and worthy engineers of the old world: of the technically and politically more progressive anti-fascist professionals, with those of the working class. In that period of sharp political battles this was a result of extraordinary importance and impact.

1949–1953: forced march

The ensuing period was that of a forced march lasting from 1949 to 1953; its main subjective, i.e. politically dictated, problem was fast preparation for a presumed war situation. Some observers are inclined to put also this period under the category of reconstruction, since the structure and output of production reached about the same level as had been attained by 1941–1942–the peak period of the Hungarian war industry–by an industrial programme with quite different political aims, yet of similar contents, started in 1938 and directed at militarization. There were, however, essential differences in the technological development of industry. The large metallurgical and mechanical engineering projects implemented in this period of forced growth were primarily based on Soviet technologies, while the latter could be traced back to United States technologies of the late 1930s. This was an important step forward in comparison with the earlier state of affairs, in some cases even amounting to jumping over a decade in technological development. It has to be added that among the Soviet technology transfer people there were a great number of highly talented technical-scientific independent individuals, with thorough theoretical grounding, who played an important role in those years also in education, first of all in that of the young generation of the Hungarian engineers, preparing for their future tasks mainly within the framework of advanced (post-graduate) studies. It was one of the dramatic contradictions of the Stalinist era that while also the engineers and scientists suffered terrible and insane losses, some of those who carried on the traditions of the old Russian science were granted exceptional possibilities and security, and these were able to back up young talented people in the Soviet Union as well as here in Hungary.

The general "foundation boom" of the period bent on setting up new establishments laid the foundations of a great number of institutions and industrial establishments which, with some important changes in contents and function, still are the main actors of Hungarian economic and technical progress. Thus today's Hungarian precision engineering

and mass product manufacturing industry relies primarily on the military production bases founded at the time, such as the semi-conductor factory of Gyöngyös, the Precision Instrument Works of Eger, the Small Motors Factory of Iklad, the Bakony Works or the Hajdúság Industrial Works. Partly or completely, the basis on which the modern Videoton and the Rába Trucks Factory of Győr could be further developed and, of course, fully reconstructed also as regards their range of products, was the result of efforts in the period between 1938 and 1953. The majority of the research institutes representing today's Hungarian technological development and of the large enterprises promoting technical progress were established during the period between 1948–49 and 1953.

1953–1962: crisis and new start

The following period lasted from 1953 to about 1962: there was a crisis and a new reconstruction, and reconstruction exclusively on the old grounds. However, on one point this interlude of about 5 years is not to be considered as a loss: apart from a very short period after the liberation, this was the first time of a direct opening towards the world; though slowly, but a few such windows were opened which allowed to have a look at the changes that had taken place in the world's technological development since the 1930s. After more than 15 years this was a revelation for those capable of taking in the new sights to any extent. This opening exerted a more shocking effect than that following the liberation, since what we had then seen through those windows had been a Europe paralyzed by war and hardly beginning to stir while now we saw a world which had started to transplant the collected energies of the whole technological progress of the 20th century into industry and everyday use with an explosion-like expansion of a dimension never seen yet in history. I do not think to exaggerate its importance if I say that the realization of the necessity of a reform of economic management can be traced back on this wondering look, together, of course, with other phenomena.

Unfortunately, by this time the Hungarian engineering society had lost the intellectual strength and social cohesion necessary to draw the lessons with the same consistency as was done by the Hungarian economists. This intellectual decline had several, mutually amplifying causes. The old engineers were used to an old, very backward technical world, and the new generation showed poorer qualities because of the quantity drive. Practice itself was intellectually depressive: there was no incentive for innovation and forward looking but a drive for the daily fulfilment of the plan, and rushing after volume indicators. Thus the Hungarian reforms have remained lopsided up to these days: a highly progressive and enlightened economic thinking—of course, not always followed by the economic control and management practice—could not be coupled with a change in technical thinking to reveal and analyse changes in their depth.

In a sharp contrast to this weakness stands the much more harmonious economic and technological approach and transformation characteristic of the Hungarian agriculture in that and the ensuing period. As a natural and correct historical answer, the

policy of the Hungarian new start gave priority to the renaissance of agriculture: it was there that the preceding period had caused the worst damages, and where the economic reserves corresponding to the country's potentialities could be recreated in the shortest time. The quick organization of food supply was the best means to serve the emerging political stability and the identity of interests of peasants and workers. The most energetic political leaders were delegated to agriculture and the first and most radical break with the political dogmas of the Stalinist model took place in this sector.

If we wish to give a summary categorization of the preceding periods, we could say, roughly and neglecting all details, that in 1945–1948 the Hungarian industry gave a good answer to a realistic question. Between 1948–49 and 1953 it gave an answer corresponding to a wrongly posed question. And in 1953–1962 the question was: which way to go further? And the answer could not reach beyond a hesitating search for a way. The necessity of reform, and the awareness of it was slowly ripening until 1968.

The periods 1962–1968 and 1972–1978: preliminaries of the reform, its waves, great possibilities half-used

As a historical step in the socialist development of Hungary, the economic reform started or allowed two processes important for industry. One was legalization of the opening to world economy and provision for its economic framework, or, its fundamental conditions. The other one was the possibility–fluctuating, yet a great step forward–of providing a scope for enterprise (non-central) initiatives, indispensable for renewal. I think that we shall have yet for long to ponder why such possibilities producing outstanding results and thorough changes in other fields on the ground of a correct policy, first of all in agriculture, and also in the servicing industries, in public thinking and in intellectual development, could not be efficient enough in industry.

As it has been explained, it seems that, on the one hand, the intellectual ground of technical progress was not sufficiently fertile. Enterprise managers granted the freedom of initiative looked wondering at the new products, sometimes at the new machines when visiting exhibitions or industrial establishments, however, they very rarely formed a comprehensive vision of the technical transformation which, with its picture fast moving away from us shows the technological gap.

On the other hand, the structural organizational background became inadequate for any really extensive transformation. It is in industry that conservative forces, and the bad traditions of the 1950s could best keep their positions. This had some reasonable political causes in consideration of the lessons taught by the 1956 counter-revolution. However, the currents reminiscent of the early 1950s led to such extreme manifestations, that the management forced upon MTESZ (abbreviation for the Engineering Societies Association) caused a scandalous failure by 1975–1979.

A situation developed in industry which was in many respects contrary to the main direction: resources–by no means ample–and credits, now to be repaid at a high price,

were largely concentrated on a new industrialization imitating to some extent that of the 1950s, that is, on creating a second heavy industry not adapted to Hungarian conditions. That was the peak of a new wave of centralization, lacking any technical-economic considerations, wishing to direct economic processes and solve difficulties by a policy of the strong hand. Parallel to it, a technically inconsistent reconstruction was running its course, which could create up-to-date production conditions at a few isolated spots, yet, taking a broader view, what it could accomplish really effectively was very little.

Technical progress and the building of the future were hindered yet by another factor. In the period of the European economic boom it was easy to obtain commission work and the technology necessary thereto. Short-sightedness resulted in that the commission work persisted, which was useful at the given time even from the viewpoint of technology and the quality of work organization, but, a further development on these grounds did not follow, the factories and the technological development bases supporting the factories were neglected, in the hope that this situation would last long and that the advantages of these semi-colonial relations would be concomitant with a safe profit yet for a long time. The most striking example of this policy of failure was the Office Machine Works which had to be wound up. A counterexample is that of the Gedeon Richter Pharmaceutical Factory: its original products make up 16 percent of its output, with a 48.8 percent weight in profit. The average return from sales of the factory shows a 13.5 percent profit rate and with the original products this amounts to 43.3 percent. The extent of non-comprehension may be indicated by the fact that a Hungarian Minister of Industry banned digital techniques in the early 1960s. Some recent data show the same thing: they prove that the machine tool purchases of industry during the last 5 years consolidated, in their majority, the old technological standards. A well known example is that of Tungsram: its insistence on the conservative product pattern has led to an irretrievable lag in the semiconductor industry. The industrial structure became further distorted, clearly shown in the Austro-Hungarian comparisons of the Central Statistical Office to be quoted later on. It was forgotten that an advanced industry can only progress on an advanced basis producing the necessary equipment. The conservative structural approach is illustrated by the fact that the Hungarian statistical indicators do not yet acknowledge the concept of an electronic industry.

It would be unfair to talk only of these deficiencies and leave it unsaid that in the period following the economic reform—and particularly until the emergency situation of 1978—a lot of new machines and technologies appeared in the Hungarian industry, and the quality of several products considerably improved. Summaries are, however, unfavourable in comparison with the changes taking place in the European countries or even in the Far East during the same period, and today it is our duty, both towards the past 40 years and the years lying ahead, to think about the steps to be taken on the basis of realistic evaluations, and we must not be engaged in polishing partial results giving reason for self-praise. It also belongs to the general picture that the efforts made at following the technological progress of the world remained, in most cases, isolated phenomena and guerilla actions: the OMFB (abbreviation for the State Committee for

Technical Development)—an organization established expressly for the purpose—could place the "islands" of new technologies like smuggled goods, and compromises had always to be made with the conservative structures into which those islands were placed.

It was generally characteristic of the considerable technical progress made in the 1960s and 1970s that design and in many cases even the management of investment and construction were imported, and thus almost hundred-percent import systems were implemented for a relatively good market, which did not change to any considerable extent during the gestation period of the project, many times shorter than what is usual in Hungary. The further success of these new projects depended also on how much they could develop further the original gift, or how much it got stuck—either of necessity, or because of short-sightedness—in the technical and market world of investment decisions. The present conditions—investment costs, the embargo on pioneering technology and market trends—make this road less feasible for us now. Thus, we shall have to try to act in a much more complex manner.

In the final account, the international prosperity of the first half of the period from 1962 to 1978, its technological openness and the Hungarian economic reform succeeded only partly in making the Hungarian technological development adjust itself to world changes: the Hungarian industry continued to carry the onerous heritage of the forced march. The reform suffered a break before it could fully exert its real effect, among other things in the technological and organizational modernization. To the international turning-point of 1973—foretold by the far-sighted, for example, by the Club of Rome—the Hungarian answer came with a five-year delay. The answer, the events of 1978 and what then followed became, because of the exhaustion of reserves, an avalanche of forced measures, a necessary defensive instead of a technological and economic offensive.

Diagnosis of the situation after 1978 and of today

An especially grave situation has developed by these days. The balance-seeking period lasting from 1978 till today has brought a severe aridity in technological development for unfortunate objective internal and external reasons. The embargo and the scarcity of foreign exchange impeded the imports of any considerable quantity of modern technologies. Therefore, Hungary's technological standards are today in several respects lower than they were five years ago, since the technological equipments bought in the years of prosperity have become obsolete, and worn out, unable to show up even their original parameters, while the world has progressed in great strides. The realization of this fact has been extremely slow in Hungary. A leading official of the National Planning Office expressed his opinion at the beginning of the five-year-plan period now ending that in a period of recession there are not any considerable technical developments anywhere, thus we need not prepare for it, either. The neighbouring socialist countries are struggling with difficulties similar to or worse than ours, therefore, we cannot expect

their help now or in the years ahead to bridge over the technological gap, though we do hope that some of their perceptions and efforts may be useful some time for us, too.

The diagnosis is yet to be completed by a few further general characteristics. The most important one is the deteriorating terms of trade. Because of its foreign trade orientation, this is practically of the same importance for Hungary, as is the market price for an individual producer. Our present examination wishes to point out the interaction between the deteriorating terms of trade and keeping pace with the technological progress. Relying on József *Botos*'s [2] computations, we present the last 20-year changes in the terms of trade of a few countries, energy importers like Hungary. The conclusion is clear (Fig. 1): even though the oil price explosion affected all non-oil-producing

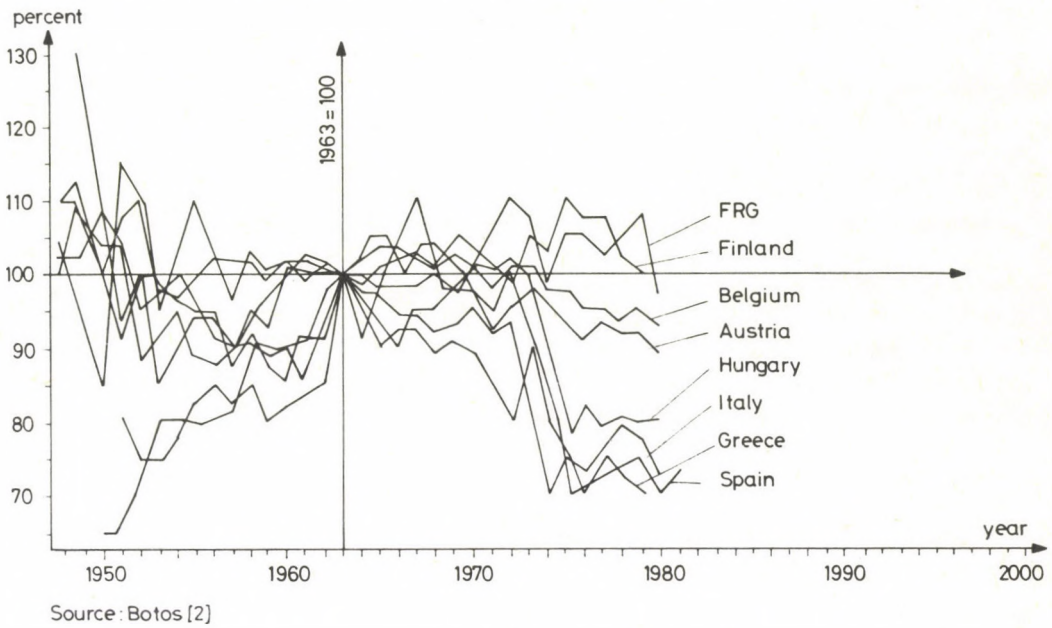
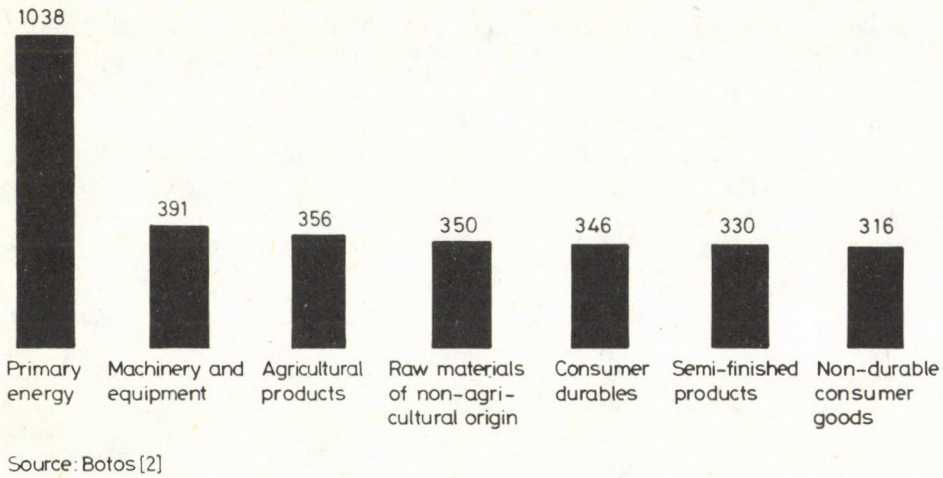


Fig. 1
Terms of trade

countries for some time, the technologically strong countries producing a prompt and firm economic policy answer could compensate the change in a relatively short time, while the weak countries suffered from it. If, relying again on Botos's figures, the changes in the relative prices of various groups of products are compared, it is found that engineering products have the greatest compensatory force and within this category—not contained, of course, in the data—the good technological achievements.

The changes and shifts having taken place since then show it even more clearly that the countries able to change over to fields representing the most up-to-date technologies and to produce new results in these fields have gained advantage over all other groups of



Source: Botos [2]

Fig. 2

World trade unit value indices according to main groups of products 1980/1963

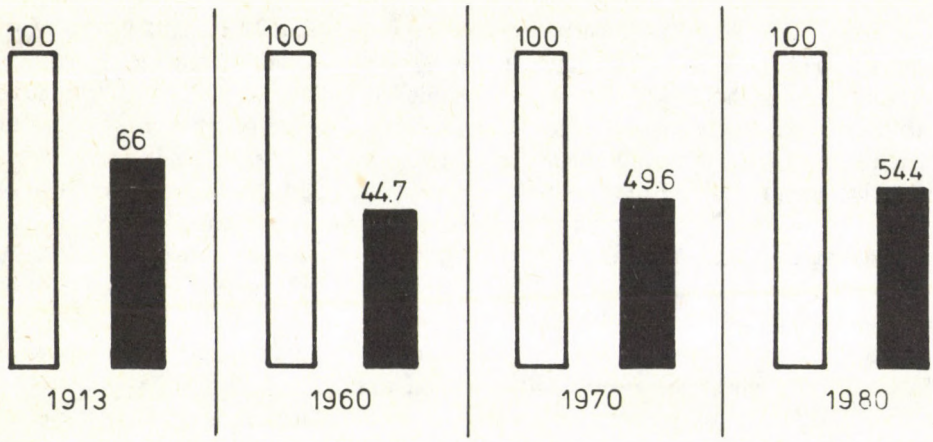
countries in their economic development, and not only in the growth rate (characteristic of a start from a low development level), but they could overtake and in some cases even leave far behind the West European countries with long traditions, but more conservative, to say nothing of the East European region. The ever more dynamically evolving miracle in the Pacific region is not at all miraculous but can be traced back to factors easy to analyze, that is, to the change-over to the most advanced technologies and to a work culture, of long traditions, supporting it. The factors which used to be given greater emphasis than their due: low wages and a cruel society are pushed to the background in the reflexion of the comparisons. For us it is particularly instructive and remarkable in view of our future, how the myth of a comparative advantage related to low wages is dissipated, how much it has been misleading and reactionary, especially in a world in which the low-paid, poorly qualified and unreliable slave-labour is replaced by flexible automation i.e. the technical revolution. The triumphal progress of the Japanese motor-car industry or of the American personal computer industry is only the first manifestation of a technological change which will become quite general in the coming ten or twenty years.

Unfortunately, the changing terms of trade have accompanied the last hundred years of Hungarian economy and technological development. Iván T. Berend's investigations have shown that during those 100 years the deterioration in the terms of trade has been, with a few breaks, a permanent tendency for Hungary. There have been, obviously, other factors as well, such as the disintegration of the favourable, then large and relatively closed market of the Austro-Hungarian Monarchy, or the entry of large agricultural producer countries in world economy. Yet it is by no means incidental that the only time the Hungarian industry was on a level in agreement with the historical period was

about 100 years ago. In mechanical engineering, and within this field in the most dynamically pulling branches, Hungary was among the initiators: the electrical engineering department of the Ganz Factory was founded merely three years after the basic factory of Siemens and practically at the same time with Edison Company, predecessor of General Electric. At that time the heavy-current electrical engineering industry played a role similar to that of electronics today. The determinant character of mechanical engineering in producing the means of production and in determining the technological standards of the country has been forgotten by today. An infrastructure up-to-date by European standards was laid down in those years, which could have served for a basis of a further high-standard industrial development.

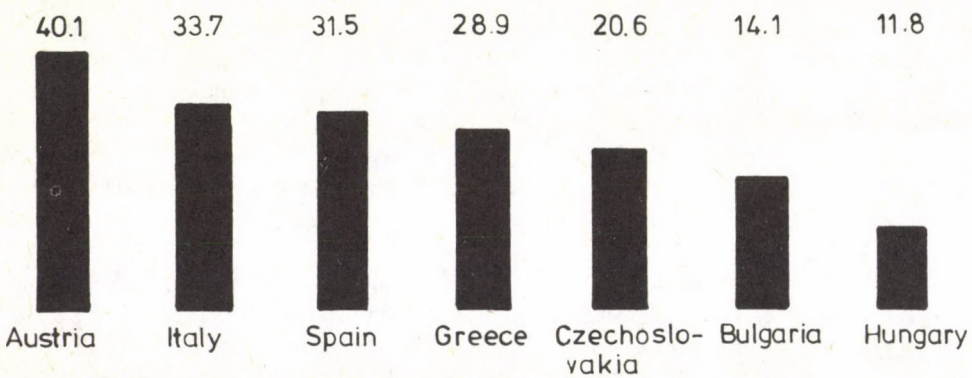
The hundred years since then have been—except for three important ventures of technological and industrial development—the time of slipping back from the forefront. The three initiatives to be mentioned were those of Tungsram, the pharmaceutical industry, and Jendrassik's Diesel-programme of the Ganz Factory. All three were thwarted by the conservative industrial structures, as a consequence of preferences for the latter.

The lesson has to be drawn that no such growth can be achieved in the volume of output, which could counterbalance the losses in price and national income suffered by an industry of poor technological development standards on account of deteriorating terms of trade. The effect on national income can be best examined again on the basis of comparison. The most useful basis of comparison for us is Austria, since Austria and Hungary had developed, up to the beginning of this century, with their economies linked together. In 1913, the last year of peace, per capita national income was 790 crowns in today's Austrian territory of the Monarchy, while it was 521 crowns in today's Hungarian territory: their rate is 100 to 66. Relying on physical indicators and other computations with some corrections Éva *Ehrlich* [4] arrived at the following ratios between Austria and Hungary: 100 to 44.6 in 1960, 100 to 49.6 in 1970, and 100 to 54.4 in 1980. This latter figure is further confirmed (Fig. 3) by two other estimations, independent of this one. These ratios are, therefore, supposed to demonstrate that the consequences of the good and bad qualities of the economic policy of each period are well reflected, with about a ten-year time lag, by the international comparisons: those of the wartime, of the 1950s, as well as the ensuing, by no means negligible, efforts of Hungary. Among 37 countries under examination ranked from the United States to India, Austria jumped from the 14th place to the 12th and Hungary from the 23rd to the 22nd in the twenty years from 1960 to 1980. These figures contain, however, several indicators showing the dynamics for the future by correcting them with values originating in the national wealth of earlier periods. As for forecasts, Vera *Nyitrai's* [5] warnings concerning the period 1965–1975 of Austro-Hungarian comparisons are especially important. [4] In consideration of the fact that, according to the crude indicators which do not contain enough qualitative values, the productivity of the Austrian engineering industry had risen to about the double of the Hungarian productivity by 1975, Vera Nyitrai writes the following: "From the 1970s, the Austrian mechanical engineering industry has gradually developed into a machine-building



Source: Magyarország története (History of Hungary) [3] Ehrlich [4]

Fig. 3
Austria – Hungary per capita national income



Source: Ehrlich [4]

Fig. 4
Telephone-extensions

industry", and: "Hungarian investments have not resulted in a complex mechanization of such dimensions as would have favourably influenced development in respect of the earlier Hungarian handicap in the level of labour productivity. What is more, this handicap grew even worse in the late 1960s and the early 1970s." The deterioration has continued at quite an abnormal rate. The importance of this phenomenon–the fundamental disease of the general technological deterioration–will be analysed later on.

In the present paper reference has been made several times to different structural problems and it has been pointed out that in Hungary the various structures have nearly always shown conservative trends, thus the production structure of industry, the relations between industry and other sectors, such as infrastructure and services, and finally, the various influencing structures of industrial control and management itself. This influence was particularly strongly felt when the long prepared technological changes of the world suddenly transformed into industrial reality, rearranging the economic power relations among countries, the social and political structures and the social system of values of the different countries. Éva Ehrlich's research points out one of the interesting consequences of these structural differences: the classical East European socialist industrialization follows the model of 19th-century England in several of its aspects, namely, that a relative overindustrialization is brought about concomitant with over-full employment in industry. The 20th-century industrial model is represented, on the other hand, by a development in which services and infrastructure are growing parallel to or faster than industry and industrial employment never reaches the level of the classical model, appearing to be exaggerated under today's technological conditions. Obviously, no gross generalization can be made on this basis: there are more differences than similarities between the old English model and that of Eastern Europe in this century. The similarity of the employment structures still shows the following of a road, necessary and historically justified in the case of the Soviet Union, but shows even more clearly that the path incompatible with the Hungarian economic situation and begun with a twenty-year delay is in no way in conformity with the technical conditions of the second half of the 20th century.

Éva Ehrlich's research works provide a few examples of structural comparison which seem to support our statement, thus the indicators–widely deviating from the trends of international economic development–showing wastage in per unit steel and energy consumption and in freight-ton kilometres, and alarming figures of infant mortality, alcohol consumption, and telephone supply.

Table 1

Hungary's consumption level in comparison with the world average (100), corresponding to the per capita national income

	1960	1970	1980
steel	260	173	122
energy consumption	242	187	157
freight-ton kilometres	268	251	181
cement	107	167	126

Source: Ehrlich [4]

Table 2
Infant mortality in Hungary in comparison with the corresponding world average

1960	1970	1980
–5.5	–17.8	–15.8

Source: Ehrlich [4]

Table 3
Alcohol consumption of the population in percentage of incomes in some countries

Hungary	11.5%
Poland	2.3%
Britain	1.5%
Finland	11.6%
Switzerland	5.7%
Austria	3.0%
FRG	4.7%
Japan	3.0%
Italy	7.8%
Holland	3.9%
Spain	2.2%

Source: US News and World Report, Nov. 24. 1980.

The truly vital question: to keep pace in technological development

We may have by now succeeded in making our point quite clear: that the course of industrial development is inseparable from technological development and that this development is composed of a great variety of elements and formed by numerous factors. The technical progress of a country can by no means be reduced to the isolated success or failure of a few eminent experts, specialists, well organized research and development institutions and keen-sighted entrepreneurs, it is the instrument and, at the same time, a result of the diversified and coordinated progress of society. Hungary at present cannot boast of any such independent achievement in technological development which could have earned it world fame and, what is even more important, not of any outstanding individual example which would have produced a result of any considerable weight in national income. We do not wish to belittle the fine achievements of industry through Heller–Forgó's air condenser, a few excellent medicaments and other successful processes. The problem is not that, but the world phenomenon that the number of countries is

constantly decreasing which can exert a determinant effect on the world's technical progress. This fact leads those superficially judging the situation—not a rare case, unfortunately, even among responsible decision makers in Hungary—to the conclusion that Hungarian technological development is a hopeless affair; and this involves two alternatives and a final conclusion. One alternative leads to a total abandonment of independence, directed by illusions and sympathies, with different orientations. The other extreme would be willing to give up everything that is called industry today, and encourage a 100–150-year-old small-scale production structure for the satisfaction of today's consumption. This latter extreme overlooks, of course, the fact that the small-scale production of foreign countries serving as an example for them can only exist by relying on and in symbiosis with a vast and perfectly up-to-date infrastructure and industrial base. The two extremes rarely appear in a pure form, the less so as the full consideration of the final result of one or the other extreme hardly allows it. Most people mix the two alternatives more or less, thus arriving at such ways of reasoning, which render the drawing of final conclusions less imperative.

Hungary cannot become a technical world power in any important field, yet it largely depends on our efforts, whether we shall be in the group closely following the leading countries, or in the most backward one. Fortunately, this criterion applies today, and even more in the future, also to the chances of cooperation among the socialist countries. It has to be made clear, however, for the responsible thinker that—to use the fashionable term—the vital questions of the nation are not those which are being so loudly spread through publications on the periphery of Hungarian literature, but the key question is to what extent and in what quality adequate answers are given by Hungary to the historical changes following technological transformation which are as determinant for the relative position and the future of nations and regions as similar changes have always been in the course of human history.

The method of the present analysis has been to find out, for each period, what questions history posed, how well we understood the questions, and to what extent we could give a correct answer. This is why we—who had an active and responsible part in shaping the last forty-year history and therefore criticize processes in their reality and not as outsiders or latecomers—feel it our duty to report on those 40 years of our history in a way to provide a lesson for a successful continuation. For the time being, we wish to produce a diagnosis, for today neither apology, nor accusations will move us forward.

The processes have to be modified

It should be evident from the preceding train of thought that we consider processes more important than spectacular actions. We hold it to be our task to modify processes so that they can become progressive.

The separate organizations of research and development were only mentioned in connection with the period of large new establishments. In the 1960s overall expansion

was accompanied by the foundation of several new and important establishments, then already pointing towards new technologies. Especially after the 1968 economic reform a thorough change took place in the research and development network, earlier working on a level and in a way reminiscent of enclaves. By the early 1970s several institutions had equipments coming close to the level necessitated by the world competition, the ratio of practical subjects and relations was growing, links with the international technological development improved. Research and development network became the most active element in these connections, such as made the Hungarian partners acceptable to the leading technological development organizations and, by virtue of its practical experience, it became apt to select and transfer the achievements of foreign countries.

The situation has been deteriorating fast during the last five years; economic troubles of Hungary worked together with the seclusion policy of the Reagan administration. The valuable connections of the country became weaker and now the standards of equipment of the research and development network show an about ten-year lag behind the international level, and the majority of even those outdated equipments are now hardly fit for use. And all this at a time when a forced rate of technological development is dictated to the world as a means of scraping through the world economic crisis. It is at this point that it has to be made very clear, what a striking change has taken place in the role and conditions of intellectual work. After the two oil price crises not only the earlier power relations became restored fast, but also tendencies that had started earlier grew stronger out of necessity. During the last years we have seen all previous economic values relatively degraded, including agricultural price and raw materials; several of the oil producing countries–for a short time believed to be winners–have gone bankrupt. One single economic value has grown stronger beyond all previous measures: high-standard intellectual activity and the work culture closely attached to it. In the industrial sectors basically determining the hierarchy of nations and indicating the switch-over to new paths–in mechanical engineering, electronics, biotechnics, the pharmaceutical industry and other branches of the chemical industry–the share of those directly employed in production has become the smaller and gradually shrinking ratio within the total staff employed, while the majority are engaged in research and development, or management and marketing. Intellectual work has become the main producer of value. This must be true to an increased extent in view of the future of a country like Hungary, all its unfavourable circumstances taken into account.

The intellectual production of value has, however, undergone the same transformation as any other kind of work during the last period. It is considered today quite natural, even in Hungary, that in agriculture as well as in industry a clearly determined volume of capital equipment is needed for creating a given volume of output. It is known that in manufacturing this empirical ratio is such that for the production of one unit of output p. a. (measured either in forints, or in dollars) capital equipment of about one unit is needed in a favourable case. In several other industries the ratio is higher than that: a multiple of the yearly output is needed for fixed capital, without yet taking into account the related infrastructure. The time has definitely passed when the simplest "home-made" means

were enough to help the ideas of some ingenious people to provide useful and valuable results in practice. It is no exaggeration at all in today's conditions to maintain that up-to-date equipment of a value amounting to about $40–100 thousand must be behind each R+D worker engaged directly in industry or in basic research, if he is to achieve any competitive results. Besides, the world market value of these people (their yearly income and the enterprise's surplus added to the wage) is also within this range. Therefore, the demands towards them are just as high. An activity is considered by the leading industrial enterprises as profitable and productive, if the yearly gross output value per average workers (that is, not only intellectual worker) reaches $60–100 thousand. Just as it is proven by industrial comparisons that Hungarian enterprises–especially in the technologically advanced industries–show a 10- or even 20-fold l g in productivity, surpassing by far the differences computed in the per capita national incomes, this is also true of today's technological development, and even more so of its future that can be prognosticated for the coming period. If the process cannot be reversed, it will have disastrous consequences for the country, namely, our lag will be the worst exactly in the indicators of progress, the new development paths will be completely closed before us, and we shall irretrievably slide back into the group of the countries which can maintain themselves in the third world, because of their generally backward state, only by "slave-labour" of a colonial type.

The fundamental element in the success of the Far-Eastern region is that these countries have rushed forward exactly in such industries–at an extreme speed and with much less industrial tradition and less traditional technical background and experience than those of Hungary–which speed up that path of development. They are: electronics, precision engineering and high-precision mechanics. The spectacular results in metallurgy and shipbuilding are also mostly based on these new technological achievements. It is true that in this case cheap and good labour and intellectual and financial capital flowing in from abroad happily coincided in the initial period, yet the formula has been changing in the last ten or twenty years, the rapidly developing country is becoming independent at a fast rate, and will be itself a developer and exporter of technologies, while also wages are rising fast: the domestic market is not less valuable than the foreign one.

This is the main message of what I have to say, therefore, I am little concerned with the question–in Hungary a commonplace and a pseudo-problem–, where the research and development institutions should belong to organizationally. My opinion is that no uniform principles can be adopted in this matter, but that the resources of research and development have to be placed always in a very flexible manner in accordance with the conditions and needs. The different tasks of the different periods necessitate the expansion of different phases and each phase raises different demands as for working method, environmental and organizational conditions. Obviously the spectrum is wide from an atmosphere of free thought to the highly disciplined, cooperative, and target-oriented activity–and each one is needed. And sometimes cooperation within an enterprise is more difficult than it is between a university department and an enterprise.

Therefore, I suggest that in the coming period we should refrain from trying to bridge over difficulties by organizational *panacea,* but make instead efforts to improve the incentive and infrastructural conditions of cooperation.

It is necessary, therefore, to radically change views on research and development. The empty and never clearly defined slogan of "science has become a force of production" has to be replaced by an attitude in which this activity is treated as a most important part of the general process of value creation and which recognizes that it has the same general and special conditions in regard of equipment and infrastructure, as those phases of value creation which are performed, instead of people, by automatic systems and machines created by intellectual activity.

The crucial question facing the Hungarian system of economic control and management is, in which part of the huge and complex process called innovation chain–from basic research to consumer services–we could do well with our limited resources. Any prudent answer would be that only in a small part, and it is also seen with an increasing clarity that the roles to be undertaken are not so easy to define: because of the fast changes in the world no general prescriptions and guidelines can be given. The preceding trains of thought and all our previous experience make it certain that efforts should be made, to join these processes as far as possible, at such points where the higher value–attached rather to human than natural resources–is being created. This must be increasingly so, not only in industry, but also in agriculture, the user of our largest natural resource. The emphasis on participation in the international cooperation is only a trivial answer, since international cooperation does not automatically offer Hungary the more valuable part of the work. To this are added all the concomitant troubles arising, beside the purely technical and economic interests, from the spheres of international politics, and the often bitter lessons taught by daily reality as against the Messianic expectations of earlier times.

Our troubles are made worse by the fact that all through the forty years we had to live the wasting life of the poor. Nearly always we had to consume, or leave to destruction, the reserves on which the success of the ensuing period could have been based. Thus long before the liberation, already from the time after World War I, resources were drawn away from infrastructural development. Fortunately only for a short time, agricultural reserves were exploited to support industrial development. The credits raised in the 1960s and 1970s were used with no more than a medium efficiency, were of little use in the preparation for today's technological change, and their repayment is today paralyzing our activities. As for the recent past and the present period, their unfortunate feature is that the human and technical reserves of the intellectual values–judged, wrongly, as the softest ones from the aspect of momentary needs–are devaluated ever more irretrievably.

We have learnt that survival and the closely attached technological changes do not require an action of a simple structure–resembling a tree–from resolution through pressing forward on a narrow road to victory, but an intricate network system of conditions. Within it, the active man, the available infrastructure and that to be brought

about, the technology which is there as a precondition and that which is to be created, and the critical values of inputs and of times of action all play a role, and their impacts within and outside of the country are much more ramified than what could be covered, in the best of cases, by an ingenious leader's view and action, expected as a salvation by many. Therefore, with a view to survival and continuation, the task of management, industrial policy and technological development policy is, beside attending to the concrete necessities of each moment, to save and to develop further this network system of conditions.

The crucial points of the process: the technical professionals, professional training, new technology, industrial infrastructure

A large number of studies have already been prepared in Hungary on the situation of the technical intelligentsia, stating that the existential conditions of this group of population should be settled in a way that their purpose in life can be their work, and their human and professional development; this has many times been discussed. What I wish to repeat is only that any further delay may entail irreparable consequences.

We have similarly dealt–to an increasing extent in the last years–with the tasks of education and professional training, from the technical vocational secondary schools to universities and postgraduate training and to the process of one becoming a creative industrial manager. What has been accomplished so far is but little. The Hungarian educational institutions have not yet changed sufficiently to conform to the changed conditions. The introversion of most of the educational institutions entails fast sinking standards of teaching.

On the other hand, I think it a remarkable initiative that in electronics and machine building the fast modernization of the conditions and contents of education, and the bringing up of a stratum of technical managers have become a part of the joint technical–technological development programme of the Ministry of Industry, the Committee for Technological Development and the industrial enterprises. These tasks have been separated from the general educational budget, since it has been clearly recognized that investments into these fields are at least as efficient, and may even be much more important, than those into the new production equipments which these people will have to create and operate. I am not the first one to do so, but I wish to strengthen the voice calling attention to two new and highly important factors contributing to preparing the network of conditions of innovation.

The word *technology* has often been used in this paper in the sense it is used in international literature, which is the ability of an industry to produce goods of high technical quality, and of an identical level of efficiency, reliability and manageability in the case of any volume of production and, further, such as are profitable, and in demand on the world market at an advantageous price. Unfortunately, we have not been the first

to recognize that it is this wherein the main weakness of Hungary and of the East European region lies. Technology is carried forward by a few industrial centres, producing its main components. That is why electronics and the high-quality mechanical engineering are considered as of outstanding importance and considered as such not by themselves, but for their determinant impact on all the other fields. It is no accident that the coupling of these two breeds the kind of industrial future which, called either mechatronics, or flexible manufacturing systems foretells an industrial change of such importance as was mechanization in the last century. Computer-aided design and manufacturing, production control, management and organization—the two latter are called office automation according to old patterns, while their contents are now quite different—bring about a production process of a high intellectual content and high flexibility. In this the gap is widening fast between those who can make it into a widely spread practice and those who cannot. I do not think I need to draw the conclusion, and to set out in detail, in which direction Hungary has to move in view of its potentials. For this end, a technological reconstruction should be carried out, which is very difficult to do under today's conditions, and yet it should be quite general. Such technological reconstruction was begun years ago by countries long ahead of Hungary. We must recognize the fact that this cannot be simple replacement, reparations, and renovation on the old bases.

Also the question of industrial infrastructure should be discussed here. We said it already some years ago that one aspect of the transformation is the fast approaching future change and integration of electronics and mechanical engineering technology, and its other aspect is a large-scale infrastructure based on cooperative networks supporting such activities in the form of services as have not been of such nature before. Such an infrastructure is vital for industry, for its technological development and efficiency. The data which demonstrate the losses suffered by Hungary because of the lack of infrastructures are well known and have been more than once analysed. They are shown by the scale and technological character of investment into machinery, the frightening ratios in staff numbers, widely deviating from world tendencies, etc. The lack of this infrastructure and the inability to conceive it as a network is usually described—stuck in the old conceptual framework—as a disease of the background industry, somewhat similar to the way doctors described diseases before they had the biological knowledge. In a technologically advanced society, however, there is no background or foreground industry, just as industrial production is not separated from technological development, nor from the securing smooth production, from renovation and investment. Rigid attitudes of mind, and rigid structures are only suitable for breaking up living and advancing processes artificially and bureaucratically.

* * *

In our analysis of the last 40 years, we have been concerned mainly with today's problems, or with lessons of the past that are useful in the analysis of today's difficulties. Which way to go, and how? —the responsible economic decision maker trying to stand

upright amid monetary disequilibrium troubles is justified in asking. The way is not discovered through revelations, but through the fights, compromises, and agreements of an open-minded technological development-oriented industrial policy, a sober realism, and a high manoeuvring ability. We have repeatedly discussed this in other pulbications. Our present task has been to demonstrate that the coming 40 years will be perfectly different from the last 40 years and those who do not wish to take cognizance of at least their outlines jeopardize everything achieved in those 40 years since the liberation, of which achievements we are proud, as the results we fought for with our best efforts.

References

1. Berend, T. I.: Az elmúlt négy évtized a magyar történelemben (The last forty years of Hungarian history). *Valóság*, 1. 1985. pp. 1–14.
2. Botos, J.: *Nemzetközi versenyképesség és árforradalom* (International competitiveness and price revolution). Közgazdasági és Jogi Könyvkiadó, Budapest 1982.
3. Mucsi, F. (ed.): *Magyarország története* (History of Hungary). Vol. VII/1. Akadémiai Kiadó, Budapest 1978. p. 399.
4. Ehrlich, É.: Fejlettségi szintek, korok, szerkezetek (Development levels, periods, structures). Manuscript.
5. Nyitrai, V.: *Népgazdaságunk fejlettsége nemzetközi tükörben* (The development level of Hungarian national economy as reflected by international standards). Kossuth Könyvkiadó, Budapest 1979. pp. 116 and 119.

ВЫЗОВЫ ТЕХНИЧЕСКОГО ПРОГРЕССА И ОТВЕТЫ НА НИХ В СВЕТЕ РАЗВИТИЯ ВЕНГЕРСКОЙ ПРОМЫШЛЕННОСТИ ЗА СОРОК ЛЕТ

Т. ВАМОШ

В статье анализируется развитие венгерской промышленности по отдельным периодам. Предполагается, что история развития промышленности однозначна по сути дела развитию технического прогресса в промышленности. Основной метод анализа состоит в исследовании постановки вопросов историей данного периода и ответов данных на них венгерской промышленностью. Проблема восстановления народного хозяйства в период после освобождения страны до 1949 г. была решена отлично. Форсированные темпы промышленного развития периода до 1953 г. исходили из ошибочной постановки вопроса и ответ был соответствующий. В период 1953—62 гг., период кризиса и нового начала подлинного вызова не было. Он возник между 1962 и 1968 годом, и ответом была хозяйственная реформа. Её волнообразное развертывание и отдельные спады не способствовали прежде всего в промышленности тем структурным преобразованиям, которые были столь успешными в венгерском сельском хозяйстве и на других участках общественной жизни. Венгерская промышленная политика в 1968—73 гг. не смогла достаточно хорошо использовать возможности, открывшиеся благодаря реформе и международной конъюнктуре, а в период 1973—1978 гг. не осознала необходимость быстрого приспособления, поэтому в 1978 г. единственно

возможным ответом было отступление. Особенно существенным фактором в этой серии ответов было ухудшение положения технической интеллигенции. В статье автор выступает за то, чтобы особое внимание уделять факторам, способствующим развитию комплексных процессов. Эти факторы: последовательное проведение хозяйственной реформы, изменение положения технической интеллигенции, ускоренное развитие тех направлений технологии, которые используют новую технику в качестве средства производства. Поэтому в Венгрии с этой точки зрения важны электроника и технология машиностроения высокой точности. Особо важную роль играет подготовка нового поколения хозяйственных и технических руководителей и создание широкого, обладающего высокой культурой труда слоя работников промышленности.

Acta Oeconomica, Vol. 34 (3–4), pp. 241–262 (1985)

HUNGARIAN INDUSTRIAL DEVELOPMENT IN THE LIGHT OF WORLD ECONOMIC CHANGES

B. KÁDÁR

Examining the export performance of the Hungarian industry and the changes in its international environment the article looks back to several decades. In spite of its dynamic development even by international comparison, the structure of industry is less and less adjusting to the structural changes in world economy. A material- and energy-intensive production has developed which hardly relies on the growth potentials of the country. The relative positions and industrial terms of trade of the country have deteriorated in the international industrial division of labour and the foreign exchange receipts per unit of product show an unfavourable development. The author urges the elaboration and consistent implementation of a strategy aimed at adjustment to changes in world economy and at an industrialization increasing the value added.

The economic history of the last century was the most powerfully impressed from all the branches of economy by industry. At the same time the inheritance of each country's historical path is persistently reflected in industrial development. Repeated and radical rearrangements of the institutional frameworks and the external conditions of development as well as of the international division of labour through history were hard tests for the historically late modernization of the Hungarian economy and industry.

For half a century before World War I the Hungarian industry recorded an *outstanding growth rate* also by international comparison. Based on the potential advantages of a historically delayed modernization, and on the "frog-leap" strategy of surpassing the technological and structural standards of earlier industrialized countries, industrial development evolved the fastest in the modern engineering sectors. The *closing of the structural economic scissors* of backwardness was begun, and the share of engineering sectors was high considering the country's level of development or the international average (the share of the iron and metal-working and engineering industries amounted to 30 percent of the Hungarian industrial output of the year 1913, while this percentage was 26 in the U.K., 23 in the USA and 18 in Japan) [1]. The process of industrialization was closely linked to serving the demands of the development and processing the products of agriculture, then the basis of the economy (flour-milling, the sugar- and distilling industries, etc., manufacturing of equipment for the food industry). The degree of specialization on food-processing is shown by the 42 percent weight of this sector in 1913, in the present-day OECD countries, as against the contemporary share of 19 percent. Qualitative development was stimulated by the then advanced system of technological education and by the powerful assertion of technical creativity.

The emergence of Hungarian industrialization was handicapped by a special dual system of *external relations* of the times. The protected and for its magnitude also significant absorptive market of the Austro-Hungarian Monarchy was a protective shield

for the traditional agricultural and food-processing sectors which were adversely affected by changes in the world economic environment. At the same time the development of industrial subsectors following the mainstream of up-to-date technical and structural development of the times and often relying on autonomous technical, scientific or natural resources was increasingly attached to the world market that transmitted forceful competitive impacts. Thus, for example, in the years of World War I, 69 percent of the Hungarian engineering exports, 40 percent of pharmaceutical exports, and 45 percent of iron and metalware exports found customers in markets outside of the Austrian regions of the Monarchy. [2]

The development conditions of the Hungarian economy were critically shattered by the aftermath of World War I. Namely, most of the protected internal absorptive market and the natural resources were lost, the many-centuries-old commercial flows were disrupted. A mutilated industrial structure was left in the post-Trianon* area of the country: relatively oversize sectors producing investment goods and especially machines. The world economy developed at a slow rate between the two wars and protectionism prevailed.

The growth of the Hungarian industry was fed predominantly by the domestic market with a small absorptive capacity, expanding at an extremely slow rate, and which was undemanding. Industrial policy developed protectionistic traits and encouraged mainly the light industrial sectors that had scarcely been built out earlier. The annual average growth rate of industry did not reach the value of 2 percent in the interwar period and this meant a lag also in terms of quantity compared to international trends, instead of keeping abreast like in the previous period of over half a century. This lag was even more apparent in the structural sense. In the gross output of industrial production in the year 1938, the aggregate share of metallurgy, iron and metal-working and the engineering industry only amounted to 23 percent. The share of the food processing industry dropped from the prewar 42 percent to 29 percent whereas the weight of light industrial sectors nearly doubled and rose above 26 percent (of the textile industry to 14 percent). [3]

Despite unfavourable structural changes in the interwar period, owing to its heritage from the preceding half of a century, the industry also showed certain signs of overdevelopment by international comparison on the basis of its development level. The aggregate 45 percent share of the heavy industrial sectors or the 9 percent weight of the chemical industry therein were not much below the contemporary average of industrially advanced countries (49 percent). However, in countries with limited domestic absorptive markets a relative structural overdevelopment may well entail high social costs, growth burdens and *prematurity* when it is not combined with powerful and growing export orientation. The proportion of Hungarian export relative to GNP decreased from 26 percent to 8 percent between 1913 and 1938, which was accompanied by movements of

*The peace treaty with Hungary–leaving her only 1/3 of the prewar area–was signed in the Trianon Palace in Versailles. – Ed. note.

similar proportions and direction in the market orientation of industry as well. The product pattern of exports in 1938 was less advantageous than in 1913 in a relative sense, as the share of manufactures amounted to 31 percent (within it: 11 percent machines, 10 percent light industrial products and 3 percent chemical products). [4]

The structure of production was still similar to that in industrially advanced countries, but in the *export pattern* the scissors already opened wider. The share of manufactures only amounted to 50 percent of the average of advanced industrial countries in the year 1938, and this value was not higher than 60 percent for the export share of the Hungarian engineering industry. In the interwar period the lagging behind future-oriented trends of international development already showed in the whole of external relations. Pioneering and comparatively stronger positions in the external market were only found in three categories of manufactures: the export of pharmaceuticals and incandescent lamps reflected the survival of the heritage of the early years of the century, and an export sector depending on new and autonomous domestic technical, scientific and organizational assets only developed in the case of vehicle production (electric engines). At the same time these three significant products selling successfully in the world market only amounted to 9 percent of the total Hungarian exports and to hardly a quarter of industrial exports in 1938. Considering a few less significant industrial products not supported by dumping prices (like instruments, tomato paste, general machinery), some two fifths of the Hungarian industrial exports of 1938 can be regarded to be products showing appreciable specialization, dynamic expansion and competitiveness on the basis of contemporary requirements.*

With imports worth 166 million Pengős** and exports of P 163 million Hungary's foreign trade in manufactures was practically *balanced* in 1938. The most important foreign currency earning sector was the electric engineering industry with P 10 million of imports and P 27 million of exports, while the highest rate of foreign currency earnings developed in the garments industry as a result of P 1,7 million of imports and P 14 million of exports. The import coverage ratio was 30 percent in the textile industry, 51 percent in the leather industry and 33 percent in the chemical industry. Thus the export surplus of the engineering industry actually covered the aggregate foreign trade deficit of the light and chemical industries.

On the other hand, a remarkable adjustment was performed in transforming the pattern of foreign trade relations which used to be geographically and politically determined. Historically, the first major extension of the Hungarian economy's *long-distance manoeuvring ability* occurred in the period between 1922 and 1938. In 1922, 67 percent of the Hungarian exports were still directed to the successor states of the Monarchy, i.e., neighbour countries, and 14 percent to Germany. In 1938 the share of small neighbour countries fell to 31 percent while that of Germany and Italy increased to

*For a comparative base see [5]

**Pengő was the Hungarian legal tender till 1946. In 1938, 1 US $ was (3.39 Pengő) at the commercial rate of exchange. – (Ed. note)

28 percent and 8 percent, respectively, and that of the more distant West European and overseas absorptive markets more than doubled and increased to 33 percent. The most dynamic markets of manufactures were offered by overseas and especially by the developing countries (10 percent). The electric engineering industry, the export carrier branch of industry, sold most of its export in industrially advanced countries like Germany (18 percent), France (8 percent), Sweden (6 percent). Denmark (54 percent), and Britain (4 percent) [4]. Although the terms of trade deteriorated because of the unfavourable trend of agricultural prices during the whole of this period, the price trends of industrial exports directed to new markets as well as to neighbouring countries were more advantageous than those of imports and the foreign trading relations of industry improved the terms of trade.

The years of war and war economy once again gave powerful encouragement to the development of the more technology-intensive heavy industrial sectors. The devastation of war, the high degree of destruction and damages to the stock of machinery and buildings restricted the basis of the postwar stage of industrial development to previous technological development, technical culture, and the accumulated know-how of the workforce.

Growth achievements after World War II

In the stage following World War II the main engine of accelerated world economic *growth* in every country was the manufacturing industry, expanding by over 7 percent between 1950 and 1970 and by 3,5 percent between 1973 and 1978 on yearly average. During the past four decades the industry was the branch that promoted economic growth also in Hungary. After the recovery from war damages, in the period from 1950 to 1980, Hungarian industrial output expanded by 7 percent on annual average and between 1980 and 1983 by round 1 percent. The dynamism of growth was substantially more powerful in the past third of the century than between the middles of the 19th and 20th centuries, while quantitatively it was not higher than the international average and it was more modest than in the CMEA countries on average or in the newly industrialized developing countries. The weight of Hungary thus remained virtually unchanged (0.3 percent) in the world output of the manufacturing industry and somewhat declined in the 1980s.

Along with the acceleration of growth also the Hungarian *industry's pattern of production* underwent significant alterations. The weight represented by mining in gross industrial output was not quite 6 percent in 1938, 13.6 percent in 1960, and again 6 percent in the early eighties, while the share of the electric energy industry was in the range of 4 percent through the past half a century. That is, 90 percent of Hungarian industrial production falls, in agreement with the world average, to the various manufacturing industrial activities. Following development priorities, in the past third of a century the chemical and the engineering industries expanded at a rate far above the

average, while the textile industry, a dynamic prewar sector, and the food-processing industry that used to be the support of industrial development before the first World War, developed at very slow rates.

The share of metallurgy in industrial production has been declining since World War II in the most advanced industrial countries and this downward trend has accelerated especially from the early seventies on. A similar trend has also evolved in the CMEA countries. This sector shows development and the highest current rate only in the developing countries. In Hungary, the share of metallurgy in the gross output value of industry increased till 1970. In times of world-wide metallurgical stagnation and decline, between 1970 and 1980, metallurgical production in Hungary still expanded by 45 percent: crude steel production increased from 3.1 million to 3.9 million tonnes, while the output of rolled steel increased from 2 million to 3.2 million tonnes. Despite the decline as from the past decade, the weight of this sector is still nearly 50 percent higher than the world average and from the small CMEA countries only Czechoslovakia, better provided with natural resources, exceeds its weight. [6]

Also the weight of the *food-processing industry* is 50 percent higher than the world average and this is attributable in part to the favourable climatic and hydrographic conditions of Hungary, the traditions of the sector and its powerful export orientation. However, this share is absolutely not an exceptionally high one in the group of countries where industrialization was historically late (developing countries, Bulgaria, Poland) nor in small West European countries pursuing agrarian development increasing the value added (Denmark, Belgium, the Netherlands, Austria).

In Hungary the most significant sectoral forward push has been recorded in the *chemical industry.* After historically early relative development at the beginning of the century, in the two decades after the end of World War II, the relative importance of the Hungarian chemical industry had diminished and in the early sixties its weight was less than half of the world average. As a result of accelerated chemical industrial development emerging since the mid-sixties, the share of this sector multiplied in the Hungarian industrial output so that by the early 1980s it exceeded the world average by about 50 percent and the established OECD average by even more.

The *engineering industry,* the economic driving force of the half of a century before World War I and a sector that was stagnating as a whole in the interwar period, was developed in the two postwar decades in a very broad range and at very high rate. Following the changing external and internal conditions of sectoral growth, the dynamism of this sector fell both below the average of the Hungarian manufacturing industry and the international average of the engineering industry as from the mid-sixties. In the early 1960s the share of the engineering industry was approximately still as high as in the OECD countries. In the past two decades, in spite of the shifts in relative world market prices, the share of the engineering industry steadily increased in every country group, its growth-promoting role thus becoming even more clear. Today it is responsible for more than two fifths of output on world average and for more than 50 percent in the average of the socialist CMEA countries. After several decades of comparative structural

overdevelopment, the engineering industry became in Hungary a lagging sector and its share only amounts to slightly over 50 percent of the word average, actually reminiscent of the weight it attained in the developing countries. Falling behind the "microelectronic revolution", which has become decisive in world economic growth and in shaping the features of industrial development, is also reflected in the relative lag of the Hungarian engineering industry.

Thus, the long-range trend of the major structural proportions of the Hungarian industry shows the following basic characteristics: both in the first third of this century, and especially in the decades preceding World War I as well as in the period between 1945 and 1965, the pattern of production was in conformity with that in the industrially advanced countries. The share of the engineering industry, the "driving" sector which was *pioneering* in technological and structural development and developed more dynamically than the average, was almost the same, and in certain stages higher than in the OECD countries on the average, showing a lasting relative structural prematurity by international comparison in view of the medium development level of this country. The main line of Hungarian structural transformation emerging during the past two decades means a change from this point of view, resulting in a powerful reduction of the share of the engineering industry which shows global growth and steadily attains preponderance in several countries. On the other hand, sectors and subsectors regarded to be *lagging* ones considering the international realities of the mid-eighties and expanding at a slower than average rate (heavy chemical industry, metallurgy, textile industry and, within the engineering industry, vehicle production) attained a share far above the world average and especially the OECD average.

A study of *growth-factor-intensity* is a convenient means of interpreting the trend of main structural proportions and of the role and performance of industry. The share of the different sectors of industry in the use of the most essential factors, namely, natural resources, labour, financial and technological resources, is of great importance for development policy and external economic policy. Before trying to interpret the major international or regional mean values it is worth noting that the factor intensities established in the different national economies are affected not only by special features deriving from the varying degree of factor endowment. For example, following development strategies asserted for a longer period of time and the striving for substitution of scarcely available factors, the national factor intensities of the different activities might show very striking and *anomalistic* deviations from international averages. It may well happen that the chemical industry, metallurgy and food-processing industry which are globally rather capital intensive, grow in countries where the wage level is curbed in a highly labour-intensive way, by employing much more labour than the average and, consequently, with a low productivity. It is an opposite example when, owing to real or apparent labour shortage, the textile industry–otherwise more labour intensive than the average–pursues capital-intensive expanded reproduction. However, it can be globally observed that, along with the growing role of technical progress and international economic cooperation in industrial development, large national deviations

from international averages of recorded capital intensities, and considerable degrees of substitution of labour for capital normally—especially in the case of up-to-date activities—indicate deteriorating efficiency and *growth efficiency*.

A longer historical retrospection makes it obvious that one of the most typical motives for transforming the production pattern originates from the flexibility of demand for raw materials and for *high natural-resource-intensive* products in general. Throughout history, the weights of natural-resource-intensive sectors (the food, textile, leather, wood, petrochemical and metallurgical industries) have been steadily decreasing. For example, —in the OECD average the share of the food, textile, metallurgical and chemical industries amounted to 62 percent in 1899, to 47 percent in 1959, and to only 37 percent in 1980.

The extremely high (over 50 percent), and in the past two decades growing, share of natural-resource-intensive sectors is one of the most specific features of the Hungarian industrial structure. Naturally, the quality and expediency of such a structure cannot be assessed in itself but only in the context of the supply with natural resources, their world market valuation, or the safety and economic efficiency of their import.

The outstanding share of natural-resource-intensive sectors by international comparison and the extensive nature of development account for the excessive and rising *material intensity* of the Hungarian industry till the early 1980s. At current prices, the material costs per 100 forints of gross output increased between 1970 and 1980 from 59 to 67 percent in industry on the average, from 58 percent to 78 percent in the chemical industry and from 64 percent to 74 percent in metallurgy. The most important sector of the engineering industry of declining weight is the most material-intensive vehicle industry. Energy costs amounted to a quarter of material costs in metallurgy and to over 60 percent of those in the chemical industry. The production of one million dollars of gross domestic product entails the production of round 50 tonnes of steel on the world average. In the case of an average steel intensity the present volume of Hungarian steel production, and even of domestic use, could satisfy the steel requirements of two times the present national income. This problem is highlighted from another aspect by the following: Hungary's per capita steel production is 65 percent of the U. S., 77 percent of the Swiss, 89 percent of the French, 93 percent of the Austrian values while it was higher by 1 percent than in the Netherlands, by 2 percent than in Belgium-Louxembourg, and by 24 percent than in Britain, despite the considerable differences in the general level of development.

The trend of *energy intensity* in industry has not been favourable either. Owing to the high share of the "energy devouring" sectors the Hungarian economy uses 30 to 40 percent more energy than the world average for turning out products worth one million dollars. It is of great importance for foreign trade that the share of hydrocarbons in energy consumption was 21 percent in 1960, 43 percent in 1970 and 64 percent in 1980. That is, from the aspect of factor intensity, an extraordinary degree of raw material and energy intensity is characteristic of the Hungarian industrial structure.

According to international experiences the activities of high natural-resource-intensity are also capital *intensive,* engage investment funds to a much higher degree than the

average, and exert unfavourable indirect influence on the scope of financing other sectors in countries short of capital. A more intricate relationship asserts itself in the consequences of natural-resource-intensive sectors for professional training (qualifications) and research intensity. The share of highly qualified workforce and research inputs is much higher in the chemical industry and metallurgy than in the average of manufacturing while the staff employed and the ratio of wage costs are very small in these two material-intensive sectors. Thus, the eventual surplus costs of per unit material and energy inputs can only be balanced to a limited degree by curbing the already low Hungarian wage costs or by exploiting the rent derived from training-and-research, if any. The share of activities showing advantageous agreement of capital, training and research intensities, like the general engineering industry, electrical engineering and the metal-working industry, represent a share in the Hungarian industry which is only slightly more than half of the OECD average, and in this respect a marked opening of the scissors of structural lag appears in comparison to the situation at the beginning of this century. That is, the share of industrial activities best suited for the quickest and most powerful transmission of the impulses of international technological progress towards industry and the other sectors of the economy is low.

The problems of the main structural proportions and factor intensity inevitably end in a study of the mechanisms of industry's *impact on growth.* Theories on industrial development and the relevant practical strategies have for long wrestled with the dilemma to decide which mode of industrial development is the best suited for establishing the societally least expensive way of accelerated growth and modernization. The industrial policy rooted in classical economics advised to utilize the existing advantages and those based on potential specialization on the basis of factor supply. Strategies prevailing in the second third of this century (Stalinist industrialization, or industrialization for import substitution marked by the names of Rosenstein-Rodan, Prebisch and Nurske set out from actual historical emergencies (strategic institutional and economic security in Eastern Europe, mitigation of balance of payments disequilibria in developing countries) and encouraged linear industrial development relying on the domestic division of labour. The theory of growth poles and advanced wedges of industrialization attached to the name of F. Perroux, and its practice applied in the third quarter of this century, and especially to Latin countries, hoped to find the most promising way of industrial development in creating and extending islands of modernization. The industrial political critics of the various approaches noted, not without reason, that the world market conditions do not always allow the assertion of comparative advantages based on the utilization of domestic conditions. On the other hand, linear industrial development on too broad a scale produced in smaller national economies atomized, uneconomical, and often also technically outdated structures, whereas the advanced wedges and islands of industrialization are often wiped out in the less advanced economic environment.

In the post-1956 quests of the Hungarian industrial policy great emphasis was given to such a critical assessment of the situation that the internal conditions, traditions and structures of production, and the technical and skilled workforce developed over history

could no longer provide dependable grounds for an industrial renaissance since the continuity of these traditions had been badly marred, sectors looking back to historical traditions like the production of machinery for energetics, rolling mills, electric engines, telecommunication equipment... "fell behind the development of the World market, are incapable of development, their old qualified staff has disappeared (in the production of strong-current electrical machines in 1955 only 6,5 percent of skilled workers were working for the same company for more than 10 years), and cannot easily keep pace with the world standards of technology."*

The vanishing of earlier excessive expectations attached to the development of the engineering industry, the built-in tensions between the engineering industry highly sensitive to technical progress and to the market impacts *vs.* the control system of central plan instructions, the requirements of promoting the closing up of the chemical industry that used to be relatively neglected in the previous decades and that was much easier to control centrally, as well as requirements formulated on the level of regional cooperation, led to a readjustment of structural political objectives which finally resulted in a falling back of the Hungarian engineering industry, and in a strengthening of the highly natural-resource and, especially, material and energy intensive industrial structure as well as in *the diminishing role of domestic conditions in industrial development.* From the highly natural-resource-intensive Hungarian manufacturing sectors only the food-processing industry is supported by a major domestic raw material base. In the sectors of light industry the ratio of imported raw materials is already very high and no appreciable hard currency earning role has developed. On the other hand, the chemical industry and metallurgy, which are dynamic ones in Hungary, are based mainly on imported iron ore, coke, and hydrocarbons (the aluminium industry being an exception). Thus, a *structurally "vicious circle"* has more and more clearly taken shape in the Hungarian industrial development of the last two dacades. More than half of the Hungarian industrial production belongs to sectors called "rootless" in the international terminology, which do not take much advantage of domestic conditions and inputs but run with imported raw materials, sources of energy and often equipment—and thereby the sphere in which the Hungarian industry might strive at utilizing comparative advantages is *ab ovo* restricted. The development of material-intensive, "rootless" sectors produces immediate import requirements, equilibrium tensions and external vulnerability, and at the same time it puts a heavy burden on the transport infrastructure of the country.

The established way of Hungarian industrial development is remarkably different from the trends of industrial development pursued by smaller West European countries with externally sensitive or vulnerable economies or by overseas developing countries with limited natural resources. The synergic impacts, the additional result gained from the

*From a report of the Ministry of Metallurgy and Engineering dated November 1st 1958, and an article by György *Cukor* published in Népszabadság on December 5th, 1957. Quoted by Iván Berend T. in [7].

simultaneous and concerted deployment of various services and from exploiting the mutual support of the different strategic operations, are well known to and used by military strategy. The industrial development strategy is also acquainted with the coordinated vertical development, in accordance with growth interactions, of industrial structures built on historical and economic-geographic conditions. In small countries vulnerable to external economic impacts the centre of gravity of *industrial efforts* is formed among mutually supportive and locally based activities, along with a higher degree of specialization on individual products and services. In these countries, namely, the best possible combination of the major growth and export promoting activities contributes to increasing the external economies and to reducing the vulnerability of external sales. For example in the Scandinavian countries such a centre was formed from the traditional forestry, wooden furniture and paper industry, the manufacturing of machinery for the wood and paper industries, the chemical industrial base, and the shipbuilding industry producing the vehicles for forwarding big volumes of products. Similar growth promoting industrial systems were developed in Denmark, the Netherlands and Switzerland with the cooperation between agriculture, the food-processing industry, and the engineering industry producing machinery for the latter. Close connections are found between the schooling system and the standards of the engineering industry. [8] This supportive interaction could not emerge but in a narrow range, also because of structural reasons, in the postwar Hungarian industrial development. The Hungarian agriculture could not safely rely on the agricultural engineering industry as a buyer nor on the food-processing industry as a seller. The development of the engineering industry is hindered by the poor technological and quality standards of metallurgy, the chemical industry does not really rely on the Hungarian production of chemical industrial machinery, nor do the sectors of the light industry rely on an adequate domestic supply of base material. In spite of the comparatively advantageous availability of qualified experts, the expansion of industrial activities fed from technical progress and innovation is impeded by barriers of the incentive system. In the case of Hungary a strategic centre of gravity ought to have been formed from the food-processing economy and should have meant the priority of a comprehensive system encompassing agriculture, the processing of agricultural products, the production of machinery for agriculture and food-processing, the production of fertilizers and plant protective agents, veterinary technologies, infrastructure for food production and bioindustrial activities.

Last but not least, the weakness of synergic impacts on the development of macrostructures was accentuated by the consequences of the end-product-centric industrialization manifesting themselves on an ever broader scale. As a result of end-product-centric industrialization and unlike the international practice, the development of the preparatory and finishing phases of production was generally neglected. Also the backwardness of materials handling, packageing, storage, and even of the production of spares, of tools, etc., played more and more important roles in constraining the industry's scope and capability of manoeuvring, its competitiveness, profitability and opportunities to earn foreign exchange.

The several decades old trends of development and structural transformation of the Hungarian industry indicate that achievements recorded in quantitative growth and employment were accompanied by considerable and occasionally growing structural tensions, symptoms of technological and structural decline and by the appearance of unfavourable and strengthening growth impacts. In the externally vulnerable small countries the most authentic measure of industrial output is in the last analysis the indicators of participation in the international industrial division of labour.

The Hungarian industry in the international division of labour

It is general lesson from the growth after World War II that the rate and mode of economic growth was attached much more powerfully to the international division of labour and especially to the intensification of international industrial cooperation than in the first half of this century. Participation in the international division of labour was decisive mainly in the development of countries with limited domestic absorptive markets. In the average of the four post-war decades, trade in manufactures increased globally at a more than 50 percent faster rate than production, and at present nearly 30 percent of the world output of the manufacturing industry is sold in the international trade. As a result of the globally growing export orientation of industry, the share of manufactures steadily increased in world trade, amounting to 38 percent in 1913, 46 percent in 1955, 52 percent in 1963, 57 percent in 1979 and 1980, and to about 6 percent now. [9, 10]

The re-acceleration of industrial development after World War II and the considerable structural transformation influenced the external economic role and market orientation of industry also in Hungary, and the importance of international cooperation greatly increased. Both in the period before World War II and in the mid-fifties only about one tenth of the industrial output was exported while in the early 80s its share was already about 30 percent. Industrial development became *sensitive to foreign trade impacts* also owing to the end-product-centric mode of industrialization, of the raw material processing kind, not only in exports but also through the imports of raw materials, energy and technology.

The openness of the Hungarian industry in the structural sense, if of smaller degree than in some small advanced western countries, is much greater than in the other socialist countries and is actually in agreement with the world average.

Parallel to growing structural openness also the exports of manufactures gained decisive importance with respect to the shaping of Hungarian foreign trade relations. The share of industrial commodities in exports amounted to 31 percent in the interwar period to 54 percent in 1950 and to more than 70 percent in the average of the past two decades.* The rate of growth of the export share was especially high in the case of

*For the purpose of international comparability, industrial products (manufactures) are considered according to the breakdown of the Standard International Trade Classification.

engineering products the proportion of which is diminishing within the production pattern. While in the period before World War II engineering products amounted to one tenth of exports, their share has been over 30 percent since the late sixties. The trend of the general product pattern of Hungarian exports thus shows that the share of manufactures was about 20 percent below the world average in the prewar period, whereas their share was higher than that in the structure that developed after World War II.

The *division of labour with the major groups of countries* shows considerable differences from the trends evolving in total exports. For more than a quarter of a century, the Hungarian exports to the socialist countries and to developing countries consisted mainly of manufactures and especially machinery. The product pattern of Hungarian exports to OECD countries did not change much in the first two thirds of the century, the share of industrial products only was 36 percent even in 1965. In this field a change in traditional specialization has developed during the last 10 to 15 years, mainly under the influence of external factors, the export restricting impacts of Common Market agroprotectionism, and along wit new trends in the OECD countries' structural transformation.

Since the mid-seventies, the share of industrial products has increased to 60 percent in the Hungarian exports to OECD countries. As a result of structural transformation, Hungary is primarily an exporter of manufactures also in her Western relations. It has thus meant a new stage of historical importance from the point of view of Hungarian economic growth and industrial development that external economic relations develop with all the three groups of countries mainly in the framework of an industrial division of labour and also industrial development has become "export controlled", i.e., dependent on export performance.

The new stage of development and range of problems of the Hungarian economy and industry, as emerging in the last decade are, however, attributable to no small extent precisely to the trend of the industry's external economic performance, unfavourable by international comparison. Appreciable quantitative development and structural transformation have been accompanied by *loss of ground* in the world economy and by a lasting and extensive deterioration of relative positions in external markets.

A *loss of market positions* can be observed in a longer range in the foreign trade in manufactures with every group of countries. This trend manifested itself the most powerfully in the cooperation with the CMEA countries. 7.6 percent of CMEA's industrial imports originated from Hungary in 1965 while only 4.1 percent in 1982. In the imports of developing countries, Hungary's exporting role attained its peak in 1960 with a weight of 0.45 percent while it amounted to 0.32 percent in 1982. The Hungarian export positions ranging about 0.2 percent have remained the soundest in the OECD absorptive markets, though the share established by the early eighties was somewhat below that of the mid-fifties.

The loss of world economic ground is typical of every maing group of manufactures except for aluminium exports. Within the leading sector of industrial exports, the

Table 1

Hungary's share in world export in some commodity groups (percent)*

	1938	1948	1955	1960	1965	1970	1975	1980	1982
SITC 0–9	0.66	0.29							
Agriculture (0+1)			0.67	0.52	1.09	1.22	1.27	0.91	1.06
– grain			n. d.	n. d.	0.26	0.83	0.99	0.50	0.87
– (2+4) crude materials			0.65	0.51	0.34	0.46	0.40	0.37	0.43
Primary energy –(3)			0.18	0.10	0.13	0.10	0.07	0.09	0.14
Chemicals (5)			0.59	0.74	0.93	0.79	0.69	0.56	0.66
Machinery (7)			1.18	1.16	1.07	0.83	0.92	0.54	0.54
Industrial semiproducts (6+8)			0.67	0.59	0.92	0.78	0.81	0.46	0.46
– textiles (65)			n. d.	n. d.	0.89	0.68	0.72	0.45	0.46
– iron, steel (67)			n. d.	n. d.	1.65	0.82	0.61	0.51	0.42
– non-ferrous metals (68)			n. d.	n. d.	0.29	0.53	0.71	0.43	0.45
– garments (84)			n. d.	n. d.	2.22	1.55	1.61	0.86	0.78
Manufactures (5+6+7+8)			0.90	0.93	0.99	0.81	0.85	0.51	0.52

Source: UN Yearbook of International Trade Statistics;
UN Monthly Bulletin of Statistics, Hungarian Central Statistical Office: Foreign Trade Statistics, different yearbooks;

*The above categories are in accordance with the SITC (Standard International Trade Classification).

engineering industry, the Hungarian offer shows powerful specialization in agricultural and food-processing machinery—in better correspondence with local conditions—and in railway rolling stock. Market positions also show strengthening over a longer range in the case of agricultural and food processing machinery. From the different country groups, in the CMEA area the Hungarian engineering export positions weakened in the first place and to the greatest extent. In the market of developing countries the Hungarian position became more solid with respect to chemical and metallurgical products, it was practically maintained with respect to engineering products, and considerably weakened with respect to products of the light industry. In the Hungarian exports to OECD countries specialization is considerable in canned meat, while it is smaller in garments, furniture, footwear, metallurgical products, textiles and household equipment. A growing relative market share can be found in the cases of canned meat, machinery (household appliances) as well as aluminium products and garments. On the other hand, products of the pharmaceutical and the steel industries have steadily lost ground.

The weakening of position, suffered in a broad range, indicates that, despite dynamization, the export performances of the Hungarian industry have improved to a smaller degree and at a slower rate than the world average and that of the main competitors. The reason for the loss of ground in markets of certain commodity groups may be unsatisfactory industrial exporting capacity or diminishing export sales receipts

owing to poorer quality, inadequate marketing and obsolete technology. Export capacity cannot be investigated on the basis of international statistics, but the trend of sales receipts per unit of exported commodities and an international comparison thereof may be revealing.

Comparing the export unit values of countries of the Far East and Southern Europe—which are of rather similar level of development and were industrialized and became exporters with a historical lag—to the export prices achieved by Hungarian exporters, it is found that in 1980 the Hungarian export prices were below the average price level of this reference group by 25 percent with textile filaments and yarns, 184 percent with special woven textiles, 271 percent with floor coverings, 49 percent with footwear, 59 percent with steel sheets, 114 percent with household electric appliances, and 118 percent with television sets. [11] The scissors of sales receipts are naturally much wider if compared to advanced industrial countries. The degree of this significant lag in per unit export price level is diminishing in the long range in the case of garments, footwear, and textiles, whereas it is increasing in the case of ironware and household machines. The canned meat prices are more advantageous than those of competitors but show a decreasing advantage over a longer range. Experience of per unit export prices suggests that the Hungarian efforts at more "superior" supply (i.e. with greater value added content) and at better marketing in foreign trading work have not been sufficient and there are latent reserves in improving performances.

The deterioration in the Hungarian economy's *terms of trade,* outstanding not only in the group of the CMEA countries but also by international comparison (some 30 percent between 1973 and 1974), is attributable not only to the two crude oil price explosions, i.e., to readjustment of world market price proportions in the past decade, but to limits to performance apparent in per unit sales receipts, too. Terms of trade have deteriorated not only between the main commodity groups, primary energy, and manufactures or between engineering and light industrial products, but have taken a downward trend in each of the bigger sectors of Hungarian foreign trade in manufactures. The impacts of the robust shift in the relative prices between primary energy and manufactured products assert themselves essentially in Hungarian-Soviet foreign trade. On the other hand, in the trade with OECD countries the terms of trade deteriorated because of the weakening competitivity of the Hungarian manufactures. Here the deterioration in the terms of trade is an unmistakable sign of the weakening relative competitiveness of industry.

The substantial and durable *disequilibrium* in foreign trading relations with OECD countries, the amount of debts accumulated through the past decade and its economic-political implications are rooted in the industrial division of labour. The growing material intensity of the Hungarian industrial structure has made the imports of materials and semifinished products to grow and become preponderant also in non-socialist imports. In the period between 1980 and 82, deficits rose to a total of Ft 140 thousand million in the non-rouble foreign trade in materials, semifinished products and parts and to Ft 19 thousand million in the trade in machinery. Naturally, the surplus

of Ft 34 thousand million attained in the trade in consumer goods was not sufficient to balance that; thus a deficit of about Ft 120 thousand million was formed in the industrial foreign trade of this country.

In countries industrialized with a historical lag and having a restricted domestic absorptive market the industry is not capable of playing any substantial role in earning foreign exchange even on higher levels of development. In such countries the function of "foreign exchange earning" is normally discharged by the agriculture or the service sector. The low flexibility of demand for agricultural products, the unfavourable price trends and economic political conditions, however, have not enabled either the agriculture or the underdeveloped service exports of Hungary to undertake a substantially greater role in earning foreign exchange. Therefore, the shaping of the external equilibrium of the economy depends on industrial performances also in the 1980s.

From a certain point of view it is certainly a welcome fact that those products of Hungarian industrial activities which are the closest to the vanguard of international technical progress find expanding markets in the division of labour established with CMEA countries. On the other hand, however, we must not fail to notice that also the relative positions have been weakening in the arena of the world market dominated by tough competition. The historical continuity in the development of the most modern Hungarian industrial forces of production and of the international division of labour was broken in several crucial ranges. Parallel to this process, the technical islands and wedges developed in the Hungarian industry in the first half of this century and representing the first lines of international technical progress were mostly wiped out—and there are no new driving sectors in sight.

It is indicated by the relatively weakening positions and loss of ground in the international industrial division of labour—accelerating between 1965 and 1980—by the unfavourable trends of export unit values and of the terms of trade, as well as by the structural deficit in the trade in manufactures, that the quantitative growth of the Hungarian industry was not accompanied by sufficient qualitative development. It failed to adjust properly to the trends and drives which evolved in international industrial development and the industrial division of labour during the past decades and which affect the future. A wide gap has opened between industry's import intensity and its exporting capacity. It will be helpful to review the role of changing *external conditions of industrial development* in the range of problems and the new lasting situations to which the future development of the Hungarian industry has to acclimatize for the sake of better performance.

Performance of industrial development and the international conditions

Performance of countries, sectors, groups or individuals can be evaluated with the aid of a fairly large number and variety of indicators in every stage. Acceleration of the speed of operation, replacement at times of constituents of the system, and enrichment of its functions are significant achievements in any functioning system. It can hardly be challenged that the mobilization and activation of enormous social and growth energies also appear in the achievements of the industrial sphere, in the acceleration of the dynamics of long-term development of the Hungarian industry, in the creation of profoundly new relations of production and control system mechanisms of the socialist society, in the absorption of the excess workforce developed over history, i.e., in the improved employing capacity of the economy, in the adoption of achievements of technical-scientific progress, in the formation of new structures, and in the decisive role undertaken in guaranteeing a certain supply security during the past four decades. In a system closed in itself, the above achievements are absolute measures of success.

However, the Hungarian industry never functioned as a closed system in any stage of its development, and its *openness* attained an even internationally outstanding degree especially during the last two decades. The assessing of performances can therefore not dispense with a comparison with international trends of the times and a study of the correlations between changing external conditions of development and performances.

The predominating external environment of industrial development was given through a long range by CMEA cooperation. In the three postwar decades the points of main effort as well as the value and interest conditions of the regional industrial division of labour differed in a broad range and to a considerable degree from trends that evolved in other sectors of the world economy. However, the industrial development of CMEA countries taking the way of intensive economic growth have became increasingly open in the last two decades in the world economic sense, the previous conditions of regional international division of labour have changed, and world economic impacts assert themselves more and more powerfully and directly. The achievements of Hungarian industrial development *can thus be analysed in the light of global changes* for these changes unavoidably occur also in CMEA cooperation, although with time lags of different lengths and with varying intensity.

a) From the viewpoint of the directions of production and consumption and of social costs of Hungarian industrial development, the external conditions typical of the postwar quarter of this century facilitated the creation and preservation of the present-day structure with its high material and energy requirements. The heavy chemical industry and metallurgy, representing outstanding weights by international comparison, could for a long time safely depend on CMEA cheaper purchases than the international price level and which could be expanded. Thus, the above-average material intensity of the Hungarian industrial structure reflected the suppression of "know-how-intensive" activities till the early seventies, as well as the increased per unit consumption of materials

originating also from the nature of the control system, but it did not encounter any barriers of expediency on the side of the external environment. On the other hand, the stage of ruthless exploitation of natural resources has been globally interrupted since the early seventies the relative cost level of energy procurement has multiplied. Owing to the trend of structural transformation in the advanced industrial countries the level of per unit material and energy consumption shows a tendency of drastic decrease, and the world market is simply unwilling to pay for higher material and energy consumption than the implied average of a given product. Industrial production with high raw material and energy requirements as well as foreign trade is internationally displaced at an accelerating rate to countries with better natural geographic conditions (Australia, Canada, South Africa, developing countries). At the same time it has suddenly *became more expensive* to buy materials and energy from the CMEA countries–which are decisive among the sources of the Hungarian industry–because of their following the world market price trends. On the other hand, buying has also become more *difficult* owing to the depletion of resources, to export pressures in connection with debt service, and to the increased domestic consumption of the earlier exporters. Import burdens have thus greatly increased since the early seventies because of the maintenance of the material and energy intensive structure, and the development of the local base of primary energy and material supply engages round 60 percent of industrial investments. Thus the material and energy intensive structure has for more than ten years entailed aggravating external economic tensions, a narrowing of the margin of manoeuvring of the manufacturing industry–in principle, more closely attached to the global structural transformation and technical progress–as well as failure to keep abreast with the global trade in manufactures.

b) Production structures with high natural resource requirements also are globally more than averagely capital-intensive and their expediency always depends on global capital market positions and capital costs trends. In the happy days of Keynesian economic policy, in the third quarter of this century, the level of relative capital costs was low and even downright zero or negative in the second half of the seventies (i.e., lower than the rate of inflation). The stagnation of investments, the excessive offer of capital by crude oil exporting countries having grown suddenly rich, the powerful economic nationalism of the developing countries and the capital-control policy of social-democratic governments then in strong government positions in Western Europe, resulted in a global excess supply of capital that was favourable for capital importers. This situation profoundly changed in the eighties. The fast-rate expansion of the capital absorptive role of the American economy, the sharpening of liquidity tensions, and the new vigour of investment activities resulted in extraordinarily high real capital costs (4 to 8 percent). Such high capital costs can only be afforded by economic units, fields of activities and new growth promotion sectors that function with substantially higher than average profitability. Emphasis has been globally put on strengthening the income producing capacity, i.e., on rapidly reducing low-profitability or losing activities and traditional sectors.

In the case of Hungary, owing to the special features of the system of control and of the valuation of investment resources, the consequences of the more than averagely capital-intensive industrial structure did not manifest themselves for a third of a century. On the other hand, under the new conditions of factor realization and income distribution in the world economy of the 1980s, the social costs deriving from the lack of harmony between capital intensity and profitability suddenly increased and, unlike previous situations, these cannot be moderated in the framework of international cooperation either.

c) The world economic conditions of *labour-intensive* industrialization have also changed. In the three postwar decades excessive demand for labour, total and occasionally overemployment were equally typical of western and socialist countries, the trend of labour incomes was much more favourable than that of natural resources, or capital returns. The long-lasting global excess demand for labour was correlated with a big number of different factors, the low rate of increase of population owing to the two world wars, the losses of population in the second world war, the high rate of postwar reconstruction and industrialization, the expansion of job-creating social services, and the pushing forward of trade unions and central-leftist parties. However, processes that triggered a change in the valuation of labour by the international market appeared already in the sixties and became preponderant in the seventies: the demographic surge after World War II, investments and technological development for the purpose of substituting the costly labour, the "guest workers", and the stormy expansion of labour-intensive exports of manufactures by developing countries (light industrial and durable consumer goods). The above processes weakened the economic and political bargaining position of labour, a big surplus labour force or structural unemployment were formed, especially in spheres engaging labour with traditional qualifications and easy to mechanize; the dynamism of demand for labour shifted towards professional structures that develop and operate, implement or sell new technologies.

In the postwar Hungarian industrialization implementation of the basic postulates of the set of social objectives, the priority of creating jobs frequently ending up in overemployment, were strongly accentuated. This trend may have differed in magnitude and proportions, but certainly not in direction, from the mainstream of international industrial development. At the same time the international demand for labour through about a third of a century and the extraordinary relative wage dynamics provided suitable absorptive markets and comparative wage advantages to labour intensive industrial activities of low productivity but also of low wage level. The changes of the markets during the past decade, the global excess offer of consumer goods and semifinished (intermediary) products that can be manufactured by simple or medium-qualified labour, the steady pushing forward of Asian and Latin-American rivals with low cost levels, their occasional predominance in some markets, and the durably unfavourable trend of prices cancel out the old advantages of Hungarian industrial production and exports depending on low wage cost, and question the viability of this path. It is indicated by both the dynamism of the new growth-promoting production and service activities and the

strongly growing share of intellectual and risk capital within capital inputs that the qualitative (high professional qualification, constructivity, inventiveness, professional reliability) and not the quantitative (to simplify: muscular strength) characteristics of labour will be appreciated in the world economic conditions of the present and the coming decade. A wealth of international experience shows that the more intricate the industrial division of labour grows, the more parts, the more diversified industrial development, service and sales activities are attached to the realization of manufactures, the higher are the requirements raised towards professional qualification, learning, and working capacity, i.e., the higher are the social costs of disorganization, lack of discipline, knowledge and capability.

The confusion of values prevailing in the Hungarian society, thus also in the industry, the inadequate rewarding and acknowledgement of performances in general and of constructive intellectual work in particular most powerfully and directly restrict the technological modernization and participation in the international division of labour in the world economic environment of the end-eighties. The differentiating impact of technical progress in the world market is well illustrated for example by the enormous and growing price differences that are proportional to the degrees of intelligence and performances of certain robots. Not even traces of such trends can be discerned in the industrial valuation of the Hungarian live labour. At the same time it is indicated precisely by the long-term deterioration of world market positions by the trend of export unit values and the material intensity of the product pattern of Hungary that there is a sphere, of growing weight in the Hungarian industry, where the basic barrier to higher performance is the low degree of professional qualification, capability and work discipline of the labour employed on the most different levels. The unfavourable trend of the Hungarian competitivity in several fields reflects the gradual "ageing" of the Hungarian technical intelligentsia and skilled workers educated in the first half of the century in the competitive climate and in the order of values based on performance, i.e. the declining "human qualities" of replacement. Such kinds of limits to performance cannot be removed by better remuneration but demand in part cut-back programmes, in part a complex improvement of qualifications and abilities, social and enterprise therapies alloyed from positive and negative elements of incentive which might be widely unpopular.

d) Last but not least, mention should be made of what has been more and more strongly realized for half a century, namely, that because of the intensification of the social (and industrial) division of labour, *management* is increasingly and expressly becoming a direct force of production in the macro and micro spheres alike. The nature and quality of the control system can turn to be a source of success or a barrier to growth and participation in the international division of labour. The growing centralization of economic control was a general symptom in the third quarter of this century, the direct economic role of the state increased, the socialization of ownership and the establishment of central control, partly through the centralization of a growing portion of the national income and by extending the range of the system of economic political regulations, and partly through setting up of big international companies and their intertwining with

nation-states. The range of competitive market mechanism was globally weakened (and partly substituted by mechanisms of power politics) and the various processes were made slower but smoother by this centralization of the control system.

The world economic changes that occurred in the eighties, the weakening role in domestic economy of the state and the budget, while the state umbrella protecting companies was shut, speeded up the velocity of economic processes and reactions from many sides, broadened the range of competitive mechanisms, strengthened fluctuations, but made the socio-economic movements more difficult to survey and plan. Thus for example on the *foreign trade* side, following export coercions that have increased in most countries, competition is getting tougher and the reaction time is getting shorter. On the *technological development* side the processes of information collecting and evaluation and decision-making are accelerated by the revolution of microelectronics. Whereas on the side of the control system, in the non-socialist world the budget mechanisms, which respond more slowly but are easier to survey, are replaced by *monetary mechanisms* which produce immediate effects.

Because of the above changes improving the ability to respond decide and adjust, i.e., to accelerate the reaction speed, are essential also in the system of objectives, control and organization of the Hungarian industry. As against the relative "protection" for the external environment, typical of the third fourth of the century, the Hungarian industry, too, now faces a suddenly widened range of requirements necessary for manoeuvring in a competitive environment. Without satisfying these requirements it is impossible to utilize the growth stimulating effects of the two major contemporary motors of industrial development: technical progress and the international division of labour.

In connection with the said processes of global scale, the highest degree of sensitivity to restrictions of the control system and to symptoms of economic and general political overregulation is displaced precisely by activities of the highest innovation intensity. Elimination or restriction of direct central interferences (deregulation) and the establishment of a strategic system of *indirect* incentives, (i.e., "depolitization" of decisions), are inseparable from successful innovation waves.

e) The changes in the relative importance of the driving forces of growth, in the international valuation of resources of growth, and in the control-systemic environment of growth strongly influenced the *redistribution of incomes on a global scale* in the 1980s. Growth was the fastest in the third fourth of this century in labour incomes, in the seventies in primary energy rents, and in the eighties in capital incomes. Accordingly, the global redistribution of income shifted in favour of owners of labour power in the third fourth of the century, of owners of primary energy in the seventies, and of owners of capital and technology in the eighties. It also appears in international relations that a growing portion of the value of goods is realized in phases of sales and services subsequent to the production process. The new international trends with lasting impacts on income distribution create *ab ovo* unfavourable conditions for countries which participate in the international division of labour through exporting capital-intensive products that can be manufactured by labour with a lower degree of qualification, but depending more on

imported capital and technology, and without any strong organizational integration into the international commodity and money markets.

The relative decline in performance shown by the Hungarian industry especially in the last one and a half decades is attributable to a high degree to the said unfavourable changes in external conditions, i.e., to the weak and sluggish responses to world economic challenges. The acceleration of the rate of changes in every field draws attention to the fact that economic development strategies all over the world must realize the importance of mobile warfare as against the requirements of the "French warfare" typical of previous decades (to use the *strategic* terminology). Work has to aim at updating the objectives, flexible adjustment, and devising systems of instruments and organizations suitable for following moving targets. In terms of *philosophy* this is a warning that the changes in the world economic environment requires changes not only in approach but also in the *mode of existence.*

* * *

Without improvement in the performance of the Hungarian industry, the conditions of expanded reproduction are not given. Naturally there are postulates of this improvement in performance that can be emphasized at all times and all places such as more efficient management, updating, and better, more precise and more intensive work. However, the trend of performances and hosts of problems over a longer range indicate that the *way to the next century* asks for reorganizing the country's intellectual and real resources concerted with the nature of world economic challenges, the "streamlining" of the established structures, and the creation of conditions required for the assertion of industrial activities based on harmony between available assets and external opportunities.

In short, the changes in our world economic environment demand that the Hungarian industrial policy be constructively reappraised in the framework of a comprehensive national action programme. At any rate, opinions will concur in that this is no small a task.

References

1. Industrial statistics, 1900-1959. OEEC, Paris 1960.
2. Berend, T. I.: *Napjaink a történelemben* (Our days in history). Magvető Könyvkiadó, Budapest 1980. p. 166.
3. Berend T. I.: *A szocialista gazdaság fejlődése Magyarországon 1945–1975* (Development of the socialist economy in Hungary, 1945–1975). Kossuth Könyvkiadó, Budapest 1979. p. 182.
4. *Magyarország 1938. évi külkereskedelmi forgalma* (Foreign trade turnover of Hungary in the year 1938). Magyar Királyi Központi Statisztikai Hivatal, Budapest.
5. Tiszynski, H.: World trade in manufactured commodities, 1899–1950. *The Manchester School of Economic and Social Studies,* Vol. 19. 1951.

6. *Iparunk színvonala és fejlődése nemzetközi összehasonlításban* (Standard and development of the Hungarian industry in international comparison). Központi Statisztikai Hivatal, Budapest 1976.
7. Berend, T. I.: *Gazdasági útkeresés. 1956–1965* (Search for a new path in the economy). Magvető Könyvkiadó, Budapest 1983. pp. 383–384.
8. Kádár, B.: *Kis országok a világgazdaságban* (Small countries in the world economy). Közgazdasági és Jogi Könyvkiadó, Budapest 1971. pp. 92–146.
9. Maizels, A.: *Industrial growth and world trade.* Cambridge University Press, Cambridge 1963. p. 563.
10. *UN Monthly Bulletin of Statistics,* different issues.
11. *OECD Foreign Trade Statistics,* "C" Series.

РАЗВИТИЕ ВЕНГЕРСКОЙ ПРОМЫШЛЕННОСТИ В СВЕТЕ МИРОХОЗЯЙСТВЕННЫХ ИЗМЕНЕНИЙ

Б. КАДАР

В статье дается широкий анализ внешнеэкономических результатов развития венгерской промышленности в нынешнем столетии. За пятьдесят лет, предшествовавших первой мировой войне, в венгерской промышленности произошла значительная и примечательная в международном сопоставлении ускоренная модернизация, началось сдвижение структурно-экономических ножниц осталости и даже наметились признаки чрезмерного структурного развития в определенных областях. За четыре десятилетия, прошедших после второй мировой войны, промышленность достигла значительной динамики роста, сыграла выдающуюся роль в обеспечении всеобщей занятости, общественных преобразованиях и удовлетворении отечественных нужд, но внешнеэкономические результаты её деятельности сложились неблагоприятно. Из-за недостаточно учитывавших отечественные условия роста и изменения мирохозяйственной среды целей, средств и системы организации в Венгрии к концу 70-х годов сложилась производственная структура с чрезвычайно высокой и в международном сопоставлении материало- и энергоемкостью, неблагоприятно сложилась доля промышленной деятельности, использующей существующие или потенциальные сравнительные преимущества. После второй мировой войны венгерская экономика и венгерская промышленность стали особенно чувствительны к внешнеэкономическим условиям, развитие промышленности все больше определяется внешнеэкономическими результатами её деятельности. Позиции Венгрии в международном промышленном разделении труда значительно ослабли, удельные валютные поступления на единицу экспортируемой продукции и соотношения импортных и экспортных цен в промышленности, а также сбалансированность внешней торговли промышленной продукцией сложились неблагоприятно. Ухудшение результатов автор объясняет неудовлетворительным ответом промышленной политики на изменение внешних условий, её медлительностью и ставит вопрос о необходимости скорейшего творческого обновления венгерской промышленной политики.

Acta Oeconomica, Vol. 34 (3–4), pp. 263–273 (1985)

REFORM POLICY IN THE COMPLEXITY OF ECONOMIC POLICY

T. BAUER

The further development of the New Economic Mechanism faces difficulties in Hungary arising from the fact that several preconditions for the reforms have not been brought about. Namely, a high degree of monopolization, the lack of institutional opening towards the world economy and the preservation of a shortage economy prevent competition, while the preservation of the traditional political power structure questions the genuine independence of enterprise managers. The author argues that, if the performance of the economy is to be improved, the three economic constraints on the reforms have to be removed anyway, regardless of the requirements of the NEM. As for the political constraint, an interim solution preserving the basic features of the power structure but guaranteeing, at the same time, entrepreneurial independence for managers seems feasible for the author.

From the viewpoint of the Hungarian economic policy, now trying to find a way out of the state of crisis which emerged in the early eighties and which has not yet been overcome, the focal problem is how to carry on with the reform. The simple reason is that the economy cannot reckon with any other additional resource but a reduction of losses accruing in the course of functioning of the economy. The existence of such avoidable losses is clear even to the casual observer.

Therefore, the carrying on of the reform is generally acknowledged to be the main task. Since domestic and foreign experiences of the 1970s proved that recentralization does not amount to a solution, there is apparently agreement also in that the reform ought to be carried on along the 1968 line.

In this context there are actually two approaches concerning the mode of carrying on with the reform. According to the first one the 1968 reform essentially means the replacement of the direct methods of central economic control by indirect means, i.e., control through financial regulations, without narrowing the range of economic processes covered by central control. On the other hand, the second approach considers it to be an essential feature of the reform, not realized so far, to replace central economic control through direct and indirect means with the objective of embracing the whole of economic processes by an economic mechanism where a self-regulating market functions along with national planning and the regulation of major processes.

Arguments brought up against this latter concept are basically of two kinds.

According to the first kind of argument, it is *ab ovo* not right to aim at developing such an economic mechanism as it is inconsistent with the principles of socialism, resp., with the economic conditions that have become typical by the last decades of the 20th century in West and East alike. The second kind of argument, while acknowledging that the endeavour to carry on with the 1968 reform along this line is justified, claims that the

conditions of running such a mechanism are durably missing in Hungary. On other occasions I debated the approach mentioned first, and so I am not going to make a digression on it now. In this paper I will deal with the second argument.

The advocates of this latter point of view find the four major hindering factors to be the following:

– The high degree of monopolization of the Hungarian economy and the enterprise structure inherited from the centralized system render a real competitive market improbable.

– The character and mechanism of our external economic relations work against the development of market automatisms based on competition. In our relations with CMEA countries we cannot expect the bilateral trade–essentially planned in physical terms–to be transformed into a mechanism accentuating value categories and inter-enterprise relations in a foreseeable time. In extra-CMEA turnover the lifting of the prevailing mutual protectionism and, consequently, the developing of import competition are improbable because of the apparently lasting balance-of-payments problems as well as our being outside the West European integration.

– Up to now our economy has continued to be a shortage economy, and this quality has become even more pronounced in the last few years in connection with external economic problems. And it is in vain to reduce the degree of monopolization of the economy and it is similarly in vain to try to ease the rigidity of external economic relations because the mechanism of competition cannot function as long as the shortage economy quality is not eliminated and as long as a sellers' market persists in a broad sphere.

– A political system whose nucleus is the one-party system and democratic centralism, i.e., where each element of the political system is arranged in a united hierarchy and where the action of autonomous elements outside this hierarchy is precluded, is incompatible with the elimination of hierarchic subordination from the economy and with the mutual autonomy of enterprises and state administration.

The above objections seem to be well founded. If it is seriously meant that a big number of participants is necessary for the development of the mechanism of competition in each market segment, and if the inherited enterprise structure of the economy is at the same time taken to be given, we have to waive real market competition. If it is seriously meant that the creation of a "slightly excessive supply" in the economy is a precondition to the mechanism of competition and, at the same time, we see no opportunity for bringing it about under the given economic situation, nor in the one predictable by planning, we again must loose confidence. Finally, if it is seriously meant that economic pluralism cannot exist without political pluralism and, at the same time, the forms of exercising political power as established in East European countries adopting the one-party system (which was created at the time of consolidating power and which has been inherited form that period) are considered to be unchangeable then, again, we must give up the necessary changing of the economic mechanism.

Hereinafter I shall treat the first three objections relating to economic conditions and the fourth one which relates to the superposition of the economic mechanism and the political establishment in different ways. In connection with the three first objections but independent of the reform programme the demand for changes that are suitable for removing the said barriers has already been formulated in the Hungarian economic policy. If these changes assert themselves, it may be expected that the economic conditions of the functioning of a self-regulatory market will, even if not smoothly, emerge. As far as the fourth objection is concerned, I should like to point out a possible way of the development of the political system compatible with the desirable way of the continuation of the economic reform, also when the basic frameworks are maintained.

Enterprise organization and market competition

Do we have to consider the inherited enterprise structure of the economy as given? The developments of the last half of a decade show that we need not, since the creation of forms of small entrepreneurship and the entering of hundreds of new enterprises into the scene are the most noteworthy developments in the Hungarian economy since the New Economic Mechanism was introduced in 1968.

On the other hand: How far is it right to go in this direction? Can these changes attain a degree to remove the first one of the four inconsistencies?

According to a prevailing "moderate" viewpoint the role of small enterprises including the new forms of enterprising is not denied, yet the role cast to such enterprises is in the long run, although important, only secondary and peripheric as against the role of big state enterprises. Is this view justified?

Let us set out from the following correct concept: Certain kinds of activities can be done efficiently in big enterprises while other ones in small ones. On first consideration this opinion must be agreed with, i.e., that it is not the small enterprise as such nor the large enterprise as such that needs to be given priority but internationally competitive activity, be it typical activity of small enterprises or that of big enterprises. At this point, however, some consequences of the position of the Hungarian economy in the world economy must be taken into account.

It seems that a country in a position like Hungary can, or could, gain comparative advantages in its export markets through cheaper skilled labour, the simultaneous presence of and routine in eastern and western relations, geographic proximity to Western and Eastern Europe, as well as a more flexible system of control than the one adopted by rivalling countries in similar positions (small CMEA countries). It is quite probable that these advantages may be realized better through activities that can be typically pursued in small enterprises.

In the advanced countries progressive enterprises nowadays include giant enterprises as well as such ones that employ ten or a hundred hands. However, while the big enterprises are by necessity international ones, the progressive small enterprises can be

national ones. The competitive big enterprises of small countries are either the local subsidiaries of multinational companies or are themselves international enterprises with subsidiaries all over the world. The Hungarian system of external economic relations, however, does not allow that at present. The creation of multinational enterprises is *ab ovo* ruled out by the CMEA mechanism and in the Western relations it is hindered by the lack of convertibility, by the monopoly of the currency of exchange, as well as a number of other factors.

There is thus nothing to be done under the present circumstances about one of the shortcomings of the enterprise structure, namely, about the lack of "really big enterprises". A big enterprise of up-to-date organization simply "does not fit" in the Hungarian economy which is not integrated into the world economy.

The small enterprises are a different case. In principle there is no obstacle to the formation and spreading of up-to-date and internationally competitive small and medium enterprises in Hungary.

I therefore assume that the economic policy must assign a basic (but, of course, not predominant) and not a peripheric role to small enterprises in the long-range development of the enterprise structure. It is not reasonable to limit the activities of small enterprises, including industrial cooperatives and auxiliary plants of cooperative farms, to supplying big companies with parts and assembly units and supplying the consumer market, because they could work successfully in the most advanced branches of top technology and in the export of the latter, especially if export efficiency becomes the number one criterion as against the volume of export again. Therefore, small enterprises ought to be granted e.g. the right of direct exports like big ones. (They must not be obliged to avail themselves of that right, they should be allowed to commission foreign trading companies if they so prefer, but they, too, should be responsible for realizing their products just as the big enterprises are.)

Am I changing from one end of the pole to the other, from one extremity to the other? It may be so, but this is not an argument. Preference for big enterprises is a kind of extremity itself, which did have its justification on the soil of a given industrial development policy and a system of control. (Whether this industrial development policy and this system of control were adequate at the time, and to what extent is another question. At any rate, that extremity was not an outcome of a merely theoretical mistake, either.) On the other hand, it is backed up by arguments that the current economic situation, the deriving economic political tasks and the line found to be the most rational for the development of the economic mechanism stand today for an orientation, which could be once again called one-sided, towards small enterprises.

Political arguments are usually also quoted to support the emphasis on big enterprises, alluding to the political significance of large-scale industrial workers. In the given case, however, I am simply unable to understand why this argument is deployed. It is true that the labour movement always sought and found its mass basis among the workers of big factories as it is large-scale organization that alienates the worker and employer the most badly and that develops workers' solidarity the strongest. It was not

incidental that the East-European labour movements of past decades also germinated from the masses working at big factories–it is in the big factories where the strata of workers more ready to stand up and rebel are found. Workers of small plants live in a more patriarchic workshop climate and are more apt to identify themselves with enterprise goals.

It is thus clear that those aiming at overthrowing a regime send their agitators to big factories. I also understand that where the holders of power worry for the stability of the regime they must please the workers of big factories in the first place. But when a regime wishes to build up "consensus" and constructive cooperation, and wishes to develop *Sozialpartnerschaft* with the people then it should be attracted to small and medium plants, if already for social and political considerations! Wherever large-scale plants are necessary they must be, naturally, maintained but there are no political arguments whatsoever for insisting on big enterprises and, hence, on activities that require big enterprises.

It stands to reason that the proportions between big and small organizations cannot be changed from one day to the next. I consider this change of proportions a task to be accomplished in a longer span of time. Significant steps have already been made in this direction in recent years. I nevertheless deem it necessary to state that we are far from having reached the desirable state of affairs and we must consistently carry on, step-by-step, towards the direction aimed at.

And when this is done, the internal conditions for forming a competitive economy will also be gradually improved.

Reform and foreign economic policy

There was strong apprehension because of the statements made about the external economic policy in my article. [1]

One must certainly not be as naive as to hope that economic relations with western countries alone could be a salvation, as it was hoped in Romania at a time and then in Poland in the seventies. However, in the set of requirements of the 1980s, the roles of the two main markets in our external economic relations must be judged in another way than it was considered by the economic policy of the 1950s or 1960s.

Maintaining the exchange of raw material *vs.* finished products with the Soviet Union is invariably to our advantage where, and until, it is possible. Nor is there any change in that we can successfully pursue the exchange of industrial commodities with small CMEA countries which are geographically near and close to us in the degree of development, technical civilization and quality standards of consumer demand. The opportunities of developing the turnover with the CMEA countries have even been expanded by Hungary's becoming durably capable of exporting food and agricultural products while the Soviet Union and some other CMEA countries are in lasting need of food imports.

At the same time the expansion of turnover with the CMEA countries is limited, moreover, narrowed by a number of factors. Only two important ones are noted here. The first factor is from our point of view an external condition: the Soviet Union does not wish to expand the exchange of materials for machinery because it is not in a position to do so; on the contrary, it intends to cut back this exchange. Thus, fewer products are available to compensate, to Hungary's benefit, for the export of industrial commodities that has been advantageous for decades because of the large and safe absorptive market. Consequently, the reasonability of such exports is becoming *ab ovo* doubtful.

The second factor is related to the CMEA mechanism. At present the development of manufacturing industry adjusted to the international division of labour according to the principle of comparative advantages is a key problem of Hungarian economic development. Such manufacturing industry uses a broad range of imported goods and, on the other hand, it is itself export-oriented and gains high export receipts through flexible satisfaction of market demands. However, the mechanism of CMEA cooperation does not permit this type of manufacturing industrial relations, either from the aspect of exports or of imports. There is no realistic chance for any change in this respect in the coming five to ten years. Under such circumstances, if in the development of the manufacturing industry we keep insisting on directing the major projects basically and primarily towards CMEA exports (or import substitution on CMEA level); and on trying to satisfy as much as possible of our demand for semifinished products of the manufacturing industry and for productive parts (and not only for raw materials where this problem is not so bad) from CMEA countries, then we face the risk of having to relinquish the additional resources of growth offered in the technical and market development of the manufacturing industry by integration in the international division of labour on the basis of comparative advantages.

It is, therefore, quite inevitable that in our external economic relations the role of turnover based on quotas fixed in inter-state agreements and transacted in transferable rouble must diminish and the importance of turnover transacted according to commercial principles and in some convertible or *de facto* convertible currency must grow. One of the possible ways would be to shift the economic relations with CMEA countries onto commercial grounds in general, or with the countries ready to do so, for the whole or part of turnover. This would be extremely desirable because in this way our economic relations could be promoted in an efficient form with partners to whom such relations are the most obvious for geographic and historical reasons. However, in case this desirable alternative is missed and the mechanism of CMEA relations is not transformed—a contingency we must not fail to take into account—then we cannot seek the opportunities for participating in the international division of labour in an up-to-date way as to content and form but outside the CMEA. This implies that we have to find the opportunities enabling us to associate ourselves, if not *de jure* then *de facto,* with the West European integration which by now embraces the whole of Europe outside the CMEA. Then we may have the chance to avoid dropping out of technological and market developments. "*De facto* association" means a host of measures like e.g. reaching a

comprehensive trade agreement with the EEC, further progress towards the convertibility of the forint, and provisions for a majority or full foreign ownership of enterprises.

The aforesaid do not necessarily endanger Hungary's relations to CMEA countries, since the CMEA is not a multinational integration here and now but it is a bunch of bilateral economic relations packed into multilateral political ties. (And this is what it will remain as long as the old concept of a supranational planning office or the old Hungarian CMEA concept in which relations are based on commodity-and-money relations are not implemented.) Participation in it, moreover, an enhanced utilization of opportunities offered by it, are not hindered by an intensification of Hungary's western economic relations. On the contrary! If the Western relations of the manufacturing industry were deepened and this also had beneficial implications from the point of view of the technological standards and competitivity of our manufacturing industry, then we could become, among others, a welcome partner in the CMEA turnover because our uprated offer of industrial products would be worth of paying "hard" goods in exchange—and eventually even the exchange of materials *vs.* machinery could be revived. So, I do not mean a one-sided Western orientation but I should like to suggest that in the future we could make better use of the potential advantage of the Hungarian economy, i.e., the conditions given to it, to mediate the transfer of technology from West to East (which conditions are better here than in the ČSSR because of the reformed mechanism and better than in Poland because of stability), only provided that the indicated improvement of the external economic policy and mechanism can compensate, for example, for the disadvantage we suffer as against the GDR in lack of the intra-German status.

Again, it also follows from all the above that this line of the external economic policy brings us closer to the desirable situation when the antagonism between the mechanism of our external economic relations and the internal mechanism is removed.

Equilibrium and reform

A couple of years ago it was nearly trite and needed no further reasoning that the carrying on of the reform and elimination of the remains of the shortage economy, i.e., creating a buyers' market, are mutually conditional. It could even be assumed that there was nobody to argue with as no one in Hungary asked for a sellers' market.

This situation has changed in recent years. The theorem that the socialist economy is by necessity a shortage economy was formulated for the first time in decades and with the postulation of theoretical generalization in the paper by Andrea *Szegő* [2]. This train of thought apparently fails to take into account the finding that shortage economy, forced substitution becoming typical of production processes, queuing, long terms of delivery, etc. do such a big harm to the efficiency of production and to the competitiveness of exports that questions the competitiveness of the whole of this system in the broad sense. Actually this is the reason why adequate supply of materials and goods must not be regarded as something we can afford in good time but must forget in

bad times. Relying on what a number of East European economists have discovered in the last decades, and which János *Kornai* generalized also theoretically [3], we can safely state that adequate supply is also a precondition to the successful functioning of the economy.

This is far from being a banal statement as yet and there are some economic policy-makers believing that one could overcome the import restrictions and the disturbances of supply caused by necessarily rough interventions by the centre "unpunished" and without economic or social disadvantages. What is more, the fact that the devastating impacts of such inadequacies do not assert themselves but with some delay only, and are not apparent in aggregate figures suitable for assessment at the centre, makes a certain false impression, namely, that although the unavoidable constraints caused some temporary problems, but imported items were successfully substituted by domestic ones where demand was real. This deception helps making a virtue out of a necessity. In this way the mechanism of restrictive measures is brought to a life of its own and, in addition to production and marketing decisions, the substitution of imports becomes a guiding criterion also in decisions on investment. If this happens, it will be hardly possible to halt the process of declining efficiency.

It is still not too late to realize where we are. What we ought to consider our adequate economic political objective is much rather the restoring of internal equilibrium than avoiding the decline of standard-of-living indicators expressed in real wages and consumption. Several statements made by leading statesmen show that this is appreciated, yet it seems at the same time that daily decision-making is increasingly apt to make concessions at its detriment.

Thus, over and above the need for harmony with the development of the economic mechanism, there are strong arguments in favour of carrying on on the road taking from shortage economy to the buyers' market.

About the interdependence of economic and political reform

If we are serious about our ideas concerning the reform, even about propositions for changes as are laid down in documents of state administration, we cannot escape the following antagonism: one should like to have autonomous and responsible enterprise management on the one hand, while, on the other hand, one wishes to maintain the right of regional Party organizations to ask enterprise managers to report on the whole of their economic work as well as to form an opinion about any issues of business management and, on that basis, to "withdraw confidence" from the managers. In such a state of affairs the responsibility and independence of enterprise managers rest on shaky grounds.

It is therefore assumed that any degree of consistent implementation of the economic reform, i.e., the 1966 concept, requires us to guarantee the independence and responsibility of enterprise managers, against interventions by Party organizations. It

would be important here to make it clearly understood that the Party organizations must not restrict managers in their spheres of authority, not even in cases when they would find this justified. It should be acknowledged that the supervisory authority over managers, vested in the Party organizations, is political and not a matter of economic-political or economic-management nature. Now that we no longer suppose that the central state authorities are *ex officio* right in *every* matter, we should not suppose that in the case of the Party organizations, namely, the central, regional and enterprise party organizations, either. Namely, if this cannot be achieved, then all aspirations aimed at eliminating operative sponsorship by the administration could be downright reversed because a control still having some professional competence would be ruled out, while the control by professionally non-competent bodies would be left untouched.

There are various ways towards the desirable change. Unambiguous declarations by leading political bodies and clear statements by the party media would be a great help—it is a pity that nothing of the kind has been made as yet. It would be another contribution to rearrange spheres of Party authority in a manner where party rights would be exercised over managers by party organizations of the same, and not a higher, level (by the Party committee of the institute, enterprise and workshop concerned).

As it can be seen from the aforesaid, it is not a spectacular reform of the political system that I consider to be the precondition to carrying on with the economic reform. I believe that slow, step-by-step advance is possible in the political sphere. However, this change must not remain a pseudo-change--actual and palpable change is required also in the political sphere.

Strengthening the democratic features and public control of state administration over economy is obviously an important area of this change. It is possible and necessary to guarantee the independence of enterprises against the state administration also by enhancing the legality of economic control.

I mean that no matter how perfectly the new system of economic regulations will be adjusted and how successfully the new forms of enterprise management will be established, the state authorities and the enterprises cannot be expected to observe the rules of their new relations out of sheer self-control in the future either. It will be indispensable to develop two kinds of guarantee systems.

From one aspect, as it was repeatedly noted e.g. by Tamás *Sárközy* [4], the statutory protection of enterprises from the state must be created. Similarly to a court of litigation to be set up for citizens, also enterprises must be granted judicial protection against decisions of the state administration at the same court or at economic courts. The provision of real legal security to small enterprises by the already existing protection by law requires in turn the perfect independence of courts, once again from the state administration and the Party apparatus.

As it is raised, even if somewhat too generally, by several new documents from the other aspect, the publicity of and democratic control over the state's economic controlling activity promises guarantees against the intertwining of interests between the state administration and enterprises. I trust that all the above can fit into what has been

indicated about the desirable development of political instutions in recent speeches and documents.

Summing up the aforesaid: in economic respects it is apparently unavoidable, irrespective of decisions on the mode of carrying on with the reform, and possible and desirable for the political mechanism, to carry out changes whereby those constraints could be softened in respect of which the practicability of the market-minded promotion of the reform is nowadays questioned.

References

1. Bauer, T.: The second economic reform and ownership relations. *Eastern European Economics,* Vol. XXII, Nos 3–4 (1984).
2. Szegő, A.: Érdekek és gazdasági intézményrendszer (Interest and economic institutions). *Valóság,* 6. 1983. pp 22–36.
3. Kornai, J.: *Economics of shortage.* North-Holland Publishing Co., Amsterdam, etc. 1980.
4. Sárközy, T.: The problems of contracts containing co-operation among enterprises in Hungary *Ökonomische Studien,* Band 35. Gustav Fischer, Stuttgart–New York 1984. pp. 101–126.

ПОЛИТИКА РЕФОРМЫ В КОМПЛЕКСЕ ЭКОНОМИЧЕСКОЙ ПОЛИТИКИ

Т. БАУЭР

Для венгерской экономической политики, ищущей выхода из сложившейся к началу 80-х годов и еще до сих пор не преодоленной кризисной ситуации, путь продолжения хозяйственной реформы является центральным вопросом.

Автор считает основной чертой реформы 1968 г. — которой необходимо следовать и сегодня — смену управления экономикой с помощью прямых и косвенных средств, стремящегося к охвату хозяйственных процессов в целом, таким хозяйственным механизмом, в котором наряду с народнохозяйственным планированием и регулированием основных процессов функционирует саморегулируемый рынок.

Против такой точки зрения обычно выдвигаются в Венгрии следующие аргументы. Если строго придерживаться того, что для развития механизма конкуренции необходимо большое число действующих лиц на каждом частном рынке, и в то же время если принять за данную унаследованную венгерской экономикой организационную структуру, то следует отказаться от подлинной рыночной конкуренции. Если строго придерживаться того, что рыночная конкуренция и даже функционирование подлинной системы конкурентных цен требует ликвидации крайнего протекционизма, и в то же время принять за данный нынешний характер внешнеэкономических связей, то также следует отказаться от желаемого изменения. Если строго придерживаться того, что условием действия механизма конкуренции является наличие в экономике «небольшого излишка предложения» и если нет возможности его обеспечения при нынешнем — и прогнозируемом на будущее — экономическом положении, то опять-таки мы должны зайти в тупик. И, наконец, если строго придерживаться того, что хозяйственный плюрализм нельзя представить без политического

плюрализма и если считать неизменными сложившиеся в восточноевропейских странах однопартийные формы политической власти, то уже и поэтому следует отказаться от необходимого изменения экономического механизма.

В связи с первыми тремя возражениями автор показывает, что в венгерской экономичеккой политике одновременно с программой реформы, хотя и независимо от нее еще раньше была сформулирована потребность в таких изменениях, которые снимают данные органичения. При развертывании этих изменений можно рассчитывать на то, что — хотя и не без трудностей — сформируются экономические условия функционирования саморегулируемого рынка. Что же касается четвертого возражения, автор указывает на такую возможность, которая согласуется с желаемым вариантом развития хозяйственной реформы и при сохранении основных рамок политического строя.

Acta Oeconomica, Vol. 34 (3–4), pp. 275–286 (1985)

ABOUT THE PROPERTY INCENTIVE
(Interest in property)

L. ANTAL

An efficient further development of the economic mechanism is inconceivable in Hungary without making economic organizations interested in increasing property (capital). This is an interest related to the augmentation and preservation of capital–meaning value and not capacity. The study examines the conditions to be met in order that this interest become an operative incentive.

The notion of property incentive spread in Hungary only in the early 1980s, about the same time when terms beginning with "business" or "capital" became *comme il faut,* to be quickly followed by the return of forced winding-up (bankruptcy). It is, of course, not a simple matter of fashion if new notions become common. Like the accentuating of the notion of profit incentive in 1968, the accentuating of enterprising and the property incentive now reflects an endeavour toward a deep transformation of the economic mechanism whereby the motives of business organizations as well as the relationship between state and enterprises should be radically altered in the course of a longer process and, again as a result, enterprising should cease to be a privilege of small entrepreneurs. (Exactly this is what distinguishes changes of major portent from frequent amendments of the system of control through changing business parameters and profitability conditions but not affecting the incentives of business, i.e., measures that should be given the more appropriate name of planned, but by no means preventive, maintenance of regulations.)

As it usually happens, the property incentive is not an accomplished change as yet but reflects a not yet quite clear intent. Therefore, the definition of the property incentive applicable to Hungarian conditions has not yet been formulated. We are more sure of what we do not want to have, what we intend to change, and what barriers and informal restrictions we wish to eliminate. The idea about the interest relations expected to emerge from the contemplated changes is rather vague, generalized, and probably also idealized.

The property incentive interpreted as the interest of (collective or individual) entrepreneurs is consequently an expression of disapproval of, firstly, the employee incentive attached basically to higher personal income, to the control of performance and to the utilization of opportunities offered by the labour market (and thus weakly attached to the given company), and the traditional small producer's incentive attached to higher (gross) income and clinging not only to his autonomy but also to an accustomed line of production and, secondly, of the traditional enterprise incentive attached to capacity expansion, increasing the size of the enterprise, to developing own production lines, gaining monopoly positions and exclusive rights and establishing strong

Acta Oeconomica 34, 1985
Akadémiai Kiadó, Budapest

personal relations (of markedly physical content) as well as of the limited profit incentive (let us use this term for the time being), typical of the period after the 1968 reform.

More or less, there is consensus in Hungary in that people belonging to the non-executive staff are now attached to the state enterprises mainly as employees, and their proprietary attachment plays a subordinate role—as well as in that the traditional enterprise incentive is basically an incentive of enterprise executives—meaning now a circle of management somewhat broader than the so-called top management with significant direct influence upon enterprise policies. (This fact is not altered by the circumstance that growing enterprise dimensions may be an advantage while the stagnation or eventual reduction of the enterprise a disadvantage also for the non-executive staff, because this will never be an as acute matter of existence for them as for the top management.)*

From the plan-controlled enterprise to the enterprise interested in property

Since the establishment of traditional planned economy, that is, the early 1950s, the Hungarian economic mechanism has undergone enormous changes. An essential factor of these changes has been the transformation of the enterprise incentive and of the relationship between the state and enterprises.

Traditional planned economy is established by enterprise reorganization. This reorganization, by concentrating enterprises producing homogeneous commodity groups and subordinating them to a united control, practically reduces the alternatives of user companies to nil. Thus the chain of user companies up to the consumer is put in a position strongly depending on a complicated multistage apparatus of production control. The pursuit of fitting enterprises into a hierarchical system of relations and thus including them into the scope of a central structural policy is the reason explaining why large organizations were set up also in fields like public services where this is clearly irrational from the economic point of view. The radical suppression of private small-scale industry and the uniform system of enterprise organization are integral ingredients of this kind of logic. In this way it is possible to control processes through instruction, i.e., to let the coercion originating from the form of organization function as a comprehensive system. In spite of their being helpless, enterprises still had some margin of manoeuvring to assert their interests in the process of plan bargaining. Their first concern is to form reserves (or in another way: to get less exacting plan tasks), in order to combat uncertainly (to

*A description of employee motivations and the subordinate importance of the workers' being owners as well from the point of view of doing work is given in the paper of István *Gábor R.* and Péter *Galasi,* [1]. I suppose they are correct to state the following about the proprietary attachment of non-executive employees: "the more indirect the relationship between a role and the consequences to be borne by the individual playing it, the weaker the motivation of individual action". (Op. cit. p. 125)

eliminate troubles caused by material shortage, etc.) and to maintain their freedom of decision. It is furthermore their concern to expand their activities and to establish good relations with the control authorities, in order to strengthen their own bargaining positions. Last but not least, it is, naturally, in their interest to implement the plans or, more precisely, to carry out one specification or two of the countless specifications of the compulsory plan instructions which the control authorities themselves really take seriously. (Moreover, it is also in their interest formally not to violate even those prescriptions which neither they nor their supervisors consider to be really important.)

Thus the enterprise controlled through plan-instructions is interested in influencing the plan directive and, subsequently, to comply with the plan directive and the control authorities sometimes formally and sometimes actually: to "probe" the intentions of the authorities that distribute resources, to build up reserves, and to expand, without hardly any limitation by economic viewpoints.*

This form of economic management is capable of implementing a *small number* of central priorities but it entails inescapable waste, heavy losses and social sacrifices. This very way, through its disfunctions that become grave at intervals, it forces a slow and gradual transformation of the economic control and management system.

The essence of the change is the slow infiltration of monetary criteria and incentives simulating the logic of commodity production into the control system. Already in the late fifties a role was cast in enterprise management to profit, too, and thus the apparently antagonistic contradiction between profitability and plan instruction seemed to be resolved in the interest attached to the planned profit. Later on the need for restricting the wasting of funds was also formulated, the price type was changed, a charge on fixed assets was introduced, and so was the requirement of adjustment to demand. However, this also required to *openly* expand the enterprises' field of manoeuvring. Consequently, the number of compulsory plan tasks was diminished and thereby enterprises were granted some legal chance of choice (it would be an exaggeration to speak of autonomy) between the directives which were invariably compulsory but which no longer specified each partial task. The enterprises tried to coordinate the two objectives i.e., fulfilment of priority tasks of production and exports and, in subordination thereto, to earn a profit near the planned value. This duality reduced the unambiguity of the system, but also limited waste. Accordingly, enterprise ambitions became more uncertain (interests attached to profitability considerations and to carrying out the compulsory directives were often conflicting, it could not be exactly told when, and which were important and how much), on the other hand, however, the importance of (horizontal) relations between enterprises as well as the adaptivity of the economy increased. This was the stage when economic efficiency computations became fashionable, trying to alleviate the shortcomings of incentive attached to profitability in the usual manner (by central specifications). Of course this was not—as it could not be—successful, but it still was a remarkable change over the preceding stage.

*A description of this economic mechanism is given by János *Kornai*, in [2].

The 1968 reform brought about a qualitative change by introducing incentive attached to profit and no longer to planned profit, and by abolishing the plan instructions for enterprises. Although the bargain between the control authorities and the enterprises (i.e., vertical and not horizontal bargain) remained to be decisive in the functioning of the economy and in the distribution of resources the point of gravity of this bargain was shifted from the breaking down of plan tasks and material allocations to the distribution of financial limits, to developing regulations, and then to the definition of facilities attached to the regulations.

By now the profit plays a really important role in enterprise life; however, its size depends as strongly on the bargain with control authorities and on participation in central projects as on success in the market. Enterprises are influenced by this regulation not through money but through financial limits that are hard to interchange [3], while major development targets are still determined by the control authorities. A special system of indirect control is set up in which the changing of the product pattern and the selection of enterprises (fast development or stagnation) are invariably the results of decisions made in the hierarchy. The enterprises nevertheless *do have* a profit incentive. Within the financial limit imported (the forming of which is attached e.g. to the increase of the value added or to some rate of profit relative to asserts engaged), decisions are affected by money, i.e., economic criteria. When the parameter system of regulation is established on the basis of accurate central calculations and the central estimation of demand-and-supply conditions is proven to be correct, then the carrying out of decisions near to the already much less detailed central concept can be guaranteed just through the profit motivation of enterprises.

The system thus established is superior to the previous state with respect to adaptivity, while the duality of adjustment to the control authorities' endeavours and expectations and of a short-term limited profit incentive is still rather typical of enterprise motivations.*

Although the limited profit incentive undoubtedly amounted to an irreversible qualitative change, the system of indirect control nevertheless transmitted several features of the system of the control through plan-instructions. The insatisfactory efficiency of investments persists and repeated efforts to reduce uneconomic fields and to regroup working resources and capacities were thwarted. The Hungarian enterprises could not develop but by extending their own limits, i.e., by expansion. Investments made outside a given company were rare exceptions in lack of any flow of money (capital market) and of any variety of forms of enterprising and, finally, the big debts of large enterprises caused grave problems, and a prudent mode of economic management trying to avoid overspending did not develop.

*This duality is already expressed by the distinction between interest and incentive (motivation). (See the book of Jenő *Andics*–Tamás *Rozgonyi* [4]. Accordingly, incentive is the technique (regulation) whereby the controller (be it a central authority or a company leadership over its own departments) can achieve that those controlled cannot satisfy their interests but in the case the higher-lower objectives are implemented. Regulation is supposed to discharge this task of transmission.

The said negative features have become paramount since the time (the late seventies and early eighties) when extra resources were no longer available for the economy while the changes in world economic conditions would have necessitated radical adjustment. Short of extra resources, the only way would have been a redistribution of the working assets, but this was hindered by the structural rigidity of the system. On the other hand, regularly required export surplus would have necessitated increased savings in the enterprise sphere. However, this was not supported either by pressure (fear from going bankrupt) or by any attractive chance to invest money in bonds and, most important of all, the same primary interest in spending all of the money by all means continued. The budget was therefore forced to "save" by regularly increasing tax burdens which, in turn, had a paralyzing effect upon enterprise business managements.

The questions of entrepreneurship and the property incentive was put in the limelight just because of the said problems.

Dilemmas of the property incentive

The property incentive may be considered as interest attached to increasing and maintaining capital (i.e., value and not capacity). This does not simply mean the intelligent use of additional resources, that is, the most effective investment of the profit. It also implies a continuous restructuring of the already working enterprise capital (capital placed with other companies, liquid and semi liquid reserve funds, own resources for the purpose of financing the equipment used in the company) which is the most suitable for preserving and increasing the capital, including the sale of potentially depreciating capital funds as well as assuring the permanent availability of liquid reserves for the purpose of safely avoiding any solvency problems (even if at the cost of reducing "current" profit). The value of capital may change under the influence of two factors, namely, investment made from profit (not necessarily into the expansion of capacity with the company that owns the income) and revaluation of the existing stock of capital. The second factor is no less significant than the first one. On such occasions it may become advisable or even necessary to sell factory units or establishments, or to slacken the expansion of production through self-restriction, in order to maintain solvency when selling opportunities get worse.

The decisive question now is how to make the motivation of the owner of capital palpable in socialist management, and more precisely in the sphere (in the state sector) where property (proprietary decision) and business (managerial decision) have up to now been separated from each other. Concerning the answer to this question there is consensus up to the point that the institutional-organizational conditions must first be provided, by abolishing the direct dependence of enterprises on the control apparatuses. However, opinions deeply differ about the rest.

According to one of the approaches* the separation of proprietary functions from

*In the literature this concept is represented characteristically by Márton *Tardos*, Sándor *Kopátsy* and György *Varga*. [7]

management is associated with modern business and especially in large organizations. Therefore such separate organizations like banks, or half-bank-half-enterprises, must be set up as are basically interested in the realization of capital (interested in property) and are not attached to any given enterprise or line of production. (This is why it was proposed to let this task be discharged by pensions funds (institutions) and on the same grounds it was proposed to set up trustee centres where attachment to production and responsibility for supply simply loose their meaning.) It is important that these be organizations with small staffs, not easy to bureaucratize, and only attached to "abstract" capital. The proposition essentially says that *as long as there is no powerful interest attached to capital flows and to the liquidity of capital it is impossible to cut back the extensive practice of ex post redistribution of income.* Establishing the motivations of interest attached to capital flows is therefore a clue to the further development of economic control system.

The second characteristic standpoint* asks for the spreading of forms close to self-management, setting out from the assumption that thereby the overwhelming majority of the society would be involved in the sphere of those affected by proprietary interest, responsibility and decision (the first initiative would reserve this for an exclusive circle). Therefore, it would be supported by its own and powerful societal guarantees and also a realistic and palpable meaning would be given to the proprietary motivation (management of property assigned to a community). This interest evolves naturally from the present system of the economy (see cooperative experiences where the traditions of a rational management of property are stronger than in the state sector). This does not involve the same risk as the proposition concerning the separate proprietary organization, i.e., that the new, and again simulated, construction will be eventually inserted in the already existing system of motivations—in other words—that it will become a medium-level authority. On the other hand, it is a weakness of this proposition that the attachment of capital to the given organization is extremely strong. The collective interests of the community might equally hinder the placement or the receiving of capital. For example, if outside capital (not credit) were to be raised, a part of the autonomy rights would be renounced. The motivations of the employees of the community, aimed at higher personal income and keeping the members busy, will be by necessity stronger than their interests as "owners of capital". Any change violating such employees' interests, like a more marked transformation of work procedures, reorganization, reduction of losing establishments or workshops must be expected to meet hard resistance. (Of course, it does with any type of enterprise management but in this type even the autonomous interest in proposing any change may be missing.)**

*In the literature this view is represented by Tamás *Bauer*, Attila *Soós* K. and László *Lengyel* [7].

**This is why K. A. Soós was thinking about a solution where self-government rights would be limited in some way or the possibility would be granted to partly disclaim these rights in proportion to the external capital participating in the enterprise.

This dilemma is hard to solve because the counterarguments against both basic concepts are very serious. Economic rationality is not necessarily in line with the quest for social considerations (democratizing the chance of becoming an owner, restriction of income differentiation*) and for guarantees to assure that the changes be irreversible and do not allow the consolidation of the system of hierarchic control.

This is the reason why another idea was developed, trying to resolve the weaknesses of the concept based on collective ownership (interest rather in personal income than in property, interests opposing the flow of capital) by transforming the position of collective owner into personal (usufruct) interest in holding capital.** Accordingly, the way of solution would be as follows: the proprietary motivation of the community would be assured by a sort of a "worker's share", i.e., the enterprise property would be in part government property and in part it would be embodied in securities of those working with the company. This yield of securities, i.e., the "dividends" to be paid out to workers, would fluctuate depending on enterprise profitability and workers would have the right to discount and, of course, to sell their securities (either on grounds of personal financial problems, i.e., employees' motivations, or on grounds of the declining prospects of enterprise profit). This system of incentive based on the division of property and, on that basis, on the division of profit and on the division of the rights to participate in decisions is a suitable basis for constructing actual sharing models and systems of rules of the game, more or less minutely simulating the logic of running a joint stock company–trying to unite the properties of separated proprietary organizations and of models based on the right of collective decision, apparently resolving the conflict between the dual role of workers, i.e., self-management and ownership.

When the part of personal income paid out in the form of securities and dividends is not considerable in the total income of the employees, then the distribution of shares and the income from shares will be probably a "number contest" without a stake. But when a significant part of the incomes–meaning one much higher than the average rate of saving–becomes floating dividend income, then the drastic fluctuations, often incalculable by the community, and even more unrelated to actual work performance, will probably not contribute to the proprietary attitude but on the contrary, its impacts would be unfavourable. The incentive attached to doing the work better or not so well would be marred, for this fluctuation would appear to members of the community like gambling. (Of course in such instances most workers would like to get rid of their securities by withdrawing the credit–offered to the enterprise earlier in the form of keeping the

*Extra incomes earned through the efficient use of capital are, alas, usually called unearned income or not proportionate to work, as against extra incomes originating from monopoly positions and sometimes from state subsidies.

**Kálmán *Szabó* and László *Kotz* drew up a concept which is of similar but not identical content. [5, 6]

securities and by not letting discount them at once—and would this way push the compny in still worse trouble.)

A system built on the interest of the members of the community in being paid dividends necessarily carries all the disadvantages of simulated regulation. Therefore, in the final analysis, I consider this concept a viable form of the intra-enterprise incentive system. If the enterprise council decides to give the workers the alternative of getting less money in cash or securities of higher nominal value, with a variable rate of interest depending on the profit of the enterprise and that can be consequently discounted at corresponding varying values, there is no objection to it. However, I suppose it would be an unnecessary game to prescribe this centrally as a general system, or else it could provoke the due apprehension of the community.

In yet another concept the enterprises are broken down into a set of undertakings (tasks) and the entrepreneurs are self-selected through a bidding system (as against selection based on appointment or on autonomous self-administrative *election)**. I suppose the substance and the realistic core is democratization of the opportunity of entrepreneurship (everybody is potentially an entrepreneur but the entrepreneurial position can be lost any time, not only in the case of failure but also in that of overbidding), while maintaining the *individual* nature of enterprising. Moreover, by generalizing allocation on the basis of a bidding system this concept also formulates the intent to combat bureaucratic decision-making.

In a way also this concept strives at uniting the advantages of the two opposite basic concepts. It wants to make use of the driving power of property and of running individual risk, but without letting the monopolistic and, to others, exclusive quality to assert itself. (Here it is not primarily the holding of capital of one's own but the promised returns that are condition of the ability of enterprising. As the promise is made not by an organization but by a definite person, and failure to fulfil the promise really involves the risk of bankruptcy, there is a much smaller hazard of lightminded promises than in the bureaucratic systems of allocation.) It is in this concept that the statement is formulated the most deliberately that the way towards an accomplished planned economy leads through the separation of the plan from market coordination and through the improvement of the market.

In my opinion this idea, too, could only be applied partially as internal enterprising and even then only through compromises. I suppose that stable hierarchies cannot be eliminated from large organizations in many spheres, not even if some degree of bureaucracy follows from it by necessity. Numerous other evolutionary endeavours aimed at a step-by-step reform of the current practice have been nevertheless formulated, such as to partially transform the present giant organizations into organizations for the

*This alternative has been formulated in the concept of Tibor *Liska*. Attempts at its application, naturally with some compromises, are the experiments with enterprising.

regrouping capital,* the breaking up of some companies into a set of affiliates which could also be considered a sort of an intra-enterprise incentive system like the formation of independent accounting units within a company. Actually there is no obstacle to the implementation of the above, provided that the concerned parties reach consensus within the enterprise or in the new institutions of enterprise management.

To sum up: several rivalling, idealistic or pragmatic ideas have been formulated in discussion recently held in Hungary. Neither one is free from inconsistencies. The danger lies either in the simulated nature of the suggestion, in that such rules of the game are forced as are alien to the nature of the economic participants and are not supported by economic interests, or in that the factors now obstructing the flow of capital or the management of property might not cease to exist in future either.

Practice may well respond to the aforesaid by trying to parallelly test the pragmatic equivalents of the models, but only in part (and not in their own pure logic but adjusted to the system that now exists)

The conditions of the property incentive

The up to now rather only imaginary property incentive assumes that:

1. All the basic proprietary decisions** will be taken by a separate institution (not necessarily an organization: it might be e.g. the enterprise council as well) while the primary interests of the institution or organization that discharges the proprietary function are attached not to the development of some company but to the utilization of capital, and the development opportunities of the given company or profile are subordinated to this endeavour.

2. A well organized capital market with many participants and based on a colourful system of institutions is functioning, and in the ideal case it measures the changes in the value of capital or at least provides terms of reference for its evaluation (such are the workings of the institution of bidding in the leasing system and such may be the function of any negotiable security with an institutionalized market, wherefore its current quotation might differ from the nominal value);

3. Not only the barriers between production lines are discounted but also management on the basis of separated funds is discontinued, moreover, a profound change occurs in the relations between the state authorities of economic control and the enterprises. The rise or reduction, or eventual winding-up, of enterprises ought to become a primarily market category, even if not independent from the state. This would develop a strong interest in maintaining the capital in liquid form, not only for the purpose of

*Such concept was drawn up by György *Matolcsy*. [7]

**The distinction between strategic proprietary decisions from the operation of a given production apparatus (its running) originates from Tamás *Sárközy*. [7]

preventing bankruptcy but also for preserving the ability to change the structure of capital. In addition, effective guarantees would be needed to assure that the essential elements of financial control may not be changed by the economic authorities but within strict bounds and observing statutory provisions. (Or else it will surely remain an interest to quickly spend the enterprise resources and no liquid reserves will be formed to participate in the flow of capital.)

The said general conditions are far from having been provided. Although the resolution adopted by the Central Committee of the Hungarian Socialist Workers' Party in April 1984 on carrying on with the reform process points in this direction and also the changes now introduced (and also several contemplated ones) are in this line, implementation will clearly require a longer historical process.

For that matter, the conditions of the property incentive, if formulated in a definitive and idealized way, do not function anywhere in the world. The (share) capital market does not cover a decisive part of the economy in the capitalist countries either, its proportion is normally not higher than 20 percent of equity capital, and there are advanced industrial countries where its role is downright negligible. However, probably the decisive point is not this but the establishing of the appropriate interest motivations. (For example a small entrepreneur in Hungary knows only too well that the value of his business depends not exclusively and perhaps not primarily on the invested capital but on its turnover, profits and its good reputation and prospects. If he sells it or seeks a partner, he tries to capitalize the said factors and the partners calculate on that basis, namely, the expectable future profit. (In the real estate market, surely the best organized and established capital market in Hungary, beside the consideration of use value there also function mechanisms of capital valuation although most sellers and buyers enter into this market not as entrepreneurs but as consumers, maximizing utility according to the theory of marginal utility.)

Thus, the mechanisms of capital valuation are only partial and do not cover the overwhelming majority of the economy. Motivations of attachment to a given company are very powerful even in market economies (and not only in the traditional sector of small producers) and only a small fraction of capital (money market, market of securities, commodity exchange) responds sensitively to differences in profit. On the other hand, there is remarkable difference as against the conditions now prevailing in Hungary with respect to the interest attached to holding capital in liquid form, the dependence of the volume of investments on profitability, and the versatility and self-movement of the forms of ownership and organization. The property incentive can realistically be considered as a long-range interest in profit, and it functions adequately when the operation of levelling mechanisms and the organization process of capital movements into a market are not strongly hindered by barriers to capital flows and production lines or by obstacles barring or restricting the alternative use of money (financial quotas). Its creation implies the *setting up* of certain institutional and organizational forms as well as the *establishing* of certain norms of conduct and rules of behaviour.

Of course it also has its technical bookkeeping conditions like the drawing up of the balance sheets of property and liquidity and devising methods for accounting the revaluation of capital. However, technical conditions do not present any serious difficulty as they can be solved with a degree of accuracy satisfying the actual practice. In lack of anything better, also the prospects of the next few years (to be estimated with a rather high degree of uncertainty) can help in the valuation of capital.

Efforts have recently been taken for creating part of the conditions of the property incentive on both the organizational and institutional sides as well as for providing the technical conditions. Management of property is probably an already important but still not a primary point of consideration. It would be still a self-delusion to consider the present-day enterprise (management) incentive to be property incentive.

References

1. Gábor, R. I.–Galasi, P.: *A második gazdaság* (The second economy). Közgazdasági és Jogi Könyvkiadó, Budapest 1981.
2. Kornai, J.: *Overcentralization in economic administration.* Oxford University Press, London 1959.
3. Tardos, M.: The role of money: economic relations between the state and the enterprises in Hungary. *Acta Oeconomica,* Vol. 25, Nos 1–2 (1980).
4. Andics, J.–Rozgonyi, T.: *Konfliktus és harmónia* (Conflict and harmony). Közgazdasági és Jogi Kiadó, Budapest 1976.
5. Szabó, K.: A vagyonérdekeltség megteremtésének lehetőségei az állami tulajdon körében (Possibilities for creating property incentive in the scope of state ownership). *Társadalomkutatás,* 1985. 1.
6. Kotz, L.: A társtulajdonos kollektíva (The co-owner collective). *Társadalomkutatás,* 1985. 1.
7. Sárközy, T. et al.: Javaslat a társadalmi tulajdonban álló vagyonkezelő szervezet fejlesztésére (A proposal for the development of an organization for the handling of social property). A volume of studies in manuscript. Budapest 1983.

О ЗАИНТЕРЕСОВАННОСТИ В КАПИТАЛЕ ПРЕДПРИЯТИЯ

Л. АНТАЛ

В настоящее время в Венгрии на первый план выдвигается понятие заинтересованности в фондах (капитале) предприятия. Это свидетельствует о том, что реформа хозяйственного механизма ведет к коренным изменениям мотивов заинтересованности хозяйственных органов. В традиционной плановой экономике предприятие было заинтересовано в оказании влияния на планируемые ему задания, в приспособлении к ним, к требованиям органов управления, в накоплении нераскрытых резервов и увеличении своих размеров. После реформы 1968 г. в Венгрии для функционирования экономики по-прежнему определяющими являются «торги» между органами управления и предприятиями, однако предмет этих «торгов» — уже изменение экономических регуляторов. Такая система обладает гораздо лучшей приспособляемостью, чем

прежняя. Несмотря на это, она не сможет обеспечить экономическую эффективность капиталовложений, свертывание нерентабельных областей и перегруппировку промышленного капитала.

Эти проблемы должна решить заинтересованность в капитале предприятия, в его росте и сохранении. Для того, чтобы заинтересованность в капитале функционировала на деле, необходимо прежде всего создать институционально-организационные условыя, т. е. необходимо ликвидировать непосредственную зависимость предприятия от государственных аппаратов управления. В венгерской литературе был выдвинут целый ряд предложений по решению этого вопроса. После изложения этих предложений автор следующим образом группирует необходимые для существования заинтересованности в капитале условия:

1. Связанные с собственностью решения должны приниматься такой обособленной организацией, интересы которой связаны исключительно с возрастанием стоимости капитала.

2. Функционирует рынок капитала со многими участниками и многообразной институциональной системой, измеряющий изменение стоимости капитала, или по крайней мере, дающий отправные точки для такой оценки.

3. Необходимо снятие ограничений сферы хозяйственной деятельности и ликвидация обособления денежных фондов. Развитие, свертывание или, возможно, банкротство предприятия должны стать прежде всего рыночной категорией, что создаст сильную заинтересованность в хранении капитала в ликвидной форме. Далее, необходимы гарантии того, что государственное управление экономикой могло изменять существенные элементы финансового регулирования лишь в строго ограниченных рамках.

Acta Oeconomica, Vol. 34 (3–4), pp. 287–297 (1985)

THE POSSIBILITY AND CONDITIONS OF ANTI-INFLATIONARY ECONOMIC POLICY IN HUNGARY

I. TARAFÁS

The anti-inflationary policies applied in developed market economies with success in recent years—though involving no small sacrifices—challenge the widely accepted view that the further development of the system of economic control and management in Hungary necessarily entails, or even assumes an acceleration of inflation. The article examines the possibilities in Hungary for an anti-inflationary economic policy. It reaches the conclusion that monetary policy may be suited, in Hungary, too, to serve anti-inflationary objectives, although the relationship between the real and the monetary spheres is quite different in Hungary from that in developed market economies. An anti-inflationary policy does not really contradict the objectives relating to the liberalization of the price system, either. The real problem is that an anti-inflationary policy—although contributing to structural adjustment in the long run—entails a slowdown in the growth rate in the short run. In this context, the further development of the system of economic control and management enters the picture in the sense that it allows to reduce the price of anti-inflationary policy, that is, the temporary slowdown of growth.

The opinion has been gaining ground in Hungary that inflation has objective natural, social and economic roots, thus a reasonable economic policy can only be pursued if the price level is allowed to rise continuously. This idea is probably based partly on the theoretical refutation of the simplification which, actually identifying the theory of value with the theory of prices, concluded from the increase of productivity to the decrease of value, followed by the decrease of prices, moreover, that of the price level. However, in the emergence of the above opinion the practical experience of a couple of decades may have played an even more important role, namely that, if in our economy the fight against inflation comes into the limelight, then it usually quickly leads to the expansion of subsidies and to an extreme differentiation of the economic regulators as well as of their rates. We have particularly remarkable memories of the years following 1973 when in the period of, and against, a worldwide acceleration of inflation and major changes in the structure of world market prices Hungary attempted to protect itself by the expansion and increase of subsidies. However, the spreading of subsidies and the differentiation of financial regulators suppress the pressure and incentive for adjustment and innovation in the economy, economic peformance will deteriorate, which soon make an abrupt increase in prices (or the toleration of price increases) unavoidable, provided that an epidemic shortage and a further deterioration of economic performance is to be avoided.

The concept deducing inflation from relationships inherent in the economy is undoubtedly more appropriate from a theoretical point of view while in practice it provides an opportunity to pursue a much more reasonable economic policy than the idea

Acta Oeconomica 34, 1985
Akadémiai Kiadó, Budapest

which regards the stability, or even the decrease, of the price level as an economic law or a basic requisite of socialism.

Nevertheless, two reasons or considerations seem to urge to go beyond that concept. On the one hand, in a period when the impression is getting stronger that social sensitivity towards inflation is increasing and that just this social reaction may set limits to the possible pace of the further development of the economic control and management system already decided upon, the question must be raised whether the association of inflation with a market-oriented economic management system is justified or not. On the other hand, the substantial change experienced in respect of this matter in the world during recent years deserves attention. While in the fifties, then in the sixties and, above all, in the seventies the practice in market economies seemed to support the view that inflation and, moreover, its acceleration is unavoidable, the experiences of the first half of the eighties seem to justify the view that inflation is unavoidable only as long as society– in the judgement of policy makers and, consequently, also in the judgement of economic policy makers– tolerates inflation relatively well. Accordingly, the annual 15 to 20 percent price increases of the mid- and late-seventies have cooled down to an annual 2 to 5 percent in some years in the majority of the developed market economies, when the policy-makers adopted the approach that social tolerance towards inflation had reached its limits and, for the sake of pushing back inflation, society was already prepared to accept such sacrifices which, at the least, would have led to an early fall of the parties in power in the preceding decades.

Pushing back inflation requires great sacrifices in capitalist countries: mass unemployment, increase in the number of bankruptcies, economic stagnation or recession, etc. Thus, though at a high cost, even a double-digit inflation can almost entirely be eliminated in a relatively short run, say, in a few years. It should be added, however, that this radical curbing of inflation in the developed market economies was taking place in a period when these economies were already beyond the extensive restructuring of relative prices, following the two oil-shocks. Right after the two oil-shocks, when in these countries the major restructurings of relative prices actually took place, this process was accompanied by high rates of inflation there as well. At those times a tough anti-inflationary policy would have obviously been less promising and, in any case, it would have involved sacrifices so great that their acceptance was out of question. Anyway, and this is particularly important for us, the anti-inflationary policy, adopted after all, has not weakened the market elements in the economy but strengthened the pressure and the incentives for adjustment and innovation, and by doing so it has, to all appearances, also improved economic performance.

Of course, the fact that the very successful anti-inflationary policy does not lead, or has not led, to the eclipse of market elements in the developed market economies is not a proof in itself. Yet, at least, it suggests that the fight against inflation does not necessarily result in pushing market elements into the background or in slowing down the development of the economic reform in Hungary either. It may be a proof if we succeed in elaborating an anti-inflationary policy setting out from the actual conditions and facts

of the Hungarian economy which is in line with the further improvement of the economic control and management system, and which does not reduce but does improve the international competitiveness of Hungary's economy.

Anti-inflationary policy in market economies

In the developed market economies, beside fiscal policy, monetary policy is the instrument of macro-level management. As anti-inflationary policies were gaining ground, the role of monetary policy increased and it became virtually the exclusive tool for curbing inflation. The growth of the money supply is determined in a restrictive way, i.e. as if the reduction of the rate of inflation aimed at had already been attained. Since the primary factor in the evolution of money supply is the development of credit extensions and repayments, a restrictive determination of the growth of the growth of the money supply implies, at the same time, a restrictive credit policy. As a result, effective demand is not enough to absorb an unchanged or increasing quantity of goods and services at the usual rate of price increases. The business sector, i.e. the economy, may respond to the decline of effective demand either by reducing production or sales or by maintaining, even increasing, production but raising selling prices less than it used to do before. If the response fully agrees, or agreed, with the latter case, then the anti-inflationary, restrictive monetary policy will, or would, early (i.e. immediately) achieve its objective, the reduction of inflation to the extent aimed at.

In most cases, however, the response is not, or not immediately, favourable. The prevailing rate of increase in the price level, or its acceleration has become, based on the inflationary experiences of many years, one of the determinants of economic behaviour. That is, all economic agents, from enterprises through employees to consumers, count in their economic calculations and subsequent decisions upon the continuation of the usual rate of inflation, or its acceleration. These so-called inflationary expectations do not fade away immediately and merely because the government or any high-level institution of the economic policy publicly promises the curbing of inflation to a certain rate. Ever since inflation exists, such promises have been announced almost every year, without any effect until recent years. The changing of economic calculations and subsequent decisions need more than that: they need the experience that the prices of goods and services to be traded can actually not be raised at the usual rate any more because no buyer can be found at prices increasing by so much. This process of learning and gaining experiences needs time, as suggested by the technical term "elasticity of expectations", a period during which economic behaviour, as if keeping the illusion of inflation alive, is not in line with actual economic and financial conditions. Sellers still calculate with prices increasing at the usual rate and make such decisions which are profitable only if selling prices rise at the usual rate. In the everyday confrontation between the results of these decisions and the actual economic and financial conditions losses, bankruptcies and unemployment will emerge, capacities will become useless and depreciate, production will

stagnate or fall back, and the economy will learn in this disinflationary crisis, by undergoing it, to count upon more moderate price increases when making economic calculations.

Of course, this summary on the mechanism of anti-inflationary monetary policy is very rough and simplified. It does not take into consideration, for example, that the velocity of money may change significantly and in an incalculable way, and that monetary policy may on this account have difficulties in determining effective demand even if it is able to ensure that money supply increase only to the desired extent. In a decentralized ("two-level") banking system ensuring an increase in the money supply to the desired extent ("fine tuning") may also prove to be very difficult sometimes or is only possible through large fluctuations. Yet, though with varying efficiency and far from being a precision instrument, in market economies monetary policy has proved to be an adequate instrument for pushing back inflation. The economy usually adjusts itself to the money supply determined in a restrictive way first through real magnitudes, i.e. production and employment, then gradually through nominal magnitudes, i.e. prices. We can say, figuratively, that the famous Fisher formula (or rather identity) describing the monetary equilibrium of the economy, according to which money supply multiplied by the velocity of money equals the quantity of goods (and services) multiplied by the price-level, i.e. MV=PT, is to be read in market economies from the left to the right, that is, MV is not only equal to PT but determines the latter as well.

Anti-inflationary policy in Hungary

The problem of monetary policy

In Hungary's economic control and management system at present and so far, the Fisher formula is, however, to be read from the right to the left. In other words, the money supply and the velocity of money do not determine the price-level (and its development) but, on the contrary—and somewhat exaggerating—it is the price-level (accompanied, of course, by changes in volume) which determines the money supply and the velocity of money.

In Hungary the basic relationships of economic policy are determined first in real terms. The starting-point is the capacity of the economy in terms of real output: under Hungary's conditions, i.e., in a small and open economy, it is expedient to interpret this so that the export capability (taking into consideration a reasonable foreign trade balance or balance-of-payments target) determines the expected growth of the national income (or GDP) through the import-intensity. Then, on the basis of living standard policy requirements and other considerations, national income for domestic use is divided into consumption and investment. Of course, this sequence of determination of national income production and distribution only holds in terms of logics. In the real process, in the course of which economic policy is elaborated, the "claims" addressed to the

distribution policy and, on the other hand, the more or less boldly interpreted "real possibilities" are, namely, formulated virtually independently of each other and also confront and influence each other; they are re-interpreted several times till, at least formally, a real, acceptable and consistent compromise is achieved.

After the main elements of economic policy have ultimately been determined in real terms in the course of this process, in the second stage, figuratively speaking, the "multiplication" of the real magnitudes by the price-level, i.e., the determination of their nominal values, follows. The starting-point is that the rate, below which it is not expedient, or not possible, to limit the nominal income growth of the population by any means, is more or less given. From this figure (subtracting the expected savings) and from the target of real personal consumption determined above, the necessary increase in the consumer price level can be derived. On the other hand, efforts aimed at keeping inflation low or pushing it back are formulated, and the rate of increase in the consumer price level, to be translated into an economic policy target, is formulated as a result of compromise. This target relating to the consumer price level means an upper limit to the acceptable increase in the producer price level, since economic policy strives–and as from 1980, with success–for widening the band of net turnover (sales) taxes between the producer and consumer price levels (i.e., consumer turnover taxes minus consumer price subsidies), or, at least, for avoiding its reduction. Then, in awareness of the breakdown of the producer price level by branches, the price level of investments can be estimated which, taking into consideration the volume of investment determined before, leads to the nominal value of investment.

From the targets for production and domestic demand at current prices, formulated as described above, the relationships on the monetary side of the economy are to be derived. However, the derivation does not apply a monetary approach: it does not set out from the consideration that: (a) if production, i.e., the turnover of goods and services, is in line with the plan at current prices, then the realization of the transactions will need that much money, and (b) if production and incomes are in line with the plan, then the formation of savings will need that much money. No: from the economic plan (in real terms) which has been drawn up at current prices, the Bank deduces not the demand for money of the economy but the financial requirements of the plan. Financing is realized through credit, credits become deposits in turn, and this is the way how the Fisher formula, i.e., the equality of the money supply to the development of volumes and the price level aimed at, is realized. Of course, this summary is not free from roughness and simplification either, particularly because (a) the velocity of money may deviate from that projected (aimed at), consequently, the determination of money supply based on the financing requirements of the plan may result in higher or lower effective demand than has been aimed at, and (b) the control of credit granting in a way that the desired increase of money supply be achieved is not always devoid of difficulties even in a centralized ("one-level") banking system.

Thus, monetary policy is not a precision instrument in Hungary either, but, its impact on the price level is *ab ovo* moderated by the prevailing system of national

economic control and regulation. What is characteristic of these, is that they separate, if not isolate, from each other the different spheres of the economy regarding the activity of money. Consequently, the money supply of the economy can only exert influence in a very limited circle and to a very limited extent on both the aggregate demand and on that in different markets. In the individual markets the size of demand is rather determined by other factors of fiscal character: in the market of consumer goods by the regulation of earnings while in that of investment goods by the regulation of development (interestedness) funds. But even if the money supply of the economy happened to be excessive and overflowed these fiscal-like dams to turn into demand, the excess demand prevailing in the individual market segments or even in the economy as a whole can be translated into increases in price level only in narrow fields of the economy, since administrative rules prevent most of the prices from continuously reflecting the demand and supply conditions. As a result, the logic of the system inevitably drives the money supply, possibly exceeding the demand for money of the economy, i.e., possible excess demand, in the direction of the trade balance, specifically, towards increasing imports and decreasing exports. As a matter of fact, in this system, kept together by these fiscal rules, there also were leaks in the past and there are even much more now. Incomes deriving from the sale of agricultural products or from small-scale and private ventures are not squeezed into the fiscal rings of the regulation of earnings, of development funds and of working capital financing, and price policy can actually exert, with the exception of state procurement, only a very indirect influence on their market prices.

However, the fact that the logic of economic policy has an opposite direction compared to that in market economies constitutes no obstacle at all to an anti-inflationary role of monetary policy. If economic policy aims at the moderation of increases in both the consumer and the producer price levels then, in consistency with this objective, the creation of purchasing power should be fixed in a lower or more slowly increasing amount. This is achieved, as a matter of fact, automatically since, after "multiplication" by the more moderately increasing price level aimed at, both the output and each element of the domestic demand have lower nominal values, the financing of which needs less credit and, consequently, money creation in a lower amount.

The problem of the price system

Most of the doubts, concerning the real effect of an anti-inflationary, restrictive monetary policy, arise from the consideration that market competition in Hungary is far from being as fierce as in the market economies. Producers, who are in a strong seller's position owing to the character of their markets or products, can raise their prices without the risk of any decline in demand which, considering that effective domestic demand (purchasing power) is determined in a restrictive (anti-inflationary) way, leads to a lack of demand at other producers with the possible aftermaths of insolvency, a decline of production, etc. While this worry may be justified, there is no cause for its exaggeration

since in those fields where market competition is weak, price regulation and price control, with the present annual 4 to 6 percent increase in the producer price level, have so far prevented enterprises–as far as possible–from taking too much advantage of the prevailing market situation. At the worst it is to be feared that if the annual 4 to 6 percent increase in the producer price level fell back, say, to an annual 1 to 2 percent, then enterprises in the respective market position would outwit price control authorities more frequently and with higher amounts, partly because of the above mentioned time-lag in inflationary expectations, partly because of the slower increase in producer prices which puts the less efficient enterprises in a tight situation even if we leave expectations out of consideration. This argument, however, implies the assumption that enterprises dispose of such possibilities to outwit price regulations and price control which they do not make use of today, but they certainly would if economic policy strove for a slower increase in price level. This may be true, but only because those enterprises which have such unutilized possibilities are not really profit-oriented or "profit-maximizing" (among several other reasons, for example, because they fear their realized profits or interestedness funds would be later confiscated). Removal of the obstacles to the profit motivation, (e.g., elimination of *ex post* confiscations of interestedness funds) urges enterprises to mobilize every possibility to outwit the price authorities independently of the rate of inflation.

Another argument of a similar nature says that the slower the increase in producer prices we strive for, the slower and in the more limited circle we are able to remove the administrative constraints on price formation (and, in this sense, the anti-inflationary efforts make a further development of the economic control and management system more difficult). The idea behind this argument is, however, not quite clear. Whenever and wherever the removal of administrative constraints on price formation leads to price increases just because there is shortage, i.e., excess demand in the given, otherwise competitive, market, then and there price increases are once-for-all since they bring about equilibrium. If this is characteristic only of narrow fields of the economy, then it is negligible from the aspect of the general price level. However, if this is (were) characteristic in such a broad circle that is significant also from the aspect of the general price-level, then this is (would be) a problem of purchasing power control, which can be corrected by monetary restriction, as outlined in the previous section.

However, the problem in Hungary in most cases presumably is that the removal of the administrative constraints on price formation involves the risk of price increases because the market concerned is not (yet) a competitive market. But in such a market there is no cause for liberalizing price formation, and the "application" of a higher rate of inflation does not help either, since after any price increase, with any price level and with any equilibrium between demand and supply the same market situation (i.e., the non-competitive market) and the same further possibility and motive for increasing prices remain. In principle, there is, of course, a limit to subsequent price increases in a non-competitive market as well, since perfect monopoly and perfectly non-substitutable products do not exist, while production has fixed costs. In most cases, however, this limit

is so high up that if prices can rise freely up to that point, the result may be a very bad misallocation of resources. It thus seems that the liberalization of the price system depends not on the rate of inflation but on the creation of market competition, and we cannot see, how a higher inflation can promote the creation of market competition, unless there is an overall excess demand which, however, is a problem of controlling purchasing power (demand management).

Those mentioned so far, do not provide any strong counter-argument to the idea that economic policy should strive for much slower increase in producer prices in the future than what it has been up to now, say, 1 to 2 percent compared to 4 to 6 percent. The real problems of such an anti-inflationary policy lie somewhere else.

The problem of growth

At any given moment—in any short run—the maximum rate of economic growth demands that the available human and capital resources be employed in the prevailing activities, furthermore, in the prevailing organizations. This is so because any change in the exploitation (utilization) of resources, i.e., any restructuring, takes time. During this time a part of the resources does no longer produce in the former activity (or organization) but it does not yet produce in the new one either. Structural changes differing in the degree of radicalism withdraw resources from production for different periods of time: for a short period if only the organizational framework of the activity changes, and for a longer period if the activity itself changes as well. As soon as the period concerned has passed, each type of the structural change differing in the degree of radicalism no longer reduces but—provided that the orientation given by prices as well as the conditions of interestedness are appropriate—increases the rate of economic growth. Accordingly, at the beginning of a major restructuring of resources, with unchanged external and other conditions, first a slowdown of growth, later an acceleration of growth may be expected. This relationship holds conversely as well: if in any short run the maximum rate of growth is to be achieved, then the possibility of structural change is only minimum, since in the short run the maximum rate of growth can only be achieved if resources are withdrawn from production for the shortest possible period and to the least possible extent. However, adding up the short runs, i.e., in the long run, it is just the aspirations to this maximum growth rate which result in minimum development.

Since the aspirations to a maximum growth rate require the continuous exploitation of all resources in the prevailing activities and organizations, they necessitate at the same time that adequate financial conditions be ensured for each activity, including those with the lowest efficiency. In such a case it is necessary to find a solution for covering the high costs of low efficiency, and this solution can only be of two types: either (1) extensive subsidies are provided for enterprises and activities with low efficiency, including the differentiation of regulators, exemptions from the general regulations; or (2) it is made possible to acknowledge in prices any level of costs which,

owing to the high level of costs of the inefficient enterprises and activities, results in a high price level. This entails that the greater part of profits of the efficient enterprises has to be taxed away by means of a high profit tax, *ex post* confiscations of the development funds in some years or by any other tax linked to efficiency. As a matter of fact, a price level, at which adequate financial conditions are ensured even for enterprises and activities with the lowest efficiency, actually makes it inevitable that the efficient enterprises be heavily taxed.

If one is for a high price level, one is, in fact, for a rising price level as well, and this is too high by definition, if it can cover the costs even of the very inefficient enterprises and activities. If costs are increasing, the one time high price level would without further increase–*ceteris paribus*–become low today. Actually, the case that costs are not increasing is practically out of question. First, the slowness of structural adjustment–to which the efforts to achieve a rapid growth in the short run also contribute–leads to a permanent deterioration in the terms of trade thus stepping up the overall level of costs in the economy. Second, wages are rising not only in those fields where efficiency improves; moreover, their rate of increase is not consistent with that of the improvement in efficiency, since if even inefficient activities (or enterprises) are indispensable, then the necessary supply of labour has to be ensured there as well and this needs, in turn, wages similar to other sectors of the economy, too. Third, even if the terms of trade and wages are unchanged, any change in relative prices steps up costs somewhere in the economy where, if not convered by subsidies, prices go up as well, which results in further cost increases somewhere else. The list is not yet complete: mines are getting deeper and deeper, the air is getting more and more polluted, etc. The push on prices coming from various cost increases is moderated on the other hand by the general improvement in efficiency, and to this extent–which must not be neglected–the general improvement of efficiency is related to the problem of inflation. It is obvious, however, that if every enterprise (or activity) is to be maintained with a view to short-term growth purposes, then this reduces the effectiveness of pressure for the general improvement of efficiency to a great extent, since it extinguishes the motive for struggle to survive, in the organizations. At the same time it is also obvious that under the circumstances of the present changes in the world economy not even a significant improvement in general efficiency, i.e., which takes place within the prevailing organizations and activities, can be enough for a country to maintain its position in the world economy, as the substance of these changes is just an extensive and vigorous change in structures.

Thus, the price of efforts to achieve an as rapid as possible growth in the short run is inflation already within a short time, while in the longer run a slower structural adjustment and a slower improvement of efficiency are entailed. The counterpart of this price is that it becomes possible to maintain or slightly increase in this way domestic demand (even) in the short run, which can be viewed as a considerable benefit in a period when, after several years of involuntary restriction, it is necessary to meet certain demands deemed urgent. Furthermore, under the circumstances of an acute liquidity crisis (which Hungary experienced in 1982) the continuous exploitation of resources in

the prevailing organizations and activities is inevitable because of the immediate pressure for increasing exports and substituting for imports.

In a small and open economy like Hungary it is clear that, after all, any activity may be considered as an export activity or an import-substituting one. This is why inefficient production may appear necessary for balance-of-payments reasons at any time, even if the liquidity crisis is obviously over, since its elimination and the subsequent reallocation of resources to efficient sectors would result in a temporary decline in exports or in temporary difficulties (shortage) in the domestic supply, to be covered through imports. The feeling arises as if economic policy were at the mercy of particular economic and other interests attached to the maintenance of inefficient activities for balance-of-payments reasons, that is, virtually fatefully. A considerable part of enterprises declare that the maintenance or increase of their exports needs subsidies at the prevailing exchange rates, while others do not see any possibility to meet even domestic demand without subsidies or price increases. In some cases this is actually true since, as pointed out earlier, the continuous increase of costs is practically inevitable, and this would very soon push the least efficient enterprises and activities already on the brink of bankruptcy, across the "red line". In order to avoid the spreading and swelling of subsidies, which is important in exports if for no other reason, then because of international commitments, it is necessary to devalue (or, provided that prices in foreign currencies are rapidly increasing, not to revalue) the currency. For a while, this will provide adequate financial conditions for inefficient exports again as well as make the increase of domestic prices legitimate. As a consequence, on the surface it appears as if *balance-of-payments* reasons necessitated the maintenance of inefficient activities (whether for export or domestic purposes), which, however, cannot be financed by subsidies, owing to the further development of the control and *management system. It is thus necessary to devalue* the currency which, in turn, leads to *inflation.* In reality, as this paper has tried to point out, the chain of interrelations or, rather, the forced path is quite different: demands for the *immediate increase* of various elements of domestic demand require an as rapid as possible *growth* in the short run which implies the continuous maintenance of inefficient activities and, therefore, favours *particular interests* attached to them (and virtually raising these interests to the status of "nationwide interest"). This can be financed, however, only by *inflation,* and because of inflation *it is necessary to devalue* the currency from time to time.

What makes this path difficult to abandon is that nobody would whole-heartedly suggest, and even less accept, a further significant cutback of domestic demand, and particularly of real wages, merely for the possibility of reducing inflation by a few percentage points, even if such an economic policy promised more rapid growth in the long run. However, one thing is obvious: if it is possible to expect with certainty that relative prices provide the right signals for the economy, if interestedness (incentive) conditions are appropriate and if the institutions and mechanisms for the reallocation of resources (i.e., for the mobilization of labour and capital) among organizations and activities are efficient, then an economic policy which strives for pushing back inflation as

much as possible even in the short run, and for establishing a steady growth in the longer run, requires a *relatively* small sacrifice in terms of short-term growth (and of domestic demand). Therefore, it is also obvious that the further development of the economic control and management system, as it focuses precisely on the creation and improvement of the above listed conditions, it the *only possibility* for curbing inflation because it is the only instrument able to reduce the price of the anti-inflationary policy, i.e., the short-term decline of the growth rate, to an acceptable level.

However, such an economic policy environment, in which, perhaps owing to too ambitious growth targets after the liquidity crisis had been overcome, the maintenance of each organization and activity appears to be necessary virtually independently of its efficiency, would make the further improvement of the management system extremely difficult and slow as well. If, namely, the survival of each organization and activity is practically guaranteed in advance, then the economy can only be managed mainly by individual and administrative instruments. Moreover, there is hardly any way to carry out a structural change as resources get actually frozen in the prevailing organizations and activities. As a matter of fact, the further development of the economic control and management system raises dilemmas very similar to those of an anti-inflationary economic policy.

ВОЗМОЖНОСТИ И УСЛОВИЯ АНТИИНФЛЯЦИОННОЙ ЭКОНОМИЧЕСКОЙ ПОЛИТИКИ

И. ТАРАФАШ

Успешно применяемая в странах с развитой рыночной экономикой — хотя и требующая немалых жертв — антиинфляционняя политика ставит под сомнение широко распространенный взгляд, будто дальнейшее развитие системы управления экономикой и усиление рыночных элементов в Венгрии необходимо ведет за собой или предполагает усиление инфляции. В статье анализируются возможности проведения в Венгрии антиинфляционной политики. Дается вывод, что и в Венгрии можно использовать денежно-кредитную политику в антиинфляционных целях, хотя отношение между реальной и денежной сферой в венгерской системе экономического управления совсем иное, чем в странах с развитой рыночной экономикой. Антиинфляционная политика не противоречит также и цели либерализации системы цен. Подлинная проблема возникает в связи с тем, что антиинфляционная политика — хотя в перспективе и способствует структурному приспособлению — в течение краткого периода времени сопровождается замедлением темпов роста. Дальнейшее развитие системы управления экономикой в этой связи обеспечивает возможность снизить цену антиинфляционной политики — временное замедление роста.

Acta Oeconomica, Vol. 34 (3–4), pp. 299–315 (1985)

HUNGARIAN AGRICULTURE: EXPORT SURPLUS OR SUPERFLUOUS GROWTH?
(Contribution to the development strategy of Hungarian agriculture)

K. LÁNYI

In her previous article [1], the author discussed those institutional and mechanism-factors which caused that the Hungarian agriculture, in the 15 years of its highest upswing, specialized in a few mass products, and how this specialization trend determined the selection of foreign markets. In the present article the authoress examines the origin, cause, and purpose of increasing exports, and whether it is possible to change the product and the geographic pattern of exports if the volume of output is continuously growing practically in every farm. She argues with those who, on the basis of some assumed volume of exports, product pattern, distribution among foreign markets and price conditions of foreign markets, forecast increasing incomes from exports with an improving profitability.

A few words about international experiences

Experiences show that in the phase of agricultural development in which the spreading of industrial methods is characteristic, the share of agricultural products in the total exports of a given country is continuously decreasing, while its import intensity is growing: the surplus of agricultural foreign trade disappears. In such a case, the imports that supply agricultural production may and usually are judged in the same way as those of any other sector.* Meanwhile, it is, of course, not excluded that certain farms can export certain products very profitably. Countries enjoying particularly favourable conditions, even small ones, may permanently have some surplus for exports of foodstuffs and there are a few examples showing that the share of food-products in the total exports of such countries is relatively high. The particularly favourable conditions lie, as a rule, not in the natural conditions of basic agricultural production, but in the country's inherited advanced stage of development, its processing industry, its ports, and experience in trade.

No country with an advanced agriculture is known, where the economic role assigned to agriculture is to earn the imports for other sectors, while this role is frequent or even inevitable in the industrialization period of countries below a medium level of development. There are numerous examples to demonstrate that in such cases forced exports are concomitant with troubles in the domestic supply and they often cause a setback in the development of agriculture. However, no country can be found with an

*This explication is found in an unpublished manuscript of the late László *Komló*.

up-to-date an smoothly functioning industry, trade, transport and communications and, at the same time, with a backward agriculture and a poor village population.

Still speaking in general terms, there used to be two alternatives facing the industrial countries: the reduction of their agriculture, or protectionism. Since the 1950s–1960s only the industrialization and protectionist development of agriculture have been their rule. This may be traced back not merely to political causes. A domestic (or foreign) agriculture on the way to industrialization or already industrialized offers a better market to the industry producing agricultural inputs than a less developed agriculture, and it can far more easily and quickly adjust to the demands of the industry, of trade, and of the consumers of advanced countries. Therefore, the subsidized development of agriculture is economically rational, without agriculture–as a sector–having to justify it by any particular export achievements. Experience shows, however, that an advanced domestic agricultural background is advantageous for the export-oriented development of the related sectors.

Much can be read and heard today about the adverse effects of protectionism, particularly about the fact that if productivity and yields have started growing in a country under the impact of subsidies and market protection, the volume of production will hardly stop at the level of self-sufficiency, but will go beyond, implying that such excess quantities are produced which cannot be disposed of in any other way than by low-price sales, destruction of products, or subsidized exports.

Lately, it has been the Finnish agriculture–with the highest production costs in Europe–that has transgressed the threshold of self-sufficiency. [2] To curb overproduction seems to be, for example in the EEC countries, a task just as hard as to reduce costs, since the two phenomena are interactive: agriculture was industrialized with costs increasing faster than output and then, producers could keep a hold on costs and thereby earn more income only so that, at the same time, they increased productivity as well as yields. This spiral may have a natural end, yet in the most advanced EEC countries, after the second sudden rise in oil prices, money for subsidizing and the producers' income diminished practically at the same time. The EEC tries to find a parallel solution to the problems of overproduction and rising costs by the reduction of production, by granting special subsidies to the poorest producers, and by various development projects. The starting-points are that domestic demand is hardly growing because of the slow growth of population, foreign solvent demand is uncertain and the developing countries must increasingly be helped in organizing their own production instead of food aids.

A review of Hungarian agricultural development in the last twenty years

Hungary also went the way of industrialization and forced food exports, with the usual accompanying phenomena: a faltering domestic supply, and a setback of agricultural development. This stage ended by about 1965. On the one side, the export

capacities of agriculture were shrinking, the potentialities of forced exports became exhausted.* On the other hand, Hungary, too, took the road towards developing agriculture through subsidies, and was successful at that.

The subsidized development of Hungarian agriculture is analogous to that of the West European countries in at least two respects: it brought about an income parity between agricultural and industrial workers and stopped the fast ageing of the former; industrial production methods have resulted in large and relatively safe yields, while costs have been growing faster than production.

This increased production resulted in surpluses in the late 1970s and early 1980s, at places and times unforeseen. This is sometimes considered as a natural concomitant of subsidized development or of agricultural production, against which central market intervention has to act. It has lately occurred, however, that non-rational subsidies have been blamed for it. [4] In recent years, it has become quite a commonplace in Hungary that two-thirds or even more of the future increment of agricultural production can only be sold on foreign markets. Is there such a spontaneous surplus, or one caused by protectionism? Obviously, there is, or there may also be this kind of surplus. If it is true that subsidies are granted in a manner that each agricultural farm is forced to continuously increase its gross income—in global terms, as well as per worker—, production is bound to grow, even though, parallel to it, the net income of both the large farms and of small producers may be decreasing.** In this, yet another analogy could be discovered between the pitfalls of the Hungarian and the West European agricultural development.

It has to be noted, however, that the Hungarian 3rd Five-Year-Plan covering the years 1965–1970—already or still—envisaged an increase of agricultural exports, with a view to improving the balance of payments, in convertible currencies. The long-range plan conception effective in Hungary from 1970 already reckons with self-sufficiency in all the agrarian products that can be successfully grown in the country, and with increasing exports of all that can be grown, processed, and sold. This conception was revised in 1978 from the aspect of switching over to the "new growth path" which, in the opinion of many, has already taken place in the sense that agricultural production has been growing faster than industry since 1978. [6]

What could justify the fast development lasting through twenty years, which became possible by making the accumulation and income proportions, earlier so ungenerous for agricultural farms and their workers, shift to their benefit?

In the beginning, i.e. in the late 1960s and early 1970s, the main argument was supply to the population, which certainly means self-sufficiency in a socialist country, as well as in the majority of the European countries.

*See the author's article [3].

**The real value of the net income of farms has in fact been decreasing in Hungary since the late 1970s. See Ferenc *Vági* [5]. In the same work, a convincing proof is given of the interaction between the subsidizing system and forced growth.

In the mid-1970s growth, as well as enterprise concentration, organization and specialization trends, the selection of technologies and the method of central control found one of their main justifications in the long-term food programme of the CMEA, since the Hungarian food economy* undertook the coordinator's role in it. It was at that time, too, that the suggestion was made that Hungary might contribute more, also by its deliveries, to solving the food supply problems of the region, even though this task was not contained in the programme. Namely, the mass products of Hungarian agriculture were squeezed out of the Common Market in 1975, while they could be sold at relatively favourable terms in the socialist countries.

In any case, the long-term development conception of the food economy was revised in 1978 and, for the first time, the objective of efficiency and competitiveness was set before the sector. [7] A possible contradiction between an unbroken and dynamic development—much emphasized at the time—and an efficient, competitive production and sales did not arise.

A little later—though only for a short time—a forecast was, namely, spread in Hungary about a sudden rise in food prices similarly to the one in oil prices**, which made efficiency problems seem to be less important, and it became a fashion to consider foodstuffs, especially cereals and meat, as strategic items which could relieve producers and traders of the burden of competitiveness.*** However, more was involved: namely, that if the two assumptions had proved right, Hungarian agriculture could have paid the

*The term includes agriculture plus the food-processing industry. – Ed. note.

**In the first half of the 1970s many expected excess demand for and an extremely fast rise in prices on the world market of foodstuffs. This expectation was based on the poor agricultural achievement of the developing countries and on a continuous rise in the prices of fuels and fertilizers used in agriculture. What actually happened, however, was that the food production of the developing countries outside Africa was growing faster than before, and the rising prices of agricultural inputs did not raise the costs for peasants in the developing countries, but for producers in the advanced industrial countries. In 1979 the developing countries had again a poor harvest. This fact, as well as the second sudden rise in oil prices made the speculations of a few daily and weekly journals about a food price explosion thrive once more, but only for a short time. Meanwhile, food prices on the world market had been growing at an almost identical rate with the prices of manufactured goods up to 1980, and have been falling since 1980. No serious forecast talked about any worldwide food shortage and price explosion and we do not know of any development strategies founded on such forecasts. For the story, see [8], for the forecasts, see [9], and for the price developments see the January issues of the Monthly Bulletin of Statistics of the UNO.

***"Food is a strategic article"—this slogan came into fashion in 1980 at the time of the, otherwise ineffective, American grain embargo but it is still mentioned occasionally. In fact, the production of excess quantities of food is not monopolized in the sense as it is in the case of certain raw materials. The largest importers can successfully protect themselves against their economy being upset or their war potential weakened by a few countries' or groups of countries' refusal to export. It is true, on the other hand, that the countries having increased their food imports at the highest rate in the last twenty years—the Soviet Union and the Middle-East oil producers—have a strong influence on the exporting countries' domestic market, so they can—and do—attach a political importance to their orders.

country's high raw materials bill or most of it, by merely continuing its growth tendencies of the time, that is, by specializing in cereals and meat.

The time of paying the bills has come, anyway: the food economy is in Hungary the only big group of sectors with a firm dollar surplus, and its growth can only be limited by a decrease in the surplus it can produce, but even that not necessarily, since its importance may or will be growing also in the exports accounted in roubles.

The listing of the tasks undertaken was not an end in itself: we wished to demonstrate that the financial and other resources and the measures needed for the development of agriculture and for its fast growth had always to be justified in Hungary by some special achievement that could be made acceptable as a national economic objective. All those resources and measures seemed not to be available merely for having a modern agriculture and its favourable effects radiating to the entire economy. Why not?

Protection of agriculture, and exports

Agricultural production is distributed among a large number of farms; producers cannot react on interventions but with a delay. The representation and protection of interest of producers and of agricultural production are possible to organize differently, and through different channels than those of the industrial enterprises and industrial workers. This protection of interests was voiced and granted its own scope of movement in Hungary only from the mid-1960s, manifest mostly in a bargaining about the systems of subsidies and taxation, and/or about the distribution of the subsidies acquired. Meanwhile, there has almost never been an open debate about the development strategy of agriculture, and what there has been has almost never exposed the essential differences in views between "agrarians" and "anti-agrarians".

In the following we shall attempt to put down, in the simplest possible form, the system of views of the two sides.

The arguments of the first group are concerned with the protection of interests of agricultural production as such, and of those of the peasants:

– on account of its geographical situation, climate, arable land area, the values embodied in traditions and skill, agriculture has been and will always be one of the most important sectors in Hungary;

– arable land is a natural resource, practically inexhaustible, and increasing in value in the course of time, which can only be utilized through cultivation;

– the productive, communal and infrastructural investments needed for the employment of the population are smaller in villages than in the industrial centres, and smaller in agriculture than in most industrial and servicing sectors;

– in the present situation of Hungary, but even in a longer perspective, it is inconceivable that the greater part of the population's demand for food could be satisfied from imports;

– in an open economy, there must be at least one large sector with an export surplus.

According to the above-said, each bit of cultivable land must be protected and should be utilized, even to the limits of the ecological potential, the modernization of the food economy has to be carried on, and the peasants' disposition towards production has to be encouraged.

According to the other group, the lessening role of agriculture, the migration of the village population, and urbanization are inevitable historical processes. The slowing down of these processes is irrational both from economic and social points of view, siphoning off resources from the progressive sectors, which would bring more returns there. Their main arguments are the following:

– the growth of agricultural production depends on subsidy and protectionism;

– because of this protectionism, the industry, building industry, and services are suffering from labour shortage;

– a part of the peasantry earn intolerably high incomes;

– the modernization of production is often an end in itself; cheap money allotted to agriculture does not stimulate the choice of economical technologies; growing productivity and yields cannot counterbalance the growth of unit costs;

– the results of the efficiency computations of agricultural production and exports are unacceptable because of the distortions of the price system and the lack of capital costs; according to recent computations, the cumulated Western import content of the food economy's production reaches that of the largest industrial exporters, while the costs of earning a dollar through exports are among the worst;

– agricultural exports could be maintained and even increased, and the population adequately supplied at lower costs than today, by limiting or more strictly controlling investments.

In the debate about the place, role, and development strategy of agriculture no political and social arguments were brought up. Therefore, those committed to the development and modernization of agriculture and to the welfare of agricultural workers tried to justify protection by economic arguments. They directed their arguments towards some of the burning questions of the whole economy, in the solution of which agriculture could play the main role. Of these problems, that of exports, especially of Western exports has always been a crucial one and later only the exports saleable for hard-currency. To argue for exports could also be convincing because, as a rule, both sides reckon with the given or even a rising level of agricultural exports. No such view has ever been formed as would suggest a smaller than the given volume of production and, at the same time, of exports, through faster technological development, while maintaining the parity of incomes.

Successes of the food economy and the reason for doubts

The share of agriculture and food processing in the gnp fell from 32 to about 25 percent from 1965 to these days, and in the national income from 32 to about 20 percent in Hungary, while the ratio of agricultural employment to the total only amounts to about 16 percent today. (It is to be noted that the number of those actually working in agriculture is much larger than that, and, according to the opinion of many, the national income produced in agriculture is also larger than computed.) During the entire period, the share of the food economy in the total exports of the country has been fluctuating between 22–24 percent; its share in the exports settled in convertible currencies has been much greater and still is 30–31 percent.

Hungary is the only one of the CMEA member countries in which that amount of grain and meat is being produced, relative to the number of population, which is usually only set as a long-term objective in dim outlines for the whole region, and in which these products need not be exported at the expense of domestic supply.

Ever since 1965, the first year in which the central plan was not broken down to establishments, the growth rate of agricultural production in the strict sense of the word has always surpassed the planned one and has generally been higher than in the small European countries with more advanced agricultures than Hungary. After 1968, the year when the new economic mechanism was introduced and even more after 1970, when trade in farm products was allowed among agricultural farms, a spectacular development took place in production methods and technologies, realized in large yields with cereals and maize, relatively independent of the weather.

Back in the mid-1960s only about 22 percent of the agricultural output was exported, processed or unprocessed. Today, this rate reaches approximately 30 percent. Meanwhile, the food economy has been considered throughout a sector in which the volume of production and, along with it, that of exports must incessantly be growing.

In the last few years, this opinion has lost much of its convincing power. The reasons are obvious: the import demand of agricultural production, and particularly its demand for Western imports is increasing at a high rate; agriculture, as well as the food processing industry are increasingly becoming capital-intensive sectors; it is increasingly difficult to replace capital equipment used up in agriculture; yields are growing at a slower rate than costs; the series of export profitability computations made in recent years show steadily rising costs of earning a rouble or a dollar through exports of food-products; an increasing part of the exported agricultural and food products–including exports for dollars–go to the CMEA countries. Thus the dollar (convertible currency) trade balance of the food economy shows a surplus, but the surplus of the Western balance is melting away (including the cumulated import inputs of Western origin, but excluding the value of non-competitive food imports).

A few problems of orientation towards socialist markets

Since 1973 the Soviet Union and a few other socialist countries have been considered as the greatest and most secure markets for Hungarian food exports, and any forecast or plan that envisages today a growth of food exports wishes to rely on the socialist markets to that or to an even greater extent. A greater part of food exports, at present about 60 percent, is made up of grain and meat. According to long-range forecasts this will be growing at the highest rate and may reach 80 percent. Thus Hungary has already stepped on a road of specialization, and not in a general sense within the framework of the international division of labour, but under the specific conditions offered by the CMEA region.

It is really a commonplace, yet one must make the statement: each one of the socialist countries is striving after self-sufficiency in all the basic foodstuffs and, perhaps with the only exception of the GDR, domestic production seems to all of them cheaper than imports, whether paid for in roubles or dollars. Thus, food imports seem to be a sacrifice for socialist countries, and whether it is worth making depends on the harvest results of a given year, and on the supply situation or on the intention to improve the latter.

It is further to be noted that Hungary, on account of its geographical situation, lies far from the zones of the Soviet Union in which it would be especially important to improve supply, and that perishable foodstuffs can only be supplied by Hungary within rather narrow limits determined by transport, storage, and receiving capacities, while with other food-products the period of storing seems to be too short to allow a growth of exports.

Also, we must be aware that what Hungary could give its socialist partners, first of all the Soviet Union, is still not so much, nor so valuable even in the most daring of plans that they would be willing and could supply, in exchange, the Hungarian agriculture with all the machines, chemicals and transportation facilities needed to multiply exports. By paying for some of the Hungarian exports in dollars or in oil, they provide cover, in principle, for imports only available from the Western countries.*

In the CMEA the contractual price index of raw materials and primary energy was lagging behind the world market price index in the 1970s to a smaller extent than that of food-products, while the price indices of engineering products were largely following the fluctuations in world market prices. By and large, the situation is the same if we examine exports going to the socialist countires accounted in dollars.

If it is not prices that can show whether it is necessary or worth increasing exports, other considerations will, of course, be emphasized: the hierarchy of "hardness", relative

*According to the 1982 data of the Statistical Yearbook of the Central Statistical Office food exports to the CMEA countries amounted to Ft 49.7 thousand million, of which Ft 21,8 thousand million went to the rouble area; Ft 29.5 thousand million went to the developing and the advanced capitalist countries in 1982—the year of the highest turnover.

scarcity, and processability of food-products to be offered for exports, and the raw materials to be had in exchange, as well as the rates of exchange in kind computed according to the foreign market demand for the articles that can be produced from them.

Such kind of trade may start an unpredictable chain of economic decisions and establish new, entirely non-economic relations between foreign trade, industry and agriculture. Those methods, and the organizational and financial system from which the results of such computations would emerge as production policy objective require centralization to the highest possible degree, a perfect uniformity of enterprises, an artificial income pattern, the fewest possible market relations and zero foreign market information in agricultural production. In our opinion, the successes achieved so far by the Hungarian food economy are not attributable to those factors which bring it close to such a model, but to those which make it different from it.

World market and the conditions of competitiveness

On the markets of agrarian products of the temperate zone sales conditions have become on the whole more difficult in recent years and the comparative advantages Hungary used to enjoy on account of its geographical situation are gradually disappearing. The industrializing or medium-developed countries or groups of countries are switching over to self-sufficiency, too. Having learnt from the experience of the demographic explosion, the developing countries endeavour to find such ways of industrialization and urbanization which will not entail the destruction of the natural environment and of their own domestic food production. Solvent (effective) demand for bulk goods, first of all grain, has now shifted to such distant regions, that transportation costs often consume the profit expected from exports.

Food production consumes a lot of energy, chemicals, and machines: costs are growing, for the time being, faster than prices. To increase exports to accessible markets is only possible at the price of considerable investments, higher costs, using more imports and, frequently, only at lower prices. We must, therefore, enter into argument with those who, knowing the present volume of exports, their geographic pattern and price conditions, forecast for Hungary increasing returns from exports—and with increasing profitability.

It is probably acceptable, since every computation shows it, that of mass products it is at present wheat, maize and vegetal oil that can be exported at the highest profit. The profitability of vegetables, fruit and animal products is much worse, while their ratio in the turnover much higher than that of the above-mentioned bulk goods, their production value and returns in foreign exchange per hectare or per unit value of fixed assets being also higher than those of grain or of sunflower. The exports of vegetables, fruit and animal products could only to a small extent be replaced by grain and oil exports, and such substitution would require higher expenditures than those of today. But, even if this

replacement could be complete—an irrealistic assumption—, it is well known that the world market prices of grain and of vegetable oils show larger fluctuations than those of other exported food-products.

Vegetable- and fruit-growing are the least stable sectors of Hungarian agriculture, the most difficult to plan, and their processed products sell at the worst prices. The main cause may be found in the lack of a production and marketing infrastructure, and the poor relations between the producing and the trading enterprises. This is where it becomes most conspicuous that all products left out of the sphere that enjoy the highest central preferences have been left to the fragmented production of low technological standards in dwarf farms; or, if produced in large farms, they are kept in the shade of grain or meat, often neglected, and for lack of independent enterprise and market relations, with faint or no reaction on demand.

We do not know of such comprehensive plans regarding stock breeding and a more profitable method of the attached fodder conversion as would promise a solution for today's or for even greater production volumes. And the situation of farms is such that either because of employment problems or the size of money incomes, or because they get special subsidy for it, they engage in stock breeding even if it is not at all profitable.

All this seems to support our opinion that the forcing of food exports diverts the attention, as well as the money of agricultural farms from the tasks needed to improve efficiency. Agriculture has, of course, its own specific features which make it different from the other sectors. Yet it has no such specific feature according to which it would be enough in agriculture to buy modern machinery, and adopt the most advanced technologies, and then the product turned out with their aid is already competitive.

Of course, one can agree with those economists who consider it an advantage that there are already at least four hundred—according to others, eight hundred or one thousand—food articles which are quite regularly exported, or with those who call attention to the fact that the exports of several articles could be increased, and their prices raised on the world market, by a flexible changing of the processed and unprocessed goods, a more up-to-date food processing, better packing, labelling, more efficient or less thrifty advertising, and a better organized foreign trade.

Such considerations apply, however, only to a rather small and decreasing part of Hungarian exports.

The development path opted for in the 1970s has led exactly to the phenomenon that Hungarian agriculture, the food processing industry and trade have not and could not learn those forms of production and marketing that developed in Western Europe and are today spreading in the South-European agriculture, which is at a lower level than that of Hungary. These production and marketing methods are not only conditions of a high-level domestic food supply but, without them, any exports of a relative regularity, and especially growing and profitable exports to the West European region or to the solvent developing countries seem to be hopeless.

In Hungary the development of sectors producing inputs for agriculture and that of the food processing industry have been lagging behind basic agricultural production

during the last twenty years. Among the enterprises that can be put under the term of agro-business, no such relationship has developed so far in which the input producing, food processing and trading branches could act as development and integration poles in agricultural production and sales. In Hungary, because of the monopolistic situation and backwardness of both wholesale and retail trade in food, agricultural products and foodstuffs have no balanced market that would raise sufficiently high demands, which would compel agriculture and the food processing industry to work as carefully and to produce in such quality as would make food products sell advantageously also on the Western markets. The foreign trade in the products of agriculture and of the food processing industry is carried on within an organization developed in the 1950s; the financial results of the foreign trading activities are still felt only in industry and the wholesale trade, and hardly in the farms. The prevailing agricultural price system works in a way that, even apart from the market organization, it makes impossible for agricultural producers to see clearly the domestic and foreign markets of their products. Producers cannot keep track of their products, nor are they interested in doing so: they cannot base their production decisions on market information. Instead, they must be led in their decisions by a system of subsidies and by the artificially constructed profitability of certain enterprises and certain products, which have nothing to do with either actual costs, or prices, but are developed by the central organs partly out of political considerations and partly by relying on some uncertain data of national economic efficiency computations.

What exports paid for in convertible currency can be forecast with a sharpening competition and fluctuating demand depends, in our view, on the internal–enterprise and management–conditions we think to be possible as well as desirable in agriculture, moreover, on the type of vertical integration, the forms of production and enterprise, the price system, and the channels for the distribution of state subsidies. If the present tendency of the latter remains prevailing, all or almost all export surplus must go to the East European markets, with a deteriorating profitability.

Further obstacles to structural change

Because of their decreasing share, agriculture and the food processing industry are sometimes considered as so-called lagging sectors. This may be true from the statistical viewpoint, but no conclusions should be drawn from it for the future of these sectors, since they satisfy fundamental and never ending consumer and production needs. It is remarkable that the food processing industry of the world suffered no crisis even under the world economic recession of 1979–1982, though it is also true that it does not share in the ensuing upswing, either.

At the same time, most forecasts foretell an unbroken, dynamic development of the Hungarian food exports both in a medium range and up to the end of the millennium. Accordingly, they suggest an economic policy aimed at a further increase of the volume

of agricultural production, though with a more selective central subsidization than today, and with slow changes in the land (estate) structure, the product pattern, and in the production and enterprise forms, along the tendencies of the 1970s. In our opinion, such a development strategy strengthens the factors which already make the economic efficiency of the whole of agricultural production and of exports questionable; it hinders the farms having the required potential in modernizing at a fast rate, in specializing in the production best suited to them, and thus in achieving a level within reasonable time, where additional expenditures are paid off in the yields, and unit costs decrease, as it is just beginning to happen in Western Euorpe, after 20 or 30 years of subsidized development.

Every subsidizing policy has the target that the farms and their organizations can replace or further modernize the fixed assets obtained through subsidies, from their own income, and that a greater part of the subsidies should pay-off. In this pay-off, of course, those external economies are also to be accounted, of which the attached branches, if any, benefit from in their activities on the domestic market, and in their exports. The backwardness of the attached branches, or the insufficiency of their relations with the farms may hinder that such external economies come about.

A further obstacle to the paying off of subsidies may be if certain stages are left out of the industrialization process of agriculture.

So far a great part of agricultural investments in Hungary has not been concerned with the modernization of agriculture, but with two other targets: the increase of output, and the enterprise forms developed or constructed during the last twenty years. It followed that, a disproportionately large part of agricultural fixed assets is made up of buildings at the expense of machinery, and a disproportionately large part of machinery investments is or has been made to make up for the missing croplands, or the high rate of labour outflow.

Of agricultural investments, spending on production infrastructure has just started, while almost nobody spends on marketing. Agriculture also suffers from the present state of the road network, transport, and communications: the larger the farm, the more difficult it is to haul the products out of it in a good state, and to keep contact with those working in the fields and, whether the farm is small or big, to keep in touch with the external world, or plainly, with the market.

These difficulties are strikingly similar to those found in other sectors of the Hungarian national economy. The low efficiency of investments and of subsidized development has, however, certain causes which are specifically agricultural.

Because of their narrow range and poor quality, the machines used in Hungarian agriculture are of lower potential and must be more frequently replaced than what is expected from them in view of their book value. Quite a large part of the functioning machines come from imports, most of them from the neighbouring socialist countries. The farms are dissatisfied with the products of the Hungarian agricultural machine industry, and consider them too expensive, while they can pay for Western imports only

if they receive special grants. The agricultural machine trade (foreign trade and wholesale trade) is in direct contact with only a fraction of the users.

There are quite a number of investment projects which cannot be well operated for the lack of expertise, and others fail to bring success because of the sluggishness and unconcern of the marketing organization. There still are only a small number of investment projects inspired by the users or by trade; the security of sales is often insufficient. All this often results in that the farms do not use their buildings and machines or use them for purposes other than planned.

In which way are these phenomena related to forced growth and the directions of exports?

First of all, in a way that, with agricultural production as it is, only a few mass products, and only in large-scale farms, can be produced so as to be marketable from the point of view of uniform quality and smooth delivery. And then ever more is needed of these goods, since their prices are highly fluctuating, though their production costs are also rising. Industry, transport and trade spend their even more scarce resources on serving these increasing volumes, on transporting and selling them. All other products are neglected, which means, in the present Hungarian conditions, that they are made over to small enterprises. Now, going beyond the primary agricultural production, in the food processing industry and in trade these products will not appear to have a good and uniform quality, potentially satisfying demands on foreign markets, which would make it worth paying higher prices, and investing into their processing, marketing organization, and publicity, or at least organizing those foreign cooperations in which the ways of primary production, further processing, and trade could be learnt. Thus the conditions of a profitable growth are lacking exactly with those production branches and exactly with those products which could be sold also on markets saturated with basic foodstuffs, or the access to which is made difficult by protectionist measures.

The other relationship consists in the fact that the conditions of changing the combination of production factors and of capital reallocation are given to a lesser extent in agriculture than in the other sectors of the economy.

For example, it has never been made clear, why agricultural production has to be continued and even increased in cooperatives working under particularly bad natural conditions, with the same organization and product pattern as are usual in other agricultural cooperatives. And yet it would be very important to clarify this question because, on account of the artificial income and price conditions, these farms are compelled to compete for subsidized investments, the result of which will be a greater output at subsidized prices even if they work under such conditions that this output is dwarfed by that of farms having better conditions. And, as a rule, they get subsidies for those activities which are especially favoured in the export development plans of the given period.

This is one of the mechanisms that may, in the very near future, upset the highly unstable equilibrium which holds, for the time being, between the relatively steady yields and the not quite satisfactory, delayed manner of replacing outworn equipment,—on

today's production level. We think that this production level, or even a somewhat lower one, could only be maintained through a rearrangement in which the process of modernization can evolve in each farm by an economically reasonable combination of the production factors–such as land, labour, and capital–and this process should include the possibility of a partial withdrawal of one or another factor from agricultural production, if that is advantageous for the farm.

In both agricultural production and the sectors serving it, or buying its products, the low number of foreign cooperations, and the lack of interest in using foreign working capital are still conspicuous.

The withdrawal and reallocation of capital would be an elementary condition of structural transformation also in agriculture, inconceivable to solve as the task of each individual farm. It would be useful, however, only if, at the same time, the structure of farms and of enterprise can also change, and not only towards further concentration.

Only if these two conditions are fulfilled is it conceivable that the easing of the tensions mentioned above can exert–even though with no less investment than what can be expected today–a greater economic effect, than if it had to be adjusted to the existing allocation of production and to a permanent linear growth.

Some closing remarks

It is a welcome fact that recently also such views have been published, at least in scientific periodicals, according to which agricultural development should not be determined "on the basis of a prescribed one, two, or three percent growth rate", but in consideration of the prevailing market conditions and the costs and returns of adjustment to those conditions.*

Our opinion is that the increase of the volume of agricultural production should not at all be laid down as a plan target. Instead, modernization programmes ought to be worked out for agriculture and the related branches, and the possibly resulting growth of production could be included as forecast in the national economic plans.

We deem it necessary to further subsidize agricultural production, and to maintain the income parity of agricultural workers, however, not with a view to a growth of production and exports at any price. On the other hand, subsidies to the least efficient production ought to be gradually abolished. Thus, for example, it should be no longer obligatory to hold together extremely weak cooperatives, and obligatory land use and production should also be abolished in areas not, or hardly, suited for cultivation. It should be allowed that certain plots withdrawn from agricultural production be permanently leased to individuals with the required professional knowledge, individually or in some cooperative form.

*Gyula *Varga* [10] and Ferenc *Vági* [4] strongly emphasize that agriculture should by no means be considered a sector having the role of driving the entire economy towards growth.

Subsidies should primarily be aimed at an up-to-date specialized production, steady yields, and a higher degree of production and sales discipline. This is a condition that the costs of agricultural production should not grow as fast as they have done so far, and that the surplus of production can be profitably exported. Gradually, yet as fast as possible, the role of subsidies must cease that they cover, instead of prices, some of the regular expenditure even for the best working farms.

With this in view, such price and wage reform should be carried through, which provides cover in the wages for the production and marketing costs of the food-products bought. This would also create the most important economic condition for putting an end to the isolation of agricultural production from the domestic and foreign markets; and to that of the entire food economy from the system of inter-enterprise relations.

In a price system taking into account the necessary costs, the modernization programmes of agricultural production should start with the modernization of the sectors providing inputs for agriculture, of the food processing industry and first of all of trade (trade in means of agricultural production, wholesale and retail trade in food products), so that, relying on their own interests, and within the system of normal enterprise relations, they can play the role of integration poles in the modernization of agricultural production. Such interests can only develop if monopolistic organizations are wound up. For this end, we think it important that cooperations and joint ventures be established between the Hungarian farms, food processing enterprises, and Western engineering, chemical, food processing, and trading companies. The wholesale trading activities of the agricultural producing plants, of farmers' cooperatives, and of their partnerships, as well as fusions between foreign trade and domestic wholesale trade should be promoted.

In the interest of a flexible adaptation to domestic and foreign market demands, new production and marketing methods, and the specialized production of the so-called small articles, it would be important to change today's extremely polarized land (estate)-, land use-, and agricultural enterprise structures. For example, in a way that small-scale farms should form viable organizations through joint ventures, partnerships, or associations, at least in the phase of primary processing or preparation for sale; and also in a way that the specialized sections of the existing farms should transform into either independent agricultural enterprises (cooperatives), or such as are only loosely connected to the parent establishment or state farm (fused cooperative). It would help to avoid the over-centralization of enterprises, and a hierarchical production organization, if state enterprises, production-, consumption and sales cooperatives, and banks invested into the agricultural production infrastructure and services, and operated these capacities within their own units, or on a leasehold basis.

It is our conviction that agriculture is a sector able to produce goods that can be sold on many different markets, if it is sufficiently up-to-date and can change its product pattern and its markets quickly enough. For this, however, the continuous growth of agricultural production and, particularly, of the mass products must be given up, which is the condition number one of the development of a more up-to-date and more diversified food production and trade, based on reasonable decisions of producers. The other

condition is a change in attitude: the recognition of agriculture and the demands of the village population, or, of the usefulness or prestige of a major sector of economy should not depend exclusively on continuous growth, or on some kind of special achievement.

This would be important also because, at the time of a new upswing of the economic reform, the internal conditions and trends of the food economy, differing from those of other sectors, may neutralize all efforts made today by economic managers and enterprises with a view to adjustment to world economic conditions, greater flexibility and competitiveness.

References

1. Lányi, K.: Constraints on profitable growth and exports in Hungarian agriculture. *Acta Oeconomica*, Vol. 33, Nos 3–4 (1984), pp. 293–304.
2. Ihamuotilla, R.: Finnish agriculture and agricultural policy. Manuscript, 1984.
3. Lányi, K.: Az élelmiszerexportról – közhelyek nélkül (On food exports–without commonplaces). *Gazdaság*, 2. 1986.
4. Vági, F.: A mezőgazdaság hosszútávú társadalmigazdasági fejlődésben (Agriculture in long-term socio-economic development). *Közgazdasági Szemle*, 1. 1984.
5. Vági, F.: Növekedés a mezőgazdaságban és gazdasági szervezetében (Growth in agriculture and in its economic organization). Marx Károly Közgazdaságtudományi Egyetem Agrárgazdasági Tanszék (Karl Marx University of Economics, Department of Agricultural Economics), 1984.
6. Váncsa, J.: Mire képes az élelmiszergazdaság? (What is the food economy able to do?) *Társadalmi Szemle*, 3. 1984.
7. Pálovics, B.: Az élelmiszergazdaság távlati fejlesztése (The long-range development of the food economy). *Gazdaság*, 1. 1983.
8. Johnson, D. G.: The world food situation: developments during the 1970s and prospects for the 1980s. In: Letiche, J. M. (ed.): *International economic policies and their theoretical foundations.* Academic Press, New York–London etc. 1982.
9. *Agriculture: Toward 2000.* FAO, Rome 1979.
10. Varga, Gy.: Alternatives of the development of agriculture and food industry in Hungary. *Acta Oeconomica*, Vol. 29, Nos 3–4 (1982).

ВЕНГЕРСКОЕ СЕЛЬСКОЕ ХОЗЯЙСТВО: ЭКСПОРТНЫЙ ИЗЛИШЕК ИЛИ ИЗЛИШНИЙ РОСТ ПРОИЗВОДСТВА?

К. ЛАНИ

Венгерское сельскохозяйственное производство и экспорт уже неоднократно стояли на распутье. В конце 70-х годов вновь был сделан выбор направления развития: возрастающее из года в год производство и значительно опережающий его рост экспорта. Новыми элементами при этом были требования конкурентоспособности и экономической эффективности производства. В предыдущей статье автора говорилось о том, какие институциональные факторы и факторы хозяйственного механизма вызвали то, что венгерское сельское хозяйство в полтора десятилетия своего наибольшего расцвета специализировалось на производстве нескольких массовых продук-

тов и каким образом это направление специализации детерминировало выбор внешних рынков. В статье автор рассматривает происхождение, причины и цели роста экспорта, если объем производства практически на каждом предприятии постоянно возрастает. Автор не согласен с теми, кто прогнозирует рост экспортных поступлений и улучшение экономической эффективности, зная данные о предполагаемом объеме экспорта, структуре продукции, направлениях экспорта и ценовых условий внешних рынков.

Acta Oeconomica, Vol. 34 (3–4), pp. 317–337 (1985)

ADJUSTMENT TO INTERNATIONAL DISTURBANCES: CZECHOSLOVAKIA AND HUNGARY

K. DYBA

In the paper the balance-of-payments impact of the international disturbances and adjustment to them are compared in the cases of Czechoslovakia and Hungary in the past decade. Using a common methodology, it is found that on average adverse balance-of-payments effects of disturbances were significantly higher for Hungary than for Czechoslovakia. It is also found that, despite the systemic differences, the balance-of-payments effects of policies followed by both countries in response to external disturbances were quite similar both in macroeconomic and basic structural respects.

On the whole, in terms of overall efficiency of adjustment both countries seemed to perform on even terms up to now. The question remains to what extent differing systemic experiences of both countries eventually pave the way for possible future differences in performance.

In this paper we compare the way the Czechoslovak and the Hungarian economy reacted to the world economic disorders in the 1970s, using a common methodology. We deem such a comparison of some interest as both countries, though comparable in some structural features (that is, socialist ownership, the level of human development, the degree of industrialization, etc.), followed different policies as to the development of the system of control and management of the economy in the given period. Hence it is natural to ask if one can find some differences in the modes of adjustment to external shocks between these two countries which could possibly be explained by referring to systemic differences. This may be related to the broader question of a general evaluation of efficiency of the balance-of-payments adjustment policies followed by these two countries in the aftermath of external shocks.

To fulfil our aims we draw heavily on the work by B. *Balassa* [2]. In fact, we use both his methodology when analyzing the impact of external shocks on the balance of payments and the balance-of-payments' policy responses to these shocks in the case of Czechoslovakia as well as the results of such an analysis for Hungary as provided in [3]. Thus our contribution may also be seen as an extension of comparative studies made by B. Balassa et al. on problems of adjustment of various countries to the external shocks in the past decade or so.

The structure of the paper is as follows: after an introduction we give a brief description of the methodology of computing and analysing the balance-of-payments effects of external shocks and balance-of-payments effects of the policy responses to

these shocks.* Next we present the results of our calculations for Czechoslovakia and compare them with those for Hungary. Finally, we try to evaluate the adjustment experiences of both countries in the aftermath of the international disturbances in the 70s and at the beginning of the eighties. In the last section of the paper we summarize the results.

Remarks on the methodology of analysing and measuring balance-of-payments effects of external disturbances and of balance-of-payments policy responses to these disturbances

When speaking about international economic disturbances we have in mind two somewhat related phenomena of major importance for countries like Czechoslovakia or Hungary. First, the profound economic crises in the Western world which took place in the mid-seventies and at the beginning of the eighties with a rather sluggish recovery in between. Both economic crises brought about a downward shift in demand for exports of socialist economies in the Western commodity markets in general.** This shift in demand is considered to be the first main channel of impact of Western economic disturbances on the balance of payments of countries like Czechoslovakia and Hungary.

Second, we refer to two price hikes in commodity and fuel markets in the West in 1973–1974 and 1979–1980 which led to a sharp deterioration of the terms of trade of Czechoslovakia and Hungary in their Western trade. However, this was not the end of the story. The price disturbances in the West found their reflection, with some lag and modifications, in the significant changes of relative prices in the CMEA commodity markets. Given the commodity composition of both Czechoslovak and Hungarian trade with socialist countries, their terms of trade were bound to deteriorate in this regional market as well. Hence terms-of-trade changes in the trade with both regions profoundly influenced the regional as well as the total balance of payments developments for Czechoslovakia and Hungary after 1973. However, there were some interesting differences in the timing and depth of the deterioration of the respective regional terms

*Mainly because of data availability problems we had to adjust the original Balassa scheme slightly when making computations for Czechoslovakia. However, we think that the adjustments made by us do not impair the comparability of the results of our computations with those for Hungary as provided by B. Balassa and L. *Tyson* [3].

**One could also observe some slowdown in the rate of growth of trade among the socialist countries towards the end of the 1970s. However, we hesitate to ascribe this slowdown in trade to some general insufficiency in the growth of demand in the socialist economies from the mid-seventies in comparison with the pre-1973 decade. Nevertheless, we will provide some estimates of this "slowdown in the rate of growth of trade effect" on the balance of payments of the respective two countries as well. For a possible interpretation of this effect see B. Balassa and L. Tyson [3].

of trade of both countries (as well as in policy responses) and we will try to allow for them in our analysis.

Up to now we have only been discussing the disturbances in commodity markets which were the most relevant for centrally planned economies like Czechoslovakia and Hungary and we will provide quantitative estimates for the impacts of these disturbances on the balance-of-payments. With the passage of time after 1973, however, increasingly owing to the stepped-up involvement of Czechoslovakia and Hungary in Western capital markets, some monetary disturbances in these markets, i.e. interest rates hikes and credit squeeze, provided another relevant channel for impacts on the balances of payments of Hungary and Czechoslovakia as well. Yet in our analysis we do not provide any quantitative estimates of these latter effects on the balances of payments of the two economies and we try to take these developments into account only informally when discussing the balance-of-payments policy responses of both economies to the disturbances in commodity markets towards the end of the 1970s and at the beginning of the 1980s.

Obviously, any economy which suddenly faces the disturbances of the kind described above must somehow respond to them.* The first possibility is to continue the pre-shock domestic policies unchanged. In that case, *ceteris paribus,* an additional balance-of-payments deficit develops which must be financed either by drawing in international reserves and/or by additional external financing. Given that there are no reserves and the respective country chooses to borrow and makes wise use of the borrowed funds, mainly for efficient investment purposes, this policy choice will bring it some obvious advantages. Yet these are to be weighed against the costs involved, since sooner or later the real resources have to be transferred from the domestic economy abroad to repay the credits and their interest costs. In fact, if the policy authorities do not wish to undertake any additional borrowing they may immediately strive to counter the effects of disturbances on the given country's balance of payments by transferring real resources from the domestic economy to the external sector. That is, they can either try to increase the competitiveness of a given country's exports by various *export promotion policies* (the success of such policies should show up in an increase of a given country's share in world exports) or they may follow the policy of *import substitution,* or evidently, some combination of both. Only in the case if either additional external credits are not available or they do not wish to use the available external credits and/or the export promotion and import substituting policies do not provide sufficient balance-of-payments' improvement, further cuts in imports may be needed to manage the balance-of-payments effects of external disturbances. This means (according to the assumption) that restrictive *domestic* macroeconomic policies must be followed with a concomitant decline in the rate of growth. In fact, to a certain extent the efficiency of management of the effects of adverse international disturbances by a given country may

*An instructive theoretical as well as empirical discussion of the issues involved is provided by R. *Portes* in [15].

be judged by assessing how much growth the country had to give up in the course of reestablishing the external equilibrium.

Speaking now in more technical terms, the balance-of-payments effects of disturbances and balance-of-payments policy responses to them are estimated by postulating a situation that would exist in the absence of external shocks.* First, terms-of-trade effects are derived as the sum of import price effects and export price effects.** Import price effects are estimated as the extent to which the country's outlays on a given volume of imports increased by a rise in import prices measured against a 1971–1973 base. Export price effects are estimated as the extent to which the country's purchasing power of a given volume of exports was augmented by a rise in the country's export prices measured against a 1971–1973 base.

The effects of the slowdown of foreign demand on the country's exports, i.e. the export volume effects, are calculated as the difference between the trend value of exports and hypothetical exports. The trend value of exports is derived on the assumptions that (a) the foreign demand growth rates for the groups of exports remained the same as in the 1963–1973 period and that (b) the country maintained its 1971–1973 shares in those exports.*** Hypothetical exports are derived on the assumption that the country maintained its 1971–1973 shares in the actual exports of the product groups from 1973 on. The difference between the trend value of exports and their hypothetical value arises from a fall in international trade from 1973 onwards against its growth in the 1963–1973 period.

The balance-of-payments effects of policy responses (modes of adjustment) are also estimated relative to a situation which would have existed in the absence of external shocks. Additional net external financing is derived as the difference between the actual commodity trade balance and its trend value. The trend value of commodity trade balance is obtained by subtracting the trend values of exports from those of imports, both measured at 1971–1973 prices.**** Additional net external financing is extra financing used in response to external shocks.

The export market penetration (promotion) effect is calculated as the difference between actual and hypothetical exports. The reader will recall here that the hypothetical exports measure the consequences of maintaining the 1971–1973 market share. Hence, the export market penetration effect measures changes in exports

*For a detailed description of the method of estimation see B. Balassa [2].

**This is only one of the several possible calculations of terms-of-trade effects. It is the sum of the "pure terms-of-trade effect" and "price-level effect". For more on this technical issue see e.g. A. *Olgaard* [14].

***In the case of Hungarian trade with non-socialist countries B. Balassa and L. Tyson [3] distinguished two groups of products. In the case of her trade with socialist countries they distinguished five groups of products. Our estimates for Czechoslovakia are based on growth rates for total exports to non-socialist and to socialist countries, respectively.

****For the procedure of estimation of the trend values of exports see the text above. For the estimation procedure of the trend values of imports see the text below.

attributable to changes in the respective country's 1971–1973 market shares. Recall here that changes in the country's market shares are usually associated with changes in policies influencing the competitiveness of the country's exports.

Import substitution effects are defined as saving in imports due to a fall in the income elasticity of import demand from 1973 on as compared to its value in the 1963–1973 period. In particular, the import substitution effect is measured by subtracting the hypothetical imports from the actual ones. When deriving the hypothetical imports the actual rate of growth of national income from 1973 on is used together with the assumption that the income elasticity of imports remained the same from 1973 onwards as in the 1963–1973 period.*

Finally, the effects of restrictive macroeconomic policies as measured by changes in GDP, resp. GMP growth rates on imports are calculated as the difference between the trend value of imports and their hypothetical value. The trend value of imports is arrived at by postulating that the income elasticity of import demand remained the same from 1973 onwards as in the 1963–1973 period, and that the rate of growth of GDP, resp. GMP also remained the same from 1973 onwards as in the 1963–1973 period. The difference between the trend value of imports and the hypothetical value of imports arises from a fall in the rate of growth of GDP, resp. GMP from 1973 onwards against its growth in the 1963–1973 period.

Summing up, it may be stated that the method of analysis described above decomposes changes in the balance of trade into price and quantity components, comparing actual prices with their 1971–1973 levels and actual quantities with what would have occurred had the various trends of 1963–1973 continued also from 1973 onwards. This decomposition is only one of several possibilities. However, it has proved quite useful for comparing country experiences within a common framework.

We should also like to add that the assumptions inherent in the analytical approach used seem to fit the institutional reality of both small open socialist economies discussed quite well.

External shocks and modes of adjustment: empirical results for Hungary and Czechoslovakia

The results of estimation of various effects are provided in *Tables 1* and *2* in relative terms.** In *Table 1* the estimates are desaggregated for the trade with socialist and

*In the case of Hungary a distinction was made by B. Balassa et al. [3] between fuel and non-fuel imports. In the case of Czechoslovakia no such distinction was made and the income elasticity of imports refers to total imports from either non-socialist or socialist countries. Also, when doing their calculations for Hungary B. Balassa and L. Tyson used GDP, whereas in the case of Czechoslovakia we worked with GMP (gross material product = net material product+depreciations).

**In absolute terms of US dollars the results for Hungary are provided in *Table 1A*, in B. Balassa and L. Tyson [3]. However, our computations for Czechoslovakia are based on crowns, resp., "foreign exchange (devisa) crowns" and we preferred not to convert them into US dollars. Therefore, we use relative figures in our *Table 1* both for Hungary and Czechoslovakia and base the discussion on them.

non-socialist countries. The estimates pertain to the individual years between 1974–1978 as well as to the arithmetic means for this period. In *Table 2* we provide similar estimates for the total trade of Hungary and Czechoslovakia.* The estimates only pertain to averages for the 1974–1978 period as well as to averages for the 1979–1981 period. However, the averages for the second period are only provided for Czechoslovakia as they were not available for Hungary. In interpreting the results for the 1979–1981 period, it should be borne in mind that this was the period of another set of severe disturbances in the world commodity markets as concerns both prices and the slowdown of demand in non-socialist markets.** In fact, by continuing the analysis further on for the 1979–1981 period we superimpose the second wave of external shocks on the first one as we keep our 1963–1973 trends as a standard of comparison.

Before commenting on the results of our computations we would like to recall here the various methodological differences between Hungarian and Czechoslovak data as well as the computational procedures mentioned above.*** Thus the results shown should obviously not be taken for precise measurements. However, we feel that they are sufficiently reliable and comparable to allow us to make some rather robust statements and conclusions.

From *Table 1* we can see that in the case of Hungary the adverse terms-of-trade effects, expressed as a ratio of the average trade**** were about 5 times larger in the trade with non-socialist countries than in that with socialist countries (45 percent on average in the 1974–1978 period as against 9 percent). There also were interesting differences in the changes over time of the terms-of-trade effects in respective markets which are attributable to now well known causes and we need not comment on them here.

In analysing the relative terms-of-trade effects for Czechoslovakia for the 1974–1978 period we note some similarities to the Hungarian case. This pertains mainly to the size and the changes over time of the adverse terms-of-trade effects in the trade

---

*We note in passing that there also are differences in the statistical treatment of trade flows between Czechoslovakia and Hungary. In the case of Hungary exports are reported f. o. b. whereas imports c. i. f. In the case of Czechoslovakia both flows are reported f. o. b. This leads to an underestimation of the Czechoslovak balance-of-trade deficit relative to the Hungarian one. There might be some more minor differences in reporting trade flow in the respective countries' statistics, too.

**Obviously, there were other important developments in the world economy which may be considered external from the point of view of the countries studied, e.g., interest rates hikes and the drying out of credit supply in international capital markets. As explained above, these developments are only informally taken into account in the methodology of analysis used in this paper.

***We also note that the share of Hungarian exports to and imports from non-socialist countries in total trade is somewhat higher than in the case of Czechoslovakia. Due to the data problems it is difficult to be more precise in this point.

****That is the sum of exports and imports divided by 2.

with socialist countries which are about the same as in the case of Hungary. However, we can see from Table 1 that the adverse terms-of-trade effect in the Czechoslovak trade with non-socialist countries is about 3 times smaller than in the case of Hungary (about 16 percent on average in the 1974–1978 period in the case of Czechoslovakia as against 45 percent in the case of Hungary). This has to be attributed both to a less severe deterioration in the Czechoslovak terms of trade with non-socialist countries than in the case of Hungary and to a probably lower share of Czechoslovak trade with non-socialist countries than in the case of Hungary.*

Looking now at adverse export effects, we note that these were in both economies also greater in the trade with non-socialist countries than in that with socialist economies in the 1974–1978 period, as we would expect. The ensuing gap averaged about 10 percent of export value in the case of the Hungarian trade with non-socialist countries and about 7 percent in the case of her trade with socialist countries. In the case of Czechoslovakia the corresponding figures were about 15 percent and –2 percent. This latter figure is in striking contrast with that for Hungary. However, we feel that, owing to computational problems, this figure might be a bit shaky and we therefore prefer to think of it as indicating rather no shortfall in Czechoslovak exports to socialist countries.** The adverse export effects in the trade with non-socialist countries increased in both cases over time.

By looking at *Table 2,* we can see the estimates for total adverse effects of external shocks on the overall trade balances expressed as a ratio to GDP (GMP). Given that the computational details of our calculation for Czechoslovakia differ in some points from the calculations by B. Balassa et al. for Hungary, we feel, that we might say that on the whole and on average the total adverse impact of external shocks expressed as a ratio of GDP (GMP) was in the 1974–1978 period about at least two times higher in Hungary than in Czechoslovakia.

*The question still remains why there was so much more profound deterioration in the Hungarian terms of trade in her trade with non-socialist countries in the 1974–1978 period than was the Czechoslovak case. Reading the Hungarian authors on this point (see e.g. A. *Marton* [12]) and knowing the past history of the rather parallel movement of Czechoslovak and Hungarian terms of trade in the trade with non-socialist countries (see K. Dyba [8], Chapter 1), we wonder what might be the cause of so differing trends since 1973. Certainly the reasons as given by A. Marton [12] for the sudden deterioration in the Hungarian terms of trade with non-socialist countries in the aftermath of the first oil price shock, that is, a somewhat higher share of raw materials and food products in imports than in exports apply to Czechoslovakia as well. Could it possibly be that a somewhat higher share of exports of fuels to the non-socialist countries than their share in imports from them at that time might have been "responsible" for a much less deeper deterioration in the Czechoslovak terms of trade with non-socialist countries than in Hungary where these shares were, according to A. Marton, negligible and of roughly the same size? Or, knowing that Czechoslovak foreign trade price indices are of Laspeyres type, whereas the Hungarian ones are of Fisher type, should we put some "blame" on the purely statistical problems of computing price indices?

**Owing to the method of computation the figure for additional net external financing in Czechoslovak trade with socialist countries is hence slightly downward biased.

Table 1

Balance-of-payments effects of external shocks and of policy responses to these shocks (in percentages)

	0	In the relations with non-socialist economies						In the relations with socialist economies					
	1974	1975	1976	1977	1978	average of 74–78	average of 79–81	1974	1975	1976	1977	1978	average of 74–78	average of 79–81
HUNGARY														
1. *External shocks*														
Terms of trade effects/ average trade	40.0	50.0	31.1	44.6	53.6	44.6	.	–0.3	7.1	8.8	9.9	18.7	8.8	.
Export volume effects/ exports	1.0	12.5	4.4	14.1	16.8	10.1	.	0.9	4.3	8.7	8.1	12.2	7.2	.
2. *Policy responses*														
Additional net external financing/average trade	53.4	64.0	34.9	64.9	90.6	63.6	.	0.6	13.0	5.2	–1.7	17.9	7.0	.
Increases in export market shares/exports	–11.4	–13.7	–11.9	–13.4	–18.1	–13.8	.	–1.1	1.9	9.3	15.1	11.3	7.3	.
Import substitution/ imports	–1.4	10.9	5.9	5.0	–5.5	2.5	.	2.3	0.4	1.8	5.9	1.3	2.3	.
Effects of lower GDP growth rates/imports	–0.5	–0.9	2.3	0.2	2.0	0.7	.	–1.2	–1.9	1.2	–1.5	0.4	–0.6	.
CZECHOSLOVAKIA														
1. *External shocks*														
Terms of trade effects/ average trade	8.8	7.7	18.3	24.3	18.6	15.5	14.7	–0.4	10.4	10.6	12.9	17.7	10.7	21.5
Export volume effects/ exports	3.9	17.5	14.6	17.1	19.7	14.6	33.1	–7.4	–2.8	–0.9	–2.4	1.4	–2.4	9.8
2. *Policy responses*														
Additional net external financing/average trade	24.5	26	44.2	43.5	34.7	34.6	24.4	6.6	11.0	5.3	8.0	9.9	8.2	8.4
Increases in export market shares/exports	–8.3	–3.1	–16.7	–5.4	–5.1	–7.7	–7.4	–5.5	–2.1	1.6	–0.6	3.3	–3.3	3.2
Import substitution/ imports	–2.8	0.0	3.6	2.5	7.6	2.2	26.4	–7.2	1.4	4.5	2.9	5.5	1.4	12.4
Effects of lower GDP growth rates/imports	–0.9	–1.8	–0.9	0	0.8	–0.6	9.1	–1.0	–2.9	–1.7	0.0	0.6	–1.0	10

Source: The estimates for Hungary were taken from Table 1B in B. Balassa and L. Tyson [3]; the estimates for Czechoslovakia were computed by the author. For some more information on computation see K. *Dyba*, V. *Kupka* [7].

Table 2

Averages of balance-of-payments effects of external shocks and of responses to these shocks (in percentages)

	Hungary total		Czechoslovakia total	
	average of 1974–1978	average of 1979–1981	average of 1974–1978	average of 1979–1981
1. *External shocks*				
Terms of trade effects/average trade	24.2		12.1	20
Terms of trade effects/GDP	8.9	9–10*	2.7	4.8
Export volume effects/exports	8.1	.	2.0	15.0
Export volume effects/GDP**	3.0	.	0.4	4.0
Total of external shocks/GDP	11.9	.	3.1	8.8
2. *Policy responses*				
Additional net external financing/average trade	31.1	.	14.9	12.6
Additional net external financing/GDP	11.4	.	3.3	2.8
Increases in exp. market shares/export	−1.2	.	−1.6	0.8
Import substitution/imports	2.7	.	1.1	15.0
Effects of lower GDP growth rates/import	−0.2	.	−0.9	10.0

Source: see *Table 1*

*In the case of Hungary we estimate the terms-of-trade effect on GDP to be around 9–10 percent in the 1979–1981 period.

**GDP in the case of Hungary, GMP in the case of Czechoslovakia. We feel that B. Balassa's figures for the Hungarian GDP are rather low. However, since we use GMP figures for Czechoslovakia, we think that as to the order of magnitude the estimates for Hungary and Czechoslovakia which relate to the impact of shocks and policies on GDP and GMP, respectively, are not entirely incomparable.

Still looking at *Table 2,* we may conclude, on the basis of the results for Czechoslovakia only, that the second wave of disturbances in commodity markets in the 1979–1981 period at least doubled on average the total adverse impacts of the first wave of external shocks in the period between 1974–1978. It is probably also safe to guess that, owing to this, the difference between the total adverse impact of external shocks for Hungary and Czechoslovakia was considerably smaller in the 1979–1981 period than that which existed in the 1974–1978 period. We have inferred this conclusion from the piece

of evidence provided by the narrowing gap between the movements of the terms of trade of Czechoslovakia and those of Hungary as given in *Figure 1* below.

We now turn to the discussion of policy responses to external shocks which are also quantified in *Tables 1* and *2* in relative terms. As concerns Hungary, we only summarize the findings given by B. Balassa and L. Tyson [3]. In Hungary's trade with non-socialist countries the principal mode of adjustment was additional borrowing abroad. This borrowing covered not only the total impact of foreign shocks but also unsuccessful export promotion policies as reflected by decreasing export market shares. On average the efforts made at import substitution were negligible and there was no import saving owing to macroeconomic policies as these were as expansive as in the pre-shock period (see *Tables 3* and *4*).

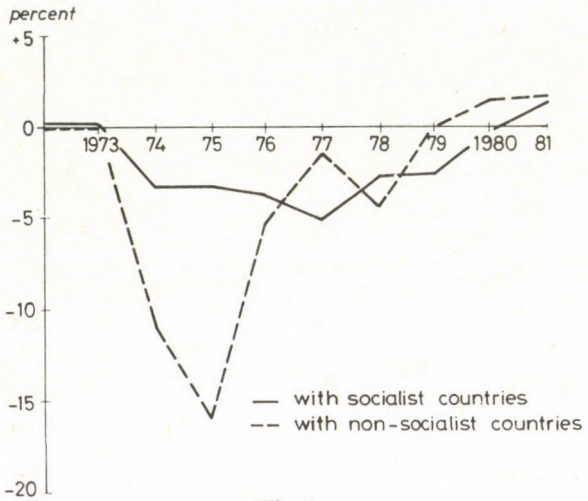


Fig. 1

Difference between the development of the Czechoslovak and the Hungarian terms of trade

In contrast with these developments Hungarian reliance on additional external financing was much more limited in her relations with socialist countries. Additional external borrowing covered here only about half of the adverse effects of the external shocks, the rest having been covered mainly by improved export performance in the framework of bilateral balancing agreements. There also was some import substitution in this trade but there were no savings of imports owing to the effects of macroeconomic policies followed.

To sum up: additional net external financing was the main tool of policy response of Hungarian authorities to the external shocks in the period between 1974–1978 as it covered approximately the total effects of these shocks on Hungary's total trade balance. There also was some small loss of export market shares and some small savings in imports through import substitution. There were no discernible savings of imports owing to impacts of macroeconomic policies followed.

Table 3
Domestic expenditure shares, incremental capital-output ratios and growth rates

	Hungary				
	1970–73	1973–76	1976–79	1973–79	1979–82
Domestic expenditure shares (as percent of GDP)					
Total consumption	66.4	69.0	70.6	69.8	71.1
Gross domestic investment	33.5	36.6	31.7	34.2	30.5
Net foreign investment	0.1	–5.6	–2.3	–4.0	–1.5
ICOR	5.4	9.6	7.8	8.7	16.9
Growth rates (in constant prices)					
GDP	6.4	5.2	4.9	5.1	2.0
Population	0.3	0.3	0.4	0.5	0.4
GDP per capita	6.1	4.8	4.4	4.7	1.9
	Czechoslovakia				
Domestic expenditure shares (as percent of GMP)					
Total consumption	64.2	64	65.2	64.6	65.3
Gross domestic investment	34.0	37	35.9	36.5	33.2
Net foreign investment	1.8	–1.0	–1.0	–1.0	1.5
ICOR	5.6	6.8	8.7	7.8	24.0
Growth rates (in constant prices)					
GMP	5.7	5.5	4.1	4.8	1.9
Population	0.3	0.8	0.7	0.7	0.4
GMP per capita	5.4	4.7	3.4	4.1	1.5

Sources: The results for Hungary till 1979 from B. Balassa, L. Tyson (3); for 1979–1982 own estimates based on the Statistical Pocket Book of Hungary 1982. For Czechoslovakia own estimates based on Statistical Yearbooks.

Note: Net foreign investment = exports minus imports, as reported in respective national income accounts.

Table 4
Gross national product and absorption in Hungary (average annual rates in real terms in percent)

	1971–1973	1974–1978	1979–1982	1981	1982	1983
Gross domestic product	6.4	5.5	2.2	2.9	2.8	0.8
Domestic absorption	3.8	7.0	–0.8	1.4	–0.1	–1.7
– Gross investment	3.5	12.6	–6.5	–2.2	–3.5	–7.4
– Gross fixed investment	6.0	6.6	–6.3	–9.9		
– Total consumption	4.2	4.4	2.0	2.9	1.3	0.4

Sources: Statistical Yearbooks of Hungary, various years. Own computations.

Turning now to Czechoslovakia, we can see from *Table 1* that between 1974–1978 the pattern of policy responses to external shocks in the trade with non-socialist countries was strikingly similar to that of Hungary. Here, too, we discern that on top of the adverse effects of external shocks there were losses of export shares as well. Further on, as the effects of import substitution were rather small and no restrictive macroeconomic policies were applied, the main policy response to external shocks had to be additional borrowing abroad.

As concerns the Czechoslovak trade with socialist countries we feel that as to additional financing and export promotion policies our guesstimates suffer most from data problems. However, we may safely take effects of imports substitution policies and effects of macroeconomic policies on import saving in this trade to be practically nil. (This is again very similar to the Hungarian case.) This being so, it means that the adverse effects of the Czechoslovak terms-of-trade developments in the trade with socialist countries had to be mainly covered by additional borrowing. Yet we have to be careful how to interpret these figures as there were significant and seemingly lasting changes in the other items of the Czechoslovak current account balance with socialist countries at the same time. It seems possible to come to the conclusion on this basis that in this case additional net external borrowing did not imply any significant changes in the debt position of Czechoslovakia *vis-à-vis* socialist countries.

As can be seen from *Table 2*, between 1974–1978 additional external borrowing was used by the Czechoslovak authorities as a main tool of policy response to the first wave of disturbances in the world economy. In quantitative terms, additional net external borrowing was even slightly higher than what was required to cover the total effects of external shocks. There was some loss of market shares, very slight import savings from import substitution and no savings in imports attributable to the macroeconomic policies followed. On the whole, for this period the policy response of Czechoslovak authorities to external shocks was again very similar to the response of the Hungarian authorities.

However, for 1979–1981 the computations in *Tables 1* and *2* indicate a sharp reversal of policy responses of the Czechoslovak authorities to the second wave of external shocks in both markets and, accordingly, in total trade as well. That is, the principal modes of adjustment were from now on seen in transferring real resources from the domestic economy to the external sector through changes in policies followed. This emphasis was only strengthened when credit supply in Western capital markets suddenly dried up for socialist economies owing to changes in economic as well as political climate at the beginning of the eighties. Looking at the aggregate results in *Table 2* we can see that the policy of import substitution and a noted slowdown in the rate of economic growth brought about relatively large savings in the import bill. These, together with some very small increase in export shares, were more than sufficient to offset the negative effects of the second wave of external shocks on the balance of payments, so that reliance on external borrowing in meeting them could even decrease relative to the period between 1974–1978.

The picture gets some more colour if we look at the result in *Table 1*. Here we see that in the trade with non-socialist countries the import substitution effect was more pronounced during the 1979–1981 period than in the trade with socialist countries. Further on, the computations suggest that any gains in export shares between 1979–1981 only pertain to socialist trade while the losses of market shares in the trade with non-socialist countries continued on average with the same intensity as in previous years, and that the restrictive macroeconomic policies brought about the same relative savings in imports in both markets. Hence we may perhaps say that the balance-of-payments' effects of external shocks in the 1979–1981 period were met mainly by internal and "defensive" policy measures.

To conclude this section we note that Hungary appeared to suffer more from the first wave of external shocks between 1974–1978 than Czechoslovakia, primarily owing to her more profound terms-of-trade deterioration and to the greater opennes of her economy. Since the main and practically exclusively used tool of the policy response in meeting the adverse balance-of-payments effects of external disturbances was in both countries reliance on net external borrowing, primarily in the capitalist money markets, we would expect that the Hungarian debt accumulated during the years 1974–1978 must have been accordingly higher than the Czechoslovak debt. This, indeed, is what the various debt estimates to be found in the literature (see e.g. B. *Askanas* et al. [1]) seem to indicate.

As to the 1979–1981 period and further on, we are inclined to say that in this period Czechoslovakia might have suffered relatively more than Hungary, mainly owing to the deterioration of her terms of trade with socialist countries and to her greater share in this trade. Both countries applied primarily domestic policies as principal modes of response to this second wave of disturbances. This was certainly conditioned by past choices as well as by a new situation in the Western capital markets. For Czechoslovakia the evidence we present in *Table 2* shows that these policies concentrated on import substitution and restrictive macroeconomic measures. As to Hungary, we may say, on the basis of the similarity of movement of selected macroeconomic indicators for both economies, that the Hungarian authorities relied on similar policy responses to the second wave of external shocks as well (compare the figures in *Tables 4, 5, 6* and *7*, respectively).*

The rates of growth and the adjustment experience of Czechoslovakia and Hungary compared

In the aftermath of the first oil shock both countries planned practically to maintain the pre-shock rates of growth of aggregate output. Also the targets for the

*Additional evidence is provided by looking at the annual planned data and actual outcome in the period between 1974–1978.

growth rates of domestic aggregate expenditures were set quite high, though, judging by the outcomes, it appears that the Hungarian authorities were much less in control of the movements of main expenditure categories, especially investment, than the Czechoslovak authorities. One can see this by comparing the respective data on aggregate output and expenditures in both countries in *Tables 1, 4, 5, 6, 7**.

Thus the investment instability in Hungary was very pronounced in the seventies, with negative consequences for the balance-of-payments developments.** With very limited efforts at domestic adjustment and given losses of export market shares in non-socialist economies, Hungarian as well as Czechoslovak authorities took refuge in additional foreign borrowing. However, owing to the more severe external shocks and to the rather loose demand management policies especially as concerns investment) Hungary had to borrow more in international capital markets than Czechoslovakia. Both countries seemed to use borrowed funds not efficiently enough, since one does not see any visible effects of import substitution or export promotion policies on the balance of payments until late in the 1970s, and afterwards only import substituting policies were successful to some extent. On top of it, the domestic investment policies followed proved more and more costly over time as can be seen from the values of incremental capital-output ratios in *Table 3.* ICORs were rising in both economies more or less steadily throughout the decade between 1974–1983.*** These increases in ICORs in both economies coincided quite well with the noted rise of the share of investment going to the basic domestic (energy producing) industries, which are known to be relatively much more capital intensive with long gestation periods.

With the external disturbances and given demand management policies (priorities) and investment choices during the 1974–1978 period, the result was a steadily increasing foreign indebtedness of both economies with a noted rise of debt service ratios during 1974–1978. When in the late 70s and the early 80s the second wave of major international disturbances came, both countries had to reconsider their policy priorities, partly of their own will, partly they were forced to do so. Given investment choices in the mid-seventies, their branch as well as firm level structure****, only import substitution

*Of course, we also have at our disposal plenty of studies of Hungarian and other authors (using different methods of analysis) suggesting this conclusion and elaborating on it. See e.g. A. *Brown,* M. *Tardos* [5], L. *Csaba* [6], etc.

**See a number of articles documenting this point, e.g. T. *Bauer* [4], A. *Nagy* [13], Brown and M. Tardos [5].

***This applies more to Czechoslovakia and less to Hungary, as there was some temporary decrease in the value of ICOR for Hungary in the 1976–1979 period as against the 1973–1976 period. B. Bálassa et al. [3] attributed this to a more rational use of investment funds (3) in the 1976–1979 period, due to several policy changes, i.e. bringing the domestic price structure more in line with the external price structure.

****There is evidence in the case of Czechoslovakia that the most successful firms in the manufacturing industry as concerns export performance in the 70s were allocated relatively modest amounts of investment and manpower resources. See M. *Kòlanda* [10] on this point.

Table 5

Selected indicators of Hungarian macroeconomic performance
(average annual rates of growth in real or nominal terms in percent)

	1970–73	1974–78	1979–82	1981	1982	1983
National income produced*	6	5.5	1.8	2.5	2.6	0.4
National income used domestically*	5.3	7.3	−2.0	0.7	−1.1	−2.7
Net investment	6.8	15.8	−14.7	−8.6	−12.4	−21.1
Net fixed investment	15.4	6.4	−11.5	−18.4	−21.6	.
Consumption	5.3	4.5	2.0	3.0	1.4	0.7
Personal consumption	5.5	3.7	1.8	2.9	1.1	
Collective consumption	6.5	6.4	3.1			
Trade balance with SC (in percent of exports to SC)*	1.9****	−0.2	3.5	7.0	6.6	5.6
Trade balance settled in roubles (in percent of exports in roubles)*	.	−6.0	−11.1	−9.2	−12.2	−8.6
Trade balance with NSC (in percent of exports to NSC)*	−13.6****	−42.6	−15.4	−21.8	−1.9	−1.3
Trade balance settled in dollars (in percent of exports in dollars)*	.	−23.0	−1.9	−1.7	9.2	10.7
Real wages***	3	3.3	−0.9	1.1	−0.7	−3.1
Productivity in industry***	6.2****	5.9	3.7	5.0	4.5	3.1
Terms of trade	−0.4	−3.3	−1.1	−0.8	−2.2	1.2
Terms of trade with socialist countries	−0.7	−3.8	−2.0	−3	−5.1	
Terms of trade with non-soc. countries	0.1	−2.3	0.3	1.4	0.4	
Consumer price index	2.8****	3.8	7.4	4.6	6.8	7.3

Sources: see *Table 3*

Notes: *annual averages; **gross production per person in industry; ***per worker – employee earner; ****1971–1973.
SC = socialist countries
NSC = non-socialist countries

Table 6
Some indicators of Czechoslovak macroeconomic performance
(average annual rates of growth in real terms, in percent)

	1970–1973	1974–1978	1979–1982	1981	1982	1983
National income produced*	5.5	4.9	1.5	−0.1	0.2	2.4
National income used domestically*	5.7	4.0	−0.3	−3.4	−1.6	0.7
– Net investment	8.7	4.0	−4.5	−4.7	−3.6	−7.3
– Consumption	4.9	3.9	0.8	2.6	−1.1	2.7
– Personal consumption	3.8	3.7	−0.3	1.7	−2.3	2.9
– Social consumption	6.4	4.8	3.8	4.9	1.8	2.8
Trade balance with SC. (in percent of exports to SC)	4.6	−3.6	−2.9	−0.7	−2.6	−5.3
Trade balance with NSC (in percent of exports to NSC)	−1.9	−i5.4	2.4	7.4	11.8	18.6
Real wages***	3.3	2.2	−0.2	0.8	−2.6	0.7
Productivity in industry***	6.4	5.1	1.9	1.8	0.7	2.4
Terms of trade	0.3	−3.3	−2.2	−6.2	−0.8	−5.4
Consumer price index	0.3	1.0	3.1	0.8	5.1	1.0

Source: Statistical Yearbooks of Czechoslovakia; own computations

*Net material product; **Gross production per person in industry; *** employee and worker; SC – socialist countries; NSC – non-socialist countries

Table 7

Gross national income produced and used domestically in Czechoslovakia (average annual rates of growth in real terms, in percentages)

	1971–1973	1974–1978	1979–1982	1981	1982	1983	1984**
Gross national income produced* (MPS)	5.6	5.0	1.9	0.8	0.6	2.7	3.2
Gross national income used domestically*	5.9	4.3	0.3	−2.1	−1.0	1.2	1.6
Gross investment	6.4	5.3	0.2	−9.8	0.2	−1.1	.
Gross fixed investment	8.5	6.1	0.1	−2.2	−1.1	−2.4	.
Inventories	.	−5.2	23.7	−55.3	16.7	13.0	.
Consumption	5.8	3.9	0.6	2.5	−1.6	2.5	3
Personal consumption	3.6	3.7	−0.5	1.7	−2.4	1.9	2.0
Collective consumption	8.5	4.4	3.1	4.8	0.6	3.3	5.6

Source: Statistical Yearbooks of Czechoslovakia, own computations.

*Gross national income = net national income + depreciation of fixed capital

**Provisional data

brought some significant positive balance-of-payments effects, albeit at rapidly increasing cost in terms of declining economic efficiency of investment.* However, the balance-of-payments relief provided by import substitution was not big enough and both countries had to curtail imports even more in order to manage their balance-of-payments problems especially *vis-à-vis* Western economies. The curtailment of imports necessitated a noted slowdown or the rate of output in both economies.** At the same time, strongly restrictive policy measures aiming at the demand side of the economy had to be applied in order to shift real resources from the domestic economy into the external sector. On the aggregate demand side, however, the policies followed by both countries seem to differ somewhat. While in Hungary the burden of adjustment was borne mainly by gross investment which was declining on average by about 6.3 percent a year during 1979–1981 (see *Table 4*), the total of public and private consumption was still increasing at about the same rate as GDP (2 percent on average yearly). In Czechoslovakia, as we can see from *Table 7,* investment demand (i.e. gross investment expenditures) proved to be resisting to any substantially disproportional curtailment efforts and was in part increasing practically at the same rate as the aggregate absorption. Therefore, the total of public and personal consumption had to bear a considerable share of the real burden of adjustment. A closer look at the data in Table 7 reveals that it was personal consumption which suffered relatively the most disproportionally.

From the aggregates in *Table 4* to *7* one can also see some differences between the Czechoslovak and Hungarian economies as to their short-run macroeconomic performance at the beginning of the eighties. On the whole, from the respective data one gets the impression that the process of macroeconomic adjustment to external disturbances in the past decade had been completed in Czechoslovakia by 1982 (a sustainable trade balance compatible with the domestic balance–including a moderate rate of growth target–has been restored) and the stage seemed to be set for a careful acceleration of output as well as domestic absorption growth rates (see the results for 1983 and the provisional results for 1984), while in Hungary the process of macroeconomic adjustment in this sense was somewhat more delayed.

Obviously, when evaluating the short-term macroeconomic performance and short-term outlook in the eighties, one has to bear in mind that the sustainable output growth rates seem to be for both economies at most half of the rates reached on average at the beginning of the 70s, with obvious consequences for the domestic absorption growth rates. (This is partly attributable to the adverse effects of external disturbances on both economies and to the policy responses to them chosen by authorities under given

*Obviously, one has to be cautious how to interpret the values of ICOR since they are *ex post* values, a sort of lump-sum measurement.

**It is a matter of judgement to what extent this slowdown in the rate of output in both economies was also conditioned by new developments in the trade (especially energy trade) among socialist countries towards the end of the seventies and at the beginning of the eighties.

conditions. However, there seem to be some other longer-term factors at work which contributed to the decline of the long-run rates of growth of both economies,* despite the systemic differences.)

Conclusions**

We have tried to compare both the balance-of-payments impact of the international disturbances as well as adjustment to them in the case of two small open socialist economies—Czechoslovakia and Hungary—in the past decade or so. Using a common methodology we have found that the average adverse balance-of-payments effects of international disturbances were on the whole significantly higher for Hungary than in Czechoslovakia. We have also found that the balance-of-payments effects of policies followed by both countries in response to external disturbances were quite similar both in their macroeconomic as well as in some basic structural respects. (Over the longer run the instabilities of investment expenditures in Hungary, which were much more pronounced than in the case of Czechoslovakia, do not seem to modify the previous statement.) Most importantly, we have not found any significant differences in policy response patterns to external disturbances as between these two countries which we could possibly indentify with the different systemic policies followed.*** In particular, we have not found any significant differences in balance-of-payments effects of export promotion policies followed (resp., in investment allocation patterns) where we would presumably expect any eventual effect of systemic differences to show up most significantly. Hence, in terms of overall efficiency of adjustment both countries seemed to perform up to now on even terms. The question remains to what extent different systemic experiences of both countries eventually pave the way for possible future performance differences (which would be the results of differing efficiency in longer-term development strategies).

*Obviously, there is some kind of mutual reinforcement and interdependence between longer-term and shorter-term factors contributing to the decline of growth rates in both economies in the past five years. An interested reader might find useful hints how to analyse this situation in the instructive work by A. *Lindbeck* (11) for the case of advanced capitalist countries.

**We do not summarize all our findings here. We only highlight some of them so as to answer the question posed in the introductory remarks of this paper in the most concise way.

***In this conclusion we perhaps differ from some opinions in J. *Goldmann*, K. *Kouba* [9].

References

1. Askanas, B. et al.: Die Wirtschaft der RGW-Länder an der Jahreswende 1982/83. *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung,* 1983. 4.
2. Balassa, B.: The newly-industrializing developing countries after the oil crisis. *Weltwirtschaftliches Archiv,* 1981. 1. Band 117.
3. Balassa, B.–Tyson, L.: Adjustment to external shocks in socialist and private market economies. Paper presented at the *7th World Congress of IEA,* Madrid 1983.
4. Bauer, T.: Investment cycles in planned economies. *Acta Oeconomica,* Vol. 21, No. 3 (1978) pp. 243–260.
5. Brown, A.–Tardos, M.: The impact of global stagflation on the Hungarian economy. In: Neuberger, E.–Tyson, L. (eds): *The transmission of external disturbances to Eastern Europe and the Soviet Union.* Pergamon Press, New York 1980.
6. Csaba, L.: Impacts of world economic changes on the CMEA. *Acta Oeconomica,* Vol. 25, Nos 1–2 (1980) pp. 93–115.
7. Dyba, K.–Kupka, V.: Přizpůsobení československé ekonomiky vnějším nárazům. *Politická ekonomie* č. 1, 1984.
8. Dyba, K.: *Československé vnější ekonomické vztahy* (analytická studie). Academia, Praha 1980.
9. Goldmann, J.–Kouba, K.: Terms of trade, adjustment processes and the economic mechanism (a quantitative approach). *Acta Oeconomica,* Vol. 32, Nos 1–2 (1984) pp. 137–160.
10. Kolanda, M.: K. problémům exportních výkonů podnikové sféry čs. zpracovatelského průmyslu. *Ekonomické modelování,* 1984. 2. ČSVTS–SBČS Praha.
11. Lindbeck, A.: The recent slow-down of productivity growth. *The Economic Journal,* March 1983.
12. Marton, A.: *World market prices and the Hungarian terms of trade in the 1970s.* The Vienna Institute for Comparative Economic Studies, No. 71. September 1981.
13. Nagy, A.: Growth and trade: the Hungarian case. In: *Foreign trade and price formation.* Economic Planning Centre, Helsinki 1979.
14. Olgaard, A.: *Growth, productivity and relative prices.* North-Holland Publishing Co., Amsterdam 1972.
15. Portes, R.: Effects of the world economic crises on the East European economies. *The World Economy,* 1980. No. 1.

ПРИСПОСОБЛЕНИЕ К МЕЖДУНАРОДНЫМ НАРУШЕНИЯМ ЭКОНОМИЧЕСКОГО РАВНОВЕСИЯ НА ПРИМЕРЕ ЧЕХОСЛОВАКИИ И ВЕНГРИИ

К. ДЫБА

Автор предпринимает попытку сопоставить, с одной стороны, воздействие внешнеэкономических неурядиц на платежные балансы двух малых социалистических стран с открытой экономикой — Чехословакии и Венгрии — и, с другой стороны, процессы приспособления к ним последних в течение минувших десяти с лишним лет. Применяя единую методологию анализа, автор нашел, что международные неурядицы неблагоприятно повлияли на платежный баланс Венгрии в среднем в значительно более высокой степени, чем на платежный баланс Чехословакии. Он также установил, что эффекты с точки зрения восстановления равновесия платежных балансов экономических политик, проводившихся обеими странами в ответ на внешние нарушения, были очень сходны как

по их макроэкономическим масштабам, так и по их основным структурным характеристикам. (На более длительную перспективу нестабильность капитальных вложений в Венгрии — гораздо более сильная, чем в Чехословакии, — едва ли изменит справедливость этого вывода.) Более важно, что автор не нашел каких-либо значимых расхождений в схеме экономико-политических реакций на внешнеэкономические неурядицы в двух рассматриваемых странах, которых возможно следовало бы считать представителями разных системных подходов к экономической политике. В частности, автор не установил никакой существенной разницы в воздействии на платежные балансы курсов на развертывание экспорта (и, соответственно, направлений распределения фонда капитальных вложений), хотя, предположительно, в этих областях следовало бы ожидать прежде всего характерного проявления эффекта системных различий. Таким образом, с точки зрения совокупной экономической эффективности курсов на приспособление результаты обеих стран вплоть до настоящего кажутся примерно равными. Остается, однако, открытым вопрос, в какой степени может различный системный опыт двух стран повести в будущем к возможным различиям в эффекте хозяйственной деятельности (что явилось бы результатом различной экономической эффективности стратегий долгосрочного развития).

Acta Oeconomica, Vol. 34 (3–4), pp. 339–359 (1985)

TRADE WITH THE SOVIET UNION: THE CASE OF AUSTRIA*

S. RICHTER

Up to 1971, Austria's trade with the Soviet Union was conducted within a framework similar to that regulating trade between small Eastern-European countries and the Soviet Union. In 1971 the clearing system was replaced by a system of settlement in hard currencies. In the debates preceding this change, several experts argued against the new system, fearing that enterprises exporting to the Soviet market might find their competitiveness adversely affected, if the relative safety provided by export quotas were to disappear. Such pessimistic assumptions were not justified. Although there has been a permanent deficit in the balance of trade since the oil price explosion, Austrian exports to the Soviet Union increased at a higher rate than total exports, contrary to the pre-1971 development.

However, no solution has been found up till now to the problem of reciprocity. The functioning of foreign trade administration in a centrally planned economy make the benefit levelling mechanisms elaborated for market economies irrelevant.

Development of Austrian–Soviet economic relations until 1955

The history of Austrian-Soviet economic relations may be divided into three stages. The first stage lasted from the beginning of the 1920s till the early 1930s, the second from 1945 to 1955 and the third stage began in 1955, lasting to the present.

Austria was the first among Western states to draw up an agreement with the USSR in the summer of 1920 on the mutual exchange of representatives, who were given the task, among others, to develop economic relations. In 1921 the first ever East-West joint venture was founded, the Austrian-Soviet trading company called Rusawstrog.

Trade between the two countries reached its highest level of that time in 1929–31. It was not significant considering global data–in 1929 2.8 percent of Austrian exports were delivered to the USSR and 0.8 percent of imports came from there–but for some key industries, precisely in the years of the depression, amidst ever narrowing export possibilities even this became very important. [1] In 1929–31 40 percent of Austrian steel plates and sheets exports were delivered to the USSR, and deliveries of the machine industry were also significant. Austrian imports from the USSR were made up of raw materials and foodstuffs. Trade between the two countries declined following the Austrian civil war in 1934 and ceased after the Anschluss.

*This article is based on the author's study "Some aspects of economic relations between Austria and the Soviet Union", Vienna Institut for Comparative Economic Studies, *Forschungsberichte*, No. 101. November 1984, Vienna.

After 1945 Austria was divided by the Allied Powers into occupation zones, similarly to Germany. As a consequence of this the economic development of Eastern and Northern territories of Austria controlled by the USSR and that of the territories controlled by Western powers were somewhat divergent in the period 1945–55.

The key-issue of Austrian-Soviet economic relations of this period was *the activity of enterprises under Soviet disposition.*

The legal basis for Soviet control over these enterprises was created by the resolution adopted at the 1945 Potsdam Conference declaring that occupying powers might dispose of German properties to be found in Austria.

The text of the resolution made possible various interpretations concerning ownership. As a consequence, the USSR declared enterprises and agricultural areas considered as previous German properties within its occupation zone its own properties in July, 1946. The ownership of these enterprises gave cause to disputes, especially after the greatest nationalisation programme in Western Europe ever experienced had been unanimously passed by the Austrian parliament in 1946 and 1947. This nationalisation was extended to all big banks, most important enterprises of the metal and steel industry, electric energy administration, a wide range of enterprises of extracting industry, several enterprises of electric and machine industries, and the Danube Steamship Company.

The Western powers had given nationalised enterprises in their own occupation zone into Austrian hands after a short transitional period. In the eastern regions of the country, in the Soviet occupation zone these enterprises had remained under Soviet control until 1955.

Between 1945 and 1955 252 industrial and 140 agricultural plants with about 45.000 employed persons had been under Soviet control in Austria. [2] The common name of these enterprises was USIA plants (USIA: Upravlenie Sovietskogo Imuschestva v Avstrii=Directorate of the Soviet Assets in Austria).

USIA plants worked on the basis of Soviet plans and the primary goal of production was to ensure commodity funds for deliveries to the Soviet Union. The exact value of these deliveries is unknown up to now. According to an Austrian estimate the net export of USIA plants, the oil deliveries to the Soviet Union and connecting costs corresponded to a capital transfer value of 24.2 billion schillings. [3]

USIA plants sold a part of their production in the Austrian market, occasionally export activity to the West was also possible and by the end of their ten year existence they developed more intensive contacts with their immediate economic environment. As a consequence, their integration into the Austrian economy in 1955 took place mostly without greater shocks. A part of these enterprises could maintain the relations developed earlier with Soviet partners–of course on a new basis–, while in other cases transition into the hands of the Austrian state brought about a radical elimination of previous contacts. Occasionally this created critical situations, since the sales of products not marketable outside the Soviet sphere went beyond the capability of the enterprises that found themselves under suddenly changed conditions. [4]

As a compensation for the transition of the USIA plants into Austrian property Austria paid 6.6 billion schillings between 1955 and 1963, equal to 0.5 percent of the cumulated GDP of the period. [5]

Austrian-Soviet trade in the mirror of figures*

The order of magnitude of Austrian-Soviet trade had taken shape by the early sixties and has not changed much since then. In the last two and half decade approximately 3 percent of total Austrian exports went to the Soviet Union and up till the late seventies also 3 percent of total imports came from there. Since 1980 the share of the Soviet Union in imports has not been lower than 4 percent and in 1981 was more than 6 percent.**

The main characteristics of commodity patterns have remained unchanged in the last two and half decades: in Austrian exports manufactures dominate while in imports energy and raw materials. Though the type of exchange has not changed, detailed analysis of commodity patterns shows significant shifts mainly in Austrian imports.

The extreme dominance of *energy sources* and *raw materials* in imports from the USSR has developed gradually. The imports of *agricultural products and food* had exceeded one fifth of imports in 1961, and fell below 10 percent only in 1969. This is understandable since cereal and cereal product imports dominated within this commodity group, and the USSR became a net grain importer since the beginning of the 1970s.

Up to 1974 the share of *manufactured products* in imports from the USSR had varied between 10 and 25 percent. Within this the imports of machines and transport vehicles were minimal from the early 1970s on, but in the early 1960s that share had occasionally approached even 10 percent. The small imports of recent years include ships, Lada cars and machine-tools for metal working. The commodity group of *semifinished products* had a share above 5 percent in imports in the 1960s and in the first part of the 1970s and consisted mainly of iron and steel products as well as non-ferrous metals. Since 1980 more than 80 percent of imports have been made up of *fuels* whose share has gradually increased from 40–50 percent in the early 1960s to the record level of 90 percent in 1981. The composition of the fuel imports has been subject to considerable changes in the period examined. In 1961–1965 more than 60 percent of imports of these products consisted of coal, while the remaining part was oil. Natural gas deliveries, started in 1968, exceeded the share of also growing oil imports by 1980, while the share of coal imports diminished to an insignificant value.

*Statistical data in this chapter are taken from the data basis of OECD and are identical with data in "Trade by Commodities, Series C" of OECD.

**Without intermediate trade.

By the late 1970s the share of *raw materials*, previously exceeding in some years one fifth of total imports, decreased to under 10 percent. Within this commodity group the share of iron ore is important. In some years crude fertilisers and crude minerals amounted to one third of the imports of this commodity group. The import of pulp and paper was of temporary importance, too.

In Austrian *exports* to the Soviet Union manufactures have had a share of higher than 90 percent since the early sixties. The share of *machines and transport vehicles* amounted to 40–50 percent in the 1960s but later on it diminished and dropped considerably in 1980 and 1981. Within this commodity group the most important products were metal working machinery, non-electrical machinery and appliances, equipment for distributing electricity, paper mill and pulp mill machinery, and furthermore machines for special industries. In the sub-group of transport vehicles the export of ships was significant. Parallel to the decreasing share of machines and transport vehicles the share of *semifinished products* considerably increased. In this commodity group iron and steel products are of determinant importance. Their share in *total* Austrian exports to the Soviet Union amounted to a quarter or even one third from the early 1970s on and approached 50 percent in 1981. Out of the two other groups of manufactured products the exports of *chemicals* amounted to more than 15 percent of total exports from the late 1960s on, but their share decreased to about 10 percent by the late 1970s. In the commodity group of industrial consumer goods and other finished products, having a share of about 10 percent since the late 1960s in exports, about 50 percent fell to shoes.

The part of Austrian exports to the USSR not belonging to the sphere of manufactured products is very small. Within this, however, the appearance, since 1980, of cereals is remarkable.

Change in the settlement of payments

The legal framework of Austrian-Soviet trade is provided by various trade and payments agreements concluded since 1955. The most important element of the system of agreements is the Treaty on Trade and Shipping between the Republic of Austria and the USSR, drawn up in 1955 without term of expiry. Its most important chapter is the granting of most favoured nation status to the USSR and vice versa.

Some months after the conclusion of the State Treaty between Austria and the USSR, in October 1955 a long-term Agreement on the Exchange of Goods and Payments was signed that served as the fundamental institutional framework of economic relations between the two countries right up to 1970 and contained a general regulation of trade and payments. This 15-year agreement was supplemented by the three-year agreement for 1958–60 and the five-year ones for 1961–65 and 1966–70, respectively. [6]

What is the practical importance of all these trade agreements? These agreements–mainly the three-year and five-year ones–had been of special importance until 1971: due to the clearing system valid between the two countries and the resulting system of quotas

(list of goods) the way to the Soviet market for Austrian exporters led through quotas fixed in these agreements, and Austria similarly regulated the range, value and quantity of goods to be imported from the USSR by means of quotas.

The role of Austrian export quotas was increased by the Austrian *export surplus* considerable almost every year until 1970 and the clearing system restricting the further increase of exports. Due to the fact that export could not be increased at will, the inclusion of a given product or product group in export quotas increased the export possibilities of producers of these products while minimising the possibility of export of products left out of these quotas. In some cases potential Austrian exporters of individual products competed for quotas, i.e. export possibilites. The outcome of this competition was decided by the Soviet buyers. Austrian authorities did not interfere with this competition and did not coordinate the activity of competing Austrian enterprises.

Export and import quotas were fixed for one or five years. Yearly quotas were either tacitly prolonged, or modified at the (usually yearly) sessions of the Austrian-Soviet Joint Commission.

The practical importance of trade agreements has decreased, but not ceased following the change in 1971 to trade settled in convertible currency. Preliminary agreements on deliveries of large volume by both parties and their modification, respectively, are included in trade agreements which continue to fulfil some information role.

Since the early 1970s settlement in trade between Austria and the USSR as well as East European countries has been in *convertible currency,* free of any restrictions. The change to payment in convertible currencies in Austria-Soviet trade took place on January 1, 1971, i. e. nearly one and a half decades ago. Yet the long period of clearing, with its effects felt even nowadays and the debates on this change all justify a more detailed analysis of the circumstances of the change.

For an understanding of the debate on the change the knowledge of certain circumstances is required. One of them is that the *IMF* urged Austria several times to eliminate the clearing system whereby settlement of payments took place in clearing dollar, since the IMF statutes forbade member countries a dual exchange rate system. In case of Austria the exchange rate system was really not unified because of the difference between "real" dollars and "clearing" dollar(s) used in bilateral clearing trade with the USSR and East European countries. [7] Another important circumstance was that the *USSR* had asked for change to settlement in convertible currencies, on the grounds that the payments in her foreign trade with all other important Western partners had already for years been settled in convertible currency.* When making this proposal the USSR could not have any direct financial motivation, since foreign trade turnover in the 1960s showed considerable Austrian surpluses in each year except one. The amount of Austrian

*Of West European countries only Austria, Finland, Cyprus and Spain maintained a clearing system with the USSR in 1968. Great Britain changed to trade settled in convertible currencies with the USSR in 1958, France, the FRG, Italy and Switzerland in 1960. [8]

surpluses often exceeded the overdraft of 5 million dollars determined in payment agreements and this meant additional interest free credits for the USSR.

The 1973 oil price explosion and the following Austrian deficits in the balance of trade could not yet be foreseen in 1971, i.e. at the time of the change, therefore the Soviet demand for settlement in free currency cannot be assumed to be motivated by the expectation of a reversal in the balance of payments.

An *inner circumstance* influencing attitudes towards the change was the development and expansion of switch business. Considerable trade assets developing from year to year not only with the USSR, but also with other East European countries in the 1960s made the transformation of clearing assets into money to be spent anywhere an issue of vital importance. This need called the Austrian commercial enterprises dealing with switch deals into being.* Switch deals affect the balance of a given bilateral relation; the preponderance of export switch increases the surplus (or decreases the deficit), while that of import switch decreases the surplus (or increases the deficit).

The activity of Austrian enterprises specialised in switch deals rapidly outgrew the role of a "mobiliser" of frozen assets. In the course of their expansion, trade in clearing currencies used in payments between developing countries and CMEA countries as well as the mobilisation of assets accumulated in the settlements of payments between CMEA countries was also drawn into their deals.

Because of permanent Austrian surpluses in Eastern trade in the 1960s, Austrian foreign trade management limited *West-East,* i.e. export switch deals based on buying for convertible currency and selling against clearing dollar: enterprises involved in such deals were obliged to buy something, up to the value of their deliveries, in case Austrian surpluses in the given period in that bilateral relation exceeded the overdraft limit. As a consequence of this regulation enterprises in that situation could obtain convertible currency only following a switch deal of opposite direction, selling for convertible currency the products they were obliged to buy for clearing currency. In this way it could be avoided that export switch deals further increase Austrian assets, thereby decreasing export possibilities for Austrian home producers.

Between 1967 and 1971 there was another regulation concerning the share of convertible currency import in products exported to CMEA countries. [10] An exporter

*Basic types of deals occurring in Austria's Eastern trade at the time of clearing settlement were the following: export switch, where an Austrian merchant sold goods bought in a third country for convertible currency, against clearing currency in a CMEA country; import switch, where goods bought in a CMEA country for clearing currency were realised in a third country against convertible currency. The round switch was made up on an export and an import switch, where the entire deal should bring profits, though the export switch may even result in a loss. Beside the basic types of switch deals described here several other, occasionally very complicated, multi-step deals were also realised. A unit of clearing currency is worth less than the same currency when convertible—due to the limited possibility of spending the former (a clearing dollar is worth less than a real dollar) and the measure of this difference is shown by the disagio of clearing currency as against the real one. In the Eastern trade of Austria the disagio of clearing currencies amounted to 12 percent on the average in the first part of the 1960s and to 4–5 percent in the late 1960s. [9]

could obtain an export licence,* only if the Austrian share in the value of goods was at least 75 percent in case of manufactured products and 65 percent in case of other products. If the import share of exports bought against convertible currency exceeded 25 and 35 percent, respectively, the exporter was obliged to buy something against clearing currency in the given country up to the value of the excessive share. Then he could sell these goods against convertible currencies in the framework of an import switch deal. [12]

Since import switch deals were not restricted in any way when goods bought against clearing currency were sold against convertible currency, while deals in an opposite direction could take place usually only in case of repurchase in the same value, *switch deals as a whole had the effect of reducing Austrian trade surpluses.*

Summarising the role of inner and external factors influencing the change in the system of payments we may say that for Austria there was no compelling need to change to settlements in convertible currency, even despite considerable trade surpluses, because of the wide-range activity of enterprises specialised in switch deals. Out of the external factors the Soviet demand for the change could surely have been vetoed, since the USSR had and even at present has a clearing trade with Finland. Probably the pressure on the part of the IMF could also have been repelled. Though some experts claim that the change was a result of completely intractable external factors, the debate between those in favour of the change and Austrian institutions and specialists arguing for maintaining the clearing system that existed prior to the change shows that there was some room for manoeuvre.

Debates on the change

Debates were going on not only on the settlement of payments in Austrian-Soviet trade, but on settlement of payments in trade with CMEA countries in general. One of the arguments of those *in favour of the preservation of the clearing system* was that under the clearing system CMEA countries were forced to spend incomes resulting from their exports to Austria in this country, therefore the clearing system ensured at least the same amount of exports to as imports from CMEA countries. [13] At the time of the debates this argument was not too convincing, considering the large Austrian surpluses achieved with CMEA countries in the 1960s. According to this author, pressure for imports arose on the Austrian side, due to the repeated surpluses, bringing about switch deals that created additional export possibilities indirectly by their contribution to the enlargement of volume of trade. Endeavours for bilateralism directly followed from the economic policy of planned economies, which should be reckoned with also when changing to settlements in hard currency, but in a much more disadvantageous and outdated form, in

*A licence was required (among others) for both export and import in the framework of compensation and barter deals, for the export of goods of non-Austrian origin. Licences were issued by the Ministry of Trade, in case of certain goods by the Ministry of Agriculture. [11]

the framework of barter and other compensation deals. The positive experience concerning the change to payments in convertible currency in trade with Yugoslavia are no guarantee with CMEA countries, since market elements are asserting themselves much more freely in Yugoslavia. It is no guarantee either, that other Western countries had already previously changed over to payments in convertible currency in trade with CMEA countries, since the share of CMEA countries in their foreign trade is not so important as in case of Austria (except for Finland, but just there the clearing system was preserved with the largest CMEA partner, the USSR).

Experts of the Ministry of Trade were of the opinion in 1969—as against experts of the National Bank in favour of the change—that the clearing system meant competitive advantages for enterprises exporting to CMEA countries. [14] According to their argument it is psychologically easier for a buyer from a CMEA country to buy against "clearing" dollar, than to pay with convertible currency for the same product. There were also concrete cases when the manufacturer of an Austrian product of poorer quality obtained the order in competition against Western rivals requiring payment in convertible currency.

An expert of the National Bank submits the result of a survey of the Ministry of Trade according to which only 25 percent of the Eastern exports of Austria were competitive (i.e. could be sold in international competition) without the protection of the clearing system. The expert, commenting the results of this survey, considers this share of 25 percent too low and in his opinion even half of the exported products would be competitive. The fact that the change to settlements in convertible currency would threaten even the existence of some firms specialised in exports to CMEA countries is judged as positive by the author, and at this point we may also begin with the presentation of arguments of specialists speaking *in favour of the change* to payments in convertible currency: the shutting down of guaranteed markets of backward enterprises having become "spoiled" would force the industry to implement long desired structural changes. [15]

Another article of that time raised the same problem: under the protection of bilateralism fixed quotas had "spoiled" some enterprises, since the effect of qualitative competition was missing here. [16] The argument that in case of a change CMEA countries would spend the money earned through their exports somewhere else may be countered by the argument that there is exactly the same possibility of spending incomes resulting from exports to other countries in Austria. [17] One author argued that an adjustment of Austria to other Western countries making settlements with CMEA countries in convertible currency was required. It was time for Austria to take this into consideration, especially in trade with the USSR, since Austria's market share diminished here by one third between 1961 and 1965. While the USSR opened towards the West, Austria has lagged behind. Payments in convertible currency may contribute to faster expansion of trade by removing restricting frameworks. [18]

Another article enumerates further advantages of the change. Following it there would be no more need to grant credits to CMEA countries amounting in some years to

as much as 17 million dollars free of interest (overdraft), whereof 5 million dollars to the USSR. Losing the safety provided by quotas CMEA countries would be subject to competition and forced to deliver goods of better quality to Austria. In import against convertible currency prices would be lower than in clearing trade. [19]

Another article maintained that the clearing system was outdated and it was expected from the new system of payments that additional possibilities would be provided for the purchase of energy sources; and that subsequently the USSR would be willing also to sell certain products to Austria which Austrian enterprises had previously demanded, but which the Soviet party would have sold only against convertible currency: ores, rare metals, nickel, asbestos and certain chemical products. [20]

The change enacted

Austria changed to settlement of payments in convertible currency in its trade with the USSR on January 1, 1971 and in trade with other CMEA countries in the course of 1971–1972. Shortly thereafter conditions of Austrian-Soviet trade changed radically, and lasting Austrian trade deficits have developed. (See *Table 1.*)

It is a fact that some of the worries of those opposing this change-over were justified. Trade with the USSR showed a negative balance for Austria in 1971 and 1972, i.e. in the two years following the change, but still *preceding* the oil price explosion. Deficits exceeded surpluses attained in any of the previous years by Austria. In 1971 Austria's exports to the USSR decreased by 16 percent, while her imports increased by 35 percent. [21] In addition to these figures it may be mentioned that no important structural change took place in imports in these two years that could explain this sudden increase, nor were important items eliminated from Austrian exports, as witness the unchanged export structure. It may be imagined that in this sudden change of trends a compensation for Austrian surpluses existing immediately prior to the change-over and the requirement of closing the clearing system finally with a zero balance had some part.

Soviet surpluses becoming greater from year to year after the price explosion of energy sources have led in 1981 to the USSR spending elsewhere about two thirds of the receipts obtained in Austria. While in the 1960s Soviet deficits provided a successful basis of reference for the Soviet representatives demanding the increase of Austrian imports, Austrian delegates failed in the 1970s to urge greater Soviet purchases of Austrian products by pointing to the Austrian deficit.

With the elimination of bilateralism accomplished in the clearing system, another, more primitive type of bilateralism has begun to gain ground in the form of various counter-trade deals. However, this phenomenon had positive effects, as well, since for trading companies specialised in solving the problems of clearing trade by mobilising "frozen" assets and having grown rich through switch deals in the 1960s, the spread of counter-trade deals in the 1970s meant a second boom. Deals connected with the conversion of clearing currencies were pushed into the background due to the gradual

Table 1

The balance of Austrian foreign trade between 1961 and 1983

(in million dollar, at current prices)

Year	USSR	CMEA(6)	OECD	OPEC	Developing countries	Total
1961	−2.6	24.4	−331.3	8.2	19.0	−282.1
1962	10.3	6.1	−321.1	11.1	5.8	−288.0
1963	10.2	−14.3	−346.4	10.5	−9.0	−349.0
1964	5.7	10.9	−433.7	13.9	−13.5	−416.3
1965	4.4	13.7	−528.6	23.8	−13.9	−500.3
1966	10.8	26.5	−659.9	19.6	−41.2	−643.7
1967	10.6	73.8	−611.6	22.8	3.7	−500.3
1968	10.0	40.9	−581.7	25.5	−3.6	−506.9
1969	2.5	51.5	−486.6	20.6	−1.7	−412.6
1970	4.0	31.0	−768.1	19.3	18.3	−694.7
1971	−36.1	38.3	−1049.4	−23.3	52.5	−1017.4
1972	−18.8	31.7	−1350.9	−28.0	41.8	−1323.0
1973	−40.7	54.8	−1806.7	−58.6	63.5	−1785.8
1974	−48.5	208.1	−2078.4	−326.8	274.4	−1964.2
1975	−101.2	373.3	−2469.0	−114.8	322.6	−1960.2
1976	−180.2	368.9	−3401.4	−9.3	156.4	−3048.6
1977	−227.2	392.9	−4747.1	0.7	98.2	−4478.3
1978	−236.3	507.8	−4185.8	−59.3	169.2	−3801.5
1979	−247.7	478.1	−4944.8	454.2	393.6	−4752.3
1980	−546.5	283.0	−6236.9	−755.3	294.2	−6952.3
1981	−826.5	133.4	−4560.3	−412.9	485.4	−5172.9
1982	−439.0	4.1	−3878.2	161.0	291.2	−3860.9
1983	−226.8	58.0	−4245.8	399.2	18.9	−3996.8

Source: For 1961–1981: computations on the basis of OECD data.
For 1982–1983: computations on the basis of WIFO data.

elimination of clearing payments; nevertheless, the knowledge of goods and markets of the East, West and South acquired through switch deals as well as personal connections were largely utilised with the sale of products imported by Austrian enterprises in counter-trade deals and in a form of special counselling for Austrian exporting enterprises undertaking counter-trade deals.

Thirteen years after the elimination of the clearing system Austrian experts gave various answers to the question *whether it had been a good decision to eliminate clearing.* According to some experts the question cannot be raised in that form, because at that time Austria had been in an emergency situation: the Soviet demand for the change in the settlement of payments and the IMF request to eliminate the dual exchange rate system had to be complied with, thus there had been no alternative to that decision.

The expert opinions according to which *there had been a possibility of choice* between the clearing system and convertible currency payments despite the coercive force

of circumstances may be divided into two groups. In the opinion of some of them the decision had been *wrong* because the enormous deficits in trade with the USSR could have been prevented, i.e. in a clearing system the Soviet Union would have been forced to spend approximately as much in Austria as its export incomes were. According to another argument only Austrian enterprises had competed for orders in the clearing system, while after the change-over they had to cope also with international competition, which led to reduced orders and lower export prices than under the clearing system.

The majority of experts, however, are of the opinion that the decision had been *correct* and when making it Austria had taken a step in the direction of free trade and the increase of international competitiveness of its enterprises. The pessimism concerning competitiveness of exports to the CMEA did not prove justified; exports to both the USSR and other CMEA countries were dynamically growing in the 1970s, though they could not keep abreast of the growth of imports from the USSR.

Table 2

Yearly average growth rate of Austria's exports and imports in various periods

	USSR	CMEA(6)	OECD	OPEC+Developing countries	Total
Exports					
1981/61	12.9	12.2	13.6	16.0	13.6
1971/61	4.8	8.7	16.8	10.0	10.0
1981/71	21.5	15.8	16.8	22.3	17.7
1975/70	20.8	29.0	18.4	28.7	21.1
1981/75	14.9	4.8	14.5	15.6	13.5
Imports					
1981/61	18.3	12.7	13.7	17.0	14.2
1971/61	8.7	9.4	10.9	11.3	10.8
1981/71	28.7	16.1	16.5	23.0	17.7
1975/70	32.0	20.3	20.7	26.8	21.5
1981/75	27.0	11.3	13.3	18.8	14.4

Source: Computations on the OECD data basis.

In dollar terms, Austria's export to the USSR increased by 12.9 percent yearly on the average considering the entire period between 1961 and 1981, little lagging behind the 13.8 percent average increase of total exports.

In the period 1961–1971, i.e. when the payments were still being settled in bilateral clearing between Austria and the USSR*, the growth rate of Austrian exports to the Soviet Union did not reach 5 percent on a yearly average, while the growth rate of total Austrian exports was 10 percent. As against this, in the period 1971–1981, *following the change to convertible currency payments exports to the USSR increased by*

*Except for 1971.

yearly 21.5 percent on average, while the growth rate of total Austrian exports was less than that in these years, amounting to 17.7 percent.

Other experts favouring the change to settlements in hard currency claim that a certain amount of trade deficits would have been brought about anyway because of price increases of energy sources, if not in the Soviet, then in the OPEC sphere. Had the clearing system been maintained the USSR could have decided also to export less gas and oil to Austria in order to diminish her import obligations deriving from the clearing system. A reduction of trade deficits is possible mainly by increasing the competitiveness of Austrian products as well as by means of adequate efforts of economic diplomacy. The protection deriving from clearing could prove very counter-productive in the long run.

Possibilities of Austrian trade policy

In this chapter it will be attempted to review the goals, the sphere of operation and applicable means of Austrian foreign trade administration in trade with the Soviet Union. Austrian trade policy aims in trade with the USSR are probably the following:*

a) to secure and extend trade outlets,
b) to ensure a continuous import of energy sources of vital importance for Austria,
c) to control and influence the role of the USSR as a supplier of gas and crude oil,
d) to obtain material reciprocity for trading concessions,
e) to guard against market disturbance.

Out of these purposes (a), (d) and (e) do not differ from those in any trade relation, while (b) and (c) may be found also among goals determined in trade with OPEC countries.

The really important differences between Soviet and other trade relations in implementation of trade policy targets are to be found in the extent of sphere of operation of trade policy as well as in applicable means to achieve these aims.

Sphere of operation

The expansion of Austrian exports to the USSR has certain political limitations: the increase of West-East technology transfer realised through Austria is obviously not possible without some limitations. This refers not exclusively to intermediate trade, but also to products of high technological level of non-Austrian enterprises having their plants in Austria (particularly concerning production under licence) and of joint ventures, respectively.**

*An adaptation of *Stankovsky*'s definition elaborated for Austria's eastern trade. (Stankovsky: Austria's Foreign Trade. The Legal Regulation of Trade with East and West. *Journal of World Trade Law*, Vol. 3, No. 6. 1969. p. 628)

**In 1984 a new law was introduced that tightened the regulation of technology transfer through Austrian firms.

The intermediary activity of Austrian enterprises is an important and steadily growing part in Austrian-Soviet economic relations. In 1972 4.7 percent, in 1983 already 7.8 percent of total Austrian intermediate exports were delivered to the USSR, while Soviet goods had a 2.4 percent and 3.1 percent share, respectively, in total Austrian intermediary imports. According to these data Soviet share in Austrian intermediate exports increased considerably in the last ten years and significantly exceeded the respective Soviet shares in direct export.

Although data of intermediary trade are excluded from OECD data presented in this study, a comparison of the value of intermediate exports and imports to that of non-mediated trade reveals the significance of this aspect of Austrian-Soviet trade relations. While Austrian intermediate export to the Soviet Union corresponded only to 13 percent of non-mediated trade in 1972, this proportion was a high as 20 percent in 1979 and 40 percent in 1983. [22] On the commodity pattern of Austrian intermediate exports to the Soviet Union the author of this paper had no available data.

It should also be mentioned that the sphere of operation of Austrian trade policy is limited also in the prevention of market disturbance, because on the one hand no quantitative restrictions are imposed on Soviet imports and on the other hand the procedure of countersigning* to control prices of imports from East European countries may not be applied. However, because of the commodity pattern of imports from the USSR, it is only of theoretical importance.

At the same time, the sphere of operation of trade policy has its inner limitations, too. Trade concessions making import goods cheaper–and thus the import of Soviet goods to Austria, too–may be taken only after a many-sided, multi-level reconciliation of interest. Concerning tariff concessions not only the interests of domestic enterprises endangered by cheaper imports mean a hard barrier. Trade policy should take Austria's international obligations resulting from GATT membership into consideration, namely, that preferences granted to a given country may cause disadvantages for others and these latter may retaliate against Austria.

Means

Trade policy may attain its goals only by means adapted to the particularities of the Soviet partner. Export positions acquired on the Soviet market may be preserved and extended partly in the course of the continuous functioning of the given institutional system, in the first place when concluding or prolonging agreements at meetings of the Joint Commission. Beside this, mutual visits of high-ranking politicians, exhibitions,

*The obligation of countersigning means that with certain imported goods–wherein dumping may occasionally occur–the pro forma invoice must be countersigned by the Ministry of Trade or in case of agricultural products by the Ministry of Agriculture. Countersigning is applied only if competent specialists are convinced that the import of the given product will not upset the market as regards price.

symposia, fairs as well as the special market research activities of trade representations tuned in with the five-year and yearly plans are of special importance in Soviet trade.

To ensure continuity and if necessary increase the import of energy sources, it has been Austrian trade policy to concentrate handling at directly coordinated top-level: the overwhelming part of the import of energy sources from the USSR is handled by the state-owned enterprise ÖMV.

Attaining reciprocity for trade concessions is a task of economic diplomacy. This goal may directly be attained by the request, that the Soviet party enable some form of Austrian participation in one or more planned investment projects, or indirectly, by creating an atmosphere of greater Soviet willingness to buy from Austrian firms.

Since the 1975 elimination of quantitative restrictions, protection against market disturbance by imports from the USSR is implemented by means of customs restrictions, since Austria does not apply the procedure of countersigning against the USSR. Here various concessions granted in the field of customs duties may be mentioned as potential tools of trade policy. This happened at the end of the 1970s for a short period when customs duties imposed on some types of imported cars were mitigated by taking into consideration the physical parameters of Soviet cars.

Is there any guideline or *"philosophy"* in Austria's policy on Eastern trade and within this on trade with the USSR? Austrian experts mention as a guideline that Austria should be as liberal as possible in its trade in all directions and not create any disadvantage for the country's traditional Soviet and East European partners as compared with other countries.

After having discussed the sphere of operation, aims, means and philosophy of trade policy towards the Soviet Union it may perhaps seem surprising that according to a considerable number of Austrian experts *no consistent Austrian trade policy elaborated in detail* exists concerning trade with CMEA countries and this applies also to Austrian-Soviet trade. It is made up of a series of ad hoc measures. The trade policy acting in the spirit of the above philosophy and making various decisions loosely connected with each other, however, has practically only one weak point, namely, the aimed-at reciprocity in exchange for trade concessions granted by Austria. Austria had received no compensation from the USSR and East European countries in exchange for its one-sided elimination of quantitative restrictions in 1975 as the first among Western countries. According to certain views this measure was so to say a "recompense" for the USSR and East European countries in exchange for the elimination of customs duties between Austria and other West European countries following the agreement between the EFTA "rest" and the EEC. According to another view no formal reciprocity may be asked for from countries with centrally planned economy, since they do not have those traditional tools of trade policy whose modified application could provide some compensation, or, even if these tools are available, the state monopoly of foreign trade creates quite a different environment for the traditional tools of trade policy called into being under the conditions of market economy. Therefore the maximum that can be achieved is that by giving trade concessions Austria might gain the goodwill of the USSR

and East European countries, expressed in greater willingness to buy from Austria. According to a third view there is a possibility to obtain real reciprocity: adapting to the planned economy of Soviet and East European partners concrete purchasing promises can and *must be exacted.*

Despite the different approaches in judging the extent of reciprocity to be obtained, all experts agree that a consideration of benefits and disadvantages, which is more or less possible in the bargain on trade concessions between two or more market economies, may hardly be realised in a bargain between a market economy and a centrally planned one. Even at best, when the other party promises concrete purchases, the value of a given export delivery may not be compared with the effect of a *concession granted for an unlimited period* depending on several factors changing in time. However, this solution is better, in the opinion of many experts, than renouncing any reciprocity.

Another criticism, in part connected with the issue of reciprocity has also often been raised: the necessity for a *more active* trade policy. Large Soviet deficits prior to 1971 gave a basis for the Soviets to ask for an increase of Austrian purchases. From 1973 on Austrian deficits had become permanent and Austrian trade policy should have appealed much more vehemently to the bilateral approach of the Soviet party. Efforts in this direction have been made only in the last 2–3 years.

According to a proposal to activate Austrian trade policy individual CMEA countries ought to be given customs preferences in exchange for concrete export possibilities. [23] According to another proposal Austria ought to follow a "reversed" counter-trade policy towards the USSR: ore and timber processing equipment, machines for the extraction of primary energy could be offered against additional deliveries of ore, timber and primary energy. [24] The two latter proposals are not unanimously supported. According to those objecting them these proposed customs preferences for individual CMEA countries would be contrary to Austria's international obligations, while the implementation of reversed counter-trade deals would involve the intervention of the state into the economy to an undesirable extent because of the necessary coordination of the activity of enterprises taking part in these deals. This had not been deemed expedient even at the time of clearing, though at that time Austrian enterprises competed with each other for quotas in export to the USSR.

Nevertheless, it is difficult to form a general notion of the *efficiency* of Austrian trade policy towards the Soviet Union. Judgement of efficiency is uncertain even as regards the result of a concrete action of trade policy. Developments of the latest period may give some examples for that. In 1981–84 Austrian exports to the USSR increased considerably and further important deals are in the process of negotiation. This improvement is obviously due partly to the increased activity of Austrian trade policy. More insistent reference to vast Austrian deficits in recent years, the "travelling diplomacy" of Austrian politicians, the serious efforts of the trade representation in Moscow to improve market research activity of Austrian enterprises and the credit packages have all had a part in the recent development. However, it can not be quantified to what extent increasing Soviet purchasing willingness has been due to recent

developments in world policy, i.e. factors that *are not in the competence of Austrian trade policy:* the American embargo efforts affecting various fields, the potential danger that West European members of the NATO join this embargo; or whether it means a "reward" for the Austrian standpoint in the matter of embargo.

Another factor of Austrian export successes in the Soviet market, independent of trade policy, may be the success of many years' market research activity of *enterprises* delivering to the Soviet market. Bridging differences between centrally planned and market economies may be only *partly* undertaken by trade policy: the increase of export is surely also a consequence of successful adaptation at enterprise level.

Advantages and disadvantages

Let us review in short the benefits and disadvantages in Austrian-Soviet economic relations. First it must be stated that these relations are regarded mutually beneficial by the official circles of both countries and this approach is also accepted in its broadest sense by Austrian experts. It is not the issue of advantages and disadvantages in global economic relations that is worth pondering. What may arouse interest here is the issue of concrete benefits or disadvantages in some individual elements of these relations.

As regards *Austrian imports,* the assessment of the imports of *energy sources* is a central issue. The role of CMEA countries, particularly that of East European countries, as suppliers had already been important even prior to the 1973 price explosion. In the 1960s 44–50 percent of imported energy sources came from CMEA countries and 54 percent in 1969. Then Czechoslovakian and Polish coal deliveries had the biggest share, but the role of Hungary and the GDR as supplier was not negligible either. In those years East European countries supplied twice the share of Austrian imports of energy sources than the USSR.

The share of the USSR in Austrian imports of energy sources exceeded 20 percent in 1975, following the price explosion, then reached even 30 percent by 1981. The share of East European countries has been continuously decreasing to 10 percent between 1970 and 1981, thus though Austria's dependence on the USSR increased in the 1970s, yet as regards the *entire* fuel imports from CMEA, often considered as an integral part in the matter of dependence, it *diminished.* Of the energy sources imported from the USSR–natural gas, crude oil, coal and electricity only the substitution of gas would cause serious problems, since 99 percent of Austrian gas imports come from the USSR and more than 85 percent of total domestic consumption is based on imports. (A shortfall in gas deliveries would first of all afflict the households.) The imports of oil and oil products from the USSR correspond to more than 1/5 of total Austrian consumption. [25]

Austrian economists do not consider the Soviet share which developed in the import of energy sources disquieting. In their opinion the nearly equal share of domestic energy production, imports from OPEC countries and from the CMEA, respectively, in

meeting Austrian energy demands is optimal under the given circumstances. Dependence on energy deliveries from the CMEA does not mean any greater risk than the dependence on OPEC, thus the balanced share of both sources provides some guarantee for overcoming unexpected situations. Imports from the USSR enable a "diversification" within general dependence of Austria on the imports of energy sources. This is a very positive feature, since the other major source of the imports of energy, the Middle East, is a permanent crisis centre.

Going on with the comparison of the two major sources of Austrian energy imports it can be observed that the *coverage of imports by exports* is higher in trade with OPEC than in Soviet trade. Up to 1975 this indicator was equally "bad" in both relations, but since then it has been improving in trade with OPEC while a positive change with the USSR could be observed for the first time only after 1981. However, the difference of the indicators was striking even in 1983: Austrian exports to OPEC exceeded imports by 50 percent, while Austrian exports to the USSR amounted only to 3/4 of imports.

The *commodity pattern* of Austrian exports to OPEC is a similar to that of the exports to the USSR. However, an important deviation can be observed in the trend of changes in commodity pattern. In exports to OPEC the share of semifinished products is diminishing while that of machinery is increasing–exactly opposite to the tendency observed in Austrian exports to the Soviet Union. This is certainly a static situation and it is not at all certain that the present ratio of import coverage and the same commodity pattern of exports could be maintained in case of a drastic regrouping of imports of energy in favour of OPEC.

Summing up the thoughts about energy imports: *at the present country breakdown* advantages deriving from diversification of imports compensate for disadvantages emerging in import coverage and commodity pattern. If the present shares of import sources shifted to the detriment of OPEC and other sources, the above mentioned disadvantages would become more manifest. On the other hand, a significant decrease of the Soviet share–except if it involved a growing share of non-OPEC sources–could raise problems concerning the safety of supply. Moreover, due to the hidden bilateralism characterising Austrian-Soviet trade relations even today, a consequence of decrease of Austrian energy imports from the USSR could be fading import willingness of the Soviet partner. This could cause difficulties in some Austrian export sectors specialised for the Soviet market, who would not easily be able to find new markets for their products. However, these difficulties could launch positive changes in the structure of production in these sectors, dominated mostly by state-owned enterprises.

Considering the advantages and disadvantages of *Austrian exports to the Soviet Union* the central issue is how to judge the export activity of subsidised sectors. At the beginning of the 1980s nearly half of Austrian exports to the USSR were commodities that are produced and exported at a loss. The most important items were the group of iron and steel products and recently agricultural products.

In 1982 more than half of total Austrian exports to the USSR fell to the nationalised sector (ÖIAG enterprises). There is a characteristic difference between the

export patterns of the nationalised sector and total Austrian trade. At the beginning of the 1980s more than 90 percent of deliveries of the nationalised sector to the Soviet Union were made up of iron and steel products. Other commodities were hardly in evidence.* [26]

The safe market for products of the subsidized nationalised enterprises contributed to the postponement of structural changes in these sector. But an other approach is also possible. According to that, the Austrian economy is exposed to effects urging structural changes through its other foreign economic relations. The economy should digest these effects first, withdrawing step-by-step from sectors bound to go under through international competition. In this process a relatively small safe market can be an important stabilising factor that contributes to a painless withdrawal from other sectors. However, this approach is justified only in an economy where substantial structural modifications have already begun and, according to expert opinions, this is not Austria's case. In exports to the Soviet Union a positive change could be brought about by a shift in commodity pattern towards a higher share of machinery, parallel to the diminishing share of subsidised iron and steel products.** Regarding the unfavourable composition of Austrian exports, however, it is a positive phenomenon, that no "glass-house effect", i.e. backwardness of technological level and/or marketing in case of producers specialised in the Soviet market can be observed, especially since 1971.

Since the change to settlement in convertible currency Austrian exporters have been forced to compete with enterprises of Japan, the USA and Western-Europe. However, *this competition in the Soviet market is occasionally diverted from the "perfect" path* by some factors. One of these factors is the willingness of Soviet foreign trade associations occasionally to buy from traditional partners even at slightly higher prices. The relatively large number of new contracts or agreements signed at the time of growing activity of economic diplomacy—e.g. a visit of a highranking Austrian or Soviet politician in Moscow or Vienna, respectively—has a similar effect. Finally, it should be mentioned that at the time of worsening East-West political relations, with the danger of embargo the attention of Soviet importers is diverted towards enterprises of neutral countries, even if these enterprises make somewhat less favourable offers. The factors mentioned here are, of course, by far not so important as to lead to the "glass-house effect".

An important characteristic feature of Austrian exports to the USSR is that exporting firms may there realize "comparative advantages" that can not be utilised in any other trade relations. These are the personal and business contacts originating in the 1945–55 period and also the accumulation of human capital necessary for the successful development of transit trade.

*This export pattern indicates that most important commodities in total Austrian export to the USSR beside steel and iron, i.e. machinery, chemicals, industrial consumer goods are delivered by the enterprises of the private (and semi-private) sector.

**Both in 1983 and 1984 substantial new Soviet orders for machinery were placed, indicating that a positive restructuring in Austrian exports can be expected in the next years.

Pondering the positive and negative aspects of Austrian export activity the special problem of small- and medium-size firms must be also mentioned. As a consequence of the huge market of the Soviet Union and also the extremely concentrated organisational structure of its foreign trade these enterprises are given orders of enormous magnitude that may occupy their whole production capacity for a shorter or longer time. In this period these firms withdraw from all other markets, lose their connections with other potential customers. When all the deliveries are over and there is no new order from the Soviet partner, these firms may find it difficult to fight their way back into their former markets. [27]

For the *Soviet Union* economic relations with Austria have certainly–beyond their undoubtedly beneficial characteristics in the global sense–some special advantages and disadvantages, too. On the Soviet side, it may be disadvantageous for big foreign trade associations that Austrian enterprises considered big in the Austrian context might prove small and with limited capacities judged by the volume of Soviet investment projects and the quantities required of various products.

However, these disadvantages are largely compensated by the fact that Austria is a safe supplier–even if not in large amounts–free of the danger of embargo. This aspect may become especially important at the time of cooler East-West political relations. Though Austrian industry is not able to deliver most of the products under factual or potential embargo, even a minimal reorientation of Soviet import policy towards neutral countries may bring big contracts for Austria. Parallel to that in a worsening climate in world policy Austria's transmission role in East-West and West-East directions, respectively, may increase.

Since the change to settlements in convertible currency Austrian exporters compete with those of other OECD countries; therefore imports from Austria are not disadvantageous for the USSR compared with imports from other industrial countries–apart form occasional exceptions.

As a final conclusion we may say: trade policy administration in both countries could surely imagine a development of Austrian-Soviet relations more favourable for their own country than at present; on the Austrian side, the final elimination of trade deficits would seem desirable while on the Soviet side a more active Austrian participation in West-East technology transfer would be welcomed. Yet the mutual advangates of Austrian-Soviet trade in its broadest sense cannot be doubted.

References

1. Nemschak, F.: Österreichs Wirtschaft zwischen West- und Südeuropa. *Sonderdruck aus Südosteuropäisches Jahrbuch,* Band 7, 1966, p. 20.
2. Koren, S.: Die Industrialisierung Österreichs – Vom Protektionismus zur Integration. Cited by F. Breuss: *Österreichs Aussenwirtschaft 1945–1982.* Institut für Angewandte Sozial- und Wirtschaftsforschung. Signum Verlag, Wien 1983, p. 135; *Trend,* December 1980, p. 173.

3. Pisecki, F.: Österreich bezahlte seine Freinheit mit 153 Milliarden. *Berichte und Informationen, Bd.* I, 8/1980. Cited by Fritz Breuss (See reference No. 2) p. 135.
4. Information from A. Ratzek.
5. Breuss, F.: *Österreichs Aussenwirtschaft 1945–1982.* Institut für Angewandte Sozial- und Wirtschaftsforschung. Signum Verlag, Wien 1983, p. 136.
6. Sammlung der Vertragstexte. Published by *Bundeskammer der Gewerblichen Wirtschaft,* June 25, 1975.
7. *Die Presse,* February 5, 1970.
8. *Finanznachrichten,* 1969. 31–32, August 8, p. 3.
9. Egon Matzner: *Trade between East and West: The case of Austria.* Almquist and Wicksel, Stockholm 1970. p. 78.
10. *Metall-Bericht,* 1967. 2, p. 13.
11. Stankovsky, J.: Austria's Foreign Trade. The Legal Regulation of trade with East and West. *Journal of World Trade Law,* Vol. 3, No. 6, p. 599.
12. Ibid. p. 639.
13. Stadler-Wolffersgrün, H.: Die Handelsverträge Österreichs. *Credit-Anstalt Wirtschaftsberichte,* 1968. 2, p. 19.
14. Die Problematik des Bilateralismus. Study made at the Austrian national Bank, manuscript, 1969, p. 4.
15. Ibid. pp. 4–5.
16. *Die Presse,* February 5, 1970.
17. Bohdal, H.: Die bilateralen Zahlungsabkommen Österreichs. *Credit-Anstalt Wirtschaftsberichte,* 1968. 2, p. 16.
18. *Finanznachrichten* 1969. 31–32, August 8, p. 4.
19. Krywult, J.: Um die Zukunft des Osthandels. *West-Ost Journal,* 1970. 3, p. 14.
20. *Die Presse,* February 5, 1970.
21. Computed on the basis of OECD data.
22. Ibid. and Wifo Datenbank
23. *Die Presse,* May 10, 1979.
24. Draszczyk, F.: Maschinen–Schwerpunkt der Bemühungen im Russlandexport. *West-Ost Journal,* 1982. 1–2. p. 39.
25. *Länderbank Report,* 1984. 2, p. 5.
26. Information from Jan Stankovsky
27. Fink, G.: Wesenszüge der österreichisch–sowjetischen Wirtschaftsbeziehungen. April 1984. Manuscript, p. 5.

ВНЕШНЯЯ ТОРГОВЛЯ С СССР: ПРИМЕР АВСТРИИ

Ш. РИХТЕР

До 1971 г. во взаимной торговле между Австрией и СССР применялся долларовый клиринг. В 1971 г., хотя у части австрийских экономистов имелись определенные сомнения, перешли к расчетам в свободной валюте. Боявшиеся этого перехода опасались, что значительная часть направляемого в СССР австрийского экспорта не выдержит после ликвидации охранительных контингентов усиления международной конкуренции. Многие боялись того, что прежний активный торговый баланс станет пассивным, если СССР — в отличие от положения до 1971 г. — сможет тратить

полученные благодаря своему экспорту в Австрию выручку на других рынках. После перехода на новую систему взаимных расчетов оказалость, что эти опасения не имели оснований, т. к. после 1971 г. экспорт Австрии в СССР возрастал быстрее, чем её экспорт в целом. Правда, и импорт рос гораздо быстрее, однако это объясняется большим повышением цен на энергоносители.

Более 9/10 экспорта Австрии в СССР составляет продукция обрабатывающей промышленности. Однако внутри этой группы значительно выше доля полуфабрикатов и параллельно этому значительно ниже доля машин и оборудования, чем в экспорте в страны ОПЕК, хотя в товарном обороте с последними структура австрийского импорта в большой степени похожа на структуру импорта из Советского Союза. Среди полуфабрикатов ведущую роль играет продукция сталепрокатной промышленности, производство которой поддерживается за счет существенной государственной субсидии. За последние 2—3 года наметились признаки положительных изменений: в экспорте возросла доля машин и оборудования и значительно понизился дефицит Австрии.

И в советско-австрийских связях также можно проследить одну из характерных нерешенных проблем экономического сотрудничества Восток-Запад, и именно: как можно в связях между плановой экономикой и рыночной экономикой измерить степень взаимной выгоды при принятии решений внешнеторговой политики (снижение таможенных пошлин, снятие количественных ограничений и т. д.).

Acta Oeconomica, Vol. 34 (3–4), pp. 361–381 (1985)

REVIEWS

NON-AGRICULTURAL ACTIVITIES OF AGRICULTURAL ENTERPRISES IN HUNGARY

ÉVA SZABÓ-MEDGYESI

Agricultural production and various complementary activities were typical of prewar large estates and also of some peasant farms. Food and wood processing, homecrafts, transportation and regionally different other occupations were common. The reasons were the same that also prompted the socialist farms to engage in non-agricultural production, i.e., employment problems because of the seasonal nature of agricultural production; practicability of transporting big volumes of perishable crops; worse food supply in rural settlements than in cities; lack of entrepreneurs undertaking rural construction (for the purposes of production and social care).

In the initial stage of the socialist reorganization of agriculture attention was concentrated on agricultural production, and industrial activities—even those needed by agriculture—, were suppressed. This was also attributable to the long persisting one-sided interpretation of the division of labour and specialization. In the early fifties the cooperative farms were not even allowed to own tractors, and till the mid-sixties even the simplest industrial activities, closely connected with farming, were statutorily prohibited (such as feed mixing and repair of machines).

In this respect, too, the 1968 reform of the economic control system brought about the change. At present the profile of agricultural establishments includes all the economic activities which are direct or indirect preconditions of food production. However, it also includes profitable activities that are absolutely not attached to the process of agricultural reproduction. Furthermore, it also includes tasks of social and public nature that are normally attended to in cities by organizations specialized by function: supply of means of production to small-scale producers, local transportation of labour and goods, as well as construction of health, schooling, social, commercial and cultural buildings of villages.

Sphere of activity

The complementary activity (with other terms used: activity other than the basic activity; auxiliary activity; non-agricultural production, third-line activity) implies a wide range and many colours of production and services. In summary, it includes all activities other than those assumed by the sectoral classification of the enterprise and belonging to scopes of other sectors of the national economy. In the case of agricultural establishments

this means the spheres of activities of three or four sectors of the national economy (industry, construction, commerce, etc.).

The complementary activity of agricultural establishments elicited the interest of experts and of public opinion among other things because, unlike in the case of the Hungarian companies in general, it represents an unusually big weight in the structure of production. In 1983 it amounted to 35 percent of gross output. In the industry it was a paltry 3 to 4 percent of gross output while in construction and commerce it was more considerable with values of 11 percent and 20 percent, resp., in 1983.

In the year 1983 nearly every state and cooperative farm engaged in industrial, construction and commercial (retail, catering, or transactions with small-scale producers) activities and transportation. However, the volume of the activities was markedly different and in most establishments did not exceed the degree necessitated by agricultural production. In more than half of state farms and agricultural cooperatives it remained below 20 percent of gross output. On the other hand, half of the complementary activity was concentrated in 10 percent of the establishments. The 132 cooperative farms where non-agricultural activity dominated the structure of production (with a share over 60 percent) were two or three times bigger than the average. No such relationship can be found in state farms.

Ideas concerning the desirable volume and role of the complementary activity are extremely different. In certain opinions non-agricultural production might "harm" agricultural production, while others hope to solve agricultural development from funds deriving from non-agricultural production. There are also assumptions supposing that the safer and higher profitability of the complementary activity might drain the development funds and the intellectual potentials of agricultural production. Non-agricultural production is considered by some to counter-balance the unfavourable conditions for plant production, while by others to be the instrument of faster and more profitable ventures by efficient and wealthy companies. Setting out from subjective judgements, either extraordinarily high personal incomes or, on the very contrary, small earnings in comparison with those working in construction are mentioned.

The time that has elapsed since the stormy development of this kind of activity is not long in the economic historical sense. It is difficult to enter into arguments and counter-arguments. This will not be ventured here either. It will only be attempted hereunder to present, on the basis of available facts, the typical features so far shown by development.

The development of production

One and a half decades ago when the 1968 reform was started, the share of non-agricultural production amounted to 11 percent (of gross output) in state farms and to 14 percent in agricultural cooperatives. This was much less than now, but still high in comparison with firms in other sectors of the national economy. Between 1968 and

Table 1
Breakdown of farms according to the share of non-agricultural production, 1983

Share of non-basic activity in the gross value of output (percent	No. of farms	Distribution, percent		Total gross value of output per one farm (million Forints)
		of the number	of the gross output other than the basic activity	
		State farms, combines		
–20	66	51	12	430
20,1–40	29	23	26	730
40,1–60	17	13	19	551
60,1–80	14	11	40	1024
80–	2	2	3	364
Total	128	100	100	578
		Agricultural cooperatives		
–20	689	54	13	126
20,1–40	302	23	17	146
40,1–60	162	13	20	188
60,1–80	101	8	31	314
80–	31	2	19	525
Total	1285	100	100	163

1983, non-agricultural production expanded at a rate 2.4 times and 3.5 times faster than the basic activity in state farms, resp., agricultural cooperatives. At present it is a more significant sector than plant production or animal husbandry in the average of state and cooperative farms alike.

The expansion of production was achieved by the farms in the period under study as formulated in the national economic plans. Expansion was somewhat below the target in plant production and somewhat above it in animal husbandry. In the average of the years 1979 to 1983, more than the double (in state farms), or nearly the double (in agricultural cooperatives) of agricultural products was turned out than 15 years earlier. During the same period non-agricultural production increased 6 times and 8 times, respectively. The rate of growth halted in 1983, probably under the impact ,of competition put up by the smaller and even more flexible forms of ventures to the auxiliary industries of cooperatives.

The gross value of output of activities other than the basic activity was over 100 thousand million forints in agricultural enterprise in 1983. More than 300.000 persons were employed in non-agricultural production and 17 percent of the stock of fixed assets were working in this sphere.

A substantial share of both gross and net output originates from non-agricultural production within the total enterprise activity. Especially in cooperatives highly labour-intensive production was pursued beside the basic activity.

Table 2
*Development rate of gross output**

Activity	Average of 1979–1983 relative to the average of 1963–1967	Average rate of growth
	percent	
State farms, combines		
Basic activity	221	5.1
Activity other than the basic activity	622	12.1
Enterprise activity total	272	6.5
Agricultural cooperatives		
Basic activity	190	4.1
Activity other than the basic activity	843	14.3
Enterprise activity total	247	5.8

*At constant prices.

The structure of production

In 15 years also the structure of non-agricultural production became transformed. In 1968, construction represented the highest weight, followed by industrial activity with a share of one third. In cooperative farms transportation, while in state farms commercial activities were also considerable, over one tenth of non-agricultural production. In 1983, industrial production, and especially food processing, became preponderant mainly in state farms. Also in cooperative farms more than half of the complementary activity was industrial. The share of construction showed a substantial relative setback. Construction increased by 70 percent in state farms and by 180 percent in cooperatives while industrial production to 19-fold and 9-fold, respectively.

More than half of production other than the basic activity was industrial activity in 1983. From this, food processing was significant especially in the state farms. The farms turned out foodstuff in the value of more than 26 thousand million Forints which is equal to 13 to 14 percent of the food produced by firms belonging to the state and cooperative industry. Production was expanded by intra-enterprise integration, starting up of processing capacities, as well as organizational rearrangements. Recently the Sugar Works of Mezőhegyes and the Paprika and Canning Industrial Works of Kalocsa were re-classified and now belong to the agricultural sector of the national economy. Of some foodstuffs and consumer goods the farms produced more than the food industrial companies. For example of mutton, sour cabbage, fruit brandy, wine, champagne. Of other foodstuffs their output amounted to half of the national total. Beside food production, they are also engaged in wood processing, engineering and chemical industrial

activities and also produce other industrial commodities. One quarter of the price receipts of agricultural cooperatives from industrial activity came from services.

In 1983, nearly each farm had its own construction organization. In these organizations more than 65 000 people were working. The value of building and fitting activity amounted to 20 thousand million forints in 1983, which is 20 percent of the activity of organizations classified as construction proper. Nearly half of construction output consisted of maintenance work in 1983. The volume and share of construction for agricultural purposes decreased as against 1970, because of the curbing of investment. Two thirds of construction were done in 1983 for outside customers.

The farms earned 40 percent of their commercial price receipts in 1983, by forwarding goods of small-scale producers. Moreover, they ran 2400 shops and more than one thousand catering units. The turnover of these shops and catering units amounted in 1983 to about 3 percent of the total national retail turnover.

Compared with industrial enterprises, the farms are of medium size. Their non-agricultural activities are pursued mostly in fragmented production units. One form had 8 or 9 industrial production units on average, each employing 16 (state farms) or 11 persons (agricultural cooperatives on average). State and cooperative farms engaged in construction achieved 16, resp., 14 million forints worth of gross output, whereas the commercial units made one-fifth and half of that value on average. Transportation tasks were usually performed without a separate organization, with the fixed assets of the basic activity. However, the insignificant average performance hides a few dozens of production units already of industrial size.

The efficiency of production

The farms were interested in the fast promotion of production other than the basic activity for several reasons. However, this interest can be modified by changes in the economic environment (regulations, prices) in a relatively short time.

The growth pressure triggered by regulations and the consequential advantages could be realized faster and with less assets in the sphere of non-agricultural activity than in agricultural production. This is supported by the study of structure as a function of enterprise sizes.

Interests were also attached to running more valuable production equipment which was typical mainly of food production and especially of that in state farms.

The demand originating from the shortage economy and from the centralization of industrial and construction organizations also enhanced the development of production as well as the higher efficiency of these activities than of agricultural production.

Depending on the structure of production and technological equipment, the efficiency of live and embodied labour was varying. In the non-agricultural production of state farms labour productivity increased one and a half times from 1976 to 1983, and in 1983 it was equal to that in agricultural production. In agricultural cooperatives labour

Table 3
*Volume of and changes in production, 1983**

Sector	State farms, combines			Agricultural cooperatives		
	gross output other than the basic activity					
	million Forints	1976= =100	distribution (percent)	million Forints	1976= =100	distribution (percent)
Food industry	13.060	264	56	10.800	220	16
Other industry	6.450	436	27	29.606	271	44
Industry, total	19.510	303	83	40.406	255	60
Construction	1.811	109	8	15.724	221	23
Transport and telecommunication	505	211	2	3.990	120	6
Commerce	1.089	124	5	5.163	171	8
Other	649	296	2	2.347	678	3
Total	23.564	250	100	67.630	228	100

*At constant 1981 prices.

Table 4
Volume of non-agricultural production

Producing unit	Number of producing units	Value of gross output	Fixed assets	Number of employees
		(1000 Forints)		
		per one producing unit		
		Units for industrial production (service)		
State farms, combines	1 095	18.542	6.250	16
Agricultural cooperatives	10 313	4.078	1.431	11
		Farms with building industrial organization		
State farms, combines	127	15.890	4.244	57
Agricultural cooperatives	1 255	13.956	1.217	45
		Commercial units		
State farms, combines	349	3.542	2.155	3
Agricultural cooperatives	2 721	2.046	601	2

Table 5
Efficiency of live and embodied labour, 1983

Value of production	State farms, combines		Agricultural cooperatives	
	in basic activity	in activity other than the basic activity	in basic activity	in activity other than the basic activity
	in Forints	in percentage of basic activity	in forints	in percentage of basic activity
Net output per day	542 550	101	458 494	105
Gross output per 1000 Forints value of fixed assets	885 1698	192	813 2377	292

*Computed at current prices.

Note: The labour input and fixed assets cannot be precisely separated. It is assumed that the inputs of non-agricultural production are higher. In the data provided, the working times of those engaged in more than one single activity and the fixed assets that were used not exclusively for complementary production were namely often recorded in the data of the basic activity.

productivity doubled and in 1982 it attained, while in 1983 already exceeded that of the basic activity.

The technological equipment of non-agricultural production was three times bigger in state farms than in cooperatives in 1983. However, the efficiency of fixed assets was better in the cooperatives. Owing to the smaller capital-intensity of non-agricultural production these equipment were much more efficient than in agricultural production.

In 1983, non-agricultural production was the source of 47 percent of profit in state farms and of 44 percent in agricultural cooperatives. This ratio is higher in both enterprise forms than the ratios of gross output, the value of fixed assets or human labour input in activities other than the basic activity. The profit computed for all the assets engaged (by taking into account 160 percent of wages and 13 percent of fixed assets) was about two and a half times more favourable than in agricultural production. If also the working capital requirements were considered (their breakdown of basic and non-basic activity is unknown) the profitability of agricultural production should be even more below that of the complementary activity, because of the high working capital requirements (paid off at intervals).

Agricultural production was less profitable than the complementary activity pursued with a smaller degree of professional expertise and financial investment. Plant production in state farms was losing in 1983, while animal husbandry in agricultural

Table 6

*Enterprise profit by main lines of activity, 1983**

Activity	State farms, combines			Agricultural cooperatives		
	Company profit (mill. Ft)	Price receipt**	Value of assets	Company profit (mill. Ft)	Price receipt**	Value of assets
		percent			percent	
Basic activity	2.424	6.0	4.4	8.949	7.6	5.3
From this:						
Plant production	–99	–	.	7.855	15.4	.
Animal husbandry	1.455	7.2	.	589	1.1	.
Activities other than the basic activity	2.129	8.6	14.5	6.903	9.5	22.4
Total	4.553	7.0	6.5	15.851	8.3	8.0

*At current prices.

**Excl. the purchase price of the commodities sold.

Note: The measuring of profitability by main lines of activity was possible for the first time in 1983. In previous years the balance sheets namely contained only the so-called coverage amount (the difference between costs measured without undistributed costs and price receipts).

cooperatives made very little profit. This was attributable, beside the higher input requirements of large-scale than of small-scale production, to the fact that a higher net profit is realized in the prices of products and services of non-agricultural production—and, consequently, of other sectors of the national economy—than in agricultural production.

Wages in the complementary activity

It is a general though statistically not sufficiently supported belief in Hungary that earnings outside the basic activity are extraordinarily high. No such comparable data are available for those employed in commerce and transportation. Comparability is also hindered with respect to industry and construction because earlier labour statistics recorded employment on the basis of working time. Average wages computed with its aid were similar to those in the state and cooperative industry.*

Hourly wages e.g. in industrial production pursued in agriculture amounted to about 81 percent of the average in the industry in 1978 and to 83 percent in 1980 and 1982. This lag was mostly due to structural reasons (high ratio of food processing) as well as to the composition of employment (high rate of female workforce in the agriculture). Also a comparison by groups of industry shows lower hourly wages in industrial activities pursued in agricultural organizations. (Of course, this does not mean that there are no extraordinarily high individual earnings or abuses.) The flow of industrial labour to farms was also motivated by other factors like the nearby place of work, the chance for complementary earning, overtime, and household-plot farming.

Statistical data collected for the first half of 1984 prove that the number of industrial and construction employees no longer increases in the agriculture. The average wage paid out was below that in the corresponding sector in the industry.

The regulation of earnings applied in agriculture (in most cooperatives and state farms the central average wage control, while in others it affects the gross income) prevents any quick increase of wages and earnings. Extraordinary personal incomes cannot be balanced but by employing large numbers of labour for low salary.

The development of production

Investment funds were directed to non-agricultural production by better capital efficiency and the shrinking development resources of agricultural enterprises. At the end of 1983, state farms used about 20 percent and agricultural cooperatives about 16 percent of their assets in non-agricultural production. However, the distribution of investments in the year 1983 was quite different. State farms made 37 percent and

*For more detail see [1].

Table 7
Monthly wages of manual workers, first half of 1984

Job	In industrial and building enterprises	In agricultural and forestry enterprises	
	Forints		in percentage of industry and building industry
Industrial	4 933	4 111	83
Construction	5 073	4 902	97

agricultural cooperatives 32 percent of their new investments in non-agricultural production.

The distribution of existing assets and of new investments shows that replacement and expansion are not of the same rate in agricultural and non-agricultural production. New investments of state farms equalled 5 percent of fixed assets in the basic activity and 15 percent of that in non-agricultural production. This amounted on average to replacement every 19 and 6.6 years, respectively. Depreciation accounted in 1983 after the fixed assets of state farms for agricultural purposes was nearly as much as the investment made for the sake of the basic activity (the real value being smaller if the rising prices of investment goods are also considered). 2.5 times the annual depreciation allowance was invested in non-agricultural production.

Investment activities of cooperatives were similar. Expansion in 1983 represented the 8 percent of the working fixed assets in agricultural production and 20 percent in the complementary activity. This amounted to replacement every 12.3 and 5 years, respectively. Agricultural investments were higher by one third than the annual depreciation while those for purposes other than the basic activity were 3.5 times higher. The distribution of new investments suggests that non-agricultural production may be expected to keep expanding also in the coming years.

The steadier and quicker returns of funds invested in non-agricultural than of those in agricultural production is due to the characteristics of production. Some food processing operations and other industrial and commercial activities can be done at any time during the year and do not depend on the weather either. However the higher efficiency of production is certainly an outcome of economic regulation.

Prices of products and services of the non-agricultural activities are formed in the same way as in the corresponding sectors of the national economy (industry, construction). For products and services belonging to the scope of statutory price control the same prices and charges are applied as by state enterprises. The differences in regulation by sectors of the national economy are balanced by the liability of agricultural establishments to pay a production tax. (In 1983, farms paid about 7.3 thousand million

forints of production tax.) In spite of the above, non-agricultural production was not simply a source of steady price receipts but it was also more profitable than the basic activity.

The differentiation of production

The regional differentiation of non-agricultural production was remarkable already in 1976 (the first year when the statements of accounts of farms contained data on the value of output by main lines of production. The share of the complementary activity in gross output was higher than the average (20.6 percent in state farms and combines and 22.4 percent in agricultural cooperatives) in the state farms of counties Bács-Kiskun (36.4 percent) and Veszprém (30.2 percent) and in the agricultural cooperatives of counties Pest (61.4 percent) and Komárom (41.4 percent).

In the said counties the quality of the land (in terms of gold crown value) is below the value typical of the sector on the average. However, the difference was not big enough to motivate such a difference in the structure of production. It was much more likely a consequence of the proximity of the capital city, the chance to do industrial commission work, the food processing capacities of agricultural enterprises, etc.

In 1983 differences between counties were more marked than 7 years earlier. In the average of sectors, the share of activity outside the basic activity increased by 13 percentage points and by much higher values in certain counties. It amounted to half or more of the output in the state farms of Bács-Kiskun county and in the agricultural cooperatives of counties Pest, Borsod-Abaúj-Zemplén, Nógrád and Komárom.

The share of non-agricultural production in the gross output of 1983 was the smallest in state farms and combines of Baranya county (12.8 percent) and the biggest in the state farms and combines of Bács-Kiskun (49.9 percent), as well as in the agricultural cooperatives of counties Tolna (10.3 percent) and Pest (69.2 percent).

The different rates of growth of production are also indicated by the changes in staff. Between 1976 and 1983, the number of manual workers employed in non-agricultural production increased in agricultural cooperatives by two thirds on average. The staff increased in every county: 4 times in Borsod-Abaúj-Zemplén county and 3 times in Nógrád county.

The capital intensity of production outside the basic activity was varying—depending on the structure of production—but was lower in the cooperatives of every county than in agricultural production. Except for Baranya county the same holds for state farms as well. In the year 1983 more than half of the investments were made in non-agricultural production by the state farms of counties Baranya, Békés, Komárom and Vas and by the agricultural cooperatives of Pest county. The rate of expansion of fixed assets serving non-agricultural production was higher than in the basic activity, with the exception of the cooperatives of Csongrád county.

In the state farms of counties Baranya and Tolna and in the agricultural cooperatives of Szolnok county, non-agricultural production showed losses. On the other hand, the profit earned by the complementary activities balanced substantial deficits of agricultural production in the state farms of counties Bács-Kiskun and Szabolcs-Szatmár and in the agricultural cooperatives of counties Pest and Szabolcs-Szatmár. Profit from the complementary activity amounted to about three quarters of returns in several counties, like in the state farms of counties Borsod-Abaúj-Zemplén and Pest, and in the collective farms of counties Borsod-Abaúj-Zemplén, Komárom and Veszprém.

The flexible enterprising spirit of cooperatives was evidenced by the fact that from the 1285 cooperatives operating at the end of 1983, 278 had establishments in other counties or even abroad. Employment beyond the county borders was characteristic of cooperatives of counties Pest, Borsod-Abaúj-Zemplén and Nógrád: 38, 26 and 20 percent, resp., of the cooperative workforce worked in other counties.

90 percent of the labour employed beyond the county border worked in Budapest. Except for Baranya county, cooperatives of every county set up an establishment in Budapest. About 250 agricultural cooperatives engaged in various activities in the capital city. They employed in the area of the capital nearly 54000 manual workers, two thirds of them in industrial and building activities.

80 percent of the cooperative workers in Budapest whose parent firms were in the provinces were given by cooperatives of counties Pest and Borsod-Abauj-Zemplén, and more than half of this figure by those of Pest county. This was owing mainly to the fact that before 1980 there used to be independent farming cooperatives also in the area of Budapest, which subsequently merged with collective farms located in the given region but not having their headquarters in the capital itself. For this reason 14 cooperatives were doing agricultural production, too, in the area of the capital in 1983. On the other hand, the undertaking of work in Budapest by the cooperatives of Pest county asks for the same judgement as work done in other county seats. About 27 000 persons of the cooperative workforce working in the capital city belonged to cooperatives seated in other counties. Probably most of these persons do not live at the place where the cooperative is settled.

Enterprise size and the volume of non-agricultural production showed a close correlation in 1983. Larger state and cooperative farms engaged in non-agricultural production much more extensively than the average or than the small ones. Their land qualities were not worse than the average. At the same time, in farms smaller than the sectoral average agricultural production was preponderant, amounting to three quarters or 80 percent of gross output. In this category of farms the quality of arable land was below the average.

Academician Aladár *Sipos* states in a recently published paper: "However, the expectation that the income produced by complementary activity would raise the lower profit level of farms with unfavourable conditions in the first place, has come true only in part. Studies, namely, show that complementary activities have become common mainly

in farms that are located nearer to cities, having better infrastructures and dynamic managements." [2]

Large farms are better provided with land than the sectoral average. The technological equipment of live labour is not better than in small ones, precisely because of the lower capital intensity of the complementary activity. At the same time the profit per worker is higher than the average. The same is true for the earnings of workers as well.

The efficiency of all enterprise activities is also better in the big farms. Profit in proportion to either assets, or wages, or costs is 20 to 40 percent above the sectoral average.

* * *

It can be stated in summary that at present non-agricultural production is already integrated in the structure of production of the farms. As a result of vertical development, business is not limited to plant production, horticulture and animal husbandry in the narrow sense of the terms but it is interwoven with sectors serving agricultural production, with the processing of raw materials, and also with activities beyond the scope of agricultural production. Such activity is indispensable for the process of reproduction.

The 1983 data of agricultural enterprises also confirm the importance of activities other than the basic activity.

Table 8
*Share of activities in large-scale farms in 1983**

Denomination	State farms, combines	Agricultural cooperatives
	Share of activity outside the basic activity (percent)	
In gross output	34	35
In net output	28	41
In worktime input	28	39
In fixed assets	21	16
In investment	37	33
In profit	47	44

*Computed at current prices.

It is in many cases justified to continue to build up the vertical lines; especially in the processing of raw materials of agricultural origin. However, the capital requirements thereof are beyond what most cooperatives can afford for the purpose of development.

They will more probably give preference to types with smaller capital requirements, especially in years when investment funds are scare. The relative incomes from agricultural and non-agricultural production depend on changes in and proportions of prices and in other elements of regulation.

The development of farms will be determined by the above as well as by the future trend of demand.

References

1. Az ipari létszám alakulásának kapcsolata a mezőgazdaságban végzett ipari tevékenységgel (Relationship between industrial labour and industrial activity pursued in agriculture). *Központi Statisztikai Hivatal,* Budapest 1983. pp. 30–31.
2. Sipos, A.: A reform és az élelmiszer-gazdaság (The reform and the food economy). *Közgazdasági Szemle,* 1984, Nos 7–8, pp. 854–855.

THIRTY YEARS OF THE RESEARCH INSTITUTE OF AGRARIAN ECONOMICS

GY. VARGA

The Research Institute of Agrarian Economics (AKI, by the Hungarian abbreviation) is the central workshop of economic research in the Hungarian food economy.* The Institute represents almost 50 percent of the Hungarian scientific capacity devoted to study agrarian economics.

The two legal predecessors of AKI were founded in 1954 by the Hungarian Academy of Sciences and the Ministry of Agriculture. In the course of the past thirty years, owing to mergers, separations and amalgamations, the framework and extent, the personal and material conditions of research have continually been changing.

Today we already know that the era in which the precursors were established, was the hardest one in the forty years passed since the liberation of the country in 1945. As is well known, in these few years when, as a result of feverish efforts at industrialization, agriculture was pushed to the background to play at best a secondary role, the country was struggling, despite ambitious plans with everyday bread worries. It is hardly an error to say that this agrarian impolicy largely contributed to the tragedy in 1956.

Thus, while the issue of agriculture was gravid with uncleared ideas and delusions from the viewpoints of both policy and economy, in the sphere of sciences a process of putting things in order had started. In addition to the tasks of enterprise organization, attention turned to questions such as price, cost and income, laying thereby the foundations for future macroeconomic research.

*The term was coined to include both agriculture and the food processing industry. – Ed. note.

In the development of the Institute and in finding its real task an outstanding part was played by the Theses of Agrarian Policy published by the Hungarian Socialist Workers' Party in 1957. This document, in the elaboration of which academician Ferenc *Erdei,* then director of the Institute, also took part, had an impact on the development of Hungarian agriculture that is lasting to our days.

Up to the late 1960s the majority of the research projects in the established institutes of agrarian economy were expressly of a microeconomic or organizational character. Exceptions to this were primarily those pursued under the guidance of the Institute's director, Ferenc Erdei, and were initiated personally by him and the workshop led by him. By now we may say with good reason that, concerning socialist agricultural research, basic works of great significance were produced in the Research Institute of Agrarian Economics in this period. Worth mentioning are prominently the books entitled "Mezőgazdaság és szövetkezet" (Agriculture and the cooperatives), "A termelési körzetek és a specializáció a mezőgazdságban" (Regions of production and specialization in agriculture), "A mezőgadzság belterjessége" (Intensity in agriculture), "Önköltség a szocialista mezőgazdaságban" (Prime costs in socialist agriculture), and "Üzemi szervezet és üzemi vezetés a szocialista mezőgazdaságban" (Plant organization and plant management in socialist agriculture). Astonishing as it is: the first one of these books was published in 1959 and the last one in 1966. The lasting topicality of the books enumerated is almost unprecedented in the past 30-year development of social sciences.

In the final period of socialist transformation the Institute—with the collaboration of the Hungarian agricultural experts—provided the leaders of new cooperative farms with a practical handbook almost within a few weeks helping those choosing new paths over the initial difficulties. This book, having reached two editions, greatly contributed to the unfolding of large-scale production.

Exploring the theoretical and practical issues of agricultural cost and income accounting started in the Institute in the mid-1960s. The studies analysing the interest relations of the undertakings and workers, which laid the grounds for the new management and organizational forms in agriculture, later on widespread in the Hungarian large-scale farms, were also linked to this activity. The results of research concerning the sectoral economics of agriculture, constituting the basis for production policy, amounted to several volumes. We must lay particular stress on the activities of the Institute in preparing the reform of economic control and management, in revealing the linkage between planning, markets and interests, or the vertical connections between agriculture and the food processing industry and/or the lessons drawn from investigations of foreign trade in agricultural produce and foodstuffs.

The fellows of the Institute often shaped or defended their scientific views in ardent professional debates on issues such as: the multisectoral agriculture; diverse and identical features in the development of the state farms and the cooperative farms; the complementary nature of large-, medium-, and small-scale enterprising; the basic economic significance of small-scale production; the role of material interest and the desirable method of asserting it; the role of agricultural production in socio-economic

development; certain questions of the new forms of enterprising; and, finally, on the importance and interactions of all these.

Following the frequent organizational changes in the early years, for almost 20 years no basic change occurred in the framework of the Institute. As an exception only the merger with the Research Institute of the Food Processing Industry has to be mentioned. Namely, since 1982—in harmony with the changes that emerged in the organizational system of the food economy—economic research of agriculture and of the food processing industry and, within this framework, macroeconomic research became concentrated in a common workshop. In 1970 János *Márton* was appointed director instead of Ferenc Erdei, whose death a year later was an irreparable loss also to Hungarian agro-economic research.

Now, looking back to the 25 years following the initial pioneering years, searching for ways and means, a few marked tendencies of change can by all means be recognized.

1. Since the 1960s the endeavour to concentrate research capacities has continuously been strengthening; at the outset this was realized in the form of mergers of institutions, which simultaneously meant increasing staff numbers. Currently there is hardly any possibility of or need for such mergers of institutes or regrouping of personnel, what is more, for almost 10 years now, a stagnating, or rather a decreasing trend has been prevailing.

2. Beside various experiments and partial successes, in the organizational life of the Institute the system of organizing research projects in the framework of divisions or departments became permanent and any radical change of this is hardly expectable. The establishment of *ad hoc* research groups, i.e., teams also proved to be an unambiguously favourable form of organization and we need to resort to it within reasonable limits. It is, however, not possible to arrange the whole work in this way, since a team organized for several years no longer differs from a department; hence, the divisions outside of the team might get into a disadvantageous position. Thus, the crucial question of developing the internal organization remains how to find rational proportions between centralization and decentralization and to find out the most acceptable form of compromise between the form of organization and personal faculties.

3. The past two-and-a-half decades brought about essential changes in the proportions between fundamental and applied or practical types of research, as well as between tasks of macro- or microecnomic character, or, respectively, of organizational nature. As regards the desirable proportions between basic and applied research, in this the conflict between i.e. the dilemma of long-term and short-term interests manifests itself. The requirements raised towards the work of the Institute are for the most part aimed at immediately utilizable results and basic research projects are often deemed wanton and superfluous. On our part, it is important to be aware of the fact that without certain basic and general research work, without exploring theoretical interrelations and extending the arsenal of methodology, the standard of the activities serving practical objectives cannot be maintained either.

As far as the expedient proportions between macro- and microeconomics are concerned, in my opinion two important points have to be stressed. One of these is the clearly visible tendency that the macroeconomic questions are increasingly coming to the fore, and that, on the other hand, there is a shift of microeconomic examination into the framework of enterprises. All this is a logical consequence of the so-called indirect economic control system, for the smooth operation of which government also has to take scientifically founded measures, first of all in the sphere of the economic incentive system. The other point is that, just because of the foregoing, the claim for maintaining more intensive contacts with enterprise spheres is strengthening. As a matter of fact, there is no clear-cut boundary between macro- and microeconomics, what is more, the macroeconomic interrelations can frequently be recognized in the enterprise sphere.

4. Important changes also emerged in the Institute's financing system, which appears in a shift of proportions between budgetary and contractual activities in favour of the latter. The most important point in this respect is to maintain economic equilibrium without giving up the priority of scientific research, professional authenticity and moral commitment to science.

5. An important issue, or, one might say, a critical point in the strategy of the Institute is the relationship to the supervisory authority both in respect of organization and its contents. In my opinion the current situation may be characterized as consolidated; the main part is played in it by the fact that the ministry acknowledges the usefulness of the Institute. It is, in turn, undeniable that the share of tasks immediately serving the management practice is by now greater in our work than what we would consider as optimum even in the long run.

As regards the future of the Institute, there are, fortunately, few open questions. Our main tasks are: research of macroeconomic problems of the food economy, to explore methods for increasing competitiveness and efficiency and recommend them to economic policy-making organs. We wish to maintain, even under the increasingly hard economic conditions, the moderate but—according to our belief—positive part played by the Research Institute of Agrarian Economics in the past era of the Hungarian food economy.

Bibliography of foreign language publications

Ács, Rudolf–Gyires, Péter: Экономическая оценка внесения крупных доз минеральных удобрений. *Международный сельскохозяйственный журнал,** 1979. No. 5. 39–44. p.

Árva, László: Economic reform in Indochina. *Research Planning Conference for the "Future of Asia".* Bangkok, UNITAR, January 1984, 14 p.

Árvai, László: A recent method for the calculation of monthly machine and labour requirement, on the basis of experiments carried out in a developing country. *IX. CIGR Congress,* Michigan, July 8–13, 1979. *Abstracts* Theme 1: V–1–14, 101 p.

* Published by the Permanent Committee of Council for Mutual Economical aid in Sofia, Prague, Budapest, Berlin, Warsaw, Moscow in languages of the member countries.

Balogh, Sándor–Zacher, László: Coordination et representation des intérèts dans l'industrie alimentaire hongroise. *Colloque Bilateral Franco-Hongrois d'Économie Rurale, Budapest, 23–30 September, 1984.* Budapest, 1984. Research Institute for Agricultural Economics, 31 p.

Bulletin No. 1. Budapest, 1962. — Published by the Research Institute for Agricultural Economics. (In English and Russian languages.) (In print Nos 58–59.) *Бюллетень* № 1. — Будапешт, 1962. — Институт Экономики Сельского Хозяйства. (В редакции: № 58–59.)

Csete, László: Опыты применения современных методов планирования, анализа и учета в венгерском сельском хозяйстве. *Международный сельскохозяйственный журнал,* 1973. *17.* No. 3. 15–19. p.

Csete, László: Опыты углубления специализации производства и повышения концентрации в сельском хозяйстве Венгрии. *Международный сельскохозяйственный журнал,* 1979. *23.* No. 1. 35–39. p.

Csete, László: *Hungarian agriculture.* (In Hungarian, German, Russian, French and Spanish languages.) Közgazdasági és Jogi Könyvkiadó, Budapest 1979. 24 p.

Csete, László–Barcza, Gabriella: Опыты системы управления сельским хозяйством. *Международный сельскохозяйственный журнал,* 1980. *24.* No. 26–30. p.

Csete, László: Венгерские опыты применения вычислительной техники в сельском хозяйстве. *Международный сельскохозяйственный журнал,* 1982. No. 5. p. 20.

Erdei, Ferend–Csete, László–Márton, János: *Интенсификация сельского хозяйства.* Москва 1967. Прогресс, 407 стр.

Éliás, András–Nagy, János: Венгерское сельское хозяйство и пищевая промышленность в социалистическом международном разделении труда. *Международный сельскохозяйственный журнал,* 1979. *23.* No. 3. 7–10. p.

Éliás, András–Balogh, András–Benet, Iván: National Report on the Internationalisation of the agro-food sector in Hungary. *International Conference organized by European Institutes for Social Sciences,* 1979. 25. p.

Éliás, András: *Problem of long-range export-oriented development of Hungarian agricultural and food industry.* Roumanian Marketing Institute, Bucharest 1983. X. 18 p.

Fekete, Ferenc–Varga, Gyula: Household plot farming of co-operative peasants in Hungary. *Acta Oeconomica,* 1967. *2.* No. 2. 345–361. p.

Fekete, Ferenc–Heady, Earl O.–Holdren, Bob R.: *Economics of cooperative farming* — Objectives and optima in Hungary. Budapest–Leyden 1976. Akadémiai Kiadó–A. W. Sijthoff, 184 p.

Fekete, Ferenc–Sebestyén, Katalin: Organisation and recent development in Hungarian agriculture. *Acta Oeconomica,* 1978. *21.* Nos 1–2. 91–105. p.

Fekete, Ferenc–Benet, Iván–Sebestyén, Katalin: Energy problems in the Hungarian agriculture and food industry. *Acta Oeconomica,* 1981. *27.* Nos 3–4. 373–382. p.

Felföldi, János: Важнейшие экономические характеристики нового периода механизации в венгерском сельском хозяйстве. *Международный сельскахозяйсмвенный журнал,* 1978. No. 3. 78–82. p.

Felföldi, János: A termelésfejlesztés műszaki megalapozása a magyar mezőgazdaságban a VI. ötéves tervidőszakban. Техническое обоснование развития производства венгерского сельского хозяйства в период VI. пятилетнего плана. *Международный сельскохозяйственный журнал,* 1980. *24.* No. 5. 77–79. p.

Felföldi, János–Pintér, János–Tóth, Erzsébet: Hatékony belső érdekeltségi rendszer a mezőgazdasági vállalatokban. Эффективная внутренняя система заинтересованности в сельскохозяйственных предприятиях. *Международный сельскохозяйственный журнал,* 1984. *28.* No. 4. 38–40. p.

Kóbor, Kálmán–Szabó, Márton: Changing tendency of utilization of production factors and their efficiency relations in the food industry. *Acta Alimentaria,* 1982. Vol. 11/3, 219–232. p.

Kovács, Kálmán (Ed.): *Systèmes de production agricole en Hongrie.* AGROINFORM, Budapest, 1983. 64 p. (In French, English, Portuguese, Spanish, Russian and Arabic languages.)

Lugossy, Györgyi: The role of women in large-scale farms. Published in: *Rapport de la Consultation Technique sur les Femmes dans la Pluriactivite Rural.* FAO, Rome 1984. 238–242. p.

Marillai, Vilmos: Management of economic associations of co-operatives in Hungary. *Studia i Monografia,* Warszawa 1977. 161–182. p.

Marillai, Vilmos: Совершенствование хозяйственного механизма венгерского сельского хозяйства. *Экономика сельского хозяйства,* Москва 1980. 14 стр.

Marillai, Vilmos–Nagy, Gyula–Csáky, Csaba: Усовершенствование экономического регулирования в связи с развитием агропромышленного комплекса. *Конференция на тему:* "Совершенствование управления сельского хозяйства при условии межхозяйственной кооперации и агропромышленной интеграции" Москва 1980. 8–12 декабря, 15 стр.

Marillai, Vilmos: Probleme und Aufgaben bei der Modernisierung der ungarischen Landwirtschaft. *Agrar- und Ernährungswirtschaft in West- und Osteuropa.* Münster–Hiltrup 1982. Landwirtschaftsverlag, 123–144. p.

Marillai, Vilmos: *Положение кооперации и интеграции и современные вопросы их развития в мясо-молочной отрасли.* Таллинн 27 июня–2 июля 1983. 2. 11 стр.

Márton, János: Liaison d'entreprise, moyen de développement de l'économie alimentaire et agricole. *Cahiers du CENECA Colloque International* (Special issue) Paris 1972. III: 1–3. 327–328. p.

Márton, János: Vertikale Integration in der Nahrungsgüterwirtschaft. *Internationale Zeitschrift der Landwirtschaft,* 1972. No. 2. 139–142. p.

Márton, János: The stress caused by industrialized agriculture on farm people and its environmental consequences. *CIGR-Tagung,* Aachen, BRD 1973. IX. 6–7. *Documentation.* 137–145. p.

Márton, János: The vertical integration of the Hungarian food economy. *Acta Oeconomica,* 1973. *11.* No. 1. 81–96. p.

Márton, János: *Technical and political factors of structural changes in Hungarian agriculture.* Institute of Developing Economies, Tokyo 1977. 1–38. p.

Márton, János: Die gesellschaftlichen und wirtschaftlichen Anforderung der genossenschaftlichen Konzentration in Ungarn. *XIII. Internationale Genossenschaftswissenschaftliche Tagung 1975. in Darmstadt.* Göttingen 1978. 298–312. p.

Márton, János: *Эффективность социалистического производства,* Методологические проблемы. Изд. Экономика, Москва 1981. 213–230. стр.

Márton, János: *Importance and development of combined economic activities on farms in Eastern Europe: the case of Hungary.* FAO (ECE) AGRI (III. WP) R47. Rome 1983. 20 p.

Márton, János–Újhelyi, Tamás: Crop production structure in Hungary and the world market. In: The economy of crop production. *Publications of the Agricultural Economic Research Institute, Finland, No. 47.* Helsinki 1983. 30–39. p.

Márton, János: Agricultural research as an instrument of agricultural policy. *FAO, Regional Conference for Europe,* Reykjavik 1984. 27 p.

Mészáros, Sándor–Csáki, Csaba–Jónás, Anna: Modelling of centrally planned food and agricultural systems: a framework for a national policy model for the Hungarian food and agriculture sector. *International Institute for Applied Systems Analysis, Laxenburg, Research Memorandum,* 1978. No. 11. 1–102. p.

Mészáros, Sándor: World commodity model for fertilizer. The alternative long-term prognosis of the world fertilizer production, consumption and trade on the basis of an econometric model. Laxenburg, Austria, 1980. *International Institute for Applied Systems Analysis, Collaborative Paper,* No. 1. 1–94. p.

Mészáros, Sándor–Megyeri, Ferenc: Модель планирования экономических регуляторов развития сельского хозяйства ВНР. *Экономико-математические методы в управлении сельским хозяйством в странах-членах СЭВ.* Издательство "Колос", Москва, 1980. 45–57. стр.

Mészáros, Sándor: System analysis in Hungarian food production with special reference to commodity structure. In: *System Theory and System Analysis in Agricultural Economics.* Ed.: C. Csáki–J. Gönczi. Kieler Wissenschaftsverlag Vauk, 1982. 73–91. p.

Nagy, János–Godlewiski, Sz.: Совещание специалистов занимающихся вопросами прогнозирования сельского хозяйства стран-членов СЭВ и кооперации. *Международный сельскохозяйственный журнал,* 1972. No. 3. 108–109. стр.

Nagy, János–Gurcsenko, V.: Развитие зернового хозяйства в странах-членах СЭВ. *Международный сельскохозяйственный журнал,* 1974. No. 4. 5–9. стр.

Nagy, János–Gábor, Judit–Váci, Nóra: Проблемы продовольствия и перспективы их решения в ВНР. *Сосмествый сборник СЭВ и болгарского Международного экономического института,* София 1980. 166 стр., 109–116. стр.

Németi, Magda: Экономическая оценка индустриальных методов производства применяемых в птицеводстве. *Zagadnienia okonomiki rolnej.* Dodatek do zeszytu, Warszawa 1983. No. 6.

Sebestyén, József: On models of planning regional development in Hungary. *Studies in economic planning over space and time.* (Ed.): G. G. Judge–T. Takayama, Amsterdam–London–New York 1973. North-Holland–American-Elsevier, 26–42. p.

Sebestyén, József: Accomplishments, opportunities and needs of agricultural economists vis-à-vis quantitative techniques. In: *Rural change.* G. L. Johnson–A. Maunder (Ed.): Gower. Westmead 1981. 620–628. p.

Sury, Tamás–Schultz, Mária: Некоторые актуальные вопросы повышения плодородия почвы в Венгрии. *Международный сельскохозяйственный журнал,* 1980. No. 3. 21. p.

Tompa, Béla: Inquiry into the time dimension factors of development in viticulture and in the viniculture verticum. *Acta Horticulturae,* 1978. January, 1983–191. p.

Újhelyi, Tamás: Foreign trade in agricultural and food products—the Hungarian national economy and the world market. *Acta Oeconomica,* 1973. *11.* No. 1. 3–18. p.

Újhelyi, Tamás: Hungarian live cattle and beef export and the new world market trends. In: *The economy of beef production. Publications of the Agricultural Economics Research Institute, Finland,* No. 38. Helsinki 1979. 56–57. p.

Újhelyi, Tamás: State farms in the European CMEA countries, the case of Hungary. *FAO Regional Workshop: Transformation of the agrarian system in centrally planned economies in Africa,* Arusha 1983. 23 p.

Újhelyi, Tamás: The adjustment of agriculture to external changes. *8th American–Hungarian Economic Roundtable,* Budapest, 1983. 25 p.

Újhelyi, Tamás: Probleme des Ernährungsgüter Ost-West Handels aus ungarischer Sicht. *Rencontre: Quel avenir pour les echanges Est-Ouest?* Paris 1984. 10 p.

Varga, Gyula: Zusammenhänge zwischen Rentabilität, Beschäftigung, materieller Interessiertheit und Arbeitsorganisation in der ungarischen Gemüseproduktion. *XVI. CIOSTA Congreß. Wageningen, Agricultural University, 4–9. September, 1972.* 53–66. p.

Varga, Gyula: Эффективность механизации саловодческого производства. *Международный сельскохозяйственный журнал,* 1976. I. 10–14. стр.

Varga, Gyula: Small-scale farming. Budapest, *The New Hungarian Quarterly,* 1980. No. 78. 77–84. p.

Varga, Gyula: Agrarpolitik in Ungarn. *Resultate und Perspektiven Osteuropa*. Deutsche Verlags-Anstalt, Stuttgart 1981. 61–74. p.

Varga, Gyula: Alternatives of the development of agriculture and food industry in Hungary. *Acta Oeconomica*, 1982. *29*. Nos 3–4. 285–308. p.

Varga, Gyula: Lage und Entwicklungsziele der Lebensmittelproduktion in Ungarn. *Giessener Abhandlungen*, Band 113. Im Kommissionsverlag Duncker und Humblot, Berlin 1982. 205–308. p.

Varga, Gyula: Новые направления развития приусадебных и подсобных хозяйств в Венгрии. *Международный сельскохозяйственный журнал*, 1983. *27*. No. 3. 14–19. p.

Varga, Gyula: Finanzpolitische Mittel in Preisbildung und Einkommensverteilung der ungarischen Landwirtschaft. In: *Preise im Sozialismus — Kontinuität im Wandel. Giessener Abhandlungen*, Band 124. Dunker und Humblot, Berlin 1983. 73–98. p.

Varga, Gyula: Neue Produktionsbeziehungen in der ungarischen Landwirtschaft. In: *Sozialistische Agrarpolitik*. Red. T. Bergmann–P. Gey–W. Quaisser. Bund Verlag GmbH, Köln 1984. 198–213. p.

Acta Oeconomica, Vol. 34 (3–4), pp. 383–398 (1985)

BOOK REVIEWS

CSABA, L.: *Kelet-Európa a világgazdaságban. Alkalmazkodás és gazdasági mechanizmus* (Eastern Europe in the world economy. Adjustment and the economic mechanism). Közgazdasági és Jogi Könyvkiadó, Budapest 1984. 315 p.

In the Hungarian economic literature on CMEA-cooperation it was Sándor *Ausch* who–in his book "Theory and Practice of CMEA cooperation" published originally in 1969* first revealed the fundamental contradictions of the mechanism of integration. During the sixteen years passed since then the system of cooperation has not basically changed, and new forms of cooperation mostly impede precisely the integration into a multilateral system as well as the strengthening of monetary features of cooperation. The most important development of the last one and a half decades is that the necessity of an efficient adjustment to world economy has become obvious for all member-countries. László *Csaba*'s book, as if a continuation of Ausch's work, seeks answers to the questions how much the contemporary mechanism of CMEA -cooperation allows a successful adjustment to world economy at the level of integration, and to what extent the individual member-countries are forced to look for promising solutions independent of the integration.

The analysis of the CMEA-mechanism begins with the presentation of its monetary system. Experience with investment contributions is dealt with separately because investment contributions are considered by a considerable body of economic literature–thus also by the author–as a substitute solution for a radical reform of the monetary sphere. This is followed by a review of monetary relations, the price system and problems of intra-CMEA trade, where an important part is given to the evaluation of various statements on mutual advantages, and their confrontation with facts. In this chapter the author also deals with the development perspectives of present conditions and institutional framework of investment flows.

The next chapter of the book tackles the mechanism of CMEA-cooperation in the context of world economic changes. Developments in cooperation in planning are analyzed with a view to the requirements of integration into the world economy, and so is the system of target-oriented programmes, elaborated with the aim of strengthening the international aspects of sectoral planning presented. CMEA is a sub-region of the world economy. This finding is simultaneously a chapter heading, that introduces the analysis of relationships between the Comprehensive Programme and possibilities for world economic opening as well as the examination of those problems, more or less common to all member-countries of the CMEA, for which an efficient solution within the integration may only be expected after a significant modernization of the cooperation system. Adjustment of the East-European region to the world economy in the 1980s cannot be a task to be solved solely by improving the efficiency of CMEA-integration and–as indicated by László Csaba in a special chapter–it can only be achieved through regional integration based on a worldwide division of labour. This idea is the basis of proposals closing the book, too, which are to contribute to the

*English language edition by Akadémiai Kiadó, Budapest, 1972.

further development of the system of CMEA-co-operation.

A key issue of the cooperation mechanism is the monetary sphere. Problems of other fields are being reflected here in a condensed form, points out the author. The monetary system of the CMEA is part of a specific cooperation mechanism determined primarily by present forms of cooperation in planning and is separated from both the national and the world markets. This monetary system is, at the same time, directly controlled by the CMEA-countries through their national agencies of economic control and their banks.

Relying on experiences of the development in other integration groupings–first of all in the EC–László Csaba proves that several conditions are missing at present for the overhaul of the monetary system in CMEA-cooperation and thus, it cannot be expected even in the medium run that the unit of account of the integration becomes convertible. The lack of the convertibility of currencies causes, however, even daily problems in the cooperation among CMEA-countries, for example, by the fact that it is not expedient to have a surplus in transferable roubles, and this largely restricts the expansion of trade. At the same time growing Western balance of payments problems also impede the development of trade of bi- or multilateral benefits. The author points out: during recent years endeavours have developed in all member-countries to observe the convertible currency contents of exports to other CMEA-countries and to modify export structures accordingly. This endeavour increasingly influences the structure of intra-CMEA trade and makes the process, called by László Csaba as the demonetization of CMEA-co-operation, lasting for already more than a decade, even more tangible.

Forms of the division of labour diminishing the role of money flows are, namely, gaining ground in CMEA-cooperation. As an example for this, problems of investment contributions are analyzed especially thoroughly in the book. The system of investment contributions is a peculiar attempt to correct contradictions resulting from the pricing method for products of the extractive industry. This attempt at solution makes, however, the quantification of mutual benefits and disadvantages resulting from trade in raw materials especially difficult.

The example of products of the extractive industry indicates that the specific mode of functioning of the monetary system of the integration strongly restricts the role of contractual prices as economic indicators. Favourable or unfavourable relative CMEA prices mean effective foreign trade advantages or disadvantages for the individual member-countries, by far not of the same extent. The soft or hard character of individual commodities is usually a more important factor of benefits or disadvantages than price itself. On the basis of this finding the book criticizes views regularly emerging also in Western economic literature for more than two decades (most recently stressed in several studies by Michael Marrese and Jan Vanous) according to which the USSR indirectly subsidizes the economies of raw material importing CMEA-countries through the price system of CMEA-trade. The emergence of investment contributions also refutes this assumption.

László Csaba also evaluates the hard currency within the CMEA as a part of the demonetization. In his opinion this may not be regarded as a form of settlement pointing to the future, because in convertible currency deals usually only a few products of agriculture or of the extractive industries are delivered only in amounts strictly predetermined in physical terms. Thus, only the measuring rod of exchange is taken over from the world market without the mechanism of this type of exchange. As a cooperation method, the turnover settled in convertible currency is rather an integral part of than an alternative to the contemporary cooperation mechanism of the CMEA. Owing to the worsening Western debt situation of CMEA-countries by now only those countries insist on the maintenance of the intraregional hard currency trade which have traditionally surplus. These countries are, however, in minority; the share of convertible currency trade is thus likely to diminish within intra-CMEA-trade in the 1980s.

Since currencies within the CMEA are inconvertible and the settlement system is not multilateral, but is made up of bilateral relations, coordination of plans, one of the basic elements of CMEA-cooperation is regularly impeded by

practical obstacles. The book points out that the system of target-oriented programmes, as another new phenomenon of the cooperation practice of the 1970s, was aimed at overcoming this difficulty. While investment contribution had been decided upon by the 1975 CMEA-session held in Budapest, the elaboration of target-oriented programmes was decided by the 1976 session held in Berlin. This indicates that in the mid-1970s efforts were made to find some answers at integration level to the problems accumulated in cooperation. The successful implementation of target-oriented programmes has also been impeded by the inadequate functioning of the monetary sphere.

László Csaba points out that target-oriented programmes have been attempts to solve problems stemming from sectoral management within the frameworks of the centralized economic control and management model. Sectoral production optimum, when attempted at the international scale, came, however, into conflict with the centralized economic management system itself, that is functioning within the framework of national sovereignty. This sectoral optimum could only be formulated in physical terms because of the underdeveloped state of the monetary system in the CMEA. From the political economy point of view, however, an optimum formulated in physical terms cannot be interpreted, as the optimum should be selected out of production programmes of various use values, while a comparison of results of various production programmes can only be made in value terms.

According to the author the system of investment contributions and target-oriented programmes cannot be regarded as an action at CMEA-level that would have furthered a better adjustment of the East-European region to the world economy at the initiative of the integration. The Comprehensive Programme adopted in 1971 expressed first of all a political will aimed at intensifying cooperation, but did not create any framework for such a development of the integration mechanism that could promote the integration of the region into the world economy. A precondition to an efficient integration mechanism is that domestic mechanisms of the member-countries become qualitatively more up-to-date than they are at present. Yet, with an efficient integration mechanism missing—and often precisely owing to the lack of successful adjustment to the world market—integration is first of all only a tool for mitigating various short-term problems of the member-countries.

The contemporary form of CMEA-cooperation does not basically differ from what had been described by Sándor Ausch in 1969. The main contradiction of this form of cooperation is summarized by László Csaba by stating that it reproduces at an international level all the typical shortcomings of directive planning, already known at national level. Since, however, the necessity of adjustment to the world economy has become much stronger also for the CMEA-region in the 1970s, it is important to recognize the interrelationship between integration into the world economy and the regional integration process. The book shows that in the case of a successful world economic adjustment these two processes are realized parallel to each other. Regional integration should also further the export orientation of CMEA-countries to areas outside the CMEA. In this way, namely, unlike in the previous period, CMEA could actively participate in the international division of labour also from the export side. If, however, the reform of the mechanism of CMEA-cooperation will not be realized further on, either, it is likely that member-countries will go on with the establishment of their relations to the world economy in the present, rather contradictory way. This would not mean a regional seclusion of the CMEA; on the contrary, it would imply such a "world economic opening" in the course of which CMEA-countries would use their participation in the global division of labour among other things for a peculiar type of "import substitution". In the course of this process member-countries of the CMEA may gradually divert the purchase of several imported articles (e.g. raw materials or cereals), previously procured within the region, to outside the region, first of all to advanced Western countries. Integration into the world economy would take place for several member-countries in a not very advantageous way, and, undoubtedly despite regional integration. Thus, the logics of world economic

adjustment would certainly only strengthen the arguments supporting an overall modernization of the CMEA-mechanism, to be carried out as soon as possible.

Á. TÖRÖK

BÉLLEY, L.: *Gazdaságirányítás és infrastruktúra-fejlesztés* (Economic control and development of the infrastructure). Közgazdasági és Jogi Könyvkiadó, Budapest 1984. 267 p.

In his book the author seeks an answer to the question why a lagging development of infrastructure, which decisively determines the quality of life, is characteristic in the socialist countries; and investigates the deep-lying causes in the operation of the socialist economy which explain this phenomenon. For the method of the survey the author chose to make a comparison between the basic models of the two economies: the socialist economy with plan instructions and the capitalist economy with free competition (or, modified forms of these); and also between their institutional systems. Relying on Hungarian experience, the volume investigates how the regulatory mechanisms influence economic growth, efficiency, and the forms of infrastructural development in the particular models of economic control. The method of the survey, the comparative methodology serves not for comparative measurements, but for an understanding of the operation of the different mechanisms.

In the first, introductory chapter the author defines the notion of infrastructure, determines its particular groups and classifies them according to their economic function. (Infrastructure of consumption, i.e., of the population and that of production.)

The book deals emphatically with public administration as a constituent part of the infrastructure, indicating its distinguished role. It demonstrates the development through which administration has reached its current level when, as a result of interactions between bourgeois bureaucracy and market mechanisms, the interrelation evolved that the capitalist economy can function effectively when and where a bureaucracy of enterprising spirit works in harmony with the profit-motivation of the economic units, while regularly correcting the conditions for the activities of these units. Thus, in the long run public administration is a determining factor of economic growth, not independent, of course, from the political system controlling and supervising it.

The title of the second chapter is "market and hierarchy–alternatives of economic control". In this chapter the author briefly demonstrates how the economy with plan-instructions developed, defines the concept of the system of economic control and also lays down the simplifying assumptions he applies for the sake of illustrating the systems of economic control with the aid of models. Following the introductory part, the chapter goes on to describe the characteristics of the basic types of economic control systems (i. e., of the free-competition, or self-regulating economy and of the economy with plan-instructions). After presenting the abstract models the author introduces the basic variants, closer to the reality of our days, in detail–the regulated free-market economy on the one hand, and, the reformed economy with plan-instructions on the other. The closing part of this chapter highlights the connections between the economic control systems already described above in detail, and the types of economic growth. He considers development-type economic growth as characteristic of the market economy. The nature of this type of growth is rooted in a particular relationship between innovation and market cost accounting. This means that innovations may only be introduced if costs can no longer be reduced with the so-far employed traditional processes, while also other conditions of implementing the innovations exist, such as: (a) that an innovation should reduce costs with the price remaining unchanged, or only slightly decreasing, or, (b) should cost rise an at least proportional demand price rise be attainable, i.e., profitability should be maintained. In this form of growth, satisfaction of the continuously renewing and expanding needs of the households by increasing efficiency and raising incomes and output are the objectives lying in the background.

As against the above, the author believes that a quantitative type of growth is characteristic of

the economy with plan-instructions. The property of this type is that the per capita income (and output) are rising so that the structure and technology of the economy remains unchanged, the introduction of new techniques is not, or only occasionally, accompanied by increasing efficiency. Suggestions aimed at innovation or serving to increase production are realized even if (a) the cost-reducing reserves of earlier processes have not yet been exploited, (b) the new processes do not result in products of better quality and/or higher use value. In this model, or type, of growth the indicator of per capita income or output does not accurately reflect the degree of satisfaction of the needs of households, the reason being that quantitative growth takes place at the cost of the infrastructure.

The third chapter, carrying the same title as the book itself, describes the types of infrastructural development. Economic growth with a regulated market may be characterized by the parallel development of the infrastructure. The essence of this is that satisfaction of the collective needs is carried out so-to-say simultaneously, on the same level of technology, and so that it improves the profitability of directly productive activities* and increases the effectiveness of personal consumption in the households. The parallel infrastructural development is accompanied by high capital-intensity, which can be borne by the economy only if the capital intensity of the directly productive activities declines, or at least, does not grow. Preconditions of this are the following:

– continuous employment and rapid spreading of cost reducing and productivity increasing methods in the sphere of production;

– harmony between resources allocated for infrastructural objectives and collective demand, and purchasing power;

– priority of those infrastructural sectors which improve the efficiency of direct production the most intensively;

– rational management of infrastructural goods.

Parallel infrastructural development can only be implemented in the case of the development-type economic growth.

The other model–the economy with plan instructions–is characterized by successive (ulterior) infrastructural development. Satisfaction of the collective needs follows with a time lag, on unequal levels of technology, and development only takes place when backwardness already endangers the maintenance and extension of directly productive activities. This type of infrastructural development is rooted in the quantitative type of economic growth with plan-instructions, it does not reduce but rather increases capital intensity of the directly productive activities, and the extension of these activities involves a disproportionately high consumption of resources. This not only narrows down the sources of infrastructural development but exhausts even those that might be used for maintaining the existing infrastructures. Thus, the relationship in the economy with plan-instructions is an inverse one: it is not a decrease in the capital intensity of direct material production that releases resources for the infrastructure of high and increasing capital requirements, but an artificial reduction of the capital intensity of infrastructure allows the high growth rate of direct material production.

The connections of the two different economic control systems with infrastructure and with its development are, in addition, also decisively influenced by the economic control organs and institutions, i.e., by the organization of economic control. The operation of the control organs of the regulated market economy is characterized by indirect methods of control. This indirect control is asserted through the so-called functional control activities of the central and local (territorial) bodies of professional administration.

In turn, the operation of the controlling organs in an economy with plan-instructions is characterized by the application of direct instruments and this is based on the unlimited authority of the central control agencies to issue orders. Direct control is embodies in the organizational system of sectoral supervision, where the sectoral supervisory bodies may interfere with the operations of the economic units to a relatively unlimited extent.

*In the sense of material production. – Ed. note

The last chapter of the book discusses some particular questions of the Hungarian infrastructural development. Examining it from the late 1940s on, this part reviews the development of infrastructural supply. The author closes his book with some ideas on the organizational mechanism of decisions on the development of infrastructure.

M. MÁTRAI

BOTOS, B.–PAPANEK, G.: *Kérdőjelek iparunk fejlesztésében* (Question marks of Hungarian industrial development). Közgazdasági és Jogi Könyvkiadó, Budapest 1984. 393 p.

In the development of the Hungarian national economy a decisive role is played by industry, the future of which raises a number of unsolved questions. The cause of uncertainty does not lie only in that we cannot foresee the development of external conditions affecting industrial development, but also in that there is still no answer to quite a number of industrial development questions, and some questions have not even been formulated as yet.

Balázs *Botos* and Gábor *Papanek* raise three fundamental questions in their book–and several other, ensuing problems–and investigate them so as to help to find the answers. The most important problems are the following: the expectable and the attainable growth rate; the desirable direction and way of structural transformation; the possibilities of increasing efficiency and competitiveness.

The authors approach and delimit *the possible rate of industrial development* from several aspects. They take into consideration the results of a few world prognoses, the development trends of the last fifteen years of the European socialist countries, the most important indicators of the system of relations of the Hungarian industry and, as an important factor, the repeated economic policy efforts to gear up the slackening speed of industrial development. Still in the phase of raising the questions, the conclusion is drawn: the solution of growth problems depends on the speed and direction of the structural transformation of production. This is, at the same time, yet another question mark.

A survey of the documents and literature shows that the *structural transformation of production* in Hungary is held to be a task of primary importance by every forum and every author. As for the direction and method of structural transformation, however, opinions diverge. Some urge that an energy- and material-saving production structure should be developed, others take a stand for development projects of a low investment intensity. A group of specialists goes as far as to specify the desirable trends of structural transformation: indicating development blocs, programmes and manufacturing branches. This way of identifying tasks is also followed by official documents. The authors point out that the indicators used for ranking do not constitute a coherent system: their results are often contradictory. And the shortcomings of the methods of analysis allow to represent particular interests as national economic ones and thereby to extort decisions and targets detrimental to national economic efficiency. Thus the directions and methods of the transformation of the production structure present unsolved questions.

The following sphere of problems is that of the prospects *of increasing efficiency and competitiveness.* The outstanding importance of the subject is shown by the fact that, at least in the short run, actions are possible only in this field, and it is also there that unexplored and unexploited reserves are the largest. It has thus to be found out why possibilities are used but in a delayed and irregular manner. The most important questions are how to find ways of accelerating technological development, the possible and desirable directions of foreign economic relations, and the changing of the industrial management system. At the end of the part concerned with macro-level problems, the authors formulate the most important question covering all the previous thoughts: shall we succeed (and if so, how) in making progress on the path towards a more favourable development?

Although at first sight it seems an unnecessary detour, the case study on the Hungarian heating equipment manufacture is of a particular

interest. The choice of the subject of examination is in itself a hit. After the price explosion on the world market, the production of heating installations came to the forefront of adjustment. Although the households' share in the total energy consumption only amounts to about 25 percent in Hungary, the example does not only serve demonstration. To this challenge of Hungarian industry an effective answer could and ought to have been given also in this field, by increasing the production of installations to be operated with more economical types of fuel–the prices of which were less rising, or which would have been easier to acquire from domestic sources–and by reducing other heating methods. The reaction of the heating equipment manufacturing industry was slow and fraught with contradictions, which is explained, in the first place, by the fact that the manufacturing enterprises often experienced, in their own direct economic environment, such influences as were quite the opposite of those affecting national economy.

The most important lesson the authors have learned from the case study and from the examination of the macroeconomic problems is that partial measures cannot solve the open questions on the national economic level: a complex approach is necessary.

They start *to answer the questions raised* by systematizing all available experience. As for the state's role played in industrial development, they sum up the lessons from literature in that the sphere of application of direct tools is to be narrowed down, while that of indirect ones is to be enlarged.

The next source is supplied by historical experience. The economic historical discussion is centred around the question, which experience of each industrial development phase could be made use of in our days. In the development of the second half of the last century, the authors underline the society that saw in industry a means of the nation's rise and therefore supported it enthusiastically, the progress in the acts on industrial development, the attempts at establishing an educational system that can promote vocational training, and the coexistence of weaker industries benefiting from the protected market of the Austro-Hungarian Monarchy with the more advanced industries holding their own also on the world market. After World War I industrial development suffered a break: in Hungary, too, introversion prevailed that was characteristic of the whole of Europe. However, some lessons are to be learnt from this period, too: a resolute and successful economic policy aimed at establishing foreign economic equilibrium. The period from 1945 up to these days is divided into two phases. The first phase lasted until the late 1960s or early 1970s. Its main lessons are that at the time of industrial development at a forced rate a great amount of industrial capacities were created that did not suit the country's potentials, yet it was at that time that industry became a leading sector of national economy and reached a high growth rate. The gravest problem of that phase, making its effect felt even in our days, was the unfavourable development of efficiency, in spite of its improvement being permanently on the agenda. The most important, today frequently mentioned, and even officially declared, experience of the last phase i.e. the last fifteen years, has been the delayed reaction on the far-reaching changes in world economy, which played an important role in the reproduction of the problems. Summing up historical experience, the authors make the statement that the means of production accumulated in the course of the last decades allow an intensive development; the condition of progress is the development of the human factors, which is also in conformity with the country's potentials. It is also necessary to change the views and practices that have remained from the period of extensive industrial development.

The third field of the available experience is a survey of the governmental industrial development policies of a few advanced West European countries. The authors' main concern is to enrich the storehouse of examples, yet two general statements can be made in any case. Whether industrial development decisions are successful depends also on the extent to which they take into account international development trends, that is, it is important to know the tools used in other countries. The survey has also shown that the ratio of direct influence is generally decreasing in the armoury of central industrial development.

The search for answers is continued by investigating today's Hungarian industrial development practice. As a first step, the scope of movement and the prospects of industrial development have been assessed. The authors categorize the factors determining the scope of movement in two different manners. They distinguish, on the one hand, permanent and temporary determinant factors from the aspect of the length of time, and, on the other, determination by conditions, resources and accepted objectives, from the aspect of sources. The former aspect (the time factor) has a strong influence, in all three latter cases, on where the limits to the scope of movement can be drawn. As a rule, it is true that as determination diminishes, uncertainty increases. The authors point out, further, that determination is not the consequence of some mistaken planning or decision practice, but a necessary concomitant of management.

In the following, the authors examine determination in two further fields: investment and foreign trade. As for investment, the most important factors are the aggregate national economic limit materializing in financial limits, the central programmes that are to assert development policy preferences, and the commitments determined by investment projects started in the preceding plan period. Investment projects are indeed strongly determined; in several industries the greater part of the available resources has to be spent on the basis of earlier decisions. At the end of the chapter, as well as elsewhere in the book, the authors stress that there are tasks which do not depend on investment, that difficulties can be solved in other ways than just to enlarge the available means of production, or, they criticize the attitude prevailing in enterprise management which wishes to reach the targets first of all by increasing investments and always connects structural development with demand for investment. These perfectly correct statements could have also been used in the examination of the investment determination. The authors are entitled to categorize the determining factors and to stress some of them. It is, however, exactly their work that suggests statements to the effect that the available volume of investment and determination are not the only factors in drawing the limits for this scope of movement. The improvement of management and organization methods and, first of all, the acceleration of technical progress may substantially enlarge the scope of actions. The importance of technical progress is referred to and stressed at other places of the book, too. Its linking with the investment problems could have added one more dimension to the determination of the scope of movement.

An extremely important problem is determination by foreign trade. In discussing the subject, the authors form the opinion that the Hungarian foreign trade strategy would not have been successful even if world economic conditions had not changed for the worse for Hungary, which is to say that the present situation is largely the consequence of domestic problems. The rather high import demand arising from the country's natural conditions, the export commitments arising partly from this and partly from the country's debts, and the difficulties to increase exports are listed among the determinant factors. The market parameters of Hungary's foreign trade, that is, the export and import patterns according to groups of countries are not listed among the factors providing a scope of movement. The authors draw the conclusion that the scope of movement is greater in the long run, while in the next 5–15 year period only the limits of action can be somewhat expanded.

In their examination of the questions of structural development, the authors choose the remarkable and unusual way of not trying to indicate the sectors and branches to be specially developed, but to discuss the overall prevailing problems of structural transformation. The most important of these may be the lack of coordination between the various efforts, and the reduction of the notion of structural transformation to modernization of the product pattern. In enumerating the tasks to be fulfilled, the authors emphasize once more the importance of a complex approach, since the problems of industry are impossible to solve without taking into consideration all essential elements of economy. A particular importance is attributed to the tactics of small steps, which could be applied by enterprises in improving research, development, production and trading activities.

At the same time, the direct actions of the central organs aimed at structural transformation ought to be curbed. The authors think it is necessary to change the kind of structural improvement activity which is limited to single actions, while lacking the required organization and determination.

A criticism can be read out of the part discussing the industrial policy of the last years, too, leading to the conclusion that a uniform, complex, and well considered industrial policy has to be formulated very soon, in which the main elements are realistic targets, the available means and those to be established, and an institutional system that can provide for the achievement of the target. *Thus the task of industrial policy is not, in the first place, to lay down the actual tasks of structural transformation, but to create an economic environment in which enterprises are stimulated to follow the desirable line of development.*

As for the still inadequate efficiency requirements, the authors make the statement that the existing methodology has to be further developed, and consistent and unambiguous indicators, in coordination with the targets, have to be elaborated and applied. The practice cannot be continued in which development decisions are based on technical-economic criteria, while efficiency requirements, often in contradiction to those criteria, are suppressed. At the end of the book the authors sum up their results achieved in answering the three basic questions, and their main statements.

Balázs Botos's and Gábor Papanek's work relies on a wide variety of sources; it draws on the results of foreign and Hungarian literature as well as on primary sources of information (investigations, statistics). In their methods they strive after objectivity: they do not take stand in any question without setting forth and confronting the different views. They discuss fundamentally important and timely problems of industrial development and, though not aspiring to completeness, they give a comprehensive analysis.

L. KÁLLAY

DOBOZI, I.: *Nyersanyagok és energiahordozók a világgazdaságban* (Raw materials and fuels in the world economy). Kossuth Könyvkiadó, Budapest 1984. 373 p.

The book is a quintessence of István *Dobozi*'s research into raw materials and fuels. A brief introduction is followed by the detailed discussion of five subjects.

Part I ("General relationships between economic growth and the resource base") begins with the author adducing the example of Japan to prove that, at times when world commodity markets operate normally, even countries with a very limited resource base can achieve rapid economic development. A more abundant resource base is an advantage at times of disturbance in the international supply system above all. The key issue considered in this part, however, is whether–as predicted e.g. by the Club of Rome–a scarcity of minerals, including fossil fuels, or too high relative costs of production of those, can become a serious drag on economic growth. The author gives an unequivocal *no* for an answer. He points out in all technical detail that, when surveying the raw materials resources available to humankind as a whole or to any given society, we have to define very exactly what we mean: most of the pitfalls inherent in the nature of the subject can be avoided in this way.

If the issue is approached thus, the "doctrine of increasing scarcity of raw materials" simply will not wash in the light of experience. The author passes in review the factors counteracting any rise in scarcity: the savings made possible by technological progress, economies of scale, substitution and recycling, the role of foreign trade in spreading the available materials and in preventing localized shortages.

Of course, one of the vulnerable points of the treatment is that, the mass of the Earth being constant to all intents and purposes, the available mass of each and every mineral taken separately is finite. Furthermore, whatever technology is chosen, energy is not recyclable. Given sufficient cheap energy, raw materials can be extracted economically even out of quite low-grade,

low-concentration occurrences. Hence, the crucial issue of the future is not whether there will be a sufficiency of materials, but whether there will be enough cheap energy. If there will not, then human kind will sooner or later have to face a Malthusian scarcity of some raw materials at least.

Part I ends with a consideration, brief and to the point, of the psychological linkage between price explosions and the recurrence of the "bogey of depletion".

Part II ("Structural changes in the international capitalist extractive industry and the raw material markets") points out that the international raw materials and energy supply system built on political control over ex-colonies and semi-colonies had entered a critical stage by about 1970. All this had introduced considerable changes into the power relations among the protagonists of the international extractive industries, the developing-country governments and the transnational corporations, largely in favour of the former. The key issue has always been equity ownership: this is why the author concentrates on the shifts in foreign investment into extractive industry. Under the changed political power patterns, extractive facilities wholly- or majority-owned by the transnational corporations have largely become a thing of the past, and the corporations find minority stakes, which do not give them the sort of say and influence that they would want, a drawback rather than an advantage. Hence, the main current trend is towards the transformation of the transnational extractive corporations into enterprises providing complex services.

There is a section on Japan's efficient and successful investment strategy into extractive industries, and on the systems approach, that is its characteristic feature.

Part III ("The regulation of commodity markets and the New International Economic Order") starts out from the fact that commodities are a "problematic" facet of international relations: "the interdependence between producers and consumers of raw materials and fuels has grown into a by no means negligible source of tension; it has contributed considerably... to the politicisation of the international raw materials and energy issues" (p. 176). It is not by chance that "the struggle for a New International Economic Order... appears, as it were, exclusively aimed at creating a 'new order in the international commodity markets' the conspicuous success of the OPEC countries has contributed greatly to the developing countries... adopting a 'commodity doctrine' by which the bargaining power inherent in the commodities provided by them should be used to promote the cause of the New International Economic Order" (pp. 177–178). It is due largely to the sluggishness of the publishing process in Hungary that, by the time the book had come out, the crucial bottleneck of the international economy had become finance rather than commodities; that, these days, the sphere of materials and energy is undergoing a process of depoliticization rather than the reverse; that the notion of the developing countries' "commodity power" is no longer credible, at least for the time being, even in regard of OPEC. However, the game has only been postponed, not cancelled: one may predict with some confidence that the phenomena discussed by the author will acquire new topicality in the future, even if they are likely to do so later rather than sooner.

There is a separate chapter on the adversities of UNCTAD's integrated commodities programme.

Part IV ("Raw materials and energy policy in the developed capitalist countries") analyses for an introduction the situation prior to the 1973–1974 crisis. "The countries set for their raw materials and energy policies the objective of guaranteeing the smooth satisfaction of energy and raw material demand at the lowest possible cost, and in ways that gave the consumers the freedom of choice" (p. 192). Almost everything followed from this central striving: above all, since such a policy could not possibly be implemented on the basis of the industrial countries' scarceish mineral resources, it entailed the exodus of extractive industry into the developing world. As a result, the developed countries became dependent on the developing ones, albeit, at the time, only in the material sense. A more extensive section dealing with the developed market-economy countries' raw materials and energy policies post-1973 is, to all intents and purposes, the history of how this material

dependence had turned a political one and how the affected countries strove to reduce this dependence as far as possible (by an increasing institutionalisation of their raw materials and energy spheres; by strengthening the regulatory impact of government policies; by restricting demand through structural-policy and other instruments; by uprating domestic mineral reserves, those of coal above all; by a wider geographic diversification of imports, with due attention to political risk, and shifts in geography especially in regard of new investment; by diversifying energy consumption patterns, making efforts to arrive at an international understanding of sorts among the importing countries, ideas and measures concerning stock-building and stockpiling, etc.). The author points with some emphasis to the "macro-micro conflict" in the developed market economies' raw materials spheres: he insists that "For want of any serious and adequate regulation... the intentions of the government may well happen to be at odds with the interests of the private sector, of the micro-sphere, a discrepancy that may seriously hinder the implementation of government programmes" (p. 234). On the other hand, the time elapsed since the manuscript was completed has shown that the developed market-economy countries' governments had to some extent overreacted to the "energy and raw materials crisis" (among other things precisely by attempting to force partially self-contradictory regulations upon the micro-economy). In any case, in view of the current raw material prices (except perhaps those of the hydrocarbons), neither the governments, nor the enterprises of the developed market-economy countries seem to have any compelling reason to persist in defensive positions–these days, the producers certainly seem to have the better reasons to do so.

Part V ("Raw materials and energy policy in Eastern Europe") likewise falls into a pre-1973 and a post-1973 part. It correctly points out that, in this part of the world, shortages of energy and raw materials had been the rule rather than the exception even before 1973. These shortages had indeed come to be the single major bottleneck to growth under the given model of economic development. On the demand side, the CMEA member countries' rather excessive energy and material consumption per unit of national income (=net material product) appears as something of a system-specific feature. This situation combines, on the supply side, with a highly non-uniform distribution of mineral resources; for their development, the minor CMEA member countries (and, let us add, the European USSR as well) have to rely on the abundant but by no means unproblematic resources of the USSR, the Asian regions above all. The author discusses how costs of extraction in the USSR have increased (although, presumably for want of the appropriate data, he does not say how high, or how low, these costs used to be early on in an international comparison). He is entirely right in stating that "It would be wrong to believe that the current raw materials and energy problems of the CMEA countries have been triggered by changes in the outside world. The impact of the outside changes has just superposed itself upon a system of regional supply in which–partly for structural reasons and partly for system-specific ones–imbalances and tensions... have been reproducing themselves on an expanding scale" (p. 314). The evolution of the world market, however, certainly was one of the main reasons why fuels and raw materials, more readily saleable in the world markets than most CMEA products, had become so "hard" intra-CMEA, and why, "in the period up to the year 2000, imports of raw materials and energy from within the CMEA should be expected to grow substantially more difficult", and this at a time when, as I have pointed out above, raw materials and energy are growing less and less contentious items in the world markets. This is why I. Dobozi is correct in pointing out that the problems of intra-CMEA imports are "basically linked with the specific developmental difficulties of the Soviet extractive industries and with the shortcomings of intra-CMEA cooperation" (p. 343). I do not, on the other hand, agree with his view that "in the circumstances, a gradual outward-turning tendency seems to be inevitable in the materials and energy supply of the CMEA region" (p. 8). What, in my view, is more likely to happen is a short-circuiting within the CMEA of large volumes of potentially extra-

CMEA trade flows, possibly or indeed probably combined with a hardening (by settlement partly or entirely in dollars and in other ways) of the terms of delivery.

This book, which bears the imprint of a hard but successful struggle with the subject matter, offers food for thought aplenty to the interested reader. It might even have served as a handbook, were it not for the regrettable lack of a subject index.

B. BALKAY

WICKHAM, S.: *L'économie mondiale.* Presses Universitaires de France, Paris 1984. 127 p.

The main propositions outlined in the introduction to the latest book of the professor of the Université Paris-IX Dauphine–renowned specialist of international economic questions–refer to the conflict between the general international interdependence brought about by technical progress, and the present system of international relations. Economic development today is determined by processes of global dimensions, which can be channelled towards a positive development trend, i.e. towards a new world economic order only through international cooperation, but national bureaucracies protest against supranational cooperation. National governments are possessed by the idea of power (and this is stronger than the officially declared target of social welfare) and of military security, which helps to maintain the artificial fragmentation of the world economic sphere. Such vital questions as seawater pollution (and the reduction of the fish population), the growing shortage of freshwaters, deforestation and its climatic consequences, increasing tensions and armaments are only treated casually.

The book discusses today's world economic problems, referring also to the prospects of their easing in six chapters:

– the demographic explosion is losing its strength;

– food shortage is limited practically to a few regions; its total elimination is hindered by wastage in the advanced countries and, in the developing ones, by the neglect of food production in the development plans;

– the first rise in oil prices attained a reasonable level, and the corrections of the 1980s should place oil back among mineral resources available in abundance;

– the relations between North and South do not consist of an exchange of finished products for raw materials any more, but there is an increasingly intensive division of labour within sectors;

– the over-armament of the great powers and the growing number of small states make UN organs more important. If governments allot the necessary means to these organs, their utilization may provide for a smooth growth, at a calculable rate up to the end of this century.

The listing of the subjects treated in turn in the various chapters makes the book seem, at first look, one of several other works discussing global questions. The difference lies in the manner of discussion. A special feature is concentration and conciseness (without, however, simplification or vulgarization), whereby the volume of the book stays within the limits of readability for those engaged in the sphere of preparing and making decisions, as well as for the general reader interested in the subject.

It is Wickham's conciseness and synthetic vision that lie behind the interdisciplinary way in which the book can present the background, motivations, and interactions of processes. Thus, in the basically global world economic analysis cultural and social phenomena are also treated, such as the transformation of the scale of values among today's generation, and the upgrading of the quality of life as against quantitative growth. What the author writes about the sluggishness of the big states, the costs of power, the sociological processes leading to the establishment of small states and its political consequences are based on farsighted socio-psychological and political observations. Also the economists of countries with centrally planned economies will find it interesting what the author says of the relationship between plan and the actual economic development. The new task of planning is to forecast external conditions with a view to determine domestic development (four countries are quoted as examples: France, Hungary, India, Japan).

Two important features of Wickham's approach deserve to be mentioned: on the one

hand, its global (using the author's term: planetary) dimension, on the other, its long-term, secular horizon.

This globality refers not only to the subjects discussed, but also to the material elaborated: the book integrates the ideas and opinions of outstanding French economists (for example, François *Perroux,* Destanne de *Bernis*), as well as those of the greatest scholars and experts of the world. A global picture is also given of the latest results of development theory, and this wide horizon is not narrowed down by any national, linguistic, political or ideological limits (reference is made, among others, to Hungarian economists' works).

The author's long-term approach is demonstrated not only by his deliberately delimiting today's changes from the great world economic crisis of the years between 1929 and 1933 (typically cyclical), but also by what he undertook in the introduction of his book, i.e. to help the reader to place the daily pieces of information in the time horizon of the past and of the coming twenty years. Wickham presents the factors of long- and short-term effects of the changes in the large world economic processes in a synoptical approach.

Although the global approach to world economy has finally led economists to recognize the fact that the whole is more as well as different from the sum total of its elements, the global processes are affected by the elements which make up the whole. Parallel to, or rather contrapunctually to, the global processes, Wickham presents the elements and actors of the global world economy, pointing out the changes in them. He makes the statement that among the nation states the relative weight of the two big powers (the United States and the Soviet Union) in world industrial output is decreasing (except for war industry), while a multi-polar redistribution of industrial production and capital is taking its course in the world. The income differences between the countries are compared to those within each country, between social strata, and it is demonstrated that the latter are often greater than the international differences. Beside criticizing the protectionism of the national states, the author also indicates possible solutions through common actions of the specialized agencies of the UN (provided that the governments support them). In his opinion, the big multinational private companies have a decreasing share in world industrial output and he makes the statement that the role of small companies in establishing new technologies is increasing (though most of the new technologies brought about by them are still utilized in the organization of the multinational companies).

As regards integrations–an element of world economy–the author proves (in analysing East-West relations), in terms of quantity, that integration on the planetary scale is stronger than that on the regional scale. In both the EEC and the CMEA the external trade of the member countries is growing faster than their trade within the integration.

The author treats at length East-West economic relations. His judgement is positive, proving that trade relations are possible between political opponents. These relations have become diversified during the past twenty years and they are part of the global integration process. The resulting interdependence also means a mutual vulnerability of national targets, for present opponents (who may eventually become trading partners) as well as for present allies (who may later on become rivals). Within the system of relations, he also treats North-South relations, in a conviction that presses for the new world economic order, while taking into account the facts of life as well.

The reader is helped in absorbing and understanding the statistical data by a number of carefully constructed tables and diagrams which testify to a well selected elaboration of an extensive quantified source-material.

Some of the statements of the book are, however, controversial. For example, the author's opinion that the development of crude prices in the early 1980s would place crude oil back among mineral resources available in abundance. The writer of the present review does not share Wickham's opinion in the question, either, that the first oil price explosion meant a failure of the analytical and prognosticating activity of economists. Analyses and prognoses were made in time–only the economic policy makers did not listen promptly enough (which is also easily explainable, taking into consideration the high

risk of a decision bringing about changes of such dimensions). In Wickham's opinion, OPEC has a weak administrative organization; while the reviewer has formed the opinion–after several visits to the OPEC Centre in Vienna–that though the OPEC's administrative organization is small, it is nevertheless highly efficient.

Wickham's book reflects a turbulent and heterogeneous world economy, in which the author yet seems to spot the starting-points of a further development. Having reviewed the world economic models, Wickham expects a slower rate of development, but a more balanced one, provided that protectionism will decrease, the international division of labour will become more intensive, the burdens and risks of armaments will ease, and the actions of the UN agencies will get support from the governments. And one may hope that those who make international politics will act in the spirit of Wickham's statement to the effect that the interdependence of nations, though multiplying the risk of conflicts, also increases the possible advantages of cooperation.

E. KEMENES

SOKOLOFF, G.: *L'économie de la détente: l'USSR et le capital occidental.* Presses de la Fondation Nationale des Sciences Politiques. Paris 1983. 255 p.

Georges *Sokoloff*'s work is a many-sided examination of a topic of outstanding importance both from political and economic viewpoints, taking political, economic policy and economic theory aspects equally into consideration.

Sokoloff's book consists of two main parts. *Part One,* entitled "Political assumptions", deals with basic factors of the politics of the USSR in East-West relations, while *Part Two,* entitled "Economic reality", analyzes how the Western import policy of the USSR is realized pointing out the role of Western technology imports in Soviet investment projects and their impact on the Soviet economy.

The main points of Sokoloff's analysis are the "Opening of the USSR toward the West" and the technology transfer. He starts from the statement that import demand and decision on import issues are a determinant factor of Soviet foreign economic policy in Western relations. In his opinion export is merely considered as a tool to cover import needs. The slogan of the years before the mid-1950s: "to import in order to have to import less later on" reflected the endeavour to substitute imports with the creation of the domestic basis of production. But, the "import required" increased with economic development, and also as a consequence of investment projects originally aimed at import substitution. The spreading of new industries resulted in additional import needs, too.

Since the mid-1950s participation in the international division of labour has become more and more important in Soviet economic policy. According to Sokoloff a "certain continuity" can be observed in the behaviour of the USSR concerning East-West trade from the mid-1950s to the mid-1970s (the period analyzed by him). Foreign trade of the USSR with the West showed a rapidly expanding trend up to the mid-1970s. Growth waves of machine imports are connected with Soviet investment programmes.

Chapter 1 deals with the decision-making and realization system of foreign economic policy. The presentation of the institutional system and its functioning is of a descriptive character, a summary intended for Western readers. In connection with the nature of the foreign trade plan Sokoloff emphasizes its intentional character, since its realization is largely dependent on external factors, world market possibilities, and the behaviour of foreign partners.

Chapter 2 examines the issue often raised in the West: "Does the USSR import for armaments purposes? " Western embargo policy against the USSR has always decided on restrictions against the USSR and other socialist countries on the basis of this accusation (the Export Control Act passed in the USA in 1949, the Battle Act of 1951, to some extent the Export Administration Act in 1969, just as the COCOM-lists).

According to Sokoloff the major part of the growth of the military potential of the USSR is contained under the statistical heading "formation of state reserves". He demonstrates, however, that the development of Soviet state reserve funds and the growth of imports of

Western equipments show movements not connected with each other.

Chapter 3 entitled "Declarations of independence: the principle of autarkic development of the USSR" deals with the dependence of the USSR on foreign trade and international economic cooperation. Sokoloff examines the weight of foreign trade and its role in Soviet economy. He quotes a report of the IMEMO according to which "despite the fast growing volume of East-West cooperation, technology purchases of the USSR from capitalist countries, including machines and equipments only amount to a negligible part of her own net national product. It is obvious from this that this source is only of secondary and by no means of decisive importance for the USSR." (p. 68) As against this, Sokoloff proves the importance of technology imports for the USSR. According to his computations about one fifth of machine and equipment investment projects aimed at capacity expansion was realized with import equipments in 1960 and more than one fourth of them in the mid-1970s.

Chapter 4 deals with the political impact of Soviet-Western relations. According to Sokoloff the USSR decides on her Western imports according to economic viewpoints after all, while politics have a part rather in the selection of import sources by countries. Sokoloff demonstrates that in the Western trade of the USSR the weight of those countries increased from time to time with which political relations were better than the average. This refers mainly to the 1950s and 1960s. The process of détente in the 1970s had practically a stimulating effect on the exports of all developed Western countries to the USSR.

Part II of the book bears the title "Economic reality". In this part the author analyzes mainly the import aspect of the Soviet foreign economic policy, examining the role of imports, within them of Western imports in the Soviet economy, pointing out especially their role in investment and technological development.

According to Sokoloff imports from the West are also quantitatively considerable in Soviet investment into fixed assets. According to computations of the author the share of Western imports in investment into productive fixed assets aimed at capacity expansion was at least one eight (about 12 percent) in 1975. Soviet investment plans also reckon with considerable Western capital imports. The growth of Soviet gold sales, however, financed first of all not machinery imports, but those of cereals (an unambiguous correlation may be found with this latter).

Soviet import policy is simultaneously open and selective in the Western relation. For the judgement of the importance of selective opening Sokoloff examines three major factors: 1. the development of the structure of industrial investments, 2. changes within the structure of Soviet machinery imports, 3. development of the Western share by main commodity groups on the Soviet market.

Those analyzing the import policy of the USSR emphasize the need for domestic technological development and the effect of technology transfer on the economy and technical life of the importing country. Sokoloff, too, considers this as a key to the problem: the realization of modernization intended through machinery imports depends on how and in which environment and system of relations imported technology may work. Attention should mainly be focused on the importance of economic links and connections as well as on economic viewpoints (organization+ economic stimulation). The latter are at least as important as technology import itself.

The requirement of technological development is an important aspect of Soviet machinery imports, beside this, however, the fast establishment of large production capacities is also an important viewpoint. Western imports of the USSR include large volumes of advanced or medium-level technology suitable for the establishment of production capacities, while the latest achievements of researches are imported in smaller volume. (The West is usually refusing to sell the most advanced "top" technology, while in sectors of strategic importance the USSR develops the necessary most advanced technology from its own resources.)

The subject of *Chapter 9* is "Stimulation of imports and investment". Import is an important additional factor of economic development for the USSR. It enables the elimination of bottlenecks on the one hand, and the saving of

time, on the other. It is a problem of the efficiency of investments and production, however, that the running of imported machinery does not automatically ensure products of the same quality as are manufactured in the "mother country", products manufactured with "world level" equipment are not necessarily of "world level" quality. Furthermore, the expectation of socialist countries that products manufactured with equipment imported from the West may be automatically exported to developed Western markets did not prove to be properly founded.

Chapter 10 deals with the propagating (demonstrative) effects of imports. The rate of economic growth and the development of Western machinery imports of the USSR show an opposite trend: as against the slow-down of growth, Western machinery imports considerably increased in the 1970s. It is a qualitative change that while previously Western machinery imports were aimed first of all at giving the first impulse to the fields to be developed, at present their demonstrative and multiplying effect is more and more coming to the fore.

The demonstrative effect of Western machinery imports lies, on the one hand, in the satisfaction of given demands, and, on the other hand, import itself generates new demands and is also spreading among sectors. Originally less import-intensive sectors do also try to eliminate their own bottlenecks through imports. The extension of imports to such sectors may also be observed, where they had no important part previously (e.g. the construction industry).

Following the foreign economic opening such a system of real economic and financial relations has been created that implies some objective determination. In his final conclusions drawn at the end of his analysis Sokoloff points out that Soviet leaders attribute an ever greater part to economic forces in the life of society, and the sensitiveness of political will to the orientation and concrete issues of economic policy is becoming ever stronger. Power (management) is more and more reckoning with the economic impacts of its decisions, with economic requirements. At the same time, however, it would like to preserve its "autonomy in decision-making", Sokoloff says.

According to Sokoloff's argument a turn toward the West has taken place in Soviet economic policy from the mid-1970s on. This does not mean the giving up of cooperation, but the inversion of Soviet (economic policy) priorities. The reason should be sought in the deterioration of the political climate between East and West, first of all between the USSR and the USA. In the USSR priority has been given to stopping and then decreasing the growth rate of the stock of debts. At the same time, however, the Soviet-West-European gas deal has proved—among other things—that the USSR and Western Europe are both interested in the continuation of East-West technology transfer, even though their viewpoints are deviating.

Speaking about the foreign economic and political trends in the USSR in the 1980s Sokoloff emphasizes that reservation or isolation is no alternative for the USSR and she will not even choose it. Beside domestic economic reasons also external factors speak in favour of the maintenance of East-West economic cooperation. Links with the world's industry are an important factor of technological development for the USSR.

According to Sokoloff, the development of East-West relations will strengthen, after all, confidence in long-term development, even if the concepts of the two parties about the content of this development are different. Evaluating the interestedness in cooperation he emphasizes the political viewpoints of the West as against economic ones.

The book formulates the economics of détente from the Western aspect and advocates the maintenance and development of East-West relations (though on the basis of principles differing from those of socialist countries). And, this—the preservation and further development of economic relations between East and West—is a mutual interest for both sides.

I. KŐRÖSI

BOOKS RECEIVED*

BERÉNYI, J. (ed.): A belkereskedelem négy évtizede (1945–1985) (Home trade in Hungary 1945–1985). Közgazdasági és Jogi Kiadó, Budapest 1985. 402 p.

CSABA, L.: Kelet-Európa a világgazdaságban: alkalmazkodás és gazdasági mechanizmus (Eastern Europe in the world economy. Adaptation and economic mechanism). Közgazdasági és Jogi Kiadó, Budapest 1984. 314 p.

FÉBÓ, L.–RADNÓTI, É. (eds): Életszínvonal és közhangulat (Standard of living and public opinion). MTA Közgazdaságtudományi Intézet, Budapest 1984. 69 p.

Friss István emlékezete (Im memoriam István Friss–Studies) MTA Közgazdaságtudományi Intézet, Budapest 1984. 128 p.

Gazdasági fejlődésünk és a gazdaságirányítás továbfejlesztése (Development of the Hungarian economy and improvement of the economic management). Kossuth Kiadó Budapest 1984. 219 p.

HAVASI, F.: Gazdaságpolitika–gazdaságirányítás (Economic policy and management.–Papers between 1977–1984) Kossuth Kiadó Budapest 1985. 295 p.

MAGNUSSON, M. L.: (red.) Bogen i Sovjet. Fra forfatter til laeser. Sydjysk Universitetsforlag, Esbjerg 1985. 106 p.

NIELSEN, M.: Udenrigsokonomi i Østeuropa–tilpasning ellet krise? Sydjysk Universitetsforlag, Esbjerg 1985. 99 p.

NYITRAI F.: A magyar gazdaság negyven éve (Forty years of the Hungarian economy). Kossuth Kiadó, Budapest 1985. 385 p.

OTT, Gy.: A vállalati bértarifa-rendszer (The enterprise wage-tariff system). Népszava, Budapest 1984. 110 p.

PAPP, S.: A mezőgazdasági ipar: ellenféle vagy partner? (Agricultural industry: adversary or partner?) Kossuth Kiadó, Budapest 1985. 154 p.

PULAI, M.–VISSI, F. (eds): Gazdaságirányítás 1985 (Economic control and management in 1985). Közgazdasági és Jogi Kiadó, Budapest 1984. 175 p.

SIKLAKY, I. (ed.): Koncepció és kritika. Vita Liska Tibor "Szocialista vállalkozási szektor" javaslatáról (Conceptions and critiques: Discussion on T. Liska's proposal "The socialist enterprising sector"). Magvető Kiadó, Budapest 1985. 384 p.

SZAMUELY, L.: A jóléti állam ma (The welfare state today). Magvető Kiadó, Budapest 1985. 123 p.

SZEBEN, É.–TÓTHNÉ SIKORA, G.–MAUSECZ, Zs.: Az értelmiség anyagi érdekviszonyai (Material interest relations of the intelligentsia). Kossuth Kiadó, Budapest 1984. 124 p.

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

AUTHORS

Ferenc HAVASI, b. 1929. Member of the Political Committee and Secretary of the Central Committee of the Hungarian Socialist Worker's Party, formerly Deputy Prime Minister. Author of "The Sixth Five-Year Plan of the Hungarian National Economy (1981–1985)" (A. Oec. 26/1–2) "The Hungarian Economy on a New Course of Growth" (A. Oec. 29/3–4) "Further Development of the System of Economic Control and Management in Hungary" (A. Oec. 32/3–4), "Economic Policy and Management" (1985 in Hungarian) and several articles on Hungarian economy and economic policy in Hungarian.

Dr. József BOGNÁR, see Vol. 30, No. 1.

Dr. Tibor VÁMOS, b, 1926. Full member of the Hung. Acad. Sci., titular professor. Director of the Computer and Automation Institute of the Hung. Acad. Sci., formerly President of the International Federation of Automatic Control (1981–1984). Author of "AI as a Tool for Flexible Manufacturing" in: Learning Systems and Pattern Recognition in Industrial Control (1983); "Cybernetics: the Border of Intelligence–a Faustian Adventure" Paper at the Seminar on Science and Technology by the End of the XX Century (Spain, 1983); "Cooperative Systems–an Evolution Perspective" IEEE CSM, 3.3. 1983; co-author of paper, presented at the 2nd IFAC/IFORS/IFIP/IEA Conf. on Analysis, Design and Evaluation of Man-Machine Systems (Italy, 1985).

Dr. Béla KÁDÁR, see Vol. 33, Nos 1–2.

Dr. Tamás BAUER, b. 1946. Cand. of econ. sci. Senior research worker at the Institute of Economics, Hung. Acad. Sci. Author of "Planned Economy, Investment, Cycles" (1981 in Hung. to be published in English, too), "The Hungarian Alternative to Soviet-Type Planning" (J. of Comp. Econ. Vol. VII, No. 2), "A Note on Money and the Consumer in Eastern Europe" (Soviet Studies, Vol. XXXV, No. 3), "The Second Economic Reform and Ownership Relations" (Eastern Eu. Econ. Vol. XXII, Nos 3–4).

László ANTAL, b. 1943. Titular assistant professor. Deputy director of the Institute for Financial Research. Author of "The Financial and Economic Management System in Hungary on the Way of Reform" (1985 in Hungarian) "Planification central et politique sociale" (Reflets perspectives, 1985/2–3); "Conflicts of Financial Planning and Regulation in Hungary" (A. Oec. 30/3–4) and several other studies in earlier issues of A. Oec. on the development of the Hungarian mechanism.

Dr. Imre TARAFÁS, b. 1947. Cand. of econ. sci. Head of department at the Hungarian National Bank. Author of several articles and studies on export supporting and prices, on investments and economic equilibrium, financial politics and inflation and a book on invisible money in Hungarian.

Kamilla LÁNYI, see Vol. 33, Nos 3–4.

Karel DYBA, b. 1940. Research worker at the Institute for Forecasting of the Czechoslovakian Academy of Sciences. Author of "Topics in Czechoslovakian External Economic Relations" (1980) and co-author with V. Dlouhý of "An Econometric Model of the Czechoslovakian Trade Balance" (1985) both in Czech and several articles, mainly on macroeconomics of small open socialist economies.

Dr. Sándor RICHTER, b. 1953. Economist. Scientific research worker at the Institute of Economics, Hung. Acad. Sci. Author of "Hungary's Foreign Trade with CMEA Partners in Convertible Currency" (A. Oec. 25/3–4) and co-author with L. Halpern and G. Kőrösi of "Intra-Industry Trade in Manufactures. Comparison of Austria, Finland, Yugoslavia and Hungary" (1985 in Hungarian).

Dr. Éva SZABÓ-MEDGYESI, b. 1933. Cand. of econ. sci. Advisor of the Central Statistical Office of Hungary. Author of several studies on agricultural cooperatives and a book on the development of productive forces and agricultural enterprises in Hungarian.

Dr. Gyula VARGA, see Vol. 29, Nos 3–4.

TO BE PUBLISHED IN OUR NEXT ISSUE

R. NYERS: National Economic Objectives and the Reform Process in Hungary in the Eighties
J. HOÓS: Alternatives of Growth and Priorities in the 7th Five-Year Plan of Hungary (1986–1990)
M. TARDOS: Question Marks in Hungarian Fiscal and Monetary Policy (1979–1984)
I. TARAFÁS–J. SZABÓ: Hungary's Exchange Rate Policy in the 1980s
Z. ROMÁN: Productivity Growth and Its Slowdown in the Hungarian Economy
L. HALPERN–GY. MOLNÁR: Income Formation, Accumulation and Price Trends in Hungary in the 1970s
L. PODKAMINER: Investment Cycles in Centrally Planned Economies: An Explanation Invoking Consumer Market Disequilibrium and Labour Shortage
CS. CSÁKI: An Outlook of Food Supply and Demand in the CMEA Countries
G. OBLATH–P. PETE: Trade with the Soviet Union: the Finnish Case

REVIEWS

M. LAKI: Central Economic Management and Enterprise Crisis in Hungary

OBITUARY

Lord Thomas Balogh (1905–1985) (B. Csikós-Nagy)

BOOK REVIEWS

BOOKS RECEIVED

EL TRIMESTRE ECONOMICO

COMITE EDITORIAL HONORARIO: Emilio Alanís Patiño, Emigdio Martínez Adame, Raúl Ortiz Mena, Felipe Pazos, Raúl Prebisch y Raúl Salinas Lozano.
COMITE EDITORIAL: México: Gerardo Bueno, Edmundo Flores, José A. de Oteyza, Leopoldo Solís M., Carlos Tello y Manuel Uribe Castañeda. *Brasil:* Celso Furtado y Francisco Oliveira. *Colombia:* Constantine V. Vaitsos. *Chile:* Jacques Chonchol, Fernando Fajnzylber W., Alejandro Foxley y Osvaldo Sunkel.

Director : Oscar Soberón M.

Secretario de Redacción : Guillermo Escalante A.

Vol. LII(3) México, julio – septiembre de 1985 Núm. 207

Sumario

In Memoriam. Oscar Soberón Martínez
Emilio Alanís Patiño, *In Memoriam.* Manuel Mesa Andraca

Artículos:

Pedro Aspe Armella y Carlos M. Jarque:	*Expectativas racionales: Un modelo trimestral para la economía mexicana*
Luis René Cáceres:	*Ahorro, inversión deuda externa y catástrofe*
Antonio Barros de Castro:	*Ajuste por adaptación estructural. La experiencia brasileña*
José Pablo Arellano:	*De la liberación a la intervención. El mercado de capitales en Chile 1974–1983*
Luiz Carlos Bresser Pereira: y Yoshiaki Nakano	*Factores aceleradores, mantenedores y sancionadores de la inflación*
Josef Steindl:	*Acumulación y tecnología*
Moises Ikonicoff:	*Teoría y estrategia del desarrollo: El papel del Estado*
Samir Amin:	*La distribución del ingreso en el sistema capitalista*

DOCUMENTOS – NOTAS BIBLIOGRAFICAS
REVISTA DE REVISTAS – PUBLICACIONES RECIBIDAS

Fondo de Cultura Económica – Av. de la Universidad

975 – Apartado Postal 44975

EST–OVEST

SOMMARIO N. 2

Analisi e documentazione

TRIESTE 1985 - ANNO XVI

Analisi e Note

Paolo GAGLIARDI — La Cecoslovacchia nell'èra Gorbaciov: lo sviluppo tecnologico e le incognite del suo avvenire

Secondo ROLFO — L'automazione delle lavorazioni meccaniche nei paesi dell'Est europeo

Documentazione

Note sulle relazioni tra le CEE e la Jugoslavia

La congiuntura economica in Bulgaria

Il turismo in Ungheria nel 1984 e nei primi mesi del 1985

Informazioni

Statistiche

Il commercio estero della Cecoslovacchia nel 1984 (M. L.)

Direttore responsabile: Tito Favaretto
Redazione: Marco Lachi, Angelo Masotti Cristofoli, Valeria Matyasovszki, Andrea Wehrenfennig

---

Direzione, redazione e amministrazione:
34122 Trieste — Corso Italia 27 — Tel. 69-130

Abbonamento per il 1985
L. 60.000 (per l'estero L. 80.000)
L'abbonamento va versato sul C. C. B. N. 4107/3 presso la Cassa di Risparmio di Trieste, Agenzia n. 2

REVUE TIERS–MONDE

Tome XXVI, № 103, juillet-septembre 1985

LES MIGRATIONS INTERNATIONALES AU MOYEN ORIENT

sous la direction de Gilbert BEAUGÉ

Présentation: Des migrations Nord-Nord aux migrations Sud-Sud par Gilbert BEAUGÉ

Anne GED. – Migrations et transformations économiques et Sociales en Egypte.

Mahmoud ABDEL FADIL. – Les effets de l'émigration de main-d'œuvre sur la distribution des revenus et les modèles de consommation dans l'économie égyptienne.

Talaat EL SINGABY. – Migrations et capitalisation de la campagne en Egypte. La reconversion de la famille paysanne.

Michel NANCY. – Deux villages libanais dans le Golfe; filières villageoises et marchés du travail.

Naghma IMDAD. – L'émigration pakistanaise dans le Golfe et ses répercussions sur le pays d'origine.

Elisabeth LONGUENESSE. – Travailleurs indiens à Oman.

Nader FERGANY. – Migrations inter-arabes et développement.

Gilbert BEAUGÉ. – Le rôle de l'Etat dans les migrations de travailleurs et la « diversification » économique des pays de la péninsule arabe.

Djehane HOSNI et Ismaël SIRAGELDIN. – La dynamique de la main-d'œuvre à Koweit: un dilemme pour un pays exportateur de pétrole.

Alain ROUSSILLON. – Migrations de main-d'œuvre et unité arabe: les enjeux unitaires du modèle irakien.

Fred HALLIDAY. – Migrations de main-d'œuvre dans le monde arabe: l'envers du Nouvel Ordre Economique.

LA VIE A L'IEDES

- Le vingt-cinquième anniversaire de la Revue Tiers-Monde. Sorbonne, 21 mars 1985

- Trois Exposés-débats. – Association Développement et Progrès/IEDES, 27 mars, 2 mai et 13 mai 1985: « Financement et endettement »; « Suivi-évaluation des projets de développement rural »; « Un exemple de coopération Nord-Sud ».

- Journée d'étude. – Association Développement et Progrès/IEDES/FSIC, 4 mai 1985: « Communication et information dans les pays du Tiers-Monde: transferts de technologies et pratiques sociales et culturelles ».

ANALYSES BIBLIOGRAPHIQUES

Direction-Rédaction: Institut d'Etude du Développement Economique et Social, 58 Bd Arago, 75013-PARIS (tel.: 336 23 55)

Abonnements et ventes: Presses Universitaires de France, 12, rue Jean de Beauvais, 75005-PARIS (tel.: 326 22 16) (CCP: PARIS, n° 1302–69 C)

PRINTED IN HUNGARY
Akadémiai Kiadó és Nyomda, Budapest

ACTA OECONOMICA

A Magyar Tudományos Akadémia
idegen nyelvű közgazdaságtudományi folyóirata

Szerkesztőség: 1112 Budapest, Budaörsi út 45.
1502 Budapest Pf. 262.

Megjelenik évi 2 kötetben. Megrendelhető az Akadémiai Kiadónál (1363 Bp. Pf. 24.) a külföld részére a Kultura Külkereskedelmi Vállalatnál (1389 Budapest, Postafiók 149).

ACTA OECONOMICA

Журнал Академии наук Венгрии

Публикуется в двух томах в год.
Статьи публикуются на английском, русском и немецком языках.

Адрес редакции: H-1502 Budapest P.O.B. 262

Заказы принимает предприятие по внешней торговле Kultura (H-1389 Budapest, P.O.B. 149) или его заграничные агентуры.

ACTA OECONOMICA

Zeitschrift der Ungarischen Akademie der Wissenschaften

Aufsätze erscheinen in englischer, russischer und deutscher Sprache, in zwei Bänden pro Jahr.

Redaktion: H-1502 Budapest, P.O.B. 262

Bestellbar bei Kultura Außenhandelsunternehmen (H-1389 Budapest, P.O.B. 149) oder seinen Auslandsvertretungen.

Periodicals of the Hungarian Academy of Sciences are obtainable at the following addresses:

AUSTRALIA
C.B.D. LIBRARY AND SUBSCRIPTION SERVICE
Box 4886, G.P.O., *Sydney N.S.W. 2001*
COSMOS BOOKSHOP, 145 Ackland Street
St. Kilda (Melbourne), Victoria 3182

AUSTRIA
GLOBUS, Höchstädtplatz 3, *1206 Wien XX*

BELGIUM
OFFICE INTERNATIONAL DE LIBRAIRIE
30 Avenue Marnix, *1050 Bruxelles*
LIBRAIRIE DU MONDE ENTIER
162 rue du Midi, *1000 Bruxelles*

BULGARIA
HEMUS, Bulvar Ruszki 6, *Sofia*

CANADA
PANNONIA BOOKS, P.O. Box 1017
Postal Station "**B**", *Toronto, Ontario M5T 2T8*

CHINA
CNPICOR, Periodical Department, P.O. Box 50
Peking

CZECHOSLOVAKIA
MAD'ARSKÁ KULTURA, Národní třida 22
115 66 Praha
PNS DOVOZ TISKU, Vinohradská 46, *Praha 2*
PNS DOVOZ TLAČE, *Bratislava 2*

DENMARK
EJNAR MUNKSGAARD, Norregade 6
1165 Copenhagen K

FEDERAL REPUBLIC OF GERMANY
KUNST UND WISSEN ERICH BIEBER
Postfach 46, *7000 Stuttgart 1*

FINLAND
AKATEEMINEN KIRJAKAUPPA, P.O. Box 128 *SF- 00101 Helsinki 10*

FRANCE
DAWSON-FRANCE S. A., B. P. 40, *91121 Palaiseau*
EUROPÉRIODIQUES S. A., 31 Avenue de Versailles, *78170 La Celle St. Cloud*
OFFICE INTERNATIONAL DE DOCUMENTATION ET LIBRAIRIE, 48 rue Gay-Lussac
75240 Paris Cedex 05

GERMAN DEMOCRATIC REPUBLIC
HAUS DER UNGARISCHEN KULTUR
Karl Liebknecht-Straße 9, *DDR-102 Berlin*
DEUTSCHE POST ZEITUNGSVERTRIEBSAMT Straße der Pariser Kommüne 3–4, *DDR-104 Berlin*

GREAT BRITAIN
BLACKWELL'S PERIODICALS DIVISION
Hythe Bridge Street, *Oxford OX1 2ET*
BUMPUS, HALDANE AND MAXWELL LTD.
Cowper Works, *Olney, Bucks MK46 4BN*
COLLET'S HOLDINGS LTD., Denington Estate *Wellingborough, Northants NN8 2QT*
WM. DAWSON AND SONS LTD., Cannon House *Folkstone, Kent CT19 5EE*
H. K. LEWIS AND CO., 136 Gower Street
London WCIE 6BS

GREECE
KOSTARAKIS BROTHERS INTERNATIONAL BOOKSELLERS, 2 Hippokratous Street, *Athens-143*

HOLLAND
MEULENHOFF-BRUNA B. V., Beulingstraat 2,
Amsterdam
MARTINUS NIJHOFF B.V.
Lange Voorhout 9–11, *Den Haag*
SWETS SUBSCRIPTION SERVICE
347b Heereweg, *Lisse*

INDIA
ALLIED PUBLISHING PRIVATE LTD., 13/14
Asaf Ali Road, *New Delhi 110001*
150 B-6 Mount Road, *Madras 600002*
INTERNATIONAL BOOK HOUSE PVT. LTD.
Madame Cama Road, *Bombay 400039*
THE STATE TRADING CORPORATION OF INDIA LTD., Books Import Division, Chandralok 36 Janpath, *New Delhi 110001*

ITALY
INTERSCIENTIA, Via Mazzé 28, *10149 Torino*
LIBRERIA COMMISSIONARIA SANSONI, Via Lamarmora 45, *50121 Firenze*
SANTO VANASIA, Via M. Macchi 58
20124 Milano
D. E. A., Via Lima 28, *00198 Roma*

JAPAN
KINOKUNIYA BOOK-STORE CO. LTD.
17-7 Shinjuku 3 chome, Shinjuku-ku, *Tokyo 160-91*
MARUZEN COMPANY LTD., Book Department, P.O. Box 5050 Tokyo International, *Tokyo 100-31*
NAUKA LTD. IMPORT DEPARTMENT
2-30-19 Minami Ikebukuro, Toshima-ku, *Tokyo 171*

KOREA
CHULPANMUL, *Phenjan*

NORWAY
TANUM-TIDSKRIFT-SENTRALEN A.S., Karl Johansgatan 41–43, *1000 Oslo*

POLAND
WĘGIERSKI INSTYTUT KULTURY, Marszalkowska 80, *00-517 Warszawa*
CKP-I W, ul. Towarowa 28, *00-958 Warszawa*

ROUMANIA
D. E. P., *Bucuresti*
ILEXIM, Calea Grivitei 64–66, *Bucuresti*

SOVIET UNION
SOJUZPECHAT — IMPORT, *Moscow*
and the post offices in each town
MEZHDUNARODNAYA KNIGA, *Moscow G-200*

SPAIN
DIAZ DE SANTOS, Lagasca 95, *Madrid 6*

SWEDEN
GUMPERTS UNIVERSITETSBOKHANDEL AB
Box 346, *401 25 Göteborg 1*

SWITZERLAND
KARGER LIBRI AG, Petersgraben 31, *4011 Basel*

USA
EBSCO SUBSCRIPTION SERVICES
P.O. Box 1943, *Birmingham, Alabama 35201*
F. W. FAXON COMPANY, INC.
15 Southwest Park, *Westwood Mass. 02090*
READ-MORE PUBLICATIONS, INC.
140 Cedar Street, *New York, N.Y. 10006*

YUGOSLAVIA
JUGOSLOVENSKA KNJIGA, Terazije 27, *Beograd*
FORUM, Vojvode Mišića 1, *21000 Novi Sad*

HU—ISSN 0001—6373 **Index: 26.033**